

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number **1-9035**

**POPE RESOURCES, A DELAWARE
LIMITED PARTNERSHIP**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

91-1313292

(IRS Employer
Identification Number)

19950 7th Avenue NE, Suite 200, Poulsbo, WA 98370

Telephone: **(360) 697-6626**

(Address of principal executive offices including zip code)

(Registrant's telephone number including area code)

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 that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Partnership units outstanding at October 31, 2016: 4,349,913

Pope Resources
Index to Form 10-Q Filing
For the Nine Months Ended September 30, 2016

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P A R T I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Pope Resources, a Delaware Limited Partnership

September 30, 2016 and December 31, 2015

(in thousands)

	2016	2015
ASSETS		
Current assets		
Partnership cash	\$ 2,078	\$ 6,310
ORM Timber Funds cash	1,376	3,396
Cash	3,454	9,706
Accounts receivable, net	3,256	3,238
Land held for sale	10,750	3,642
Prepaid expenses and other	2,327	810
Total current assets	19,787	17,396
Properties and equipment, at cost		
Timber and roads, net of accumulated depletion (2016 - \$109,523; 2015 - \$103,378)	290,804	266,104
Timberland	56,871	53,879
Land held for development	28,005	25,653
Buildings and equipment, net of accumulated depreciation (2016 - \$7,656; 2015 - \$7,251)	5,697	6,024
Total property and equipment, at cost	381,377	351,660
Other assets		
Deposit for acquisition of timberland	265	—
Other assets	918	1,000
Total assets	\$ 402,347	\$ 370,056
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	\$ 1,423	\$ 1,384
Accrued liabilities	4,619	3,442
Current portion of long-term debt	5,118	114
Deferred revenue	229	278
Current portion of environmental remediation liability	10,254	11,200
Other current liabilities	440	322
Total current liabilities	22,083	16,740
Long-term debt, net of unamortized debt issuance costs and current portion	128,645	84,537
Environmental remediation and other long-term liabilities	1,354	5,713
Partners' capital and noncontrolling interests		
General partners' capital (units issued and outstanding 2016 - 60; 2015 - 60)	910	1,009
Limited partners' capital (units issued and outstanding 2016 - 4,254; 2015 - 4,240)	56,480	63,539
Noncontrolling interests	192,875	198,518
Total partners' capital and noncontrolling interests	250,265	263,066
Total liabilities, partners' capital and noncontrolling interests	\$ 402,347	\$ 370,056

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

Pope Resources, a Delaware Limited Partnership

For the Three and Nine Months Ended September 30, 2016 and 2015

(in thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 13,178	\$ 15,208	\$ 36,960	\$ 56,020
Cost of sales	(6,211)	(9,746)	(20,822)	(33,058)
Operating expenses	(3,831)	(4,030)	(11,245)	(10,889)
General and administrative expenses	(1,151)	(1,202)	(3,814)	(3,590)
Gain (loss) on sale of timberland	—	(1,103)	226	(1,103)
Income (loss) from operations	1,985	(873)	1,305	7,380
Interest expense, net	(953)	(726)	(2,358)	(2,248)
Income (loss) before income taxes	1,032	(1,599)	(1,053)	5,132
Income tax expense	(116)	(1)	(166)	(369)
Net income (loss)	916	(1,600)	(1,219)	4,763
Net and comprehensive loss attributable to noncontrolling interests - ORM Timber Funds	1,054	2,215	2,590	3,950
Net and comprehensive income attributable to unitholders	\$ 1,970	\$ 615	\$ 1,371	\$ 8,713
Allocable to general partners	\$ 27	\$ 9	\$ 19	\$ 122
Allocable to limited partners	1,943	606	1,352	8,591
Net and comprehensive income attributable to unitholders	\$ 1,970	\$ 615	\$ 1,371	\$ 8,713
Basic and diluted earnings per unit attributable to unitholders	\$ 0.45	\$ 0.13	\$ 0.30	\$ 2.01
Basic and diluted weighted average units outstanding	4,312	4,298	4,312	4,297
Distributions per unit	\$ 0.70	\$ 0.70	\$ 2.10	\$ 2.00

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL (Unaudited)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2016
(in thousands)

	Attributable to Pope Resources		Noncontrolling Interests	Total
	General Partners	Limited Partners		
December 31, 2015	\$ 1,009	\$ 63,539	\$ 198,518	\$ 263,066
Net income (loss)	19	1,352	(2,590)	(1,219)
Cash distributions	(127)	(9,006)	(3,053)	(12,186)
Equity-based compensation	11	745	—	756
Indirect repurchase of units for minimum tax withholding	(2)	(150)	—	(152)
September 30, 2016	<u>\$ 910</u>	<u>\$ 56,480</u>	<u>\$ 192,875</u>	<u>\$ 250,265</u>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2016 and 2015

(in thousands)

	2016	2015
Net income (loss)	\$ (1,219)	\$ 4,763
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depletion	6,101	7,198
Equity-based compensation	756	722
Excess tax benefit of equity-based compensation	—	(5)
Depreciation and amortization	554	466
Deferred taxes	49	199
Cost of land sold	1,139	9,246
(Gain) loss on sale of timberland	(226)	1,103
Gain on disposal of property and equipment	(24)	—
Cash flows from changes in operating accounts		
Accounts receivable, net	(18)	(519)
Prepaid expenses and other assets	(1,484)	1,510
Real estate project expenditures	(10,598)	(7,053)
Accounts payable and accrued liabilities	1,250	1,282
Deferred revenue	(49)	(477)
Environmental remediation	(5,280)	(1,579)
Other current and long-term liabilities	92	47
Net cash provided by (used in) operating activities	(8,957)	16,903
Cash flows from investing activities		
Maturity of short-term investments	—	1,000
Reforestation and roads	(1,276)	(1,473)
Buildings and equipment	(159)	(197)
Deposit for acquisition of timberland - Partnership	(265)	—
Acquisition of timberland - Partnership	(33,059)	(4,851)
Proceeds from sale of timberland - Funds	724	1,001
Net cash used in investing activities	(34,035)	(4,520)
Cash flows from financing activities		
Line of credit borrowings	20,026	—
Line of credit repayments	(2,700)	—
Proceeds from issuance of long-term debt	32,000	—
Repayment of long-term debt	(85)	(5,081)
Debt issuance costs	(163)	—
Payroll taxes paid on unit net settlements	(152)	(107)
Excess tax benefit of equity-based compensation	—	5
Cash distributions to unitholders	(9,133)	(8,672)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	(3,053)	(4,163)
Net cash provided by (used in) financing activities	36,740	(18,018)
Net decrease in cash	(6,252)	(5,635)
Cash at beginning of period	9,706	24,028
Cash at end of period	\$ 3,454	\$ 18,393

See accompanying notes to condensed consolidated financial statements.

POPE RESOURCES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2016

1. The condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 and the related condensed consolidated statements of comprehensive income for the three- and nine-month periods and cash flows for the nine-month periods ended September 30, 2016 and 2015 have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership"), pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements are unaudited, but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2015 is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2015, and should be read in conjunction with such financial statements and notes. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2016.
2. The financial statements in the Partnership's 2015 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Partnership is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

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

3. 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, profits and losses among the general and limited partners is pro rata across all units outstanding.
4. ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III (REIT) Inc. (Fund III), collectively "the Funds", were formed by Olympic Resource Management LLC (ORMLLC), a wholly owned subsidiary of the Partnership, 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 will operate for a term of ten years from the end of the respective investment period. Fund I sold all of its timberland holdings in 2014 and terminated in 2015. Fund II is scheduled to terminate in March 2021 and Fund III is scheduled to terminate in December 2025.

Pope Resources and ORMLLC together owned 20% of Fund I, currently own 20% of Fund II and 5% of Fund III. The Funds are considered variable interest entities because their organizational and governance structures are the functional equivalent of a limited partnership. As the general partner or managing member of the Funds, the Partnership is the primary beneficiary of each 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 Partnership's condensed consolidated balance sheet included assets and liabilities of the Funds as of September 30, 2016 and December 31, 2015, which were as follows:

(in thousands)	September 30, 2016	December 31, 2015
Assets:		
Cash	\$ 1,376	\$ 3,396
Other current assets	908	602
Total current assets	<u>2,284</u>	<u>3,998</u>
Properties and equipment, net of accumulated depletion and depreciation (2016 - \$39,184; 2015 - \$34,757)	267,631	271,850
Total assets	<u>\$ 269,915</u>	<u>\$ 275,848</u>
Liabilities and equity:		
Current liabilities	\$ 1,892	\$ 1,723
Long-term debt, net of unamortized debt issuance costs	57,263	57,246
Total liabilities	<u>59,155</u>	<u>58,969</u>
Funds' equity	210,760	216,879
Total liabilities and equity	<u>\$ 269,915</u>	<u>\$ 275,848</u>

5. In the presentation of the Partnership's revenue and operating income (loss) by segment, all intersegment 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 three and nine months ended September 30, 2016 and 2015:

Three Months Ended September 30, (in thousands)	Fee Timber			Timberland Management	Real Estate	Other	Consolidated
	Pope Resources	ORM Timber Funds	Total Fee Timber				
2016							
Revenue - internal	\$ 7,882	\$ 3,231	\$ 11,113	\$ 772	\$ 2,194	\$ —	\$ 14,079
Eliminations	(48)	—	(48)	(772)	(81)	—	(901)
Revenue - external	7,834	3,231	11,065	—	2,113	—	13,178
Cost of sales	(3,321)	(2,282)	(5,603)	—	(608)	—	(6,211)
Operating, general and administrative expenses - internal	(1,546)	(1,401)	(2,947)	(708)	(1,052)	(1,176)	(5,883)
Eliminations	36	766	802	64	10	25	901
Operating, general and administrative expenses - external	(1,510)	(635)	(2,145)	(644)	(1,042)	(1,151)	(4,982)
Income (loss) from operations - internal	3,015	(452)	2,563	64	534	(1,176)	1,985
Eliminations	(12)	766	754	(708)	(71)	25	—
Income (loss) from operations - external	\$ 3,003	\$ 314	\$ 3,317	\$ (644)	\$ 463	\$ (1,151)	\$ 1,985
2015							
Revenue - internal	\$ 6,506	\$ 4,910	\$ 11,416	\$ 779	\$ 3,931	\$ —	\$ 16,126
Eliminations	(100)	—	(100)	(779)	(39)	—	(918)
Revenue - external	6,406	4,910	11,316	—	3,892	—	15,208
Cost of sales	(2,463)	(3,888)	(6,351)	—	(3,395)	—	(9,746)
Operating, general and administrative expenses - internal	(1,678)	(1,637)	(3,315)	(594)	(1,005)	(1,236)	(6,150)
Eliminations	—	779	779	100	5	34	918
Operating, general and administrative expenses - external	(1,678)	(858)	(2,536)	(494)	(1,000)	(1,202)	(5,232)
Loss on sale of timberland	—	(1,103)	(1,103)	—	—	—	(1,103)
Income (loss) from operations - internal	2,365	(1,718)	647	185	(469)	(1,236)	(873)
Eliminations	(100)	779	679	(679)	(34)	34	—
Income (loss) from operations - external	\$ 2,265	\$ (939)	\$ 1,326	\$ (494)	\$ (503)	\$ (1,202)	\$ (873)

Nine Months Ended September 30, (in thousands)	Fee Timber			Timberland Management	Real Estate	Other	Consolidated
	Pope Resources	ORM Timber Funds	Total Fee Timber				
2016							
Revenue - internal	\$ 20,506	\$ 12,729	\$ 33,235	\$ 2,383	\$ 4,094	\$ —	\$ 39,712
Eliminations	(148)	—	(148)	(2,375)	(229)	—	(2,752)
Revenue - external	20,358	12,729	33,087	8	3,865	—	36,960
Cost of sales	(8,718)	(9,764)	(18,482)	—	(2,340)	—	(20,822)
Operating, general and administrative expenses - internal	(4,343)	(4,188)	(8,531)	(2,114)	(3,293)	(3,873)	(17,811)
Eliminations	95	2,375	2,470	193	30	59	2,752
Operating, general and administrative expenses - external	(4,248)	(1,813)	(6,061)	(1,921)	(3,263)	(3,814)	(15,059)
Gain on sale of timberland	—	226	226	—	—	—	226
Income (loss) from operations - internal	7,445	(997)	6,448	269	(1,539)	(3,873)	1,305
Eliminations	(53)	2,375	2,322	(2,182)	(199)	59	—
Income (loss) from operations - external	\$ 7,392	\$ 1,378	\$ 8,770	\$ (1,913)	\$ (1,738)	\$ (3,814)	\$ 1,305
2015							
Revenue - internal	\$ 20,213	\$ 16,567	\$ 36,780	\$ 2,380	\$ 19,592	\$ —	\$ 58,752
Eliminations	(246)	—	(246)	(2,380)	(106)	—	(2,732)
Revenue - external	19,967	16,567	36,534	—	19,486	—	56,020
Cost of sales	(8,371)	(13,420)	(21,791)	—	(11,267)	—	(33,058)
Operating, general and administrative expenses - internal	(3,979)	(4,267)	(8,246)	(2,254)	(3,029)	(3,682)	(17,211)
Eliminations	—	2,380	2,380	246	14	92	2,732
Operating, general and administrative expenses - external	(3,979)	(1,887)	(5,866)	(2,008)	(3,015)	(3,590)	(14,479)
Loss on sale of timberland	—	(1,103)	(1,103)	—	—	—	(1,103)
Income (loss) from operations - internal	7,863	(2,223)	5,640	126	5,296	(3,682)	7,380
Eliminations	(246)	2,380	2,134	(2,134)	(92)	92	—
Income (loss) from operations - external	\$ 7,617	\$ 157	\$ 7,774	\$ (2,008)	\$ 5,204	\$ (3,590)	\$ 7,380

6. Basic and diluted earnings per unit are calculated by dividing net and comprehensive income attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders and preferred shareholders of Fund II and Fund III, by the weighted average units outstanding during the period. There were no dilutive securities outstanding during the periods presented. The following table shows the calculation of basic and diluted earnings per unit:

(in thousands, except per unit amounts)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net and comprehensive income attributable to Pope Resources' unitholders	\$ 1,970	\$ 615	\$ 1,371	\$ 8,713
Less:				
Net and comprehensive income attributable to unvested restricted unitholders	(25)	(27)	(74)	(55)
Preferred share dividends - ORM Timber Funds	(8)	(8)	(23)	(23)
Net and comprehensive income for calculation of earnings per unit	<u>\$ 1,937</u>	<u>\$ 580</u>	<u>\$ 1,274</u>	<u>\$ 8,635</u>
Basic and diluted weighted average units outstanding	<u>4,312</u>	<u>4,298</u>	<u>4,312</u>	<u>4,297</u>
Basic and diluted earnings per unit	<u>\$ 0.45</u>	<u>\$ 0.13</u>	<u>\$ 0.30</u>	<u>\$ 2.01</u>

7. In the first quarter of 2016, the Partnership granted 10,400 restricted units pursuant to the management incentive compensation program and 3,880 restricted units to members of the Board of Directors. These restricted units vest ratably over four years with the grant date fair value equal to the market price on the date of grant. During the nine months ended September 30, 2016, 1,360 units were granted with no restrictions to certain board members who elected to receive their quarterly board compensation in the form of units rather than cash. Units granted to directors are included in the calculation of total equity compensation expense, which is recognized over the vesting period, for restricted units, or immediately for unrestricted units. Grants to retirement-eligible individuals on the date of grant are expensed immediately. The Partnership recognized \$163,000 and \$142,000 of equity compensation expense in the third quarter of 2016 and 2015, respectively, and \$756,000 and \$722,000 for the nine months ended September 30, 2016 and 2015, respectively, related to these compensation programs.

8. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled \$2.0 million and \$2.3 million for the first nine months of 2016 and 2015, respectively. Income taxes paid totaled \$187,000 and \$236,000 during the first nine months of 2016 and 2015, respectively.

9. In July 2016, the Partnership closed on the acquisition of a 7,324-acre tree farm in western Washington for \$32.0 million. It consists of 6,746 owned acres and a timber deed on 578 acres that expires in 2051. The purchase price was allocated \$2.9 million to land and \$29.1 million to timber and roads.

The acquisition was financed with a new \$32.0 million credit facility issued under the existing master loan agreement with Northwest Farm Credit Services (NWFCFS) and is comprised of three segments, all of which require quarterly interest-only payments with principal due at maturity. The two fixed rate loan segments are for \$11.0 million each, one of which matures in July 2026 and the other of which matures in July 2028. These segments bear interest at 3.89% and 4.13%, respectively. The third segment is for \$10.0 million, matures in July 2023 and bears interest at a variable rate based on the one-month LIBOR plus a margin of 2.20%. As with the Partnership's other debt arrangements with NWFCFS, this loan will be included in the lender's annual patronage program, which rebates a portion of the interest paid in the prior year back to the borrower. The loan is not collateralized by the timberland acquired in this transaction, but rather by the same portions of the Partnership's timberland that are already pledged as collateral for the Partnership's existing credit facility with NWFCFS.

10. In August 2016, the Partnership entered into a \$21.0 million loan agreement issued under the existing master loan agreement with NWFCFS. This amount will remain available for the Partnership to borrow through March 31, 2017. Advances under the loan require quarterly interest-only payments with principal due at maturity in July 2027. Advances under the loan agreement can bear interest at a variable rate based on the one-month LIBOR plus a margin of 1.85% (base rate loan segment) or at fixed rates based on the lender's rate pricing index, for terms of one through eleven years, plus a margin of 1.95% (fixed rate loan segment). In addition, base rate loan segments can be converted to fixed rate loan segments, though no more than four fixed rate loan segments may be outstanding at any time. The Partnership expects to

use borrowings under this facility to reduce the balance outstanding on the operating line of credit and increase the amount available to fund either Real Estate lot development, environmental remediation expenditures, or other liquidity needs. As with the Partnership's other debt arrangements with NWFCs, this loan will be included in the lender's annual patronage program, which rebates a portion the interest paid in the prior year back to the borrower. The loan is collateralized by the same portions of the Partnership's timberland that are already pledged as collateral for the Partnerships existing credit facility with NWFCs. In October 2016, the Partnership completed its first borrowing under this credit facility, consisting of a base rate loan segment for \$6.0 million.

11. The Partnership's financial instruments include cash and cash equivalents and accounts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature. Carrying amounts of contracts receivable, although long-term, also approximate fair value based on current market rates.

The Partnership's and the Funds' fixed-rate debt collectively have a carrying value of \$106.8 million and \$84.9 million as of September 30, 2016 and December 31, 2015, respectively. The estimated fair value of this debt, based on current interest rates for similar instruments (Level 2 inputs in the Fair Value Hierarchy), is approximately \$115.9 million and \$89.8 million, as of September 30, 2016 and December 31, 2015, respectively.

12. The Partnership had an accrual for estimated environmental remediation costs of \$11.5 million and \$16.8 million as of September 30, 2016 and December 31, 2015, respectively. The environmental remediation liability represents management's estimate of payments to be made to monitor and remediate certain areas in and around Port Gamble Bay, Washington.

In December of 2013, a consent decree and Clean-up Action Plan (CAP) related to Port Gamble were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. In the third quarter of 2015, the Partnership selected a contractor to complete the remediation work. Remediation activity began in late September of 2015 and will continue through 2017, followed by a period of monitoring activity. Management's cost estimates for the project are based on amounts included in the construction contract and estimates for project management and other professional fees.

The environmental liability at September 30, 2016 is comprised of \$10.3 million that management expects to expend in the next 12 months and \$1.2 million thereafter.

Activity in the environmental liability is as follows:

(in thousands)	Balance at Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period- end
Year ended December 31, 2014	13,241	10,000	1,590	21,651
Year ended December 31, 2015	21,651	—	4,890	16,761
Quarter ended March 31, 2016	16,761	—	3,223	13,538
Quarter ended June 30, 2016	13,538	—	952	12,586
Quarter ended September 30, 2016	\$ 12,586	\$ —	\$ 1,105	\$ 11,481

13. In October 2016, the Partnership closed on two timberland acquisitions for a combined \$6.6 million comprising 1,967 acres. The acquired timberland is adjacent to the Partnership's existing Washington State timberland holdings in Jefferson and Skamania counties.

**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 expectations, 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 Part II, Item 1A below. 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 condensed consolidated financial statements and related notes included with this report.

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), is engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets and operations, is the Fee Timber segment. This segment includes timberlands owned directly by the Partnership and operations of two private equity funds ("Fund II" and "Fund III", collectively, the "Funds"). When we refer to the timberland owned by the Partnership, we describe it as the Partnership's tree farms. We refer to timberland owned by the Funds as the Funds' tree farms. When referring collectively to the Partnership's and Funds' timberland we will refer to them as the Combined tree farms. Operations in this segment consist of growing timber to be harvested as logs for sale to domestic manufacturers and export brokers. The second most significant business segment in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits, entitlements, and, in some cases, installing infrastructure for raw land development and then realizing that land's value by selling larger parcels to buyers who will take the land further up the value chain by either selling homes to retail buyers or lots to developers of commercial property. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed, and will not recognize operating income until that project is sold. In addition, within this segment we sometimes negotiate and sell development rights in the form of conservation easements (CE's) on Fee Timber properties which preclude future development, but allow continued forestry operations. Our third business segment, which we refer to as Timberland Management, is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership.

Our current strategy for adding timberland acreage is centered primarily on our private equity timber fund business model. However, we will acquire smaller timberland parcels from time to time to add on to the Partnership's existing tree farms. In addition, during periods when the Funds' committed capital is fully invested, we may look to acquire larger timberland properties for the Partnership as we did in July 2016 with the acquisition of a 7,324-acre tree farm in western Washington. We have closed and invested capital from three timber funds, with assets under management totaling approximately \$364 million as of September 30, 2016 based on the most recent appraisals. Through our 20% co-investment in Fund II and our 5% co-investment in Fund III, we have deployed \$26 million of Partnership capital. Our co-investment affords us a share of the Funds' operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership's timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds' success.

The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is eliminated from consolidated results in our Condensed Consolidated Statements of Comprehensive Income under the

caption “Net and comprehensive loss attributable to non-controlling interests-ORM Timber Funds” to arrive at net and comprehensive income attributable to unitholders of the Partnership.

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

Third quarter highlights

- Harvest volume was 17.0 million board feet (MMBF) in Q3 2016 compared to 17.8 MMBF in Q3 2015, a 4% decrease. Harvest volume for the first nine months of 2016 was 53.6 MMBF compared to 57.4 MMBF for 2015, a 7% decrease. These harvest volume figures do not include timber deed sales of 1.3 MMBF in Q3 2016 and 0.6 MMBF in Q1 2015. The harvest volume and log price realization metrics cited below also exclude these timber deed sales, except as noted otherwise.
- Average realized log price per thousand board feet (MBF) was \$573 in Q3 2016 compared to \$579 per MBF in Q3 2015. For the first nine months of 2016, the average realized log price was \$574 per MBF compared to \$587 per MBF for 2015, a 2% decrease.
- As a percentage of total harvest, volume sold to export markets in Q3 2016 decreased to 16% from 26% in Q3 2015, while the mix of volume sold to domestic markets was 65% in Q3 2016 compared to 53% in Q3 2015. For the first nine months of 2016, the relative percentages of volume sold to export and domestic markets were 16% and 64%, respectively, compared to 20% and 58%, respectively, in 2015. Hardwood, cedar and pulpwood log sales make up the balance of harvest volume.
- The percentage of total harvest comprised of Douglas-fir sawlogs increased to 57% in Q3 2016 from 55% in Q3 2015, with a decrease in the whitewood sawlog component to 18% in Q3 2016 from 20% in Q3 2015. Douglas-fir sawlogs represented 51% of total harvest volume for the first nine months of both 2016 and 2015.
- As noted last quarter, in July the Partnership closed on a 7,324-acre timberland acquisition for \$32.0 million consisting of 6,746 owned acres and a timber deed on 578 acres that expires in 2051.
- The Partnership closed on the sale of two parcels of undeveloped land comprising 265 acres for \$1.7 million.

Outlook

Over the course of 2016, we have made investments that will begin to pay off in the fourth quarter. In our Fee Timber segment, we expect to realize over 40% of our annual volume in the fourth quarter. This back-end loading of our 2016 harvest is timed to coincide with anticipated log pricing improvement. We expect our total 2016 harvest volume to be between 96 and 100 MMBF, including timber deed sales. In our Real Estate segment, we’ve invested over \$10 million in our Harbor Hill project this year with the expectation of closing on the sale of up to 127 residential lots in the fourth quarter.

RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impacted our net income (loss) attributable to unitholders for the respective quarters and nine months ended September 30, 2016 and 2015. The explanatory text that follows the table describes in detail certain of these changes by business segment.

