

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

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **December 31, 2010**

or

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

Commission File No. 1-9035

Pope Resources, A Delaware Limited Partnership

(Exact name of registrant as specified in its charter)

Delaware
(State of Organization)

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

19245 Tenth Avenue NE, Poulsbo, WA 98370
(Address of principal executive offices, Zip Code)

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

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

Title of each class
Depository Receipts (Units)

Name of each exchange on which registered
NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

X

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

Large Accelerated Filer

Accelerated Filer

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

Smaller reporting company

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

Yes No

At June 30, 2010, the aggregate market value of the non-voting equity units of the registrant held by non-affiliates was approximately \$88,128,000

The number of the registrant's limited partnership units outstanding as of February 18, 2011 was 4,376,912.

Documents incorporated by reference: None

Pope Resources, A Delaware Limited Partnership
Form 10-K
For the Fiscal Year Ended December 31, 2010
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PART I

Item 1. BUSINESS

OVERVIEW

When we refer to “the Partnership,” “the Company,” “we,” “us,” or “our,” we mean Pope Resources, A Delaware Limited Partnership and its consolidated subsidiaries. References to notes to the financial statements refer to the Notes to the Consolidated Financial Statements of Pope Resources, A Delaware Limited Partnership included in Item 8 of this form.

The Partnership currently operates in three primary business segments: (1) Fee Timber, (2) Timberland Management & Consulting, and (3) Real Estate. Fee Timber operations consist of growing and harvesting timber from our 175,000 acres of tree farms. The Timberland Management & Consulting segment represents business activity conducted to obtain timberland investments on behalf of our private equity funds as well as timberland and asset management services provided to third parties. Our Real Estate segment’s operations are focused on a portfolio of approximately 2,800 acres in the Puget Sound basin of Washington. This segment’s activities consist of efforts to enhance the value of our land by obtaining the entitlements and, in some cases, building the infrastructure necessary to enable further development. Further segment financial information is presented in Note 12 to our consolidated financial statements included in this report. Copies of the Partnership’s Securities Exchange Act reports and other information can also be found at www.poperesources.com. The information contained in or connected to our web site is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with or furnished to the SEC.

DESCRIPTION OF BUSINESS SEGMENTS

Fee Timber

Operations. Our Fee Timber segment consists of the approximately 70,000-acre Hood Canal tree farm, located in the Hood Canal area of Washington, and the 44,000-acre Columbia tree farm located in southwest Washington, along with 61,000 acres of timberlands located in western Washington and western Oregon owned by the Funds. Management views the Hood Canal and Columbia tree farms as the Partnership’s core holdings, and manages them as a single operating unit. When we refer to these two tree farms we will describe them as the Partnership’s tree farms. We have owned the Hood Canal tree farm, substantially as currently comprised, since our formation in 1985, and we acquired the bulk of the Columbia tree farm in 2001. We will refer to tree farms owned by the Funds as the Funds’ tree farms. When referring to the Partnership’s and Funds’ tree farms together we will refer to them as the “Combined” tree farms. Our Fee Timber operations consist primarily of growing, harvesting, and marketing timber to both domestic and Pacific Rim markets. In addition, our tree farms generate other revenues from sources such as cell tower, brush, and mineral leases. Our Fee Timber segment produced 89%, 72%, and 84% of our consolidated revenue in 2010, 2009, and 2008, respectively.

This segment also includes operations of ORM Timber Fund I, LP (Fund I) and ORM Timber Fund II, Inc. (Fund II, and collectively, the Funds), which are consolidated into our financial statements. Fund I acquired 24,000 acres of timberland in the fourth quarter of 2006, Fund II acquired 12,000 acres of timberland in the fourth quarter of 2009, and 25,000 acres in the last half of 2010. Our Timberland Management & Consulting segment earns management fees and incurs expenses resulting from managing property on behalf of third-party owners and investors. Since the launch of our timberland private equity fund strategy in 2003, the activities in this segment have consisted primarily of attracting third-party investment capital for the Funds and then acquiring and managing properties on the Funds’ behalf.

Inventory. In the discussion below, inventory and projected harvest levels for the Partnership’s Hood Canal and Columbia tree farms is presented separately from timber inventory and harvest levels for the Funds. Timber volume is generally expressed in thousand board feet (MBF) or million board feet (MMBF).

We define “merchantable timber inventory” to mean timber inventory in productive timber stands that are 35 years of age and older. As of December 31, 2010, the tree farms’ (including the Funds) total merchantable inventory volume was estimated to be 649 MMBF, which compares to estimated merchantable timber inventory volume of 497 MMBF at December 31, 2009. Merchantable inventory of the Funds as of December 31, 2010 and 2009 was 335 MMBF and 155 MMBF, respectively.

In 2010, total inventory on the Partnership’s tree farms decreased 28 MMBF as a result of the 2010 harvest of 42 MMBF partially offset by inventory growth and the shift of new age-class layers that have reached 35 years of age and, as such, are included in merchantable timber inventory. Total inventory for the Funds increased by 180 MMBF based primarily on the addition of 25,000 acres of Fund II lands, but also from inventory growth offset by the 2010 harvest of nearly 11 MMBF from the Funds.