(in thousands)	Quarter Ended September 30,	Nine Months Ended September 30,
Net income attributable to Pope Resources' unitholders:		
2016 period	\$ 1,970	\$ 1,371
2015 period	615	8,713
Variance	<u>\$ 1,355</u>	<u>\$ (7,342)</u>
Detail of variance:		
Fee Timber		
Log volumes (A)	\$ (463)	\$ (2,231)
Log price realizations (B)	(102)	(697)
(Gain) loss on sale of timberland	1,103	1,329
Timber deed sales	485	255
Production costs	405	2,291
Depletion	343	1,018
Other Fee Timber	220	(969)
Timberland Management	(150)	95
Real Estate		
Land sales	(493)	(3,827)
Conservation easement sales	—	(4,311)
Other Real Estate	1,459	1,196
General and administrative costs	51	(224)
Net interest expense	(227)	(110)
Income taxes	(115)	203
Noncontrolling interests	(1,161)	(1,360)
Total variances	<u>\$ 1,355</u>	<u>\$ (7,342)</u>

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

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

Fee Timber

Fee Timber results include operations on 119,000 acres of timberland owned by the Partnership and 94,000 acres of timberland owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington, northwestern Oregon, and northern California. Revenues are driven primarily by the volume of timber harvested and the average log price realized on the sale of that timber. Our harvest volume is based typically on manufactured log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude the timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

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

Revenue and operating income for the Fee Timber segment for the quarters ended September 30, 2016, June 30, 2016, and September 30, 2015 were as follows:

(in millions) Quarter ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain (loss) on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 6.8	\$ 1.1	\$ 7.9	\$ —	\$ 3.0	11.6	0.7
Funds	3.1	0.1	3.2	—	0.3	5.4	0.6
Total September 2016	\$ 9.9	\$ 1.2	\$ 11.1	\$ —	\$ 3.3	17.0	1.3
Partnership	\$ 7.7	\$ 0.5	\$ 8.2	\$ —	\$ 2.8	13.7	—
Funds	4.1	—	4.1	—	0.2	7.2	—
Total June 2016	\$ 11.8	\$ 0.5	\$ 12.3	\$ —	\$ 3.0	20.9	—
Partnership	\$ 5.6	\$ 0.8	\$ 6.4	\$ —	\$ 2.3	9.2	—
Funds	4.7	0.2	4.9	(1.1)	(0.9)	8.6	—
Total September 2015	\$ 10.3	\$ 1.0	\$ 11.3	\$ (1.1)	\$ 1.3	17.8	—

Operating Income

Comparing Q3 2016 to Q2 2016. Operating income increased \$348,000, or 12%, from \$3.0 million in Q2 2016 to \$3.3 million in Q3 2016. The increase is due primarily to the sale of 1.3 MMBF of timber via timber deed sales on both Partnership and Fund tree farms for \$485,000 in Q3 2016 that had no counterpart in Q2 2016. A 12% decrease in harvest volume (including volume from timber deed sales) served to lower operating income, while a 2% increase in average realized log prices and a \$169,000 decrease in operating expenses worked to increase operating income.

Comparing Q3 2016 to Q3 2015. Operating income increased \$2.0 million, or 154%, from \$1.3 million in Q3 2015 to \$3.3 million in Q3 2016. Our Q3 2015 results reflect a \$1.1 million loss on the sale of 858 acres from Fund III's timberland, and the absence of a counterpart in our Q3 2016 results is the primary reason for the improvement in operating income. Q3 2016 includes the sale of 1.3 MMBF of timber via timber deed sales from both Partnership and Fund tree farms that had no counterpart in Q3 2015. A 3% increase in harvest volume (including volume from timber deed sales) was partially offset by a 1% decrease in average realized log prices. A \$391,000 decrease in operating expenses also helped improve operating income.

Revenue

Comparing Q3 2016 to Q2 2016. Log sale revenue in Q3 2016 decreased \$1.9 million, or 16%, from Q2 2016 due primarily to a 19% decrease in harvest volume, offset partially by a 2% increase in average realized log prices. Generally, the third quarter is when log supply is at its peak, and log prices are lower, because summer weather conditions allow uninhibited access to timberlands at higher elevations. We typically reduce our harvest volume during this period in favor of harvesting greater volumes at other times in the year when log supply is more constrained and log prices are higher. We reduced our harvest volume in Q3 2016 as we expect higher log prices in Q4 2016 and Q1 2017 due to this seasonal pattern. The increase in other revenue is primarily attributable to timber deed sales of \$485,000 in Q3 2016 that had no counterpart in Q2 2016, as well as a \$176,000 increase in revenue from road easement fees on the Partnership's Hood Canal tree farm.

Comparing Q3 2016 to Q3 2015. Log sale revenue in Q3 2016 decreased \$400,000, or 4%, from Q3 2015, primarily as a result of a 4% decrease in harvest volume and a 1% decline in average realized log prices. We deferred some harvest volume in Q3 2016, particularly on Fund tree farms, as we expect higher log prices in Q4 2016 and Q1 2017, consistent with typical seasonal patterns. The increase on other revenue was driven primarily by an increase in timber deed sales in Q3 2016 compared to Q3 2015.

Revenue and operating income for the Fee Timber segment for the nine months ended September 30, 2016 and 2015 were as follows:

(in millions) Nine Months Ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain (loss) on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 18.4	\$ 2.0	\$ 20.4	\$ —	\$ 7.4	31.6	0.7
Funds	12.4	0.3	12.7	0.2	1.4	22.0	0.6
Total September 2016	\$ 30.8	\$ 2.3	\$ 33.1	\$ 0.2	\$ 8.8	53.6	1.3
Partnership	\$ 18.0	\$ 2.0	\$ 20.0	\$ —	\$ 7.6	28.8	—
Funds	15.7	0.8	16.5	(1.1)	0.2	28.6	0.6
Total September 2015	\$ 33.7	\$ 2.8	\$ 36.5	\$ (1.1)	\$ 7.8	57.4	0.6

Operating Income

Comparing YTD 2016 to YTD 2015. Operating income increased by \$1.0 million, or 13%, from \$7.8 million in the first nine months of 2015 to \$8.8 million in the first nine months of 2016. Our 2015 results include a \$1.1 million loss on sale of 858 acres from Fund III's timberland, whereas our 2016 results include a \$226,000 gain on the sale of 205 acres of Fund timberland. Excluding these timberland sales, Fee Timber operating income was \$8.5 million in 2016 and \$8.9 million in 2015. This decrease resulted from a 5% decrease in harvest volume (including timber deed sales), a 2% decline in average realized log prices, a \$516,000 decrease in other revenue from a lack of commercial thinning activity in the current year, and a \$194,000 increase in operating expenses. These factors were offset partially by a 15% decrease in cost of sales, driven by a combination of lower harvest volume and a lower average depletion rate.

Revenue

Comparing YTD 2016 to YTD 2015. Log sale revenue in the first nine months of 2016 decreased \$2.9 million, or 9%, from the first nine months of 2015. The reduction in revenue was the result of a 7% decrease in harvest volume and a 2% decline in average realized log prices. Since the October 2015 expiration of the Softwood Lumber Agreement (SLA), Canadian lumber has been sold duty-free into the U.S. market. The combination of this duty-free entry and a weak Canadian currency has boosted Canadian exports of softwood lumber to the U.S. during the first eight months of 2016 by 34% over the corresponding period of 2015, based on data from the U.S. Census Bureau. The influx of Canadian lumber has played a role in keeping log prices in check when compared to last year. Other revenue declined \$516,000 in the current year, primarily as a result of no commercial thinning activity, which last year produced revenue of \$1.3 million.

Log Volume

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the quarters ended September 30, 2016, June 30, 2016, and September 30, 2015:

Volume (in MMBF)		Quarter Ended					
		Sep-16	% Total	Jun-16	% Total	Sep-15	% Total
Sawlogs	Douglas-fir	9.8	57%	9.4	45%	9.9	55%
	Whitewood	3.0	18%	5.4	26%	3.5	20%
	Pine	0.5	3%	1.2	6%	0.1	1%
	Cedar	0.5	3%	1.0	5%	0.6	3%
	Hardwood	0.8	5%	0.7	3%	0.7	4%
Pulpwood	All Species	2.4	14%	3.2	15%	3.0	17%
Total		17.0	100%	20.9	100%	17.8	100%

Comparing Q3 2016 to Q2 2016. Harvest volume decreased 3.9 MMBF, or 19%, in Q3 2016 from Q2 2016. The third quarter is generally when log supply is at its peak, and log prices are lower, because summer weather conditions afford timberland owners uninhibited access to their timberland, particularly at higher elevations. We plan for this and, to the extent we can, reduce our sales volume during the summer months in favor of harvesting greater volumes at other times in the year when log supply is more constrained and logs prices are higher. We reduced our harvest in Q3 2016 as we expect to realize higher log prices in Q4 2016 and Q1 2017 from this seasonal pattern. Our species mix shifted towards Douglas-fir and away from whitewoods in Q3 2016 compared to Q2 2016, which was primarily a function of favorable log markets for Douglas-fir for both domestic and export markets.

Comparing Q3 2016 to Q3 2015. Harvest volume decreased 0.8 MMBF, or 4%, in Q3 2016 from Q3 2015. The decrease is due to a 3.2 MMBF decline in harvest volume from Fund properties, offset by a 2.4 MMBF increase in volume from Partnership properties. In addition, we sold 1.3 MMBF of volume through timber deed sales in Q3 2016, taking some of the pressure off making delivered log sales. Species mix was relatively consistent between the two quarters.

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the nine months ended September 30, 2016 and 2015:

Volume (in MMBF)		Nine Months Ended			
		Sep-16	% Total	Sep-15	% Total
Sawlogs:	Douglas-fir	27.9	51%	29.0	50%
	Whitewood	11.1	21%	12.4	22%
	Pine	1.7	3%	1.3	2%
	Cedar	2.5	5%	2.3	4%
	Hardwood	2.0	4%	2.6	5%
Pulpwood:	All Species	8.4	16%	9.8	17%
Total		53.6	100%	57.4	100%

Comparing YTD 2016 to YTD 2015. Harvest volume decreased 3.8 MMBF, or 7%, in the first nine months of 2016 compared to the first nine months of 2015. The decrease in harvest volume is attributable to a reduction in harvest volume from Fund properties in anticipation of better log markets later in the year and into 2017, consistent with typical seasonal patterns. In addition to the delivered log volume displayed in the above table, we sold 1.3 MMBF of volume via timber deed sales in the current year, compared to 0.6 MMBF of timber deed sales in 2015. Species mix was relatively stable between 2015 and 2016.

Log Prices

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.

We realized the following log prices by species for the quarters ended September 30, 2016, June 30, 2016, and September 30, 2015:

		Quarter Ended		
		Sep-16	Jun-16	Sep-15
Average price realizations (per MBF):				
Sawlogs:	Douglas-fir	\$ 629	\$ 596	\$ 623
	Whitewood	506	550	522
	Pine	418	500	420
	Cedar	1,321	1,271	1,426
	Hardwood	640	521	559
Pulpwood:	All Species	284	290	349
Overall		573	563	579

The following table compares the dollar and percentage change in log prices from each of Q2 2016 and Q3 2015 to Q3 2016:

		Change to Q3 2016 from Quarter Ended			
		Jun-16		Sep-15	
		\$/MBF	%	\$/MBF	%
Sawlogs:	Douglas-fir	\$ 33	6%	\$ 6	1%
	Whitewood	(44)	(8%)	(16)	(3%)
	Pine	(82)	(16%)	(2)	—%
	Cedar	50	4%	(105)	(7%)
	Hardwood	119	23%	81	14%
Pulpwood:	All Species	(6)	(2%)	(65)	(19%)
Overall		10	2%	(6)	(1%)

Overall realized log prices in Q3 2016 were 2% higher than Q2 2016. Our overall average is influenced heavily by price movements for our two most prevalent species on the Combined tree farms, Douglas-fir and whitewood, and the relative mix of harvest volume between those two species. From Q2 2016 to Q3 2016, log prices for Douglas-fir increased 6% while whitewood decreased 8%. Douglas-fir benefited from continued solid demand in the export market, which has worked through an oversupply of logs from earlier in the year. This generated upward pressure on domestic prices as manufacturers needed to compete with the export market to acquire Douglas-fir logs. A reduction in log supply from several large timber companies also helped to create pricing tension in the domestic market. Whitewood prices were down on weakness in the domestic market for that species. Prices for pine, all of which comes from Fund III's McCloud tree farm in northern California, declined 16% as Q3 2016 sales volume consisted primarily of lower-quality salvage logs whereas higher-quality logs were sold in Q2. Hardwood prices increased 23% due to the sale of higher-quality logs in Q3 2016 relative to Q2 2016.

From Q3 2015 to Q3 2016, average realized log prices decreased 1%. Species mix was largely unchanged between the two comparable quarters. Whitewood prices declined 3% and pulpwood was down 19%. The decline in pulpwood was due to an abundance of residual wood chips in the market, which decreases demand for pulpwood from which to produce chips.

The following table compares realized log prices by species for the first nine months of 2016 and 2015, as well as the dollar and percentage change in log prices between the two periods:

		Nine Months Ended			
		Sep-16	Δ from Sep -16 to Sep -15		Sep-15
			\$/MBF	%	
Sawlogs:	Douglas-fir	\$ 615	\$ (12)	(2%)	\$ 627
	Whitewood	524	(18)	(3%)	542
	Pine	478	(61)	(11%)	539
	Cedar	1,370	(35)	(2%)	1,405
	Hardwood	571	(35)	(6%)	606
Pulpwood:	All species	296	(36)	(11%)	332
Overall		574	(13)	(2%)	587

Overall realized log prices decreased 2% in the first nine months of 2016 compared to the corresponding period of 2015. The overall average is influenced heavily by Douglas-fir and whitewood prices, which were down 2% and 3%, respectively, but prices for all other species and pulpwood declined as well. Douglas-fir pricing was influenced by reduced demand in the domestic market, while whitewood was impacted by softness in the export market as well as the lower-quality log segment of the domestic market. Pine prices declined 11% due to a large supply of pine logs produced from salvage logging operations following the severe 2015 California fire season. Pulpwood prices declined 11% due to an abundance of residual wood chips in the market, reducing the demand for pulpwood from which to produce chips.

Customers

The ultimate decision of whether to sell our logs into the export or domestic 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.

The table below categorizes logs sold by customer type for the quarters ended September 30, 2016, June 30, 2016, and September 30, 2015:

Destination	Q3 2016			Q2 2016			Q3 2015		
	Volume		Price	Volume		Price	Volume		Price
	MMBF	%		MMBF	%		MMBF	%	
Export brokers	2.8	16%	\$ 621	3.2	15%	\$ 607	4.7	26%	\$ 616
Domestic mills	11.0	65%	621	13.8	66%	618	9.4	53%	638
Hardwood	0.8	5%	640	0.7	4%	521	0.7	4%	559
Pulpwood	2.4	14%	284	3.2	15%	290	3.0	17%	346
Total	17.0	100%	573	20.9	100%	563	17.8	100%	579
Timber deed sale	1.3		381	—		—	—		—
Total	18.3			20.9			17.8		

Comparing Q3 2016 to Q2 2016. The relative volume sold to our various customer types changed little during Q3 2016 compared to Q2 2016.

Comparing Q3 2016 to Q3 2015. Volume sold to the export market decreased to 16% of Q3 2016 harvest volume compared to 26% of Q3 2015 volume, while volume sold to the domestic market increased to 65% of Q3 2016 harvest volume compared to 53% of Q3 2015 harvest volume. For a certain portion of our volume, the domestic and export markets compete for the same type of log. Domestic customers were paying more than export customers were offering for those logs, so we sold more volume to the domestic market.

The table below categorizes logs sold by customer type for the nine-month periods ended September 30, 2016 and 2015:

Destination	Nine Months Ended					
	September 2016			September 2015		
	Volume		Price	Volume		Price
MMBF	%	MMBF		%		
Export brokers	8.9	16%	\$ 631	11.5	20%	\$ 634
Domestic mills	34.3	64%	629	33.5	58%	645
Hardwood	2.0	4%	571	2.6	5%	606
Pulpwood	8.4	16%	296	9.8	17%	332
Subtotal	53.6	100%	574	57.4	100%	587
Timber deed sale	1.3		381	0.6		389
Total	54.9			58.0		

Comparing YTD 2016 to YTD 2015. In the first nine months of 2016, the relative amounts of volume sold to our domestic customers has increased to 64% from 58% during the first nine months of 2015, while volume sold to export customers has decreased to 16% in the current year versus 20% last year. This shift in customer mix reflects the domestic market's continuing gradual recovery tied to the U.S. housing market, while the export market has weakened due in part to a relatively strong U.S. Dollar. Timber deed sales volume of 1.3 MMBF during the first nine months of 2016 came from the Partnership's Hood Canal tree farm and Fund III's Mashel tree farm, while the 0.6 MMBF during the first nine months of 2015 came from Fund III's Willapa tree farm.

Cost of Sales

Fee Timber cost of sales, which consists predominantly of harvest, haul and depletion costs, vary with harvest volume. Commercial thinning costs are the primary component of other cost of sales in the tables below.

Fee Timber cost of sales for the quarters ended September 30, 2016, June 30, 2016, and September 30, 2015, was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MMBF basis:

(in thousands) Quarter Ended	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 2,486	\$ 820	\$ 15	\$ 3,321	11.6	0.7
Funds	1,194	1,088	—	2,282	5.4	0.6
Total September 2016	\$ 3,680	\$ 1,908	\$ 15	\$ 5,603	17.0	1.3
Partnership	\$ 3,188	\$ 586	\$ 15	\$ 3,789	13.7	—
Funds	1,921	1,277	—	3,198	7.2	—
Total June 2016	\$ 5,109	\$ 1,863	\$ 15	\$ 6,987	20.9	—
Partnership	\$ 1,771	\$ 432	\$ 260	\$ 2,463	9.2	—
Funds	1,892	1,819	177	3,888	8.6	—
Total September 2015	\$ 3,663	\$ 2,251	\$ 437	\$ 6,351	17.8	—

(Amounts per MBF) Quarter Ended	Harvest, Haul and Tax *	Depletion *
Partnership	\$ 214	\$ 67
Funds	221	181
Total September 2016	\$ 216	\$ 104
Partnership	\$ 233	\$ 43
Funds	267	177
Total June 2016	\$ 244	\$ 89
Partnership	\$ 193	\$ 47
Funds	220	212
Total September 2015	\$ 206	\$ 126

* 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.

Comparing Q3 2016 to Q2 2016. Cost of sales decreased \$1.4 million, or 20%, in Q3 2016 from Q2 2016. The decrease was primarily attributable to a 12% decline in harvest volume (including timber deed sales) and an 11% decrease in harvest, haul, and tax rates on a per MBF basis. The decrease in production cost per MBF was the result of more competitive bidding for our business by logging contractors as some of the larger landowners in our operating regions reduced their harvest operations. The decline in cost of sales would have been more pronounced if not for a 17% increase in the Combined depletion rate, resulting from the Partnership's July acquisition of the 7,324-acre Carbon River tree farm, which has been added to the Columbia tree farm. The Partnership uses a pooled depletion rate for volume harvested from the Hood Canal, Columbia, and now Carbon River tree farms. The Hood Canal and Columbia tree farms had a much lower depletion rate as they were acquired many years ago at much lower costs relative to current timberland values. Though relatively small in acreage, adding the Carbon River tree farm to the Partnership's depletion cost pool resulted in a 61% increase in the Partnership's depletion rate.

Comparing Q3 2016 to Q3 2015. Cost of sales decreased \$748,000, or 12%, in Q3 2016 from Q3 2015, notwithstanding a 3% increase in harvest volume (including timber deed sales). This decrease is attributable to an 18% decline in the Combined depletion rate and \$437,000 of cost associated with commercial thinning operations in Q3 2015 that had no counterpart in Q3 2016. Even with the increase in the Partnership's depletion rate following the July purchase of the Carbon River tree farm, the Combined depletion rate declined due to an increase in the proportion of harvest from Partnership tree farms in Q3 2016 to 67% (including timber deed sales) from 52% in Q3 2015. Conversely, the Funds' share decreased to 33% in Q3 2016 from 48% in Q3 2015. The Funds' tree farms have higher depletion rates, even after the Carbon River acquisition, because they were all purchased more recently at higher timberland valuations.

Fee Timber cost of sales for the nine months ended September 30, 2016 and 2015 was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands) Nine Months Ended	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 6,997	\$ 1,677	\$ 44	\$ 8,718	31.6	0.7
Funds	5,340	4,424	—	9,764	22.0	0.6
Total September 2016	\$ 12,337	\$ 6,101	\$ 44	\$ 18,482	53.6	1.3
Partnership	\$ 6,348	\$ 1,362	\$ 661	\$ 8,371	28.8	—
Funds	7,217	5,757	446	13,420	28.6	0.6
Total September 2015	\$ 13,565	\$ 7,119	\$ 1,107	\$ 21,791	57.4	0.6

<u>(Amounts per MBF) Nine Months Ended</u>	<u>Harvest, Haul and Tax *</u>	<u>Depletion *</u>
Partnership	\$ 221	\$ 52
Funds	243	196
Total September 2016	\$ 230	\$ 111
Partnership	\$ 220	\$ 47
Funds	252	197
Total September 2015	\$ 236	\$ 123

* 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.

Comparing YTD 2016 to YTD 2015. Cost of sales decreased \$3.3 million, or 15%, in the first nine months of 2016 compared to the corresponding period in 2015 due to a 5% decrease in harvest volume (including timber deed sales), a 9% decline in the depletion rate, and \$1.1 million of costs associated with commercial thinning operations in 2015 that had no counterpart in 2016. The Combined depletion rate declined due to the Partnership's relative share of 2016 harvest volume (including timber deed sales) which increased to 59% versus 50% in 2015. Conversely, the Funds' share decreased to 41% in 2016 from 50% in 2015. The Funds' tree farms have higher depletion rates because they were purchased more recently at higher timberland valuations.

Operating Expenses

Fee Timber operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the quarters ended September 30, 2016, June 30, 2016, and September 30, 2015, operating expenses were \$2.1 million, \$2.3 million, and \$2.5 million, respectively. The decrease in operating expenses in Q3 2016 compared to both Q2 2016 and Q3 2015 is attributable primarily to reduced road expenses, particularly on the Funds' tree farms.

Fee Timber operating expenses for the nine months ended September 30, 2016 and 2015 were \$6.1 million and \$5.9 million, respectively. The \$194,000 increase is primarily attributable to higher silviculture expenses on the Combined tree farms.

Gain (loss) on Sale of Timberland

The \$226,000 gain on sale of timberland in 2016 occurred in the first quarter from sales of two parcels of timberland from Fund II's Riffe Lake tree farm and Fund III's Willapa tree farm totaling 205 acres. The total sales price for these two parcels was \$774,000. The \$1.1 million loss on sale of timberland in 2015 occurred in the third quarter resulting from a sale of 858 acres from Fund III's timberland. This sale occurred pursuant to a 2010 option agreement for a wind power project on a portion of the Willapa tree farm in western Washington that Fund III acquired in December 2013. The sale price under the option agreement was lower than Fund III's acquisition price for the property because the option price was based on market prices for timberland in 2010, adjusted for inflation, whereas Fund III's acquisition price was based on market prices in late 2013 and market prices appreciated much more rapidly than inflation during that time. As a result, Fund III recognized a loss on the transaction.

Timberland Management

The Timberland Management segment develops timberland investment portfolios on behalf of the Funds. Our private equity timber funds own a combined 94,000 acres of commercial timberland in western Washington, northwestern Oregon, and northern California with total assets under management of \$364 million based on the most recent appraisals.

Fund Distributions and Fees Paid to the Partnership

Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying all Fund expenses, management fees, and recurring capital costs. The Partnership received combined distributions from the Funds of \$282,000 and \$862,000, in the nine months ended September 30, 2016, and 2015, respectively, which are eliminated in consolidation. The 2015 distributions included \$622,000 from Fund I, which dissolved later that year.

The Partnership earned asset, investment, and timberland management fees from the Funds of \$2.4 million for the nine months ended September 30, 2016 and 2015, which are eliminated in consolidation.

Revenue and Operating Loss

The fees earned from managing the Funds include a fixed component related to invested capital and acres owned, and a variable component related to harvest volume from the Funds' tree farms.

Revenue and operating loss for the Timberland Management segment for the quarters ended September 30, 2016 and 2015 were as follows:

(in thousands, except invested capital, volume and acre data)	Quarter Ended	
	Sep-16	Sep-15
Revenue internal	\$ 772	\$ 779
Intersegment eliminations	(772)	(779)
Revenue external	\$ —	\$ —
Operating income internal	\$ 64	\$ 185
Intersegment eliminations	(708)	(679)
Operating loss external	\$ (644)	\$ (494)
Invested capital (in millions)	\$ 258	\$ 251
Acres owned by Funds	94,000	79,000
Harvest volume - Funds (MMBF), including timber deed sales	6.0	8.6

Comparing Q3 2016 to Q3 2015. Timberland Management generated management fee revenue of \$772,000 and \$779,000 from managing the Funds for the third quarters of 2016 and 2015, respectively. While the decrease in revenue was only \$7,000, there were a number of larger offsetting factors that produced the result. The increase in invested capital from Fund III's \$50.5 million acquisition of the Mashel tree farm in Q4 2015 was offset by a downward correction to the calculation of invested capital in Q4 2015 used to determine the asset management and investment management fees, resulting in lower fees on an ongoing basis. In addition, Fund III's sale from the Willapa tree farm to Weyerhaeuser in Q3 2015 and two small timberland sales from Willapa and Fund II's Riffe Lake tree farms in Q1 2016 served to reduce invested capital and, in turn, the management fees charged to the Funds. The Mashel tree farm acquisition added 15,000 acres to Fund III, while the timberland sales removed 1,000 acres. Notwithstanding the increase in acres owned in Q3 2016 versus Q3 2015, harvest volume by the Funds declined in the current year as we elected to defer volume in expectation of better prices later in the year as the U.S. housing market continues its recovery.

Operating expenses incurred for the quarters ended September 30, 2016, and 2015 totaled \$644,000 and \$494,000, respectively. The increase in operating expenses is attributable to costs associated with our fourth timber fund which we expect to launch by the end of 2016.

Revenue and operating loss for the Timberland Management segment for the nine months ended September 30, 2016 and 2015 were as follows:

(in thousands, except invested capital, volume and acre data)	Nine Months Ended	
	Sep-16	Sep-15
Revenue internal	\$ 2,383	\$ 2,380
Intersegment eliminations	(2,375)	(2,380)
Revenue external	\$ 8	\$ —
Operating income internal	\$ 269	\$ 126
Intersegment eliminations	(2,182)	(2,134)
Operating loss external	\$ (1,913)	\$ (2,008)
Invested capital (in millions)	\$ 258	\$ 253
Acres owned by Funds	94,000	79,000
Harvest volume - Funds (MMBF), including timber deed sales	22.6	29.2

Comparing YTD 2016 to YTD 2015. Timberland Management generated management fee revenue of \$2.4 million from managing the Funds for the nine months ended September 30, 2016 and 2015. As with the quarterly results, there were a number of larger offsetting factors that resulted in management fees remaining flat from 2015 to 2016.

Operating expenses incurred by the Timberland Management segment for the nine months ended September 30, 2016 and 2015 totaled \$1.9 million and \$2.0 million, respectively. The decrease in operating expenses is attributable to a decline in costs incurred to place capital for Fund III as the investment period closed in the fourth quarter of 2015 with the acquisition of the Mashel tree farm.

Real Estate

The Partnership's Real Estate segment produces its revenue primarily from the sale of land within its 2,200-acre portfolio. Additional sources of revenue include sales of development rights and tracts of land from the Partnership's timberland portfolio, together with residential and commercial property rents earned from our Port Gamble and Poulsbo properties. Real Estate holdings are located 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 are generally 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, is normally completed with very little capital investment prior to sale.

In addition to outright sales of fee simple interests in land, we also enter into conservation easement (CE) sales that allow us to retain the right to harvest and manage timberland, but bar any future subdivision of or real estate development on, the property.

"Land Held for Development" on our Condensed Consolidated Balance Sheets represents the Partnership's cost basis in land that has been identified as having greater value as development property than timberland. Our Real Estate segment personnel work with local officials to obtain entitlements for further development of these parcels

Those properties that are for sale, under contract, and for which the Partnership has an expectation they will sell within the next 12 months, are classified on our balance sheet as a current asset under "Land Held for Sale". The \$10.8 million amount currently in Land Held for Sale reflects properties that are under contract and expected to close between now and the end of the third quarter of 2017, comprising 138 single-family residential lots from the Harbor Hill project and two separate single-family lot sales.

Project costs that are associated directly with the development and construction of a real estate project are capitalized and then included in cost of sales when the property is sold, along with our original basis in the underlying land and the closing costs associated with the sale transaction.

Results from Real Estate operations often vary significantly from period-to-period as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land.

Comparing Q3 2016 to Q3 2015. In Q3 2016, we closed on the sale of two parcels of undeveloped land comprising 265 acres for \$1.7 million. In Q3 2015, we closed on the sale of a parcel zoned for multi-family residential use from our Harbor Hill development. Real Estate operating expenses remained flat at \$1.1 million for the third quarters of 2016 and 2015. These factors resulted in an operating income of \$463,000 for the third quarter of 2016 compared to operating loss of \$503,000 in the third quarter of 2015.

Comparing YTD 2016 to YTD 2015. In the first nine months of 2016, we closed on the sale of 9 single-family residential lots from our Harbor Hill development and recognized the remaining revenue on a percentage-of-completion basis on parcels sold in previous periods for a combined total of \$1.2 million as well as the sale of the two parcels of undeveloped land described above. In the first nine months of 2015, we closed on the sale of 75 residential lots from Harbor Hill for \$9.0 million and on \$6.0 million of conservation land and easement sales covering 3,861 acres. Rentals and other activities in our Real Estate segment have decreased in 2016 due to the loss of a tenant at our corporate headquarters building and commercial tenants at Port Gamble due to the environmental remediation project. Real Estate operating expenses increased from \$3.0 million to \$3.3 million for the first nine months of 2015 and 2016, respectively, due primarily to legal and other professional fees in connection with planning and development for a number of properties. These factors resulted in an operating loss of \$1.7 million for the first nine months of 2016 compared to operating income of \$5.2 million for the first nine months of 2015.

Real Estate revenue, gross margin and operating income are summarized in the table below for the nine months ended September 30, 2016 and 2015:

(in thousands, except units sold and per unit amounts)

For the nine months ended:

Description	Revenue	Gross Margin	Units Sold	Revenue per unit	Gross Margin per unit
Residential	\$ 1,220	\$ 154	Lots: 9	\$ 135,556	\$ 17,111
Unimproved land	1,749	1,459	Acres: 265	6,600	5,506
Total land	2,969	1,613			
Rentals and other	896	(88)			
September 30, 2016 total	\$ 3,865	\$ 1,525			
Conservation land sale	\$ 1,644	\$ 912	Acres: 469	3,505	1,945
Development rights (CE)	4,311	4,311	Acres: 3,392	1,271	1,271
Multi-family residential	3,581	514	Acres: 18	198,944	28,556
Residential	8,994	2,416	Lots: 75	119,920	32,213
Total land	18,530	8,153			
Rentals and other	956	83			
September 30, 2015 total	\$ 19,486	\$ 8,236			

Environmental Remediation

As disclosed previously, we have a liability for environmental remediation at Port Gamble, Washington, due to contamination that occurred in Port Gamble Bay prior to our 1985 acquisition of the property from Pope & Talbot, Inc. We have adjusted that liability from time to time based on evolving circumstances. The first construction season was completed in January 2016. The second and final construction season began in late June 2016 and is expected to continue into the first half of 2017, followed by a period of monitoring activity.

Project costs may still vary due to a number of factors, including but not limited to:

Handling of dredged material: Our liability estimate is based on the assumption that we will be able to reuse the majority of dredged material on the millsite. However, we have not yet obtained approval from the relevant regulatory agencies to use the millsite as a permanent location for these materials. We may be required to relocate some or all of the dredged material to land that we own a short distance from the town of Port Gamble or to a commercial landfill. Either of these scenarios would result in an increase in costs. It is possible that the final determination of whether to reuse the material at the millsite or transfer it to an alternative location may not occur until after we complete the construction phase of the project. As a result, if it becomes necessary to relocate the dredged material, we may incur additional expenses during the post-construction monitoring phase of the project.

Costs based on unit pricing: The majority of the components of the remediation work are based on a price per unit and the number of units is an estimate. For example, we are not certain of the number of pilings or volume of wood waste that will ultimately need to be removed from Port Gamble Bay. The cost for this work is priced on a per piling or cubic yard basis, so to the extent the actual number of pilings or volume of wood waste to be removed changes from our estimates, the overall cost may change.

Unforeseen conditions: Site conditions may be different than what was contemplated during the project design and this could result in changes to the scope of work to be completed. For example, the Washington State Department of Ecology has required us to increase the depth of the dredging in certain areas where the depth of wood waste is greater than originally expected.

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. Resolution of these NRD claims will likely occur after the construction phase of the project is completed. Discussions with the Trustees may result in an obligation for us to fund NRD restoration activities and past assessment costs that are not included currently in our liability. The outcome of this matter is too uncertain for us to determine the likelihood or potential amount of any such obligation at this time.

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

General and Administrative (G&A)

G&A expenses remained flat at \$1.2 million in the third quarters of 2016 and 2015. G&A expenses increased to \$3.8 million for the first nine months of 2016 from \$3.6 million for the first nine months of 2015. The increase in G&A expenses on a year-to-date basis was due primarily to personnel costs for being fully staffed in 2016 relative to 2015 and higher incentive compensation expense in 2016.

Interest Expense, Net

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income	\$ 2	\$ 6	\$ 8	\$ 20
Interest expense	(1,158)	(942)	(2,902)	(2,911)
Capitalized interest	203	210	536	643
Interest expense, net	\$ (953)	\$ (726)	\$ (2,358)	\$ (2,248)

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) are included in its patronage program, which rebates a portion of interest paid in the prior year back to the borrower. This NWFCS patronage

program is a feature common to most of this lender's loan agreements. The patronage program reduced interest expense by \$190,000 and \$120,000 for the third quarters of 2016 and 2015, respectively, and by \$585,000 and \$358,000 for the first nine months of 2016 and 2015, respectively. The increase in interest expense on a quarterly basis is due to the higher debt balances, primarily in the third quarter, offset partially by a higher patronage rebate in 2016 relative to 2015. Interest expense remained relatively flat on a year-to-date basis as the increase in our debt balances did not occur until the third quarter of 2016 and was offset by the higher patronage rebate in 2016.

Capitalized interest decreased from 2015 to 2016 on both a quarterly and year-to-date basis due to the reduction in basis from 2015 completed construction activity at Harbor Hill.

Income Tax

The Partnership recorded income tax expense of \$116,000 and \$1,000 for the quarters ended September 30, 2016 and 2015, respectively, and \$166,000 and \$369,000 for the first nine months of 2016 and 2015, respectively.

Pope Resources is a limited partnership and is therefore not subject to federal income tax. Taxable income/loss is instead reported to unitholders each year on a Form K-1 for inclusion in each unitholder's income tax return. However, Pope Resources does have corporate subsidiaries that are subject to income tax, giving rise to the line item for such tax in the Condensed Consolidated Statement of Comprehensive Income.

Noncontrolling interests-ORM Timber Funds

The line item "Net and comprehensive loss attributable to noncontrolling interests-ORM Timber Funds" represents the combination of the 80% portion of the net income or loss for Fund II which is attributable to third-party owners plus 95% of the net income or loss of Fund III that is similarly attributable to third-party owners.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

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. During periods of reduced operating cash flows, such as the first nine months of 2016, we have available to us a line of credit that can be accessed in order to provide for liquidity needs. We expect that funds generated internally from operations and externally through financing will provide the required resources for the Partnership's operations and capital expenditures for at least the next twelve months.

The Partnership's debt consists of mortgage debt with fixed and variable interest rate tranches and an operating line of credit with Northwest Farm Credit Services (NWFCFS). The mortgage debt at September 30, 2016 includes \$56.8 million in term loans with NWFCFS structured in six tranches that mature from 2017 through 2028 and is collateralized by portions of the Partnership's timberland. In addition, our commercial office building in Poulsbo, Washington is collateral for a \$2.6 million loan from NWFCFS that matures in 2023. We also have available, through March 31, 2017, a \$21.0 million facility with NWFCFS that will mature in 2027. At September 30, 2016, no amounts were outstanding under this facility. Our \$20.0 million operating line of credit matures April 1, 2020 and we had \$17.3 million drawn as of September 30, 2016. The line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus 1.5%.

These debt agreements contain covenants that are measured quarterly. Among the covenants measured is a requirement that the Partnership maintain an interest coverage ratio of 3:1 and not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with these covenants as of September 30, 2016 and expects to remain in compliance for at least the next twelve months.

Mortgage debt within our private equity timber funds are collateralized by Fund properties only. Fund II has a timberland mortgage comprised of two fixed rate tranches totaling \$25.0 million with MetLife Insurance Company. The tranches are non-amortizing and both mature in September 2020. The loans allow for, but do not require, annual principal payments of up to 10% of outstanding principal without incurring a make-whole premium. This mortgage is collateralized by a portion of Fund II's timberland portfolio. Fund III has a timberland mortgage comprised of two fixed rate tranches totaling

\$32.4 million with NWFCs. The mortgage is non-amortizing and collateralized by all of Fund III's timberland, with an \$18.0 million tranche maturing in December 2023 and a \$14.4 million tranche maturing in October 2024.

The \$617,000 decrease in cash generated for the nine months ended September 30, 2016 compared to September 30, 2015 is explained in the following table:

(in thousands)	Nine Months Ended September 30,		
	2016	Change	2015
Cash provided by (used in) operating activities	\$ (8,957)	\$ (25,860)	\$ 16,903
Investing activities			
Maturity of short-term investments	—	(1,000)	1,000
Reforestation and roads	(1,276)	197	(1,473)
Buildings and equipment	(159)	38	(197)
Deposit for acquisition of timberland - Partnership	(265)	(265)	—
Proceeds from sale of timberland - Funds	724	(277)	1,001
Acquisition of timberland - Partnership	(33,059)	(28,208)	(4,851)
Cash used in investing activities	(34,035)	(29,515)	(4,520)
Financing activities			
Line of credit borrowings	20,026	20,026	—
Line of credit repayments	(2,700)	(2,700)	—
Repayment of long-term debt	(85)	4,996	(5,081)
Proceeds from issuance of long-term debt	32,000	32,000	—
Debt issuances costs	(163)	(163)	—
Payroll taxes paid upon unit net settlements	(152)	(45)	(107)
Excess tax benefit of equity-based compensation	—	(5)	5
Cash distributions to unitholders	(9,133)	(461)	(8,672)
Cash distributions to fund investors, net of distributions to Partnership	(3,053)	1,110	(4,163)
Cash provided by (used in) financing activities	36,740	54,758	(18,018)
Net increase (decrease) in cash and cash equivalents	\$ (6,252)	\$ (617)	\$ (5,635)

The decrease in cash provided by (used in) operating activities of \$25.9 million resulted primarily from fewer Real Estate sales in 2016, a \$3.7 million increase in environmental remediation expenditures, a 7% decrease in timber harvest volume, and a 2% decrease in log prices.

Cash used in investing activities during 2016 increased by \$29.5 million compared to 2015 due primarily to the increase in Partnership timberland acquisitions in 2016.

Cash provided by financing activities increased in the current year by \$54.8 million due primarily to a debt-financed timberland acquisition in third quarter of 2016, increased borrowings on our operating line of credit, and an increase in distributions to Pope Resources' unitholders. This was offset partially by the repayment of mortgage debt at its maturity in the third quarter of 2015 and a decrease in distributions to investors in our private equity timber funds.

Seasonality

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

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

Real Estate. While Real Estate results are not expected to be 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 relatively limited revenue and income 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 Pacific Northwest development activities.

Capital Expenditures and Commitments

Capital expenditures, excluding timberland acquisitions, for the full year 2016 are projected to be approximately \$18.8 million. The most significant expenditures relate to finishing residential lots for sale to merchant homebuilders in our Harbor Hill project in the fourth quarter and the installation of a new wastewater treatment plant for the town of Port Gamble. The following table presents our capital expenditures by major category on a year-to-date basis and what we expect for the remainder of the year:

<i>in millions</i>	YTD	Remainder of Year	Total
Harbor Hill project development	\$ 9.7	\$ 3.5	\$ 13.2
Port Gamble wastewater treatment plant	0.4	2.0	2.4
Reforestation and roads	1.3	0.6	1.9
Other	0.3	1.0	1.3
	<u>\$ 11.7</u>	<u>\$ 7.1</u>	<u>\$ 18.8</u>

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

An accounting policy is deemed to be “critical” if it is important to a company’s results of operations and financial condition, and requires significant judgment and estimates on the part of management in its application. The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and related disclosures. Actual results could differ from these estimates and assumptions. Management believes its most critical accounting policies and estimates relate to the calculation of timber depletion as well as modeling performed to determine liabilities for matters such as environmental remediation, and potential asset impairments.

For a further discussion of our critical accounting policies and estimates see Accounting Matters in the Management Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2015. See also note 2 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The consolidated fixed-rate debt outstanding had a fair value of approximately \$115.9 million and \$89.8 million at September 30, 2016 and December 31, 2015, respectively, based on the prevailing interest rates for similar financial instruments. A change in interest rate on fixed-rate debt will affect the fair value of debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows payable by the Partnership. A hypothetical 1% change in prevailing interest rates would change the fair value of fixed-rate long-term debt obligations by \$3.7 million and result in a \$273,000 change in interest expense from our variable-rate date. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

ITEM 4. CONTROLS AND PROCEDURES

The Partnership's management maintains a system of internal controls, which management views as adequate to promote the timely identification and reporting of material, relevant information. Those controls include (1) requiring executive management and all managers in accounting roles to sign and adhere to a Code of Conduct and (2) implementation of a confidential hotline for employees to contact the Audit Committee directly with financial reporting concerns. 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 general partner includes an Audit Committee. The Audit Committee reviews the earnings release and all reports on Form 10-Q and 10-K prior to their filing. The Audit Committee is responsible for hiring the Partnership's external auditors and meets with those auditors at least eight times each year, including regularly scheduled executive sessions outside the presence of management.

Our executive officers are responsible for establishing and maintaining disclosure controls and procedures. They have designed such controls to ensure that others make all material information known to them within the organization. Management regularly evaluates ways to improve internal controls.

As of the end of the period covered by this quarterly report on Form 10-Q our executive officers completed an evaluation of the disclosure controls and procedures and have determined them to be effective. There have been no changes to internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Partnership may be subject to legal proceedings and claims that may have a material adverse impact on its business. Management is not aware of any current legal proceedings or claims that are expected to have, individually or in the aggregate, a material adverse impact on its business, prospects, financial condition or results of operations.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry and Our Markets

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

Our Fee Timber and Timberland Management segments are highly dependent upon sales of commodity products. Our revenues from our forestry businesses, which comprise our Fee Timber and our Timberland Management segments, are widely available from producers in other regions of the United States and in a number of other countries. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. Similarly, from time to time in the past we have seen, and in the future we may experience, an increase in supply or a reduction in demand as a result of international tensions or competition that are beyond our control and that may not be predictable.

We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income. Our ability to grow and harvest timber can be impacted significantly by legislation, regulations or court rulings that restrict or stop forest practices. For example, events that focus media attention upon natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Similarly, certain activist groups in Oregon have proposed a ballot initiative that, if approved and sustained in the courts, would eliminate clearcutting, which is the predominant harvest practice across our geographic region. These 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 significantly increase the cost or reduce available inventory thereby reducing income. Any such additional restrictions would likely have a similar effect on our Timberland Management operations. We cannot offer assurances that we will not be alleged to have failed to comply with these regulations, or we may face a reduction in revenues or an increase in costs as a result of complying with newly adopted statutes, regulations and court or administrative decisions. These claims may take the form of individual or class action litigation, regulatory or enforcement proceedings, or both. Any such claims could result in substantial defense costs and divert management's attention from the ongoing operation of our business, and if any such claims were successful, may result in substantial damage awards, fines or civil penalties.

Environmental and other activist groups may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands. In recent years we have seen an increase in activities by environmental groups, Native American tribes, and other activists in the legislative, administrative and judicial processes that govern all aspects of our operations. For example, on more than one occasion the Washington Department of Ecology applied more stringent regulatory standards to our existing environmental remediation operations at Port Gamble, Washington, after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost and the time associated

with our previously-existing remediation plans. Similarly, citizens' and environmental groups have significant influence in the entitlement and zoning processes that affect our Real Estate operations. These activities are not likely to diminish in the foreseeable future, and in some instances may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

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

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

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

Risks Relating to Our Operations

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

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. For example, Simpson Timber Co. announced in 2015 the sale of four of their mills in the Pacific Northwest region to two separate buyers. Two of those mills will be shut down permanently while another will be closed until a new, more modern, mill is built in its place. The replacement mill is expected to open in late 2016 or early 2017. In addition, Interfor announced recently their intention to sell a lumber mill in Tacoma, Washington that it closed in May 2015. Because a portion of our cost of sales in our Fee Timber segment, which encompasses the Combined tree farms, consists of transportation costs for delivery of logs to domestic sawmills, it becomes increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Fee Timber revenue or income and, as that segment has traditionally represented our largest business unit, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue and income as a result of regional mill consolidations will also indirectly

affect our Timberland Management segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

We have increased our leverage in recent periods, which may give rise to additional risks that have not historically accompanied our operations. As discussed in the notes to the financial statements, we have recently increased the Partnership's leverage and its borrowing capacity to expand our timberland holdings and invest in our Real Estate operations. The Partnership's total outstanding debt was \$76.5 million at September 30, 2016, of which \$27.3 million bears interest at variable rates with the balance at fixed rates. The increase in debt, particularly that portion that carries variable interest rates, exposes us to certain additional risks, including the possibility that we may face additional interest expense, particularly in an economic environment that includes rising interest rates, as are widely expected in the United States in coming periods. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations or business.

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

Our 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 have an environmental remediation liability 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 the property were alleged to have been impacted by operations occurring prior to our acquisition of the property, which occurred at the time of our spinoff from Pope & Talbot, Inc. in 1985. However, as current owner of Port Gamble, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology ("DOE") in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provides for the cleanup of Port Gamble Bay. Together, these documents outline the terms under which the Partnership will conduct environmental remediation as well as the specific clean-up activities to be performed. The CD and CAP were filed with the Kitsap County Superior Court in December 2013. On June 8, 2015, Kitsap County Superior Court ruled on summary judgment that Washington's Department of Natural Resources (DNR) did not qualify as an owner or operator of the site and therefore did not have liability under the MTCA. DNR had been identified by DOE as a "potentially liable person" under the MTCA. The effect of the court's ruling is to absolve DNR of any responsibility to contribute to the cost of cleanup at Port Gamble. We have appealed the Superior Court's ruling, and believe we have a strong case for overturning the lower court's decision, however, there can be no assurance that we will prevail in this matter or that we can reach an acceptable settlement with DNR. The recorded liability reflects the estimated cost of the entire project, without any contribution by DNR. Additionally, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. 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 not

included currently in our liability. The outcome of this matter is too uncertain for us to determine the likelihood or potential amount of any such obligation at this time.

Management continues to monitor the Port Gamble cleanup processes closely. The \$11.5 million remediation accrual as of September 30, 2016 represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. The liability is based upon a number of estimates and judgments that are subject to change as the project progresses. There may be additional litigation costs if we successfully overturn the Superior Court's ruling but cannot reach a settlement with DNR, and the outcome of any such litigation is uncertain. The filing of the CD limits our legal exposure for matters covered by the decree, but does not eliminate it entirely. DOE reserves the right to reopen the CD if new information regarding factors previously unknown to the agency requires further remedial action. While unlikely, a reopening of the CD may result in adverse financial impacts and may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income and operations.

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

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

We may incur losses as a result of natural disasters that may occur, or that may be alleged to have occurred, on our properties. Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects and disease, flooding and landslides. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. Consistent with the practices of other large timber companies, we do not maintain insurance against loss of standing timber on our timberlands due to natural disasters. However, as a result of the extreme fire conditions in the Pacific Northwest in 2015, we have acquired fire insurance on a portion of our timberland portfolio.

We rely on contract loggers and truckers who are in short supply and seeking consistent work at increasing rates. We rely on contract loggers and truckers for the production and transportation, respectively, of our products to customers. The pool of available contractors is limited and can result in an increase in harvest and haul costs as harvest volume increases. In addition, contractors may emphasize continuity of work which influences contractor selection and solicitation of contractor bids for jobs. The commitment to more continuous work could reduce our flexibility to time markets, affecting total returns.

Risks Relating to Ownership of Our Securities

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

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

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

- (a) There have been no material changes in the procedures for shareholders of the Partnership’s general partner to nominate directors to the board.

ITEM 6. Exhibits

Exhibits.

- 10.1 Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016.
- 10.2 Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated July 20, 2016.
- 10.3 Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016.
- 10.4 Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated August 4, 2016.
- 10.5 Amended and Restated Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated September 30, 2016.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).
- 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

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 8, 2016.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

By: /s/ Thomas M. Ringo
Thomas M. Ringo
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ John D. Lamb
John D. Lamb
Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Sean M. Tallarico
Sean M. Tallarico
Controller
(Principal Accounting Officer)

**SECOND AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

DATED AS OF JULY 20, 2016

BETWEEN

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

AS BORROWER

AND

NORTHWEST FARM CREDIT SERVICES, FLCA

AS LENDER

**FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT
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Exhibit A: Form of Compliance Certificate

Exhibit B: Covenant Compliance Worksheet

Schedule One: Authorized Persons

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (FLCA) - 2
Pope Resources, a Delaware Limited Partnership; Note Nos. 6012758, 6012757, 6229354 and 6229356

**SECOND AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

THIS SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (this “Loan Agreement”) is made and entered into effective July 20, 2016, by and between Lender, as defined below, and Borrower, as defined below. This Loan Agreement amends and restates, in its entirety, the existing Master Loan Agreement, dated June 10, 2010, effective on the date hereof.

RECITALS

WHEREAS, Borrower and Lender are parties to that certain First Amended and Restated Master Loan Agreement dated effective June 10, 2010, as amended (the “Prior Loan Agreement”);

WHEREAS, pursuant to the Prior Loan Agreement, Lender made available to Borrower (i) a term loan in the original principal amount of \$9,800,000 (Loan No. 6012758) and (ii) a multiple advance loan in the maximum principal amount of \$20,000,000 (Loan No. 6012757);

WHEREAS, Borrower has requested that Lender make two additional loans, a loan (Loan No. 6229356) in the amount of \$32,000,000 to finance, in part, the Borrower’s acquisition of certain real property pursuant to a Purchase and Sale Agreement between Borrower and John Hancock Life Insurance Company (U.S.A.) dated June 16, 2016 (the “Carbon River Loan”), and a loan (Loan No. 6229354) in the amount of \$21,000,000 to fund, in part, the costs associated with Borrower’s obligations to perform environmental remediation at Port Gamble site (the “Port Gamble Loan”); and

WHEREAS, Lender has agreed to make the requested loans available to Borrower on the terms and conditions hereinafter set forth, which shall apply also to Loan Nos. 6012758, 6012757 and to any future loans made subject to this Loan Agreement.

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

1. Definitions and Interpretation.

1.01. Defined Terms. Capitalized terms not otherwise defined herein shall have the meanings given in the Notes or other Loan Documents. As used herein:

“ACA Stock” means Borrower’s stock in Northwest Farm Credit Services, ACA, an affiliate of Lender, as Borrower may be required to own or purchase from time to time pursuant to the Membership Agreement.

“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; and (e) consolidated

depletion expense; (f) plus or minus, as the case may be, Consolidated Taxes, all as determined in accordance with GAAP, (g) distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries, but excluding from the forgoing the net income, interest expense, depreciation expense, amortization expense, depletion expense, interest expense and income taxes associated with non-Wholly Owned Subsidiaries.

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

“Adjusted Partners’ Capital” means the GAAP-based amount of the capital account of the partners of Borrower and its Wholly-Owned Subsidiaries, adjusted for book to market value differences in Fee Timberlands based upon the most recent appraisals, as calculated on Exhibit B.

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

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

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

“Authorized Person” means any one of the individuals identified on Schedule 1, as such schedule is updated from time to time by written notice from Borrower to Lender.

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

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

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

“Base Rate” shall have the meaning indicated in the particular Note for a Loan.

“Biennial Appraised Timberland Value” means the value determined pursuant to the most recent biennial appraisal required by Section 7.01 g. hereof.

“Borrower” means Pope Resources, A Delaware Limited Partnership.

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

“Breakage Fee” shall have the meaning given in Section 9.02 hereof.

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

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

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

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

“Closing Date” for any particular Loan, means the Business Day the associated Loan Documents are fully executed and delivered to Lender, following satisfaction of all conditions precedent or waiver thereof by Lender.

“Code” means the Internal Revenue Service Code of 1986, as amended or recodified.

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“Collateral” for a Loan means the Property described in any Loan Document providing Lender a Lien in such Collateral. Collateral shall also mean all Property pledged to Lender after a Closing Date, as Collateral for Borrower’s Obligations.

“Collateral Documents” means a collective reference to security agreement, pledge, mortgage, hypothecation and such other documents executed and delivered in connection with the attachment and perfection of Lender’s security interests and liens on Collateral.

“Collateral Pool” shall have the meaning given in Section 5.03 hereof.

“Compliance Certificate” shall have the meaning given in Section 7.01.b.iii. and shall be in substantially the form of Exhibit A hereto.

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

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

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

“Contractual Obligation” means, as to any Person, any provision of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its Property is bound.

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

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

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

“Event of Default” shall have the meaning provided in Section 8 hereof.

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

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

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

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

“Fiscal Year” means the calendar year.

“Fiscal Year-End” means December 31.

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

“Fixed Rate Maturity Date” shall have the meaning indicated in the particular Note for a Loan.

“Fixed Rate Option” shall have the meaning indicated in the particular Note for a Loan.

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

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

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

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

Contract and (j) all guarantees of such Person in respect of any of the foregoing. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which a Person is a general partner or a joint venturer.

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

“Intercompany Indebtedness” means any Indebtedness of a Borrower that is owing to a Subsidiary or Related Party.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 (“IRC”), the Employee Retirement Income Security Act of 1974 (“ERISA”), the Fair Labor Standards Act (“FLSA”), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”).

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

“Lender’s Expenses” means the amounts required to be paid by Borrower pursuant to Section 10.02.

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

“Loan” means all principal amounts or other extension of credit (including letters of credit) advanced by Lender to Borrower or on the account of Borrower or otherwise under a Note and the other Loan Documents evidencing such Loan, which by its terms is made subject to this Loan Agreement, and all fees or charges incurred as provided for in any Note and the other Loan Documents, plus all interest accrued thereon.

“Loan Documents” means all of the Contractual Obligations associated with the Loan, including but not limited to: this Loan Agreement, the Collateral Documents, the Note, the Membership Agreement, indemnities, guaranties, assignment(s), reimbursement agreements, letter of credit applications and other documents or instruments as required by Lender, executed in connection with the Loan or the Collateral, and any extensions, renewals, amendments, substitutions or replacements thereof.

“Loans” means two or more Loans.

“Loan Maturity Date” shall have the meaning indicated in the particular Note for a Loan.

“Loan Segment” shall have the meaning indicated in the particular Note for a Loan.

“Market Value of Timberlands” means the value of Fee Timberland as determined by an appraisal performed by a certified appraiser and acceptable to Lender.

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

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

“MBF” means one thousand board feet of Merchantable Timber on the Collateral.

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

“Merchantable Timber” means timber of acceptable quality of species identified in the appraisal completed for Lender, which are in excess of 35 years of age and which can be harvested without violation of applicable laws and regulations.

“Note” means the note evidencing a Loan and which contains a promise to pay a sum certain.

“Notes” means one or more Notes.

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

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

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

“PCA Loans” means the loans made by Northwest Farm Credit Services, PCA that are secured by the Collateral Pool.

“Permitted Dispositions” means, so long as there is no Event of Default or Incipient Default, Collateral that Borrower may sell or exchange, provided that: (i) adequate access exists to the remaining collateral,

to the satisfaction of Lender; (ii) no subdivision Law is violated by such sale or exchange; and (iii) the total dollar value of such sale(s) or exchange(s) is in an amount not to exceed 3% of the most recent Biennial Appraised Timberland Value in any Fiscal Year. A Permitted 1031 Exchange Transaction is not a Permitted Disposition.

“Permitted Liens” means:

a. Liens (other than Liens created or imposed under ERISA) for taxes, assessments or governmental charges or levies not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves, determined in accordance with GAAP, have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

b. Statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that such Liens secure only amounts not yet due and payable or, if due and payable, are unfilled and no other action has been taken to enforce the same or are being contested in good faith by appropriate proceedings for which adequate reserves, determined in accordance with GAAP, have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

c. Liens (other than Liens created or imposed under ERISA) incurred or deposits made by Borrower in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

d. Liens in connection with attachments or judgments (including judgment or appeal bonds) provided that the judgments secured shall, within 90 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall have been discharged within 45 days after the expiration of any such stay;

e. Easements, rights-of-way, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered Property for its intended purposes;

f. Liens on Property securing purchase money Indebtedness (including Capital Leases and obligations under letters of credit) to the extent permitted hereunder, provided that any such Lien attaches to such Property concurrently with or within 90 days after the acquisition thereof;

g. Any interest of title of a lessor under, and Liens arising from UCC financing statements relating to, leases permitted by this Loan Agreement and the other Loan Documents;

h. Normal and customary rights of setoff upon deposits of cash in favor of banks or other depository institutions;

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- i. Liens existing as of the Closing Date and set forth in a schedule presented to Lender; provided that no such Lien shall at any time be extended to or cover any Property other than the Property subject thereto on the Closing Date;
- j. Liens on the FPF Account;
- k. Liens on Property securing Indebtedness to the extent the Indebtedness is permitted under sections 7.03 f.(vi), (vii) or (ix) hereof; and
- l. Liens granted to Lender or Lender's affiliate, Northwest Farm Credit Services, PCA.

“Permitted 1031 Exchange Transaction” means an exchange transaction entered into by Borrower, in accordance with Section 1031 of the Code, pursuant to the terms of an exchange agreement or similar agreement between Borrower and a Qualified Intermediary, that provides for: (i) the receipt by the Qualified Intermediary of all or a portion of the proceeds of such relinquished property; (ii) the identification and purchase of qualifying replacement property; and (iii) the right of Borrower to assign and grant a security interest in its rights in such agreement for the benefit of Lender.

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

“Prepayment Fee” shall have the meaning given in Section 9.01 hereof.

“Pricing Date” shall have the meaning indicated in the particular Note for a Loan.

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

“Qualified Intermediary” shall have the meaning defined in Section 1031 of the Code.

“Records” means correspondence, memoranda, tapes, discs, computer data, papers, certificates, books, cruise maps and other documents, or transcribed information of any type, whether expressed in ordinary or machine readable language.

“Regulation U or X” means Regulation U (12 CFR Part 221, Credit by banks and persons other than brokers and dealers for the purpose of purchasing or carrying margin stock) or Regulation X (12 CFR Part 224, Borrowers of securities credit) respectively, to the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

“Related Party or Parties” means, with respect to any Person, such Person's Affiliates and the general partners, directors and officers of such Person and of such Person's Affiliates.

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

“Sanctioned Entity” means (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly Controlled by a country or its government, (d) a

Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

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

“Subsidiary” means, as to any Person, (a) any corporation more than 50 percent of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50 percent equity interest at any time. Unless otherwise specified, all references herein to a “Subsidiary” or “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower. For purposes of Section 7 of this Loan Agreement, Subsidiary or Subsidiaries shall include Timber Funds.

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

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

“Timber Cutting Payment” means the payment amount determined by Lender annually, which would reduce the quotient of the sum of the outstanding balances of the Loans and the PCA Loan(s) *divided by* the volume of Merchantable Timber remaining uncut and located on the Collateral to an amount equal to \$250.00/MBF.

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

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

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

a. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding

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

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

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

1.03. Accounting Terms.

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

If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or Lender shall so request, Lender and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Lender financial statements and other documents required under this Loan Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP. Borrower shall not be required to pay an amendment fee in connection with any amendment pursuant to this Section 1.03, provided that Borrower shall remain liable for reasonable out-of-pocket expenses incurred by Lender and its Affiliates in connection with such amendment, as provided in Section 10.02.

2. Loans.

2.01. Loans. Subject to the terms and conditions set forth herein, Lender agrees to make the Port Gamble Loan and the Carbon River Loan to Borrower. Borrower agrees to repay the Loans and all of Borrower’s Obligations under the Loan Documents, according to their terms.

2.02. Fees. Borrower shall pay Lender’s fees, as set forth in the Notes or separate fee letters.

2.03. Evidence of Debt. The Loans shall be evidenced by one or more accounts or records maintained by Lender in the ordinary course of business. The accounts or records maintained by Lender shall be conclusive absent manifest error of the amount of the Loans made by Lender to Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower to pay any amount owing with respect to Borrower's Obligations.

2.04. Payments.

a. **Method of Payment.** All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as may be provided in the Notes, if any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day. Lender shall provide Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections within 15 days of receipt of any such statement, provided, failure to receive a periodic statement shall not excuse payment of any sums payable hereunder.

b. **Authorized Payments.** Lender is authorized to withhold from or disburse as Loan proceeds amounts to pay the following items collectively referenced as "accounts receivable", charge the same to any Loan and charge interest thereon at the same rate stated in the Loan Documents at Lender's sole discretion: (i) amounts required to pay prior Liens on any Collateral offered or used as security for any Loan; (ii) the cost incurred on any items such as the following, that are carried by Borrower in connection with any Loan: credit life insurance, life insurance, key man insurance, disability insurance, crop or property insurance and any farm records, leasing or other financially related services; (iii) recording and filing fees, registration taxes, transfer taxes or any similar items authorized under the terms of any Loan Documents; (iv) amounts required for Borrower to acquire and maintain ACA Stock or Participation Certificates as required under and defined in the Membership Agreement; or (v) Lender's Expenses.

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

2.05. Disbursements. Lender's commitment (if any) to disburse funds on any Loan is conditioned upon Borrower's ongoing compliance with the terms and conditions of the Loan Documents. Borrower agrees that all Loan funds disbursed shall be used only for the purposes approved and in the manner indicated by Lender.

2.06. Procedure for Borrowing Loans and Interest Rate Elections. Each request for an advance under a Loan or interest rate election shall be made by a written request/notice by an Authorized Person delivered to Lender on the terms provided in the Note evidencing such Loan. At Lender's election, in lieu of delivering the above-described written request, any Authorized Person may give Lender telephonic notice of such request by the required time. In such circumstances, Borrower agrees that any such telephonic notice will be confirmed in writing within 24 hours of the giving of such telephonic notice, but the failure to provide such written confirmation shall not affect the validity of the request.

3. Future Payment Fund Accounts.

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

3.02. Maximum Amounts. The maximum account balance for each FPF Account shall be subject to the limitations set forth below:

a. The sum which may be held in a FPF Account associated with an operating or revolving or multiple advance line of credit Loan shall not exceed the lesser of the Note amount or the actual maximum outstanding balance on that Loan during the previous 12 months. Lender reserves the right to further limit the maximum FPF Account balance in the event Borrower's historical note usage is significantly less than the lesser of their maximum outstanding balance or the Note amount; and

b. For all other Loans, the maximum amount that may be held in the FPF Account shall not exceed the outstanding principal balance on the associated Loan or some other amount as may be determined by Lender.

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

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

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

funds in excess of the total outstanding Loan balances would be at risk and subject to the claims of creditors of Lender.

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

4. Conditions Precedent. The obligation of Lender to make a Loan is subject to satisfaction of the following conditions precedent by Borrower, on or before the Closing Date or to waiver thereof by Lender.

4.01. Documents Required for Closing.

a. Borrower and all other required parties shall have executed where appropriate and delivered to Lender, on or prior to a Closing Date, the applicable Loan Documents, each in form and substance satisfactory to Lender;

b. A certified (as of the applicable Closing Date) copy of resolutions, or equivalent, of the governing body of each Organization signing a Loan Document, authorizing the execution, delivery and performance of each of the Loan Documents to which it is a party and providing Lender an incumbency certificate for any Person authorized to execute the Loan Documents;

c. A certified (as of the applicable Closing Date) copy of the current Organization Documents including any amendments thereto, of each such Person, together with a certificate (dated as of the Closing Date) of each such Person to the effect that such Organization Documents have not been amended since the date of the aforesaid certification;

d. A certificate (as of the most recent date practicable) of the relevant Secretary of State as to the current existence of each such Person, a certificate (as of the most recent date practicable) of the Secretary of State of each state in which the business activities or Property of such Person requires qualification as a foreign corporation or entity, as the case may be, and that such Person is duly qualified to transact business in that state as a foreign corporation or entity, as the case may be;

e. The written opinion of the outside counsel for Borrower, dated as of the applicable Closing Date and addressed to Lender and any participating lenders as Lender may request, in form satisfactory to Lender, to the effect that after due inquiry:

i. Borrower is a limited partnership duly formed and validly existing under Delaware law, and is duly qualified to do business as a foreign limited partnership in the State of Washington;

ii. Borrower has all necessary partnership power and authority under the Certificate, the Partnership Agreement, and the Delaware RULPA to enter into, and to perform its obligations under, each of the Loan Documents;

iii. Borrower has authorized, by all necessary partnership action on the part of Borrower, the execution and delivery of, and the performance of the transactions contemplated by, each of the Loan Documents, and Borrower has executed and delivered each of the Loan Documents;

iv. Each of the Loan Documents constitutes the valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms; and

v. The execution and delivery by Borrower of, and the performance of the transactions contemplated by, each of the Loan Documents do not (a) violate Borrower's Certificate or its Partnership Agreement; (b) to counsel's knowledge, breach, or result in a default under, any existing obligation of Borrower under any material agreement or instrument to which Borrower is a party; (c) to counsel's knowledge, breach or otherwise violate any existing obligation of Borrower under any court order that names Borrower and is specifically directed to it or its property; or (d) are not prohibited by, nor do they subject Borrower to the imposition of a fine, penalty or other similar sanction for a violation under, any applicable statutes or regulations;

f. Evidence, as requested by Lender, that no condition shall exist which would constitute a Material Adverse Effect, in the reasonable opinion of Lender, in the business, operation or financial conditions of Borrower since the date of the applicable Loan commitment;

g. If real Property is Collateral for one or more loans, an appraisal of the Collateral acceptable to Lender as determined by Lender in accordance with its policies and procedures, in an amount satisfactory to Lender. Lender will engage a state certified appraiser to perform the appraisal. The appraisal shall be for the sole and exclusive use of Lender;

h. In connection with all real property included in the Collateral, Lender shall have received a title insurance commitment acceptable to Lender to assure Lender of its lien priority and with no exceptions contained therein except as are approved by Lender. In connection with all personal property included in the Collateral, Lender shall have received searches of appropriate filing offices showing no Liens filed against the Collateral, except those to be released prior to disbursement or otherwise acceptable to Lender to assure Lender of its lien priority;

i. Environmental report satisfactory to Lender;

j. Commercial general liability insurance with Borrower as the named insured and Lender as additional insured in commercially reasonable amounts and terms and issued by an insurer or insurers reasonably satisfactory to Lender;

k. Evidence that all other actions which, in the opinion of Lender, are reasonably necessary to perfect and protect the security interests created by the Loan Documents have been taken;

l. Copies of the most recent timberland appraisals covering all Fee Timberlands; and

m. Lender shall have received all documentation and other information required by bank regulatory authorities under applicable "know your customer" and anti-money laundering Laws, including the USA PATRIOT Act.

4.02. Conditions Precedent to Advances Under Any Loan. The obligation of Lender to fund any advance under any Loan is subject to the following additional conditions precedent:

- a. Evidence as requested by Lender that no condition shall exist which would constitute a Material Adverse Effect, in the opinion of Lender, in the business, operation or financial conditions of Borrower at the time of the advance;
- b. As of the date of the advance, no Incipient Default or an Event of Default shall have occurred and be continuing and disbursing the amount of the advance requested shall not result in an Incipient Default or Event of Default;
- c. Borrower shall have complied with all conditions precedent contained herein and in Lender's escrow instructions and commitment letters for any Loan, if any;
- d. Payment by Borrower to Lender of the following amounts:
 - i. Any unpaid balance of any Loan fees; and
 - ii. All unpaid Lender Expenses; and
- e. All representations and warranties made in the Loan Documents are true and correct, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date.

5. Liens and Collateral.

5.01. Creation of Liens. The Liens created under the Collateral Documents shall at all times secure Borrower's Obligations.

5.02. Perfection of Liens. Borrower promises and hereby agrees to:

- a. Authorize all financing statements, amendments and continuation statements and other documents as Lender may from time to time require in order to perfect, continue and re-perfect its Lien in the Collateral;
- b. Pay for or reimburse Lender for all reasonable costs of closing, including without limitation, all taxes, costs of filing the financing statements or recording the Deeds of Trust in such public offices as Lender may designate; and
- c. Take such other steps as Lender may reasonably direct, including the noting of Lender's Lien on the Collateral and on any certificates of title therefore, to perfect Lender's Lien upon the Collateral.

The original, a copy or a memorandum of this Loan Agreement may be filed or recorded as a financing statement if Borrower fails or refuses to comply with the requirements of this Loan

5.03. Collateral Pool. All Collateral pledged to Lender, whether pledged on the Closing Date of a Loan or pledged at such later date (the "Collateral Pool"), shall secure all Loans of Lender to Borrower whenever such Loan is made. All releases and other servicing actions impacting Collateral shall be identical for all Loans.

5.04. Release of Liens on Collateral.

- a. Permitted Dispositions. Provided there is no Event of Default or Incipient Default, Lender will release the Liens associated with the Collateral for a Permitted Disposition.
- b. Permitted 1031 Exchange Transactions. Provided there is no Event of Default or Incipient Default, Lender will release the Liens associated with the Collateral in a Permitted 1031 Exchange Transaction.
- c. Other Releases. Provided there is no Event of Default or Incipient Default, Borrower may request a partial release of Collateral, to the extent that the total outstanding principal balances of the Loans and the PCA Loans does not exceed 35% of the Biennial Appraised Timberland Value following the release. Such releases will be subject to approval by Lender, which will not be unreasonably withheld. The partial release may be subject to and require an additional Timber Cutting Payment, payable at the time of such release. No release will be provided if the proposed Collateral to be released is integral to the Collateral Pool, as reasonably determined by Lender.
- d. Expenses Associated with Lien Releases. Borrower shall pay Lender's Expenses associated with the Lien releases identified in this Section 5.04, including but not limited to title insurance and appraisal costs.

6. Representations and Warranties.

6.01. Representations and Warranties of Borrower. To induce Lender to enter into this Loan Agreement, Borrower represents and warrants to Lender as follows:

- a. Borrower is a validly formed limited partnership that has been duly organized and exists and is in good standing under the laws of the State of Delaware, the jurisdiction in which it was organized, has the lawful power to own its properties and to engage in the business it conducts, and is duly qualified to do business in all other states where the nature of the business transacted by it or Property owned by it makes such qualification necessary, except to the extent that the failure to qualify would not create a Material Adverse Effect;
- b. Borrower is not in default with respect to any Contractual Obligation so as to have a Material Adverse Effect on the consolidated financial condition of Borrower;
- c. The execution, delivery and performance of the Loan Documents will not immediately or with the passage of time, or the giving of notice, or both:
 - i. Violate the Organizational Documents governing Borrower, or violate any Laws or result in a default under the terms of any Contractual Obligation to which Borrower is a party or by which Borrower or its respective Properties is bound; or
 - ii. Result in the creation or imposition of any Lien upon any of the Property of Borrower, except the Liens in favor of Lender;

d. Borrower has the power and authority to enter into and perform the Loan Documents to which it is a party or is bound, and to incur obligations, and has taken all action necessary to authorize the execution, delivery and performance of the Loan Documents to which it is a party or is bound;

e. The Loan Documents, when delivered, will be legally valid and binding Contractual Obligations, enforceable in accordance with their respective terms;

f. Borrower has good and marketable title to all of its Property and such Property is not subject to any Lien, except for Permitted Liens;

g. Borrower's financial statements have been and will be prepared and presented and hereafter will present fully and fairly the financial condition of Borrower on the dates thereto and the results of operations for the periods covered thereby. There have been no conditions so as to create a Material Adverse Effect in the financial condition or business of Borrower since the date of Borrower's most recent quarterly financial statements, as filed with the Securities and Exchange Commission;

h. Except as otherwise permitted herein, Borrower has filed all federal, state and local tax returns and other reports that it was required by Law to file prior to the date hereof and that are Material to the conduct of its business; has paid or caused to be paid all taxes, assessments and other similar governmental charges that were due and payable prior to the date hereof; have made adequate provision for the payment of taxes which are accruing but not yet payable; and have no knowledge of any deficiency or additional assessment in a Material amount in connection with any taxes which has not been provided for on their books;

i. To the best of its knowledge, after due diligence in investigating relevant matters, except as otherwise disclosed or to the extent that the failure to comply would not be Material to the conduct of the business of Borrower, it has complied with all applicable laws with respect to:

- i. The products that it produces or sells or to the services it performs;
- ii. The conduct of its businesses; and
- iii. The use, maintenance and operation of the Properties owned or leased by it;

j. No representation or warranty by Borrower, as to its best knowledge, after due diligence in investigating relevant matters, contained herein or in any certificate or other document furnished pursuant hereto, or in the Loan Documents, contains any untrue statement of Material fact or omits to state a Material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made;

k. To the best knowledge of Borrower, after due diligence in investigating relevant matters, each consent, approval or authorization of, or filing, registration or qualification with, any Person required to be obtained or effected by Borrower in connection with the execution and delivery of the Loan Documents, or the undertaking or performance of any obligation thereunder, has been duly obtained or effected;

l. No part of the proceeds of the Loan(s) will be used, directly or indirectly, for the purpose of purchasing or carrying or trading in any securities in violation of Regulation U. If requested by

Lender, Borrower shall furnish to Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U. No indebtedness being reduced or retired out of the proceeds of the Loans was or will be incurred for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U. "Margin stock" within the meanings of Regulation U does not constitute more than 25 percent of the value of the consolidated assets of Borrower. None of the transactions contemplated by this Loan Agreement (including without limitation, the direct or indirect use of the proceeds of the Loans) will violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or regulations issued pursuant thereto, or Regulation U or X;

m. Borrower is not subject to regulation under the Public Utility Holding Company Act of 2005 or the Federal Power Act or the Investment Company Act of 1940, each as amended. In addition, Borrower is not (i) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, and is not controlled by such a company, or (ii) a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary" of a "holding company," within the meaning of the Public Utility Holding Company Act of 2005, as amended;

n. Borrower has obtained all material licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Property and to the conduct of its businesses;

o. Borrower is not in violation of any Law, which violation could reasonably be expected to have a Material Adverse Effect; and

p. Borrower is current with all Material reports and documents, if any, required to be filed with any state or federal securities commission or similar agency and is in full compliance in all Material respects with all applicable rules and regulations of such commissions.

6.02. Representations and Warranties of Lender. Lender represents and warrants to Borrower as follows:

a. Lender is a legal entity duly organized, validly existing and is in good standing under the Farm Credit Act of 1971, as amended, has the necessary power and authority to conduct the business in which it is currently engaged, is duly qualified to conduct its business and is in compliance with all Material requirements of law, except to the extent that failure to comply therewith would not, in the aggregate, be reasonably expected to have a Material Adverse Effect on the operations of Lender.

b. Lender and each person executing this Loan Agreement on behalf of Lender has the necessary power and authority, and the legal right, to make and deliver this Loan Agreement, and has taken all necessary action to authorize the conditions of this Loan Agreement and to authorize the execution, delivery and performance thereof. No consent or authorization of, filing with, notice to or other similar act by or in respect of any Governmental Authority or any other Person is required to be obtained or made by or on behalf of Lender in connection with the execution, delivery, performance, validity or enforceability of this Loan Agreement. This Loan Agreement has been duly executed and delivered on behalf of Lender. This Loan Agreement constitutes a legal, valid and binding Loan Agreement enforceable against Lender in accordance with its terms.

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (FLCA) - 22

Pope Resources, a Delaware Limited Partnership; Note Nos. 6012758, 6012757, 6229354 and 6229356

6.03. Survival. All of the representations and warranties set forth in Section 6.01 shall survive until all of Borrower's Obligations are paid and satisfied in full and all offsets, defenses or counterclaims that Borrower has or may claim to have, have been released or discharged.

7. Covenants.

7.01. Affirmative Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, and until all of the commitments hereunder or in the Notes and other Loan Documents have been terminated, Borrower shall maintain the following covenants:

a. Loan Purpose. Borrower shall use the proceeds of a Loan only for the purposes set forth in this Loan Agreement or the Note evidencing such Loan, and will furnish Lender such evidence as it may reasonably require with respect to such use.

b. Reporting/Notices. Borrower shall furnish Lender, in form and detail satisfactory to Lender, during the term of the Loans:

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

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

iii. Concurrently with the delivery of the financial statements referred to in Sections 7.01.b.i and ii, a duly completed Compliance Certificate, signed by a Responsible Officer, certifying that such financial statements are fairly presenting the financial condition, results of operations, shareholders' (or equivalent) equity and cash flows of Borrower and its Subsidiaries in accordance with

GAAP (subject only to normal year-end audit adjustments and the absence of footnotes with respect to financial statements provided under Section 7.01.b.ii.). A sample Compliance Certificate is attached hereto as Exhibit A. Borrower's Compliance Certificate shall be accompanied by a Covenant Compliance Worksheet, a sample of which is attached hereto as Exhibit B, signed by a Responsible Officer;

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

v. By March 1 of each year, Borrower will provide a detailed financial projection for Borrower and its Subsidiaries excluding the non-Wholly Owned Subsidiaries for the current fiscal year to include a balance sheet, income statement and statement of cash flow. Such projections shall provide sufficient detail to calculate the financial covenants in Section 7.02.

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

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

viii. By January 31st of each year, a timber harvest plan describing the proposed harvest of timber from the real property Collateral for the ensuing calendar year, which will specify the total timber volume by species to be harvested from the real property Collateral and the location, by tract, of the harvest; and

ix. As soon as available, but in any event not more than 45 days after the end of the first three Fiscal Quarters and 90 days after the fourth Fiscal Quarter, a timber harvest report detailing all timber harvest activity on the real property Collateral, including, at a minimum, the total volume of logs by species scaled and a reconciliation of actual activity compared to the timber harvest plan for harvest and log sales by species and by tract. The timber harvest report following the fourth Fiscal

Quarter shall also include information regarding the total volume, by species, of growth on the real property Collateral.

c. Insurance. Borrower shall maintain, for itself and its Subsidiaries, general liability insurance with insurance companies reasonably acceptable to Lender in such amounts, with such terms and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as Lender may reasonably request. At the request of Lender, copies of such policies (or such other proof of compliance with this subsection as may be satisfactory to Lender) shall be delivered to Lender and shall show Lender as mortgagee under a standard mortgage clause or lender loss payee.

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

e. Records/Inspection. Borrower shall keep accurate and complete Records of its operations, consistent with sound business practices. Borrower shall permit Lender or its representatives, agents or independent contractors, during normal business hours or at such other times as Borrower and Lender may agree to: (i) inspect or examine Borrower's properties, books and records; (ii) make copies of Borrower's books and records; and (iii) discuss Borrower's affairs, finances and accounts with Borrower's officers, employees and independent certified public accountants. Without limiting the foregoing, Borrower shall permit Lender, through an employee of Lender or through an independent third party contracted by Lender, to conduct on an annual basis, a review of the Collateral. Borrower further agrees to pay to Lender a Collateral inspection fee designated by Lender (not to exceed \$750.00 per day, per reviewer, with the number of reviewers to be reasonably determined by Lender) and reimburse Lender's reasonable costs and expenses incurred in connection with such Collateral inspection reviews.

f. Appraisal of Collateral. Lender shall have all Collateral owned by Borrower appraised by an appraiser engaged by Lender, the cost of which shall be paid by Borrower. Such appraisal shall be certified and meet all USPAP and FIRREA requirements and is expected to be delivered on or before September 30, 2016. Thereafter, Lender may, at any time, request additional appraisals of Collateral. Such appraisals shall also be ordered by Lender, and the appraisals shall be certified and meet all USPAP and FIRREA requirements. Borrower shall be responsible for the cost of the 2016 appraisal, the first two appraisals requested by Lender after the Closing Date and any subsequent appraisals requested by Lender in the Event of Default or Incipient Default. Lender shall be responsible for the cost of any other USPAP/FIRREA appraisals ordered by Lender under this clause f., provided there is no Event of Default or Incipient Default.

g. Biennial Appraisals. Beginning with the 2017 Fiscal Year, Borrower shall have all Collateral owned by Borrower appraised every other year by a third-party certified appraiser engaged by Borrower, at Borrower's expense. Such biennial appraisals will not count toward the lifetime limit of two appraisals Borrower shall be obligated for pursuant to Section 7.01 f.

h. Laws. Borrower shall comply with all Laws applicable to it and its Property if noncompliance with any such Law would have a Material Adverse Effect.

i. Property Maintenance. Borrower shall maintain and preserve its Property in good repair, working order and condition, normal wear and tear and casualty and condemnation excepted, and will make, or cause to be made, in such Properties and equipment from time to time, all repairs, renewals, replacements, extensions, additions, betterments and improvements as may be needed or proper, to the extent and in the manner customary for companies in similar businesses. Borrower shall perform in all material aspects, all of its obligations under the terms of all Material agreements, indentures, mortgages, security agreements or other debt instruments to which it is a party or which it is bound.

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

k. Subordination. Borrower hereby subordinates all Intercompany Indebtedness to Borrower's Obligations to Lender; provided however, so long as there exists no Event of Default or Incipient Default, Borrower may pay such Intercompany Indebtedness in the ordinary course of its businesses.

l. Change of Location. Borrower shall provide Lender with reasonable notice in advance of any change in its headquarters location.

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

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

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

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

- a. Indebtedness to Total Capitalization Ratio shall be less than or equal to 0.30:1.00, to be measured as of each Fiscal Year-End;
- b. Adjusted Consolidated Interest Coverage Ratio shall not be less than 3:00:1:00 to be measured quarterly on a four quarter rolling basis; and
- c. The sum of the outstanding balances of the Loans and the PCA Loans *divided by* (i) the most recent Biennial Appraised Timberland Value or (ii) any appraisal ordered by Lender pursuant to Section 7.01 f., shall not in each case exceed 50%, to be measured as of each Fiscal Year-End and the date of such appraisal, respectively.

7.03. Negative Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, and until all of the commitments hereunder have terminated, unless the prior written consent of Lender is obtained, which consent shall not be unreasonably withheld, Borrower shall not and shall not allow any of its Subsidiaries to:

- a. Liens. Create, assume or suffer to exist, and will not permit any of its Subsidiaries or any owner of Collateral to create, assume or suffer to exist, any Lien on any Collateral now owned or hereafter acquired by it other than Permitted Liens.
- b. Nature of Business. Substantively alter the nature, character or conduct of its business conducted by it.
- c. Consolidation, Merger, Sale or Purchase of Assets.
 - i. Other than Timber Funds, dissolve, liquidate or wind up its affairs, or enter into any transaction of merger or consolidation; provided however, that, so long as no Event of Default or Incipient Default would be directly or indirectly caused as a result thereof, Borrower may merge or consolidate with any of its Subsidiaries, provided that Borrower is the surviving entity;
 - ii. Make an Asset Disposition that would have a Material Adverse Effect on the financial condition of Borrower.
- d. Fiscal Year; Organizational Documents. (i) Change its Fiscal Year-End or (ii) amend, modify or change its Organization Documents in a manner that would result in a Material Adverse Effect.
- e. Accuracy of Reporting. Furnish any certificate or other document to Lender that contains any untrue statement of Material fact or that omits to state all Material facts necessary to make it not misleading in light of the circumstances under which it was furnished.
- f. Indebtedness. Create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness, other than: (i) Indebtedness evidenced by the Note(s); (ii) existing

Indebtedness, listed on a schedule provided to Lender as of the Closing Date, and in the case of the line of credit with Northwest Farm Credit Services, PCA in place on the date of this Loan Agreement, any subsequently utilized commitment under that line of credit; (iii) purchase money Indebtedness, including capital leases, not to exceed \$1,000,000.00 annually; (iv) Indebtedness related to Permitted Liens; (v) Indebtedness incurred or assumed after the date hereof, which has been subordinated to the obligations of Borrower to Lender hereunder and under the Notes on terms and conditions satisfactory to Lender; (vi) Indebtedness for capital calls required under the governing documents of a Timber Fund; (vii) additional secured Indebtedness of a Subsidiary (other than that provided for under Section 7.03 f.(vi) above) in aggregate over the term of the Loan(s), not to exceed \$8,000,000.00; (viii) additional unsecured Indebtedness, in the aggregate over the term of the Loan(s), not to exceed \$10,000,000.00; provided, however, total additional Indebtedness allowed under (vii) and (viii) above shall not exceed \$10,000,000.00, in aggregate at any point in time, over the term of the Loan(s); (ix) Indebtedness of a partnership or joint venture in which the Borrower or a Subsidiary is a general partner so long as such Indebtedness is made non-recourse to Borrower or such Subsidiary (and for the avoidance of doubt, is not guaranteed by Borrower or such Subsidiary); and (x) obligations to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business.

g. Material Adverse Effect. Create, incur or suffer to exist, a Material Adverse Effect.

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

8. Default.

8.01. Events of Default. Time is of the essence in the performance of the Loan Documents. The occurrence of any one or more of the following events shall constitute an Event of Default under the Loan Documents:

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

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

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

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

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

9. Prepayment and Breakage Fees. The following Prepayment Fees shall apply to all Loans and supersedes and replaces any inconsistent terms in any Note. All Loans are subject to the following Prepayment Fees and Breakage Fees.

9.01. Prepayment Fees.

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

b. "Prepayment" Defined. For purposes of this Section 9, "prepayment" shall mean any instance wherein the indebtedness is partially or fully satisfied in any manner prior to a payment due date whether voluntarily or involuntarily (excluding scheduled payments that have been paid) pursuant to the terms of the Loan Documents. Prepayment shall include, but not be limited to: (i) any payment after an Event of Default under the Loan Documents; (ii) payment to Lender by any holder of an interest in any Collateral; (iii) any payment after the Loan Maturity Date is accelerated for any reason; (iv) payment resulting from any sale or transfer of Collateral pursuant to foreclosure, sale under power, judicial order or trustee's sale; and (v) payment by sale, transfer or offsetting credit in connection with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors or receivership or similar proceedings under any statute of the United States or any state thereof involving Borrower or the Collateral. In the event of any acceleration of the Loan Maturity Date, the amount due hereunder shall include the charge which would be due under the Prepayment Fee in the event of a voluntary prepayment at the time of such acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of prepayment.

c. **Prepayment Fee.** The “Prepayment Fee” is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender’s bargain in the case of a prepayment. Borrower and Lender intend that the principal balance of each Loan Segment will yield to Lender an annual return after the date the Loan Segment is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable on demand, and shall be an amount calculated on a make-whole basis, as calculated under Lender’s then current methodology.

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

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

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

9.03. Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee on a make-whole basis using a different methodology than Lender.

10. Enforcement and Waiver; Indemnity.

10.01. Enforcement and Waiver by Lender. Lender shall have the right at all times to enforce the provisions of the Loan Documents in strict accordance with the terms thereof, notwithstanding any conduct or custom on the part of Lender in refraining from so doing at any time or times. The failure of Lender at any time or times to enforce its rights under such provisions, strictly in accordance with the same, shall not be construed as having created a custom in any way or manner contrary to specific provisions or as having in any way or manner modified or waived the same. All rights and remedies of Lender are cumulative and concurrent, and the exercise of one right or remedy shall not be deemed a waiver or release of any other right or remedy. Lender shall have, in addition to the rights and remedies given it by the Loan Documents, all rights and remedies allowed by all applicable Laws and in equity.

10.02. Lender’s Expenses; Indemnity; Waiver of Damages by Borrower.

a. **Expenses.** Borrower shall pay all expenses incurred by Lender, including the reasonable fees, costs, charges and disbursements of counsel engaged or retained by Lender, in connection with the preparation, negotiation, execution, delivery, administration, enforcement or collection of this Loan Agreement and the other Loan Documents or any amendments, modifications, or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), including (i) all expenses incurred by Lender in connection with the issuance amendment, renewal, or extension of any letter of credit or any demand for payment thereunder, (ii) all costs and expenses incurred in obtaining, perfecting, maintaining, determining the priority of, and releasing any security of Borrower’s Obligations, including, to the extent permitted by Law, all taxes, assessments or charges arising as a result of the transactions contemplated by any of the Loan Documents

or the recording of any Loan Documents; and (iii) all expenses incurred by Lender (including the fees, costs, charges and disbursements of any counsel engaged or retained by Lender) in connection with any litigation or controversy connected with Borrower's Obligations, including under any Debtor Relief Laws, receivership, injunction or other proceeding, or any appeal from or petition for review of any such proceeding, involving Borrower, or any workout, renegotiation or restructuring of the transactions contemplated by the Loan Documents or any action to realize upon or enforce Lender's right in and to the Collateral or otherwise incurred by Lender after the occurrence of an Event of Default.

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

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

d. Payments. All amounts due under this Section 10.02 shall be payable not later than ten Business Days after demand therefore.

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

11. Communications.

11.01. Notice and Other Communications.

a. General. Unless otherwise expressly provided herein or in the Loan Documents, all notices and other communications provided for hereunder shall be in writing (including by FAX or email transmission). All such written notices shall be mailed, faxed, emailed or delivered to the applicable address, FAX number or, subject to Section 11.01(c), email address, and all notices and other communications expressly permitted hereunder to be given by telephone and shall be made to the applicable telephone number, as follows:

i. If to Borrower:

Attention: John Lamb
19950 7th Ave. NE, Suite 200
Poulsbo, WA 98370
Facsimile: (360) 697-1476
E-mail: jlamb@orminc.com

ii. If to Lender:

Attention: Kristy Searles
Northwest Farm Credit Services
650 Hawthorne Ave. SE, Suite #210
Salem, OR 97301
Facsimile: (503) 373-3006
E-mail: Kristy.Searles@northwestfcs.com

b. Effectiveness of Documents and Signatures. Loan Documents may be signed and transmitted by FAX, telecopy, emailed .PDF or any other electronic means that reproduces an image of the actual executed signature. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually signed originals and shall be binding on Borrower and Lender. Lender may also require that any such document and signature be confirmed by a manually-signed original thereof; provided however, that the failure to request or deliver the same shall not limit the effectiveness of any electronically delivered document.

c. Use of E-mail. Email, internet or intranet websites may be used only to distribute routine communications, such as financial statements, billing statements and other like information and to distribute Loan Documents for execution by the parties thereto and may not be used for any other purpose, unless approved by Lender and the parties hereto.

12. Participation. Lender may at any time, without the consent of, or notice to, Borrower, sell participations to any Person in a portion of Lender's rights and/or obligations under this Loan Agreement (including a portion of the Loans owing to it); provided that (a) Lender's obligations under this Loan Agreement shall remain unchanged, (b) Lender shall remain solely responsible to Borrower for the

performance of such obligations and (c) Borrower shall continue to deal solely and directly with Lender in connection with Lender's rights and obligations under this Loan Agreement.

13. Governing Law; Jurisdiction; Etc.

13.01. Governing Law. THIS LOAN AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WASHINGTON, EXCEPT WHERE FEDERAL LAWS, INCLUDING THE FARM CREDIT ACT OF 1971, AS AMENDED, MAY BE APPLICABLE.

13.02. Submission to Jurisdiction. BORROWER AND EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF WASHINGTON SITTING IN SPOKANE COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE EASTERN DISTRICT OF WASHINGTON, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH WASHINGTON STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS LOAN AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

13.03. Waiver of Venue. BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN SECTION 13.02 HEREOF. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

13.04. Service of Process. EACH PARTY HERETO IRREVOCABLY WAIVES PERSONAL SERVICE OR PROCESS, WHICH MAY BE MADE IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

13.05. Waiver of Jury Trial. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT

OR ANY OTHER LOAN DOCUMENTS AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN AGREEMENT AND ANY OTHER LOAN DOCUMENTS. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

13.06. Consultation with Counsel. Borrower certifies that it has carefully read this Loan Agreement and other Loan Documents; that it understands the contents of this Loan Agreement and other Loan Documents; that in executing this Loan Agreement and other Loan Documents, it has not relied on the advice, opinions or statements of Lender or its officers, directors, employees or attorneys; and that it signed this Loan Agreement and other Loan Documents of their own free will and accord. Lender recommends that Borrower consult its counsel and or other professional advisor before signing this Loan Agreement and other Loan Documents. To the extent Borrower has not consulted with an attorney or other professionals in connection with this Loan Agreement and other Loan Documents, it acknowledges that it was given the opportunity to do so and chose of its own free will and accord not to do so.

14. Miscellaneous.

14.01. Construction.

a. The provisions of this Loan Agreement shall be in addition to those of any other Loan Document or other evidence of liability held by Lender, all of which shall be construed as complementary to each other. In the event of a conflict between the terms of this Loan Agreement and any other Loan Document, the terms of this Loan Agreement shall control such conflict. Nothing herein contained shall prevent Lender from enforcing any or all of the other Loan Documents in accordance with their respective terms. All Exhibits and Schedules attached to this Loan Agreement are incorporated herein and made a part hereof.

b. This Loan Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

c. A reasonable person standard shall be applied to each and every warranty, representation, requirement or thing to be done or performed hereunder except when the term "in its discretion" or "in its sole discretion" is used herein.

14.02. Binding Effect, Assignment and Entire Agreement. The Loan Documents will inure to the benefit of, and shall be binding upon, the respective successors and permitted assigns of the parties hereto. Borrower has no right to assign any of its rights or obligations hereunder without the prior written consent of Lender. The Loan Documents constitute the entire agreement between the parties, and may be amended only by a writing signed on behalf of each party and dated subsequent to the date herein.

14.03. Severability. If any provision of this Loan Agreement shall be held invalid under any applicable Laws, such invalidity shall not affect any other provision of this Loan Agreement that can be given effect without the invalid provision, and, to this end, the provisions hereof are severable.

14.04. No Personal Liability of General Partners. In any action brought to enforce the obligation of Borrower to pay Borrower's Obligations, any judgment or decree shall not be subject to execution on, nor be a lien on, the assets of General Partners of Borrower, other than their interests in the Collateral. The foregoing shall in no way otherwise affect the personal liability of Borrower.

14.05. No Novation. This Agreement constitutes an amendment and restatement of the Prior Credit Agreement, effective from and after the Closing Date. All rights, benefits, indebtedness, interest, liabilities and obligations of the parties to the Prior Loan Agreement are hereby amended, restated, replaced and superseded in their entirety according to the terms and provisions set forth herein. The parties hereto acknowledge and agree that (a) this Loan Agreement, the Notes and the other Loan Documents executed and delivered in connection herewith do not constitute a novation or termination of the "Obligations" (as defined in the Prior Credit Agreement) under the Prior Credit Agreement as in effect prior to the Closing Date and (b) such "Obligations" are in all respects continuing with only the terms thereof being modified as provided in this Agreement. On the Closing Date, the credit facilities described in the Prior Credit Agreement shall be amended, supplemented, modified and restated in their entirety by the facilities described herein, and all loans and other obligations of Borrower outstanding as of such date under the Prior Credit Agreement shall be deemed to be Loans and Obligations outstanding under the corresponding facilities described herein, without any further action by any Person. Each of the Loan Documents, agreements and instruments creating, evidencing and securing the repayment of the Loans shall remain in effect and is valid, binding and enforceable according to its terms, except as modified herein. The recitals to this Loan Agreement are hereby incorporated herein and made a part hereof. Any reference to the Prior Agreement in any of the Loan Documents shall be deemed to be a reference to this Loan Agreement.

14.06. Supremacy Clause. To the extent the choice of law and jury waiver provisions of this Loan Agreement are inconsistent with any Loan Documents entered into by Borrower prior to the date hereof, such provisions of this Loan Agreement shall govern and control, and shall be deemed incorporated into such Loan Documents.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[remainder of page left intentionally blank; signature pages follow]

In Witness Whereof, the parties hereto have duly executed this Loan Agreement as of the date first above written.

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By: _____
Authorized Agent

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (FLCA) - 36
Pope Resources, a Delaware Limited Partnership; Note Nos. 6012758, 6012757, 6229354 and 6229356

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

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (FLCA) - 37

Pope Resources, a Delaware Limited Partnership; Note Nos. 6012758, 6012757, 6229354 and 6229356

EXHIBIT A
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, FLCA

Reference is made to that certain Second Amended and Restated Master Loan Agreement, dated as of July __, 2016, (the "Loan Agreement") among **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower"), and **NORTHWEST FARM CREDIT SERVICES, FLCA** ("Lender").

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to Lender on behalf of Borrower, and that:

[Use following Paragraph 1 for Fiscal Year-End financial statements]

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by paragraph 7.01b.i of the Loan Agreement for the Fiscal Year of Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following Paragraph 1 for [first/second/third] Fiscal Quarter-End financial statements]

1. Attached hereto as Schedule 1, are the financial statements required by paragraph 7.01. b.ii of the Loan Agreement for the Fiscal Quarter of Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP, as of such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Loan Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower performed and observed all its obligations under the Loan Documents, and

[select one:]

[To the best knowledge of the undersigned during such fiscal period, Borrower performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[The following covenants or conditions have not been performed or observed and the following is a list of each such Defaults and their nature and status:]

4. To the best knowledge of the undersigned, the representations and warranties of Borrower contained in the Loan Documents, and any representations and warranties of Borrower that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

5. To the best knowledge of the undersigned, the financial covenant analyses and information set forth on Schedule 1, attached hereto, are true and accurate on the Calculation Date and the undersigned has received no information to the contrary as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20__.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____
Name: _____
Title: _____

EXHIBIT B
COVENANT COMPLIANCE WORKSHEET

For the Fiscal Quarter-End / Fiscal Year-End _____ (the Calculation Date)

I. Section 7.02 a. - Indebtedness to Total Capitalization Ratio
(measured annually at the Fiscal Year-end)

A. Borrower and its Subsidiaries Indebtedness at Calculation Date	\$
B. Indebtedness associated with the non-Wholly Owned Subsidiaries at Calculation Date	\$
C. Numerator (Line I.A. minus Line I.B.)	\$
D. Total Capitalization at Calculation Date	
I. Adjusted Partners' Capital at Calculation Date	
a. Partners' capital in Borrower and its Wholly Owned Subsidiaries per GAAP at Calculation Date	\$
b. Book Value of Fee Timberland at Calculation Date	\$
c. Most recent appraisals of Fee Timberlands	\$
d. Adjusted Partners Capital (Line I.D.1.a. minus I.D.1.b. plus I.D.1.c.)	\$
2. Numerator from line I.C. above	\$
E. Denominator (Line I.D.1.d. plus Line I.D.2.)	\$
Ratio of Indebtedness to Total Capitalization (Line I.C. <u>divided</u> by Line I.E.)	
Maximum Allowed	0.30

II. Section 7.02 b. – Adjusted Consolidated Interest Coverage Ratio

(measured quarterly beginning with the second Fiscal Quarter-End 2016)

A. Adjusted Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "subject period")

1. Consolidated Net Income for the subject period (excluding the net income associated with non-Wholly Owned Subsidiaries)	\$
2. Consolidated Interest Expense for the subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$
3. Consolidated depreciation expense for the subject period (excluding the depreciation expense associated with non-Wholly Owned Subsidiaries)	\$
4. Consolidated amortization expense for the subject period (excluding the amortization expense associated with non-Wholly Owned Subsidiaries)	\$
5. Consolidated depletion expense for the subject period (excluding the portion associated with the non-controlling interest in non-Wholly Owned Subsidiaries)	\$
6. Consolidated Taxes for the subject period (excluding income taxes associated with non-Wholly Owned Subsidiaries)	\$
7. Distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries.	\$
8. Adjusted Consolidated EBITDDA (the sum of Lines II.A.1 through II.A.7. inclusive)	\$
B. Numerator (Line II.A.8.)	\$
C. Denominator - Consolidated Interest Expense for subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$
Adjusted Consolidated Interest Coverage Ratio (Line II.B. <u>divided</u> by Line II.C.)	<input type="text"/>
Minimum Allowed	3.00 :1.00

III. Section 7.02 c. - Loans to Biennial Appraised Timberland Value

(measured annually at Fiscal Year-end)

A. Combined Balance of Loans and PCA Loans	\$
B. Most recent Biennial Appraised Timberland Value or Lender's appraisal	\$
Loan to Value Ratio (Line III.A. <u>divided</u> by Line III.B.)	<input type="text"/>
Maximum Allowed	50%

Schedule 1

Authorized Persons

Authorized Persons

Name	Change Authorizations
Thomas M. Ringo	Individually
John D. Lamb	Individually

- **Authorizations.** Unless otherwise noted, each Authorized Person acting alone has the authority to request disbursements of Loans and designate the disposition of Loan proceeds, whether in the form of check, internal transfer, wire or electronic transfer to the account specified by the Authorized Person, including any other loan account Borrower may have with Lender, or any other designated Lender loan account, make deposits to and disbursements from any FPF Account, make payments of Borrower's Obligations, authorize and initiate internal transfers, enroll in and make use of Northwest Farm Credit Services' customer online banking website, make interest rate and other pricing elections and authorize payments and prepayments.
- **Change Authority.** Absent resolutions or authorized evidence of authority satisfactory to Lender, only the Authorized Person(s) listed above with change authority, either individually or together as may be required, may add or remove other Authorized Persons or modify limitations on authority of an Authorized Person. Any change of an Authorized Person or the limitations on their authority shall be made on such forms as Lender may prescribe.

**SECOND AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

DATED AS OF JULY 20, 2016

BETWEEN

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

AS BORROWER

AND

NORTHWEST FARM CREDIT SERVICES, PCA

AS LENDER

**SECOND AMENDED AND RESTATED
MASTER LOAN AGREEMENT
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**SECOND AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

THIS SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (this “Loan Agreement”) is made and entered into effective July 20, 2016, by and between Lender, as defined below, and Borrower, as defined below. This Loan Agreement amends and restates, in its entirety, the existing First Amended and Restated Master Loan Agreement, dated June 10, 2010, effective on the date hereof.

RECITALS

WHEREAS, Borrower and Lender are parties to that certain First Amended and Restated Master Loan Agreement dated effective June 10, 2010, as amended (the “Prior Loan Agreement”);

WHEREAS, pursuant to the Prior Loan Agreement, Lender made available to Borrower a revolving loan in the original principal amount of \$20,000,000 (Loan No. 6037359);

WHEREAS, Lender and Borrower have agreed to modify certain provisions of the Prior Loan Agreement by amending and restating the Prior Loan Agreement as set forth herein.

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

1. Definitions and Interpretation.

1.01 Defined Terms. Capitalized terms not otherwise defined herein shall have the meanings given in the Note(s) or other Loan Documents. As used herein:

“ACA Stock” means Borrower’s stock in Northwest Farm Credit Services, ACA, an affiliate of Lender, as Borrower may be required to own or purchase from time to time pursuant to the Membership Agreement.

“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; and (e) consolidated depletion expense; (f) plus or minus, as the case may be, Consolidated Taxes, all as determined in accordance with GAAP, (g) distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries, but excluding from the foregoing the net income, interest expense, depreciation expense, amortization expense, depletion expense, interest expense and income taxes associated with non-Wholly Owned Subsidiaries.

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

**SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA) - 1
Pope Resources, A Delaware Limited Partnership; Note No. 6037359**

“Adjusted Partners’ Capital” means the GAAP-based amount of the capital account of the partners of Borrower and its Wholly Owned Subsidiaries, adjusted for book to market value differences in Fee Timberlands based upon the most recent appraisals, as calculated on Exhibit B.

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

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

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

“Authorized Person” means any one of the individuals identified on Schedule 1, as such schedule is updated from time to time by written notice from Borrower to Lender.

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

“Bankruptcy Event” means, with respect to any Person, the occurrence of any of the following with respect to such Person: (a) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or ordering the winding up or liquidation of its affairs; or (b) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of 60 consecutive days; or (c) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such Law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its

Property, or make any general assignment for the benefit of creditors; or (d) such Person shall be unable to, or shall admit in writing its inability to, pay its debts generally as they become due.

“Base Rate” shall have the meaning indicated in the particular Note for a Loan.

“Biennial Appraised Timberland Value” means the value determined pursuant to the most recent biennial appraisal required by Section 7.01 g. hereof.

“Borrower” means Pope Resources, A Delaware Limited Partnership.

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

“Breakage Fee” shall have the meaning given in Section 9.02 hereof.

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

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

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

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

“Closing Date” for any particular Loan, means the Business Day the associated Loan Documents are fully executed and delivered to Lender, following satisfaction of all conditions precedent or waiver thereof by Lender.

“Code” means the Internal Revenue Service Code of 1986, as amended or recodified.

“Collateral” for a Loan means the Property described in any Loan Document providing Lender a Lien in such Collateral. Collateral shall also mean all Property pledged to Lender after a Closing Date, as Collateral for Borrower’s Obligations.

“Collateral Documents” means a collective reference to security agreement, pledge, mortgage, hypothecation and such other documents executed and delivered in connection with the attachment and perfection of Lender’s security interests and liens on Collateral.

“Collateral Pool” shall have the meaning given in Section 5.03 hereof.

“Compliance Certificate” shall have the meaning given in Section 7.01.b.iii. and shall be in substantially the form of Exhibit A hereto.

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

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

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

“Contractual Obligation” means, as to any Person, any provision of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its Property is bound.

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

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

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

“Event of Default” shall have the meaning provided in Section 8 hereof.

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

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

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

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

“Fiscal Year” means the calendar year.

“Fiscal Year-End” means December 31.

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

“Fixed Rate Maturity Date” shall have the meaning indicated in the particular Note for a Loan.

“Fixed Rate Option” shall have the meaning indicated in the particular Note for a Loan.

“FLCA Loans” means the loans made by Northwest Farm Credit Services, FLCA that are secured by the Collateral Pool.

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

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

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

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP: (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made; (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial) bankers’ acceptances, bank guaranties, surety bonds and similar instruments; (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business); (d) all obligations, including without limitation, intercompany items, of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person; (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements; (f)

indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness will have been assumed by such Person or is limited in recourse; (g) the principal portion of all obligations of such Person under Capital Leases; (h) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any equity interest in such Person or any other Person, valued in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; (i) all obligations of a Person in respect to any Swap Termination Value of any Swap Contract and (j) all guarantees of such Person in respect of any of the foregoing. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which a Person is a general partner or a joint venturer.

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

“Intercompany Indebtedness” means any Indebtedness of a Borrower that is owing to a Subsidiary or Related Party.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of and agreements with, any Governmental Authority, in each case, whether or not having the force of law, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 (“IRC”), the Employee Retirement Income Security Act of 1974 (“ERISA”), the Fair Labor Standards Act (“FLSA”), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”).

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

“Lender’s Expenses” means the amounts required to be paid by Borrower pursuant to Section 10.02.

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

“Loan” means all principal amounts or other extension of credit (including letters of credit) advanced by Lender to Borrower or on the account of Borrower or otherwise under a Note and the other Loan

Documents evidencing such Loan, which by its terms is made subject to this Loan Agreement, and all fees or charges incurred as provided for in any Note and the other Loan Documents, plus all interest accrued thereon.

“Loan Documents” means all of the Contractual Obligations associated with the Loan, including but not limited to: this Loan Agreement, the Collateral Documents, the Note, the Membership Agreement, indemnities, guaranties, assignment(s), reimbursement agreements, letter of credit applications and other documents or instruments as required by Lender, executed in connection with the Loan or the Collateral, and any extensions, renewals, amendments, substitutions or replacements thereof.

“Loans” means two or more Loans.

“Loan Maturity Date” shall have the meaning indicated in the particular Note for a Loan.

“Loan Segment” shall have the meaning indicated in the particular Note for a Loan.

“Market Value of Timberlands” means the value of Fee Timberland as determined by an appraisal performed by a certified appraiser and acceptable to Lender.

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

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

“MBF” means one thousand board feet of Merchantable Timber on the Collateral.

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

“Merchantable Timber” means timber of acceptable quality of species identified in the appraisal completed for Lender, which are in excess of 35 years of age and which can be harvested without violation of applicable laws and regulations.

“Note” means the note evidencing a Loan and which contains a promise to pay a sum certain.

“Notes” means one or more Notes.

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

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

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

“Permitted Dispositions” means, so long as there is no Event of Default or Incipient Default, Collateral that Borrower may sell or exchange, provided that: (i) adequate access exists to the remaining collateral, to the satisfaction of Lender; (ii) no subdivision Law is violated by such sale or exchange; and (iii) the total dollar value of such sale(s) or exchange(s) is in an amount not to exceed 3% of the most recent Biennial Appraised Timberland Value in any Fiscal Year. A Permitted 1031 Exchange Transaction is not a Permitted Disposition.

“Permitted Liens” means:

a. Liens (other than Liens created or imposed under ERISA) for taxes, assessments or governmental charges or levies not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves, determined in accordance with GAAP, have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

b. Statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that such Liens secure only amounts not yet due and payable or, if due and payable, are unfilled and no other action has been taken to enforce the same or are being contested in good faith by appropriate proceedings for which adequate reserves, determined in accordance with GAAP, have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

c. Liens (other than Liens created or imposed under ERISA) incurred or deposits made by Borrower in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

d. Liens in connection with attachments or judgments (including judgment or appeal bonds) provided that the judgments secured shall, within 90 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall have been discharged within 45 days after the expiration of any such stay;

e. Easements, rights-of-way, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered Property for its intended purposes;

f. Liens on Property securing purchase money Indebtedness (including Capital Leases and obligations under letters of credit) to the extent permitted hereunder, provided that any such Lien attaches to such Property concurrently with or within 90 days after the acquisition thereof;

g. Any interest of title of a lessor under, and Liens arising from UCC financing statements relating to, leases permitted by this Loan Agreement and the other Loan Documents;

h. Normal and customary rights of setoff upon deposits of cash in favor of banks or other depository institutions;

i. Liens existing as of the Closing Date and set forth in a schedule presented to Lender; provided that no such Lien shall at any time be extended to or cover any Property other than the Property subject thereto on the Closing Date;

j. Liens on the FPF Account;

k. Liens on Property securing Indebtedness to the extent the Indebtedness is permitted under Sections 7.03 f.(vi), (vii) or (ix) hereof; and

l. Liens granted to Lender or Lender's affiliate, Northwest Farm Credit Services, FLCA.

"Permitted 1031 Exchange Transaction" means an exchange transaction entered into by Borrower, in accordance with Section 1031 of the Code, pursuant to the terms of an exchange agreement or similar agreement between Borrower and a Qualified Intermediary, that provides for: (i) the receipt by the Qualified Intermediary of all or a portion of the proceeds of such relinquished property; (ii) the identification and purchase of qualifying replacement property; and (iii) the right of Borrower to assign and grant a security interest in its rights in such agreement for the benefit of Lender.

"Person" means an individual, an Organization or a Governmental Authority.

"Prepayment Fee" shall have the meaning given in Section 9.01 hereof.

"Pricing Date" shall have the meaning indicated in the particular Note for a Loan.

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

"Qualified Intermediary" shall have the meaning defined in Section 1031 of the Code.

"Records" means correspondence, memoranda, tapes, discs, computer data, papers, certificates, books, cruise maps and other documents, or transcribed information of any type, whether expressed in ordinary or machine readable language.

“Regulation U or X” means Regulation U (12 CFR Part 221, Credit by banks and persons other than brokers and dealers for the purpose of purchasing or carrying margin stock) or Regulation X (12 CFR Part 224, Borrowers of securities credit) respectively, to the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

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

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

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

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

“Subsidiary” means, as to any Person, (a) any corporation more than 50 percent of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50 percent equity interest at any time. Unless otherwise specified, all references herein to a “Subsidiary” or “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower. For purposes of Section 7 of this Loan Agreement, Subsidiary or Subsidiaries shall include Timber Funds.

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

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

“Timber Cutting Payment” means the payment amount determined by Lender annually, which would reduce the quotient of the sum of the outstanding balances of the Loan(s) and the FLCA Loan(s) *divided by* the volume of Merchantable Timber remaining uncut and located on the Collateral to an amount equal to \$250.00 / MBF.

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

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

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

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

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

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

1.03 Accounting Terms.

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

If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or Lender shall so request, Lender and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Lender financial statements and other documents required under this Loan Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP. Borrower shall not be required to pay an amendment fee in connection with any amendment pursuant to this Section 1.03, provided that Borrower shall remain liable for reasonable out-of-pocket expenses incurred by Lender and its Affiliates in connection with such amendment, as provided in Section 10.02.

2. Loans.

2.01 Loans. Subject to the terms and conditions set forth herein, Lender agrees to make Loan No. 6037359 to Borrower. Borrower agrees to repay the Loans and all of Borrower's Obligations under the Loan Documents, according to their terms.

2.02 Fees. Borrower shall pay Lender's fees, as set forth in the Notes or separate fee letters.

2.03 Evidence of Debt. The Loan(s) shall be evidenced by one or more accounts or records maintained by Lender in the ordinary course of business. The accounts or records maintained by Lender shall be conclusive absent manifest error of the amount of the Loans made by Lender to Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower to pay any amount owing with respect to Borrower's Obligations.

2.04 Payments.

(a) **Method of Payment.** All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as may be provided in the Notes, if any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day. Lender shall provide Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections within 15 days of receipt of any such statement, provided, failure to receive a periodic statement shall not excuse payment of any sums payable hereunder.

(b) **Authorized Payments.** Lender is authorized to withhold from or disburse as Loan proceeds amounts to pay the following items collectively referenced as "accounts receivable", charge the same to any Loan and charge interest thereon at the same rate stated in the Loan Documents at Lender's sole discretion: (i) amounts required to pay prior Liens on any Collateral offered or used as security for any Loan; (ii) the cost incurred on any items such as the following, that are carried by Borrower in connection with any Loan: credit life insurance, life insurance, key man insurance, disability insurance, crop or property insurance and any farm records, leasing or other financially

related services; (iii) recording and filing fees, registration taxes, transfer taxes or any similar items authorized under the terms of any Loan Documents; (iv) amounts required for Borrower to acquire and maintain ACA Stock or Participation Certificates as required under and defined in the Membership Agreement; or (v) Lender's Expenses.

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

2.05 Disbursements. Lender's commitment (if any) to disburse funds on any Loan is conditioned upon Borrower's ongoing compliance with the terms and conditions of the Loan Documents. Borrower agrees that all Loan funds disbursed shall be used only for the purposes approved and in the manner indicated by Lender.

2.06 Procedure for Borrowing Loans and Interest Rate Elections. Each request for an advance under a Loan or interest rate election shall be made by a written request/notice by an Authorized Person delivered to Lender on the terms provided in the Note evidencing such Loan. At Lender's election, in lieu of delivering the above-described written request, any Authorized Person may give Lender telephonic notice of such request by the required time. In such circumstances, Borrower agrees that any such telephonic notice will be confirmed in writing within 24 hours of the giving of such telephonic notice, but the failure to provide such written confirmation shall not affect the validity of the request.

3. Future Payment Fund Accounts.

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

3.02 Maximum Amounts. The maximum account balance for each FPF Account shall be subject to the limitations set forth below:

(a) The sum which may be held in a FPF Account associated with an operating or revolving or multiple advance line of credit Loan shall not exceed the lesser of the Note amount or the actual maximum outstanding balance on that Loan during the previous 12 months. Lender reserves the right to further limit the maximum FPF Account balance in the event Borrower's

historical note usage is significantly less than the lesser of their maximum outstanding balance or the Note amount; and

(b) For all other Loans, the maximum amount that may be held in the FPF Account shall not exceed the outstanding principal balance on the associated Loan or some other amount as may be determined by Lender.

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

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

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

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

4. Conditions Precedent. The obligation of Lender to make a Loan is subject to satisfaction of the following conditions precedent by Borrower, on or before the Closing Date or to waiver thereof by Lender.

4.01 Documents Required for Closing.

(a) Borrower and all other required parties shall have executed where appropriate and delivered to Lender, on or prior to a Closing Date, the applicable Loan Documents, each in form and substance satisfactory to Lender;

(b) A certified (as of the applicable Closing Date) copy of resolutions, or equivalent, of the governing body of each Organization signing a Loan Document, authorizing the execution, delivery and performance of each of the Loan Documents to which it is a party and providing Lender an incumbency certificate for any Person authorized to execute the Loan Documents;

(c) A certified (as of the applicable Closing Date) copy of the current Organization Documents including any amendments thereto, of each such Person, together with a certificate (dated as of the Closing Date) of each such Person to the effect that such Organization Documents have not been amended since the date of the aforesaid certification;

(d) A certificate (as of the most recent date practicable) of the relevant Secretary of State as to the current existence of each such Person, a certificate (as of the most recent date practicable) of the Secretary of State of each state in which the business activities or Property of such Person requires qualification as a foreign corporation or entity, as the case may be, and that such Person is duly qualified to transact business in that state as a foreign corporation or entity, as the case may be;

(e) The written opinion of the outside counsel for Borrower, dated as of the applicable Closing Date and addressed to Lender and any participating lenders as Lender may request, in form satisfactory to Lender, to the effect that after due inquiry:

(i) Borrower is a limited partnership duly formed and validly existing under Delaware law, and is duly qualified to do business as a foreign limited partnership in the State of Washington;

(ii) Borrower has all necessary partnership power and authority under the Certificate, the Partnership Agreement, and the Delaware RULPA to enter into, and to perform its obligations under, each of the Loan Documents;

(iii) Borrower has authorized, by all necessary partnership action on the part of Borrower, the execution and delivery of, and the performance of the transactions contemplated by, each of the Loan Documents, and Borrower has executed and delivered each of the Loan Documents;

(iv) Each of the Loan Documents constitutes the valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms; and

(v) The execution and delivery by Borrower of, and the performance of the transactions contemplated by, each of the Loan Documents do not (a) violate Borrower's Certificate or its Partnership Agreement; (b) to counsel's knowledge, breach, or result in a default under, any existing obligation of Borrower under any material agreement or instrument to which Borrower is a party; (c) to counsel's knowledge, breach or otherwise violate any existing obligation of Borrower under any court order that names Borrower and is specifically directed to it or its property; or (d) are not prohibited by, nor do they subject Borrower to the imposition of a fine, penalty or other similar sanction for a violation under, any applicable statutes or regulations;

(f) Evidence, as requested by Lender, that no condition shall exist which would constitute a Material Adverse Effect, in the reasonable opinion of Lender, in the business, operation or financial conditions of Borrower since the date of the applicable Loan commitment;

(g) If real Property is Collateral for one or more loans, an appraisal of the Collateral acceptable to Lender as determined by Lender in accordance with its policies and procedures, in

an amount satisfactory to Lender. Lender will engage a state certified appraiser to perform the appraisal. The appraisal shall be for the sole and exclusive use of Lender;

(h) In connection with all real property included in the Collateral, Lender shall have received a title insurance commitment acceptable to Lender to assure Lender of its lien priority and with no exceptions contained therein except as are approved by Lender. In connection with all personal property included in the Collateral, Lender shall have received searches of appropriate filing offices showing no Liens filed against the Collateral, except those to be released prior to disbursement or otherwise acceptable to Lender to assure Lender of its lien priority;

(i) Environmental report satisfactory to Lender;

(j) Commercial general liability insurance with Borrower as the named insured and Lender as additional insured in commercially reasonable amounts and terms and issued by an insurer or insurers reasonably satisfactory to Lender;

(k) Evidence that all other actions which, in the opinion of Lender, are reasonably necessary to perfect and protect the security interests created by the Loan Documents have been taken;

(l) Copies of the most recent timberland appraisals covering all Fee Timberlands; and

(m) Lender shall have received all documentation and other information required by bank regulatory authorities under applicable "know your customer" and anti-money laundering Laws, including the USA PATRIOT Act.

4.02 Conditions Precedent to Advances Under Any Loan. The obligation of Lender to fund any advance under any Loan is subject to the following additional conditions precedent:

(a) Evidence as requested by Lender that no condition shall exist which would constitute a Material Adverse Effect, in the opinion of Lender, in the business, operation or financial conditions of Borrower at the time of the advance;

(b) As of the date of the advance, no Incipient Default or an Event of Default shall have occurred and be continuing and disbursing the amount of the advance requested shall not result in an Incipient Default or Event of Default.

(c) Borrower shall have complied with all conditions precedent contained herein and in Lender's escrow instructions and commitment letters for any Loan, if any;

(d) Payment by Borrower to Lender of the following amounts:

(i) Any unpaid balance of any Loan fees; and

(ii) All unpaid Lender Expenses; and

(e) All representations and warranties made in the Loan Documents are true and correct, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date.

5. Liens and Collateral.

5.01 Creation of Liens. The Liens created under the Collateral Documents shall at all times secure Borrower's Obligations.

5.02 Perfection of Liens. Borrower promises and hereby agrees to:

(a) Authorize all financing statements, amendments and continuation statements and other documents as Lender may from time to time require in order to perfect, continue and re-perfect its Lien in the Collateral;

(b) Pay for or reimburse Lender for all reasonable costs of closing, including without limitation, all taxes, costs of filing the financing statements or recording the Deeds of Trust in such public offices as Lender may designate; and

(c) Take such other steps as Lender may reasonably direct, including the noting of Lender's Lien on the Collateral and on any certificates of title therefore, to perfect Lender's Lien upon the Collateral.

The original, a copy or a memorandum of this Loan Agreement may be filed or recorded as a financing statement if Borrower fails or refuses to comply with the requirements of this Loan

5.03 Collateral Pool. All Collateral pledged to Lender, whether pledged on the Closing Date of a Loan or pledged at such later date (the "Collateral Pool"), shall secure all Loans of Lender to Borrower whenever such Loan is made. All releases and other servicing actions impacting Collateral shall be identical for all Loans.

5.04 Release of Liens on Collateral.

(a) Permitted Dispositions. Provided there is no Event of Default or Incipient Default, Lender will release the Liens associated with the Collateral for a Permitted Disposition.

(b) Permitted 1031 Exchange Transactions. Provided there is no Event of Default or Incipient Default, Lender will release the Liens associated with the Collateral in a Permitted 1031 Exchange Transaction.

(c) Other Releases. Provided there is no Event of Default or Incipient Default, Borrower may request a partial release of Collateral, to the extent that the total outstanding principal balances of the Loans and the FLCA Loans does not exceed 35% of the Biennial Appraised Timberland Value following the release. Such releases will be subject to approval by Lender, which will not be unreasonably withheld. The partial release may be subject to and require an additional Timber Cutting Payment, payable at the time of such release. No release will be provided if the proposed Collateral to be released is integral to the Collateral Pool, as reasonably determined by Lender.

(d) Expenses Associated with Lien Releases. Borrower shall pay Lender's Expenses associated with the Lien releases identified in this Section 5.04, including but not limited to title insurance and appraisal costs.

6. Representations and Warranties.

6.01 Representations and Warranties of Borrower. To induce Lender to enter into this Loan Agreement, Borrower represents and warrants to Lender as follows:

(a) Borrower is a validly formed limited partnership that has been duly organized and exists and is in good standing under the laws of the State of Delaware, the jurisdiction in which it was organized, has the lawful power to own its properties and to engage in the business it conducts, and is duly qualified to do business in all other states where the nature of the business transacted by it or Property owned by it makes such qualification necessary, except to the extent that the failure to qualify would not create a Material Adverse Effect;

(b) Borrower is not in default with respect to any Contractual Obligation so as to have a Material Adverse Effect on the consolidated financial condition of Borrower;

(c) The execution, delivery and performance of the Loan Documents will not immediately or with the passage of time, or the giving of notice, or both:

(i) Violate the Organizational Documents governing Borrower, or violate any Laws or result in a default under the terms of any Contractual Obligation to which Borrower is a party or by which Borrower or its respective Properties is bound; or

(ii) Result in the creation or imposition of any Lien upon any of the Property of Borrower, except the Liens in favor of Lender;

(d) d. Borrower has the power and authority to enter into and perform the Loan Documents to which it is a party or is bound, and to incur obligations, and has taken all action necessary to authorize the execution, delivery and performance of the Loan Documents to which it is a party or is bound;

(e) The Loan Documents, when delivered, will be legally valid and binding Contractual Obligations, enforceable in accordance with their respective terms;

(f) Borrower has good and marketable title to all of its Property and such Property is not subject to any Lien, except for Permitted Liens;

(g) Borrower's financial statements have been and will be prepared and presented and hereafter will present fully and fairly the financial condition of Borrower on the dates thereto and the results of operations for the periods covered thereby. There have been no conditions so as to create a Material Adverse Effect in the financial condition or business of Borrower since the date of Borrower's most recent quarterly financial statements, as filed with the Securities and Exchange Commission;

(h) Except as otherwise permitted herein, Borrower has filed all federal, state and local tax returns and other reports that it was required by Law to file prior to the date hereof and that are Material to the conduct of its business; has paid or caused to be paid all taxes, assessments and other similar governmental charges that were due and payable prior to the date hereof; have made adequate provision for the payment of taxes which are accruing but not yet payable; and have no knowledge of any deficiency or additional assessment in a Material amount in connection with any taxes which has not been provided for on their books;

(i) To the best of its knowledge, after due diligence in investigating relevant matters, except as otherwise disclosed or to the extent that the failure to comply would not be Material to the conduct of the business of Borrower, it has complied with all applicable laws with respect to:

(i) The products that it produces or sells or to the services it performs;

(ii) The conduct of its businesses; and

(iii) The use, maintenance and operation of the Properties owned or leased by it;

(j) No representation or warranty by Borrower, as to its best knowledge, after due diligence in investigating relevant matters, contained herein or in any certificate or other document furnished pursuant hereto, or in the Loan Documents, contains any untrue statement of Material fact or omits to state a Material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made;

(k) To the best knowledge of Borrower, after due diligence in investigating relevant matters, each consent, approval or authorization of, or filing, registration or qualification with, any Person required to be obtained or effected by Borrower in connection with the execution and delivery of the Loan Documents, or the undertaking or performance of any obligation thereunder, has been duly obtained or effected;

(l) No part of the proceeds of the Loan(s) will be used, directly or indirectly, for the purpose of purchasing or carrying or trading in any securities in violation of Regulation U. If requested by Lender, Borrower shall furnish to Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U. No indebtedness being reduced or retired out of the proceeds of the Loans was or will be incurred for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U. "Margin stock" within the meanings of Regulation U does not constitute more than 25 percent of the value of the consolidated assets of Borrower. None of the transactions contemplated by this Loan Agreement (including without limitation, the direct or indirect use of the proceeds of the Loans) will violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or regulations issued pursuant thereto, or Regulation U or X;

(m) Borrower is not subject to regulation under the Public Utility Holding Company Act of 2005 or the Federal Power Act or the Investment Company Act of 1940, each as amended. In addition, Borrower is not (i) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, and is not controlled by such a company, or (ii)

a “holding company,” or a “subsidiary company” of a “holding company,” or an “affiliate” of a “holding company” or of a “subsidiary” of a “holding company,” within the meaning of the Public Utility Holding Company Act of 2005, as amended;

(n) Borrower has obtained all material licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Property and to the conduct of its businesses;

(o) Borrower is not in violation of any Law, which violation could reasonably be expected to have a Material Adverse Effect; and

(p) Borrower is current with all Material reports and documents, if any, required to be filed with any state or federal securities commission or similar agency and is in full compliance in all Material respects with all applicable rules and regulations of such commissions.

6.02 Representations and Warranties of Lender. Lender represents and warrants to Borrower as follows:

(a) Lender is a legal entity duly organized, validly existing and is in good standing under the Farm Credit Act of 1971, as amended, has the necessary power and authority to conduct the business in which it is currently engaged, is duly qualified to conduct its business and is in compliance with all Material requirements of law, except to the extent that failure to comply therewith would not, in the aggregate, be reasonably expected to have a Material Adverse Effect on the operations of Lender.

(b) Lender and each person executing this Loan Agreement on behalf of Lender has the necessary power and authority, and the legal right, to make and deliver this Loan Agreement, and has taken all necessary action to authorize the conditions of this Loan Agreement and to authorize the execution, delivery and performance thereof. No consent or authorization of, filing with, notice to or other similar act by or in respect of any Governmental Authority or any other Person is required to be obtained or made by or on behalf of Lender in connection with the execution, delivery, performance, validity or enforceability of this Loan Agreement. This Loan Agreement has been duly executed and delivered on behalf of Lender. This Loan Agreement constitutes a legal, valid and binding Loan Agreement enforceable against Lender in accordance with its terms.

6.03 Survival. All of the representations and warranties set forth in Section 6.01 shall survive until all of Borrower’s Obligations are paid and satisfied in full and all offsets, defenses or counterclaims that Borrower has or may claim to have, have been released or discharged.

7. Covenants.

7.01 Affirmative Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower’s Obligations shall remain outstanding, and until all of the commitments hereunder or in the Notes and other Loan Documents have been terminated, Borrower shall maintain the following covenants:

**SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA) - 20
Pope Resources, A Delaware Limited Partnership; Note No. 6037359**

(a) Loan Purpose. Borrower shall use the proceeds of a Loan only for the purposes set forth in this Loan Agreement or the Note evidencing such Loan, and will furnish Lender such evidence as it may reasonably require with respect to such use.

(b) Reporting / Notices. Borrower shall furnish Lender, in form and detail satisfactory to Lender, during the term of the Loans:

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

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

(iii) Concurrently with the delivery of the financial statements referred to in Sections 7.01.b.i and ii, a duly completed Compliance Certificate, signed by a Responsible Officer, certifying that such financial statements are fairly presenting the financial condition, results of operations, shareholders' (or equivalent) equity and cash flows of Borrower and its Subsidiaries in accordance with GAAP (subject only to normal year-end audit adjustments and the absence of footnotes with respect to financial statements provided under Section 7.01.b.ii.). A sample Compliance Certificate is attached hereto as Exhibit A. Borrower's Compliance Certificate shall be accompanied by a Covenant Compliance Worksheet, a sample of which is attached hereto as Exhibit B, signed by a Responsible Officer;

(iv) Promptly upon receipt thereof, copies of written communications of any material weaknesses or significant deficiencies in internal controls over financial reporting submitted to Borrower's audit committee by its independent certified public accountants in

connection with an audit or review of Borrower and the responses of management to such communications;

(v) By March 1 of each year, Borrower will provide a detailed financial projection for Borrower and its Subsidiaries excluding the non-Wholly Owned Subsidiaries for the current fiscal year to include a balance sheet, income statement and statement of cash flow. Such projections shall provide sufficient detail to calculate the financial covenants in Section 7.02.

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

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

(viii) By January 31st of each year, a timber harvest plan describing the proposed harvest of timber from the real property Collateral for the ensuing calendar year, which will specify the total timber volume by species to be harvested from the real property Collateral and the location, by tract, of the harvest; and

(ix) As soon as available, but in any event not more than 45 days after the end of the first three Fiscal Quarters and 90 days after the fourth Fiscal Quarter, a timber harvest report detailing all timber harvest activity on the real property Collateral, including, at a minimum, the total volume of logs by species scaled and a reconciliation of actual activity compared to the timber harvest plan for harvest and log sales by species and by tract. The timber harvest report following the fourth Fiscal Quarter shall also include information regarding the total volume, by species, of growth on the real property Collateral.

(c) Insurance. Borrower shall maintain, for itself and its Subsidiaries, general liability insurance with insurance companies reasonably acceptable to Lender in such amounts, with such terms and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as Lender

may reasonably request. At the request of Lender, copies of such policies (or such other proof of compliance with this subsection as may be satisfactory to Lender) shall be delivered to Lender and shall show Lender as mortgagee under a standard mortgage clause or lender loss payee.

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

(e) Records/Inspection. Borrower shall keep accurate and complete Records of its operations, consistent with sound business practices. Borrower shall permit Lender or its representatives, agents or independent contractors, during normal business hours or at such other times as Borrower and Lender may agree to: (i) inspect or examine Borrower's properties, books and records; (ii) make copies of Borrower's books and records; and (iii) discuss Borrower's affairs, finances and accounts with Borrower's officers, employees and independent certified public accountants. Without limiting the foregoing, Borrower shall permit Lender, through an employee of Lender or through an independent third party contracted by Lender, to conduct on an annual basis, a review of the Collateral. Borrower further agrees to pay to Lender a Collateral inspection fee designated by Lender (not to exceed \$750.00 per day, per reviewer, with the number of reviewers to be reasonably determined by Lender) and reimburse Lender's reasonable costs and expenses incurred in connection with such Collateral inspection reviews.

(f) Appraisal of Collateral. Lender shall have all Collateral owned by Borrower appraised by an appraiser engaged by Lender, the cost of which shall be paid by Borrower. Such appraisal shall be certified and meet all USPAP and FIRREA requirements and is expected to be delivered on or before September 30, 2016. Thereafter, Lender may, at any time, request additional appraisals of Collateral. Such appraisals shall also be ordered by Lender, and the appraisals shall be certified and meet all USPAP and FIRREA requirements. Borrower shall be responsible for the cost of the 2016 appraisal, the first two appraisals requested by Lender after the Closing Date and any subsequent appraisals requested by Lender in the Event of Default or Incipient Default. Lender shall be responsible for the cost of any other USPAP/FIRREA appraisals ordered by Lender under this clause f, provided there is no Event of Default or Incipient Default.

(g) Biennial Appraisals. Beginning with the 2017 Fiscal Year, Borrower shall have all Collateral owned by Borrower appraised every other year by a third-party certified appraiser engaged by Borrower, at Borrower's expense. Such biennial appraisals will not count toward the lifetime limit of two appraisals Borrower shall be obligated for pursuant to Section 7.01 f.

(h) Laws. Borrower shall comply with all Laws applicable to it and its Property if noncompliance with any such Law would have a Material Adverse Effect.

(i) Property Maintenance. Borrower shall maintain and preserve its Property in good repair, working order and condition, normal wear and tear and casualty and condemnation excepted, and will make, or cause to be made, in such Properties and equipment from time to time, all repairs,

renewals, replacements, extensions, additions, betterments and improvements as may be needed or proper, to the extent and in the manner customary for companies in similar businesses. Borrower shall perform in all material aspects, all of its obligations under the terms of all Material agreements, indentures, mortgages, security agreements or other debt instruments to which it is a party or which it is bound.

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

(k) Subordination. Borrower hereby subordinates all Intercompany Indebtedness to Borrower's Obligations to Lender; provided however, so long as there exists no Event of Default or Incipient Default, Borrower may pay such Intercompany Indebtedness in the ordinary course of its businesses.

(l) Change of Location. Borrower shall provide Lender with reasonable notice in advance of any change in its headquarters location.

(m) Additional Documents. From time to time, Borrower shall execute and deliver to Lender such additional documents and will provide such additional information as Lender may reasonably require to carry out the terms of this Loan Agreement and be informed of the status and affairs of Borrower.

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

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

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

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

(b) Adjusted Consolidated Interest Coverage Ratio shall not be less than 3.00:1.00 to be measured quarterly on a four quarter rolling basis; and

(c) The sum of the outstanding balances of the Loan(s) and the FLCA Loans *divided by* (i) the most recent Biennial Appraised Timberland Value or (ii) any appraisal ordered by Lender pursuant to Section 7.01f, shall not, in each case, exceed 50%, to be measured as of each Fiscal Year-End and the date of such appraisal respectively.

7.03 Negative Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, and until all of the commitments hereunder have terminated, unless the prior written consent of Lender is obtained, which consent shall not be unreasonably withheld, Borrower shall not and shall not allow any of its Subsidiaries to:

(a) Liens. Create, assume or suffer to exist, and will not permit any of its Subsidiaries or any owner of Collateral to create, assume or suffer to exist, any Lien on any Collateral now owned or hereafter acquired by it other than Permitted Liens.

(b) Nature of Business. Substantively alter the nature, character or conduct of its business conducted by it.

(c) Consolidation, Merger, Sale or Purchase of Assets.

(i) Other than Timber Funds, dissolve, liquidate or wind up its affairs, or enter into any transaction of merger or consolidation; provided however, that, so long as no Event of Default or Incipient Default would be directly or indirectly caused as a result thereof, Borrower may merge or consolidate with any of its Subsidiaries, provided that Borrower is the surviving entity;

(ii) Make an Asset Disposition that would have a Material Adverse Effect on the financial condition of Borrower.

(d) Fiscal Year; Organizational Documents. (i) Change its Fiscal Year-End or (ii) amend, modify or change its Organization Documents in a manner that would result in a Material Adverse Effect.

(e) Accuracy of Reporting. Furnish any certificate or other document to Lender that contains any untrue statement of Material fact or that omits to state all Material facts necessary to make it not misleading in light of the circumstances under which it was furnished.

(f) Indebtedness. Create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness, other than: (i) Indebtedness evidenced by the Note(s); (ii) existing Indebtedness, listed on a schedule provided to Lender as of the Closing Date, and in the case of the line of credit with Northwest Farm Credit Services, FLCA in place on the date of this

Loan Agreement, any subsequently utilized commitment under that line of credit; (iii) purchase money Indebtedness, including capital leases, not to exceed \$1,000,000.00 annually; (iv) Indebtedness related to Permitted Liens; (v) Indebtedness incurred or assumed after the date hereof, which has been subordinated to the obligations of Borrower to Lender hereunder and under the Notes on terms and conditions satisfactory to Lender; (vi) Indebtedness for capital calls required under the governing documents of a Timber Fund; (vii) additional secured Indebtedness of a Subsidiary (other than that provided for under Section 7.03 f.(vi) above) in aggregate over the term of the Loan(s), not to exceed \$8,000,000.00; (viii) additional unsecured Indebtedness, in the aggregate over the term of the Loan(s), not to exceed \$10,000,000.00; provided, however, total additional Indebtedness allowed under (vii) and (viii) above shall not exceed \$10,000,000.00, in aggregate at any point in time, over the term of the Loan(s); (ix) Indebtedness of a partnership or joint venture in which the Borrower or a Subsidiary is a general partner so long as such Indebtedness is made non-recourse to Borrower or such Subsidiary (and for the avoidance of doubt, is not guaranteed by Borrower or such Subsidiary); and (x) obligations to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business.

(g) Material Adverse Effect. Create, incur or suffer to exist, a Material Adverse Effect.

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

8. Default

8.01 Events of Default. Time is of the essence in the performance of the Loan Documents. The occurrence of any one or more of the following events shall constitute an Event of Default under the Loan Documents:

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

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

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

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

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

9. Prepayment and Breakage Fees. The following Prepayment Fees shall apply to all Loans and supersedes and replaces any inconsistent terms in any Note. All Loans are subject to the following Prepayment Fees and Breakage Fees.

9.01 Prepayment Fees.

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

(b) "Prepayment" Defined. For purposes of this Section 9, "prepayment" shall mean any instance wherein the indebtedness is partially or fully satisfied in any manner prior to a payment due date whether voluntarily or involuntarily (excluding scheduled payments that have been paid) pursuant to the terms of the Loan Documents. Prepayment shall include, but not be limited to: (i) any payment after an Event of Default under the Loan Documents; (ii) payment to Lender by any holder of an interest in any Collateral; (iii) any payment after the Loan Maturity Date is accelerated for any reason; (iv) payment resulting from any sale or transfer of Collateral pursuant to foreclosure, sale under power, judicial order or trustee's sale; and (v) payment by sale, transfer or offsetting credit in connection with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors or receivership or similar proceedings under any statute of the United States or any state thereof involving Borrower or the Collateral. In the event of any acceleration of the Loan Maturity Date, the amount due hereunder shall include the charge which would be due under the

Prepayment Fee in the event of a voluntary prepayment at the time of such acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of prepayment.

(c) **Prepayment Fee.** The “Prepayment Fee” is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender’s bargain in the case of a prepayment. Borrower and Lender intend that the principal balance of each Loan Segment will yield to Lender an annual return after the date the Loan Segment is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable, on demand, and shall be an amount calculated on a make-whole basis, as calculated under Lender’s then current methodology.

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

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

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

9.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee on a make-whole basis, using a different methodology than Lender.

10. Enforcement and Waiver; Indemnity.

10.01 Enforcement and Waiver by Lender. Lender shall have the right at all times to enforce the provisions of the Loan Documents in strict accordance with the terms thereof, notwithstanding any conduct or custom on the part of Lender in refraining from so doing at any time or times. The failure of Lender at any time or times to enforce its rights under such provisions, strictly in accordance with the same, shall not be construed as having created a custom in any way or manner contrary to specific provisions or as having in any way or manner modified or waived the same. All rights and remedies of Lender are cumulative and concurrent, and the exercise of one right or remedy shall not be deemed a waiver or release of any other right or remedy. Lender shall have, in addition to the rights and remedies given it by the Loan Documents, all rights and remedies allowed by all applicable Laws and in equity.

10.02 Lender’s Expenses; Indemnity; Waiver of Damages by Borrower.

(a) **Expenses.** Borrower shall pay all expenses incurred by Lender, including the reasonable fees, costs, charges and disbursements of counsel engaged or retained by Lender, in connection with the preparation, negotiation, execution, delivery, administration, enforcement or collection of this Loan Agreement and the other Loan Documents or any amendments, modifications,

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

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

(c) Waiver by Borrower of Consequential Damages, Etc. To the fullest extent permitted by applicable Law, Borrower shall not assert, and each such party hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this

Loan Agreement, any other Loan Document or any agreement or instrument contemplated, the transactions contemplated, any Loan or the use of the proceeds thereof. No Indemnitee referred to in Subsection a. above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Loan Agreement or the other Loan Documents or the transactions contemplated.

(d) Payments. All amounts due under this Section 10.02 shall be payable not later than ten Business Days after demand therefore.

(e) Survival. The agreements in this Section shall survive the repayment, satisfaction or discharge of Borrower's Obligations.

11. Communications.

11.01 Notice and Other Communications.

(a) General. Unless otherwise expressly provided herein or in the Loan Documents, all notices and other communications provided for hereunder shall be in writing (including by FAX or email transmission). All such written notices shall be mailed, faxed, emailed or delivered to the applicable address, FAX number or, subject to Section 11.01(c), email address, and all notices and other communications expressly permitted hereunder to be given by telephone and shall be made to the applicable telephone number, as follows:

(i) If to Borrower:

Attention: John Lamb
19950 7th Ave. NE, Suite 200
Poulsbo, WA 98370
Facsimile: (360) 697-1476
E-mail: jlamb@orminc.com

(ii) If to Lender:

Attention: Kristy Searles
Northwest Farm Credit Services
650 Hawthorne Ave. SE, Suite #210
Salem, OR 97301
Facsimile: (503) 373-3006
E-mail: Kristy.searles@northwestfcs.com

(b) Effectiveness of Documents and Signatures. Loan Documents may be signed and transmitted by FAX, telecopy, emailed .PDF or any other electronic means that reproduces an image of the actual executed signature. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually signed originals and shall be binding on Borrower and Lender. Lender may also require that any such document and signature

be confirmed by a manually-signed original thereof; provided however, that the failure to request or deliver the same shall not limit the effectiveness of any electronically delivered document.

(c) Use of E-mail. Email, internet or intranet websites may be used only to distribute routine communications, such as financial statements, billing statements and other like information and to distribute Loan Documents for execution by the parties thereto and may not be used for any other purpose, unless approved by Lender and the parties hereto.

12. Participation. Lender may at any time, without the consent of, or notice to, Borrower, sell participations to any Person in a portion of Lender's rights and/or obligations under this Loan Agreement (including a portion of the Loans owing to it); provided that (a) Lender's obligations under this Loan Agreement shall remain unchanged, (b) Lender shall remain solely responsible to Borrower for the performance of such obligations and (c) Borrower shall continue to deal solely and directly with Lender in connection with Lender's rights and obligations under this Loan Agreement.

13. Governing Law; Jurisdiction; Etc.

13.01 Governing Law. THIS LOAN AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WASHINGTON, EXCEPT WHERE FEDERAL LAWS, INCLUDING THE FARM CREDIT ACT OF 1971, AS AMENDED, MAY BE APPLICABLE.

13.02 Submission to Jurisdiction. BORROWER AND EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF WASHINGTON SITTING IN SPOKANE COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE EASTERN DISTRICT OF WASHINGTON, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH WASHINGTON STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS LOAN AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

13.03 Waiver of Venue. BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY

APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN SECTION 13.02 HEREOF. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

13.04 Service of Process. EACH PARTY HERETO IRREVOCABLY WAIVES PERSONAL SERVICE OR PROCESS, WHICH MAY BE MADE IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

13.05 WAIVER OF JURY TRIAL. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENTS AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN AGREEMENT AND ANY OTHER LOAN DOCUMENTS. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

13.06 Consultation with Counsel. Borrower certifies that it has carefully read this Loan Agreement and other Loan Documents; that it understands the contents of this Loan Agreement and other Loan Documents; that in executing this Loan Agreement and other Loan Documents, it has not relied on the advice, opinions or statements of Lender or its officers, directors, employees or attorneys; and that it signed this Loan Agreement and other Loan Documents of their own free will and accord. Lender recommends that Borrower consult its counsel and or other professional advisor before signing this Loan Agreement and other Loan Documents. To the extent Borrower has not consulted with an attorney or other professionals in connection with this Loan Agreement and other Loan Documents, it acknowledges that it was given the opportunity to do so and chose of its own free will and accord not to do so.

14. Miscellaneous.

14.01 Construction.

(a) The provisions of this Loan Agreement shall be in addition to those of any other Loan Document or other evidence of liability held by Lender, all of which shall be construed as complementary to each other. In the event of a conflict between the terms of this Loan Agreement and any other Loan Document, the terms of this Loan Agreement shall control such conflict. Nothing herein contained shall prevent Lender from enforcing any or all of the other Loan Documents in accordance with their respective terms. All Exhibits and Schedules attached to this Loan Agreement are incorporated herein and made a part hereof.

(b) This Loan Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

(c) A reasonable person standard shall be applied to each and every warranty, representation, requirement or thing to be done or performed hereunder except when the term “in its discretion” or “in its sole discretion” is used herein.

14.02 Binding Effect, Assignment and Entire Agreement. The Loan Documents will inure to the benefit of, and shall be binding upon, the respective successors and permitted assigns of the parties hereto. Borrower has no right to assign any of its rights or obligations hereunder without the prior written consent of Lender. The Loan Documents constitute the entire agreement between the parties, and may be amended only by a writing signed on behalf of each party and dated subsequent to the date herein.

14.03 Severability. If any provision of this Loan Agreement shall be held invalid under any applicable Laws, such invalidity shall not affect any other provision of this Loan Agreement that can be given effect without the invalid provision, and, to this end, the provisions hereof are severable.

14.04 No Personal Liability of General Partners. In any action brought to enforce the obligation of Borrower to pay Borrower’s Obligations, any judgment or decree shall not be subject to execution on, nor be a lien on, the assets of General Partners of Borrower, other than their interests in the Collateral. The foregoing shall in no way otherwise affect the personal liability of Borrower.

14.05 No Novation. This Agreement constitutes an amendment and restatement of the Prior Credit Agreement, effective from and after the Closing Date. All rights, benefits, indebtedness, interest, liabilities and obligations of the parties to the Prior Loan Agreement are hereby amended, restated, replaced and superseded in their entirety according to the terms and provisions set forth herein. The parties hereto acknowledge and agree that (a) this Loan Agreement, the Notes and the other Loan Documents executed and delivered in connection herewith do not constitute a novation or termination of the “Obligations” (as defined in the Prior Credit Agreement) under the Prior Credit Agreement as in effect prior to the Closing Date and (b) such “Obligations” are in all respects continuing with only the terms thereof being modified as provided in this Agreement. On the Closing Date, the credit facilities described in the Prior Credit Agreement shall be amended, supplemented, modified and restated in their entirety by the facilities described herein, and all loans and other obligations of Borrower outstanding as of such date under the Prior Credit Agreement shall be deemed to be Loans and Obligations outstanding under the corresponding facilities described herein, without any further action by any Person. Each of the Loan Documents, agreements and instruments creating, evidencing and securing the repayment of the Loans shall remain in effect and is valid, binding and enforceable according to its terms, except as modified herein. The recitals to this Loan Agreement are hereby incorporated herein and made a part hereof. Any reference to the Prior Agreement in any of the Loan Documents shall be deemed to be a reference to this Loan Agreement.

14.06 Supremacy Clause. To the extent the choice of law and jury waiver provisions of this Loan Agreement are inconsistent with any Loan Documents entered into by Borrower prior to the date

hereof, such provisions of this Loan Agreement shall govern and control, and shall be deemed incorporated into such Loan Documents.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[remainder of page left intentionally blank; signature pages follow]

**SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA) - 34
Pope Resources, A Delaware Limited Partnership; Note No. 6037359**

In Witness Whereof, the parties hereto have duly executed this Loan Agreement as of the date first above written.

LENDER:

NORTHWEST FARM CREDIT SERVICES, PCA

By: __
Authorized Agent

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)

Pope Resources, A Delaware Limited Partnership; Note No. 6037359

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

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)

Pope Resources, A Delaware Limited Partnership; Note No. 6037359

EXHIBIT A
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, PCA

Reference is made to that certain Second Amended and Restated Master Loan Agreement, dated as of July __, 2016, (the "Loan Agreement") among **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower"), and **NORTHWEST FARM CREDIT SERVICES, PCA** ("Lender").

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to Lender on behalf of Borrower, and that:

[Use following Paragraph 1 for Fiscal Year-End financial statements]

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by paragraph 7.01b.i of the Loan Agreement for the Fiscal Year of Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following Paragraph 1 for [first/second/third] Fiscal Quarter-End financial statements]

1. Attached hereto as Schedule 1, are the financial statements required by paragraph 7.01. b.ii of the Loan Agreement for the Fiscal Quarter of Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP, as of such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Loan Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower performed and observed all its obligations under the Loan Documents, and

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)
Pope Resources, A Delaware Limited Partnership; Note No. 6037359

[select one:]

[To the best knowledge of the undersigned during such fiscal period, Borrower performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[The following covenants or conditions have not been performed or observed and the following is a list of each such Defaults and their nature and status:]

4. To the best knowledge of the undersigned, the representations and warranties of Borrower contained in the Loan Documents, and any representations and warranties of Borrower that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

5. To the best knowledge of the undersigned, the financial covenant analyses and information set forth on Schedule 1, attached hereto, are true and accurate on the Calculation Date and the undersigned has received no information to the contrary as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20__.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: __
Name: __
Title: __

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)
Pope Resources, A Delaware Limited Partnership; Note No. 6037359

EXHIBIT B
COVENANT COMPLIANCE WORKSHEET

For the Fiscal Quarter-End / Fiscal Year-End _____ (the Calculation Date)

I Section 7.02 a. - Indebtedness to Total Capitalization Ratio

(measured annually at the Fiscal Year-end)

A. Borrower and its Subsidiaries Indebtedness at Calculation Date	\$
B. Indebtedness associated with the non-Wholly Owned Subsidiaries at Calculation Date	\$
C. Numerator (Line I.A. minus Line I.B.)	\$
D. Total Capitalization at Calculation Date	
I. Adjusted Partners' Capital at Calculation Date	
a. Partners' capital in Borrower and its Wholly Owned Subsidiaries per GAAP at Calculation Date	\$
b. Book Value of Fee Timberland at Calculation Date	\$
c. Most recent appraisals of Fee Timberlands	\$
d. Adjusted Partners Capital (Line I.D.1.a. minus I.D.1.b. plus I.D.1.c.)	\$
2. Numerator from line I.C. above	\$
E. Denominator (Line I.D.1.d. plus Line I.D.2.)	\$
Ratio of Indebtedness to Total Capitalization (Line I.C. <u>divided</u> by Line I.E.)	<input type="text"/>

Maximum Allowed

0.30

SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)
Pope Resources, A Delaware Limited Partnership; Note No. 6037359

II. Section 7.02 b. – Adjusted Consolidated Interest Coverage Ratio

(measured quarterly beginning with the second Fiscal Quarter-End 2016)

A. Adjusted Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "subject period")

1. Consolidated Net Income for the subject period (excluding the net income associated with non-Wholly Owned Subsidiaries)	\$ _____
2. Consolidated Interest Expense for the subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$ _____
3. Consolidated depreciation expense for the subject period (excluding the depreciation expense associated with non-Wholly Owned Subsidiaries)	\$ _____
4. Consolidated amortization expense for the subject period (excluding the amortization expense associated with non-Wholly Owned Subsidiaries)	\$ _____
5. Consolidated depletion expense for the subject period (excluding the portion associated with the non-controlling interest in non-Wholly Owned Subsidiaries)	\$ _____
6. Consolidated Taxes for the subject period (excluding income taxes associated with non-Wholly Owned Subsidiaries)	\$ _____
7. Distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries	\$ _____
8. Adjusted Consolidated EBITDDA (the sum of Lines II.A.1. through II.A.7. inclusive)	\$ _____
B. Numerator (Line II.A.8.)	\$ _____
C. Denominator - Consolidated Interest Expense for subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$ _____
Adjusted Consolidated Interest Coverage Ratio (Line II.B. <u>divided</u> by Line II.C.)	<input type="text"/>
Minimum Allowed	3.00 :1.00

III. Section 7.02 c. - Loans to Biennial Appraised Timberland Value

(measured annually at Fiscal Year-end)

A. Combined Balance of Loan(s) and FLCA Loans	\$ _____
B. Most recent Biennial Appraised Timberland Value or Lender's appraisal	\$ _____
Loan to Value Ratio (Line III.A. <u>divided</u> by Line III.B.)	<input type="text"/>
Maximum Allowed	50%

**SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)
Pope Resources, A Delaware Limited Partnership; Note No. 6037359**

Schedule 1

Authorized Persons

Authorized Persons

Name	Change Authorizations
Thomas M. Ringo	Individually
John D. Lamb	Individually

- Authorizations. Unless otherwise noted, each Authorized Person acting alone has the authority to request disbursements of Loans and designate the disposition of Loan proceeds, whether in the form of check, internal transfer, wire or electronic transfer to the account specified by the Authorized Person, including any other loan account Borrower may have with Lender, or any other designated Lender loan account, make deposits to and disbursements from any FPF Account, make payments of Borrower's Obligations, authorize and initiate internal transfers, enroll in and make use of Northwest Farm Credit Services' customer online banking website, make interest rate and other pricing elections and authorize payments and prepayments.
- Change Authority. Absent resolutions or authorized evidence of authority satisfactory to Lender, only the Authorized Person(s) listed above with change authority, either individually or together as may be required, may add or remove other Authorized Persons or modify limitations on authority of an Authorized Person. Any change of an Authorized Person or the limitations on their authority shall be made on such forms as Lender may prescribe.

**SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (PCA)
Pope Resources, A Delaware Limited Partnership; Note No. 6037359**

NOTE

(Carbon River Loan)

Date: July 20, 2016

For Value Received, on the earlier of (i) July 1, 2028, (ii) the latest Fixed Rate Maturity Date and (iii) if there is no Fixed Rate Loan Segment, July 1, 2023 (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 (this "Note") may designate in writing, the principal balance of **Thirty-two Million and no/100's Dollars (\$32,000,000.00)** (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, for purposes of calculating the applicable interest rate for any day for a Loan Segment, the percentage set forth below which corresponds to the elected Rate Option:

<u>Rate Options</u>	<u>Applicable Margin</u>
Base Rate	2.20%
Fixed Rate Option (10-year)	1.95%
Fixed Rate Option (12-year)	2.00%

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, of general application, 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.

"Applicable Margin Reset Date" means July 1, 2021.

"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.

"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 of even date herewith, as the same may be amended, modified, extended, restated or replaced from time to time.

“Loan Purpose” means, (a) to fund the costs associated with Borrower’s acquisition of certain real property pursuant to a Purchase and Sale Agreement between Borrower and John Hancock Life Insurance Company (U.S.A.) dated June 16, 2016 and (b) to pay Loan fees and all Lender’s Expenses.

“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 Advance. So long as there is no Default or Event of Default has occurred and is continuing, Lender will advance Loan proceeds to or on the account of Borrower on the Disbursement Date for an approved Loan Purpose. This is not a revolving loan. Once Loan principal has been borrowed and repaid, it may not be reborrowed.

2.02 Loan Fee. Borrower shall pay loan fees as set forth in a separate fee letter 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.

3.02 10- or 12-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 10- or 12-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 10 and 12 years; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the “10- and 12-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 shall be July 1, 2026 for the 10-year Fixed Rate Option and July 1, 2028 for the 12-year Fixed Rate Option.

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, (4) there are no more than two Fixed Rate Loan Segments at any one time and (5) Borrower may not select a Fixed Rate Loan Segment after October 21, 2016.

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 rate used herein does not necessarily represent the lowest rates charged by Lender on its loans. The interest rates described herein are per annum rates. Interest rates using the LIBOR Index Source are calculated on the basis of the actual number of days elapsed for a 360 day year. Interest rates using any other Index 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 sole 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 October 1, 2016, 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 of Base Rate and 10-Year Loan Segments. The unpaid principal balance of the Base Rate Loan Segment shall be repaid on July 1, 2023. The unpaid principal balance of any 10-year Fixed Rate Loan Segment shall be repaid on its Fixed Rate Maturity Date.

4.03 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.

4.04 Application of Payments. Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein.

5. 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.

6. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Loan Agreement.

7. Miscellaneous.

7.01 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.

7.02 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.

7.03 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 1940, Subpart G, Exhibit M.

7.04 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.

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
1700 South Assembly Street
Spokane, WA 99224-2121

P. O. Box 2515
Spokane, WA 99220-2515

Fax: 509-340-5508
Tel: 1-800-216-4535

This Notice is provided pursuant to the Note dated July 20, 2016, as extended, renewed, amended or restated.

SELECT ONE: o Loan Segment
 o Pricing
 o Prepayment of Principal

o 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

(Pope Resources, A Delaware Limited Partnership/Note No. 6229356)

NOTE

(Port Gamble Loan)

Date: August 4, 2016

For Value Received, on July 1, 2027 (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 (this "Note") may designate in writing, the principal balance of **Twenty-one Million and no/100's Dollars (\$21,000,000.00)** (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, for purposes of calculating the applicable interest rate for any day for a Loan Segment, the percentage set forth below which corresponds to the elected Rate Option:

<u>Rate Options</u>	<u>Applicable Margin</u>
---------------------	--------------------------

Base Rate	1.85%
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Fixed Rate Option	1.95%
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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, of general application, 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.

"Applicable Margin Reset Date" means July 1 in 2019, 2022 and 2025.

"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 April 1, 2017.

"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 of even date herewith, as the same may be amended, modified, extended, restated or replaced from time to time.

“Loan Purpose” means, (a) to fund the costs associated with Borrower’s obligations to perform environmental remediation at the Port Gamble site, and (b) to pay Loan fees and all Lender’s Expenses.

“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 there is no Default or Event of Default has occurred and is continuing, Lender will advance Loan proceeds to or on the account of Borrower during the Commitment Period on a Disbursement Date for an approved 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. This is not a revolving loan. Once Loan principal has been borrowed and repaid, it may not be reborrowed.

2.02 Loan Fee. Borrower shall pay loan fees as set forth in a separate fee letter 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.

3.02 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10- or 11-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- or 11-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 and 11 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- and 11-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-, 10- or 11-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; provided, however, that the Fixed Rate Maturity Date for an 11-year Fixed Rate Option shall be the Loan Maturity Date.

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, (4) there are no more than four Fixed Rate Loan Segments at any one time and (5) Borrower may not designate an 11-year Fixed Rate Option after the Closing Date. 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 rate used herein does not necessarily represent the lowest rates charged by Lender on its loans. The interest rates described herein are per annum rates. Interest rates using the LIBOR Index Source are calculated on the basis of the actual number of days elapsed for a 360 day year. Interest rates using any other Index 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 sole 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 October 1, 2016, 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. 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.

6. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Loan Agreement.

7. Miscellaneous.

7.01 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.

7.02 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.

7.03 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 1940, Subpart G, Exhibit M.

7.04 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.

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
1700 South Assembly Street
Spokane, WA 99224-2121

P. O. Box 2515
Spokane, WA 99220-2515

Fax: 509-340-5508
Tel: 1-800-216-4535

This Notice is provided pursuant to the Note dated August 4, 2016, as extended, renewed, amended or restated.

SELECT ONE: o Loan Segment
 o Pricing
 o Prepayment of Principal
 o 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
(Pope Resources, A Delaware Limited Partnership/Note No. 6229354)
1

Date: September 30, 2016

AMENDED AND RESTATED NOTE AND LOAN AGREEMENT

(Long Term with Multiple Pricing Options)

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

RECITALS

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

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

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

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

NOTE

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

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

1. Definitions and Interpretations.

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

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

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

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

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

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

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

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

Rate Options Applicable Margin

Base Rate 2.35 %

1-Year	1.75 %
3-Years	1.75 %
5-Years	1.75 %
7-Years	1.75 %
10-Years	1.75 %

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

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

“Bankruptcy Event” means, with respect to any Person, the occurrence of any of the following with respect to such Person: (a) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or ordering the winding up or liquidation of its affairs; or (b) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of 60 consecutive days; or (c) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such Law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or make any general assignment for the benefit of creditors; or (d) such Person shall be unable to, or shall admit in writing its inability to, pay its debts generally as they become due.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Fiscal Year” means the calendar year.

“Fiscal Year-End” means December 31.

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

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

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

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

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

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

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

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

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

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following whether or not included as indebtedness or liabilities in accordance with GAAP: (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made; (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments; (c) all obligations of such Person under conditional sale or other title retention

agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business); (d) all obligations, including without limitation, intercompany items, of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person; (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements; (f) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness will have been assumed by such Person or is limited in recourse; (g) the principal portion of all obligations of such Person under Capital Leases; (h) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any equity interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; (i) all obligations in respect to any Swap Termination Value of any Swap Contract and (j) all guarantees of such Person in respect of any of the foregoing. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which a Person is a general partner or a joint venturer.

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

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

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

“Laws” means, collectively, all international, foreign, federal, state and local statutes, laws, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of and agreements with any Governmental Authority, in each case, whether or not having the force of law, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 (“IRC”), the Employee Retirement Income Security Act of 1974 (“ERISA”), the Fair Labor Standards Act (“FLSA”), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”).

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

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

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

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

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

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

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

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

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

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

“Material Adverse Effect” means a material adverse effect on (a) the condition (financial or otherwise), operations, business, assets, liabilities or prospects of Borrower, (b) the ability of

Borrower or its Related Parties to perform any Material obligations under the Loan Documents to which it is a party, or (c) the Material rights and remedies of Lender under the Loan Documents.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exchange Master Agreement, or any other master agreement, including any such obligations or liabilities under any such master agreement.

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

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

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

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

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

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

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

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

1.03 Accounting Terms. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other

financial calculations) required to be submitted pursuant to this Note shall be prepared in conformity with GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing Guarantor's audited financial statements, except as otherwise specifically prescribed herein.

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

2. Advances, Fees, Expenses and Notice.

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

2.02 [Intentionally Omitted].

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

2.04 Notice of Prepayment and Pricing.

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

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

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

3. Establishing Future Payment Fund Accounts.

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

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

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

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

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

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

4. Interest Rate and Pricing Options.

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

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

4.03 Pricing Elections. Upon irrevocable Notice to Lender in accordance with Paragraph 2.04 above, as to principal (i) in the amount of an advance, (ii) in the Base Rate Loan Segment, or (iii) in a Fixed Rate Loan Segment on a Fixed Rate Maturity Date, Borrower may elect to designate all or any part of the advance or of the Adjusted Principal Balance of such Loan Segment on such Pricing Date to bear interest at any Rate Option described herein; provided however, that (1) there is no Event of Default or Incipient Default, (2) no Fixed Rate Option may be selected which would have for its Fixed Rate Maturity Date a date later than the Loan Maturity Date, and (3) there are no more than three Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option on a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the Adjusted Principal Balance of such Loan Segment will be priced at the Base Rate effective on such Pricing Date.

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

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

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

4.07 Additional Pricing Options. In the event Borrower should desire to price a Loan Segment using the Index, Pricing Date and margin other than as provided for herein, Borrower may request Lender to quote a rate and lock-in fee for an identified principal amount and desired pricing option.

Lender will provide Borrower such a quote if available under Lender's then existing policies and procedures, and shall provide Borrower the option to elect such a rate upon payment of the lock-in fee, if required, which rate shall be effective on the Pricing Date for the Loan Segment, upon terms and conditions and within timeframes as Lender may prescribe at the time of the quote.

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

5. Payment.

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

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

5.03 Manner of Payments. Upon Lender's written request, payments shall be electronically submitted no later than 10:00 a.m. Spokane time on the date specified for payment. If any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day. All sums payable to Lender hereunder shall be paid directly to Lender in immediately available funds in U.S. dollars. Lender shall send to Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections within 15 days of receipt of any such statement, provided, however, that failure to receive a periodic statement shall not excuse payment of any sums payable hereunder.

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

payments until the indebtedness is paid in full. In addition, so long as there is no Event of Default or Incipient Default, principal prepayments shall be applied to principal under a given Loan Segment, as selected by Borrower, in inverse order of their maturity, and shall not alter the obligation to pay scheduled payments until the indebtedness for each Loan Segment is paid in full.

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

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

6. Prepayment and Breakage Fees.

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

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

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

acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of prepayment.

c. **Prepayment Fee.** The “Prepayment Fee” is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender’s bargain in the case of a prepayment. Borrower and Lender intend that the principal balance of each Loan Segment will yield to Lender an annual return after the date the Loan Segment is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable on demand, and shall be an amount calculated on a make-whole basis, as calculated under Lender’s then current methodology.

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

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

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

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

7. Default.

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

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

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

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

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

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

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

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

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

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

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

i. As soon as available, but in any event within 90 days after each Fiscal Year-End (i) a consolidated balance sheet, the related consolidated statement of shareholders' (or equivalent) equity and cash flows and the related consolidated statement of income or operations for such Fiscal Year of Guarantor and its Subsidiaries as of the end of such Fiscal Year and (ii) a consolidated balance sheet, the related consolidated statement of shareholders' (or equivalent) equity

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

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

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

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

v. By March 1 of each year, Guarantor will provide a detailed financial projection for Guarantor and its Subsidiaries excluding the non-Wholly Owned Subsidiaries for the current fiscal year to include a balance sheet, income statement and statement of cash flow. Such projections shall provide sufficient detail to calculate the financial covenants in Paragraph 8.02.

vi. Promptly upon request of Lender, (1) copies of any filings and registrations with, and reports to or from, the Securities Exchange Commission, or any successor agency, and copies of all financial statements, proxy statements, notices and reports as Guarantor shall send to its shareholders, and (2) all reports and written information to and from the United States

Environmental Protection Agency, or any state or local agency responsible for environmental matters, the United States Occupational Health and Safety Administration, or any state or local agency responsible for health and safety matters, or any successor agencies or authorities concerning environmental, health or safety matters that are Material to Guarantor;

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

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

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

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

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

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

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

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

the foregoing rights of contest, such taxes will be paid whenever foreclosure on any Lien that has attached appears imminent.

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Miscellaneous Terms.

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

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

document that has been scanned and attached to an email shall have the same force and effect as a document sent by FAX.

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

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

9.05 WAIVER OF JURY TRIAL. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

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

a. Borrower shall pay all expenses incurred by Lender, including the reasonable fees, costs, charges and disbursements of counsel engaged or retained by Lender, in connection with the

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

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

c. To the fullest extent permitted by applicable Law, Borrower shall not assert, and each such party hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Note, any other Loan Document or any agreement

or instrument contemplated, the transactions contemplated, any Loan or the use of the proceeds thereof. No Indemnitee referred to in Subparagraph b. above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Note or the other Loan Documents or the transactions contemplated.

- d. All amounts due under this Paragraph 9.06 shall be payable not later than ten Business Days after demand therefore.
- e. The agreements in this Paragraph shall survive the repayment, satisfaction or discharge of Borrower's Obligations.

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

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[remainder of page intentionally left blank; signature pages follow]

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

In Witness Whereof, the parties hereto have duly executed this Note as of the date first above written.

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By: _____
Authorized Agent

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

BORROWER:

SEVENTH AVENUE POULSBO, LLC

By: OPG Properties LLC, Sole Member

By: Pope Resources, A Delaware Limited Partnership, Sole Member

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____

Thomas M. Ringo, President and CEO

GUARANTOR:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____

Thomas M. Ringo, President and CEO

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

**EXHIBIT A
NOTICE/CONFIRMATION**

NOTICE TO:

**Loan Accounting and Operations
Northwest Farm Credit Services, FLCA
2001 South Flint Road
Spokane, WA 99224-9198**

**P. O. Box 2515
Spokane, WA 99220-2515**

**Fax: 509-340-5508
Tel: 1-800-216-4535**

This Notice is provided pursuant to the Amended and Restated Note and Loan Agreement dated as of September 30, 2016, as extended, renewed, amended or restated.

SELECT ONE: o Loan Segment
 o Pricing
 o Prepayment of Principal
 o Initial Disbursement Amount

Loan Segment Currently Priced Under Option _____
Principal Amount _____
To New Pricing Option _____
Date to be Effective _____

Date: _____

Seventh Avenue Poulsbo, LLC

By: _____
Authorized Agent

CONFIRMATION

Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: _____ By: _____
Authorized Agent

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

EXHIBIT B
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, FLCA

Reference is made to that certain Amended and Restated Note and Loan Agreement, dated as of September 30, 2016, (the "Note") among **SEVENTH AVENUE POULSBO, LLC** ("Borrower"), **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Guarantor"), and **NORTHWEST FARM CREDIT SERVICES, FLCA** ("Lender").

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Guarantor, and that, as such, he/she is authorized to execute and deliver this Certificate to Lender on behalf of Guarantor, and that:

[Use following Paragraph 1 for Fiscal Year-End financial statements]

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by Paragraph 8.01.i of the Note for the Fiscal Year of Guarantor ended as of the above date, together with the report and opinion of an independent certified public accountant required by such Paragraph.

[Use following Paragraph 1 for [first/second/third] Fiscal Quarter-End financial statements]

1. Attached hereto as Schedule 1, are the financial statements required by paragraph 8.01.ii of the Note for the Fiscal Quarter of Guarantor ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Guarantor and its Subsidiaries in accordance with GAAP, as of such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Note and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower and Guarantor during the accounting period covered by the attached financial statements.

3. A review of the activities of Borrower and Guarantor during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower and Guarantor performed and observed all its obligations under the Loan Documents, and

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

[select one:]

[To the best knowledge of the undersigned during such fiscal period, Borrower and Guarantor performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[The following covenants or conditions have not been performed or observed and the following is a list of each such Incipient Defaults and their nature and status:]

4. To the best knowledge of the undersigned, the representations and warranties of Borrower and Guarantor contained in the Loan Documents, and any representations and warranties of Borrower and Guarantor that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

5. To the best knowledge of the undersigned, the financial covenant analyses and information set forth on Schedule 1, attached hereto, are true and accurate on the Calculation Date and the undersigned has received no information to the contrary as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20__.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____
Authorized Agent

SEVENTH AVENUE POULSBO, LLC

By: OPG Properties LLC, Sole Member

By: Pope Resources, A Delaware Limited Partnership, Sole Member

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____ Authorized Agent

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

**EXHIBIT C
COVENANT COMPLIANCE WORKSHEET**

For the Fiscal Quarter-End/Fiscal Year-End _____ (“Calculation Date”)

**I. Paragraph 7.02 a. - Indebtedness to Total Capitalization Ratio
(measured annually at the Fiscal Year-end)**

A. Borrower and its Subsidiaries Indebtedness at Calculation Date	\$	
B. Indebtedness associated with the non-Wholly Owned Subsidiaries at Calculation Date	\$	
C. Numerator (Line I.A. minus Line I.B.)	\$	
D. Total Capitalization at Calculation Date		
I. Adjusted Partners' Capital at Calculation Date		
a. Partners' capital in Borrower and its Wholly Owned Subsidiaries per GAAP at Calculation Date	\$	
b. Book Value of Fee Timberland at Calculation Date	\$	
c. Most recent appraisals of Fee Timberlands	\$	
d. Adjusted Partners Capital (Line I.D.1.a. minus I.D.1.b. plus I.D.1.c.)	\$	
2. Numerator from line I.C. above	\$	
E. Denominator (Line I.D.1.d. plus Line I.D.2.)	\$	
Ratio of Indebtedness to Total Capitalization (Line I.C. <u>divided</u> by Line I.E.)		
Maximum Allowed		0.30

**II. Paragraph 7.02 b. – Adjusted Consolidated Interest Coverage Ratio
(measured quarterly beginning with the third Fiscal Quarter-End 2016)**

A. Adjusted Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "subject period")

1. Consolidated Net Income for the subject period (excluding the net income associated with non-Wholly Owned Subsidiaries)	\$ _____
2. Consolidated Interest Expense for the subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$ _____
3. Consolidated depreciation expense for the subject period (excluding the depreciation expense associated with non-Wholly Owned Subsidiaries)	\$ _____
4. Consolidated amortization expense for the subject period (excluding the amortization expense associated with non-Wholly Owned Subsidiaries)	\$ _____
5. Consolidated depletion expense for the subject period (excluding the portion associated with the non-controlling interest in non-Wholly Owned Subsidiaries)	\$ _____
6. Consolidated Taxes for the subject period (excluding income taxes associated with non-Wholly Owned Subsidiaries)	\$ _____
7. Distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries.	\$ _____
8. Adjusted Consolidated EBITDDA (the sum of Lines II.A.1 through II.A.7. inclusive)	\$ _____
B. Numerator (Line II.A.8.)	\$ _____
C. Denominator - Consolidated Interest Expense for subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$ _____
Adjusted Consolidated Interest Coverage Ratio (Line II.B. <u>divided</u> by Line II.C.)	_____
Minimum Allowed	3.00 :1.00

Schedule 1

Authorized Persons

Authorized Persons

Name	Change Authorizations
Thomas M. Ringo	Individually
John D. Lamb	Individually
Sean Tallarico	Individually

- **Authorizations.** Unless otherwise noted, each Authorized Person acting alone has the authority to request disbursements of Loans and designate the disposition of Loan proceeds, whether in the form of check, internal transfer, wire or electronic transfer to the account specified by the Authorized Person, including any other loan account Borrower may have with Lender, or any other designated Lender loan account, make deposits to and disbursements from any FPF Account, make payments of Borrower's Obligations, authorize and initiate internal transfers, enroll in and make use of Northwest Farm Credit Services' customer online banking website, make interest rate and other pricing elections and authorize payments and prepayments.
- **Change Authority.** Absent resolutions or authorized evidence of authority satisfactory to Lender, only the Authorized Person(s) listed above with change authority, either individually or together as may be required, may add or remove other Authorized Persons or modify limitations on authority of an Authorized Person. Any change of an Authorized Person or the limitations on their authority shall be made on such forms as Lender may prescribe.

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 8, 2016

/s/Thomas M. Ringo
Thomas M. Ringo
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John D. Lamb, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 8, 2016

/s/ John D. Lamb

John D. Lamb
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Executive Officer

November 8, 2016

**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 Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Lamb, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ John D. Lamb
John D. Lamb
Chief Financial Officer

November 8, 2016