The Partnership’s merchantable inventory is spread among five-year age classes as follows (volumes in MMBF):

Age Class	December 31,			
	2010 Pulpwood	2010 Sawtimber	2010 Total	2009 Total
35 to 39	13	56	69	61
40 to 44	13	67	80	99
45 to 49	5	28	33	31
50 to 54	3	10	13	12
55 to 59	2	10	12	16
60 to 64	4	35	39	47
65+	9	59	68	76
	49	265	314	342

The Funds’ merchantable inventory is spread among age classes as follows (volumes in MMBF):

Age Class	December 31,			
	2010 Pulpwood	2010 Sawtimber	2010 Total	2009 Total
35 to 39	10	77	87	42
40 to 44	10	94	104	49
45 to 49	4	45	49	12
50 to 54	5	45	50	16
55 to 59	3	19	22	15
60 to 64	1	5	6	5
65+	2	15	17	16
	35	300	335	155

Timber inventory volume is updated annually. Of the timber stands older than 24 years, 10% to 20% are physically re-measured each year using a statistical sampling process called “cruising”. Adjustments are made for depletion of areas harvested, growth (using suitable growth and yield calculations), changes in acres and associated timber volume resulting from acquisitions, dispositions, and reclassification of acres as available or unavailable for harvest.

The dominant timber species on the Partnership’s tree farms is Douglas-fir. Douglas-fir is noted for its structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. In addition to Douglas-fir, other species on the Partnership’s tree farms include western hemlock, red alder, and western red cedar. The merchantable timber inventory from the Funds consists of a heavier mix of whitewoods, including western hemlock and spruce (other conifer).

The Partnership's total merchantable timber inventory as of December 31, 2010 is distributed among species as follows (volumes in MMBF):

Species	2010 Volume	Percent of total
Douglas-fir	227	72%
Western hemlock	38	12%
Western red cedar	15	5%
Other conifer	12	4%
Red alder	19	6%
Other hardwood	3	1%
Total	314	100%

The Funds' total merchantable timber inventory as of December 31, 2010 is distributed among species as follows (volumes in MMBF):

Species	2010 Volume	Percent of total
Douglas-fir	195	58%
Western hemlock	90	27%
Western red cedar	3	1%
Other conifer	33	10%
Red alder	13	4%
Other hardwood	1	-%
Total	335	100%

The Partnership's tree farms as of December 31, 2010 include approximately 114,000 acres. Of this total, approximately 95,000 acres are designated productive acres, meaning land that is capable of growing merchantable timber and where the harvesting of that timber is not constrained by physical, environmental or regulatory restrictions. The Funds' tree farms as of December 31, 2010 totaled 61,000 acres, of which approximately 52,000 were designated productive acres. Readers will note in the acreage table below that 28% of the Partnership's acreage and 25% of the Funds' acreage is in the 25-34 year age classes, much of which will begin moving from premerchantable to merchantable timber inventory over the next five years. As of December 31, 2010, total productive acres are spread by timber age-class as follows:

Age Class	12/31/2010		12/31/2010	
	Partnership Acres	%	Fund I & II Acres	%
Clear-cut	1,667	2%	233	–%
0 to 4	7,504	8%	2,522	5%
5 to 9	10,358	11%	2,843	6%
10 to 14	13,731	14%	3,005	6%
15 to 19	4,282	4%	4,514	9%
20 to 24	14,688	15%	7,526	14%
25 to 29	16,775	18%	5,513	11%
30 to 34	9,854	10%	7,470	14%
35 to 39	4,749	5%	6,401	12%
40 to 44	4,580	5%	6,101	12%
45 to 49	1,594	2%	2,368	5%
50 to 54	742	1%	1,896	4%
55 to 59	665	1%	736	1%
60 to 64	1,538	1%	274	–%
65+	2,569	3%	608	1%
	<u>95,296</u>		<u>52,010</u>	

Timberland Acquisitions. We made two timberland purchases in 2010 that added approximately 25,000 acres to the Fund II tree farm inventory for a total purchase price of \$58.1 million.

Long-term Harvest Plan. We generally discuss long-term harvest plans in terms of a sustainable annual harvest level that is based on the use of a non-declining even-flow (NDEF) harvest modeling constraint. When modeling future harvests, this NDEF constraint means that, absent changes to available inventory or estimated growth rates, future harvest levels will be as high as, or higher than, current levels. While we will continue to reference estimated non-declining even flow harvest levels, we believe this concept has lost some of its relevance in our current operating environment of extremely volatile log prices combined with a large accumulation of deferred harvest volume.

In response to a dramatic downturn in log prices in 2008 we began deferring harvest volume from both the Partnership's and Funds' properties. During 2010, log prices were extremely volatile and are expected to remain so over the near-term while timberland owners take advantage of opportunities to harvest deferred volume into strengthening log markets. This additional "shadow" log supply, when overlaid with weak domestic log demand but strong export markets, has exacerbated the usual difficult challenge of forecasting log prices more than three months into the future. Anticipated price volatility will impact harvest volumes with the result that our log production will vary up and down from adherence to a strict NDEF target. Over time, however, we still expect our harvest activity to average something approximating an NDEF level.

Over the next three to five years, assuming a continuation in log market price recovery, we expect to meter in previously deferred harvest volumes of 27 MMBF (see table below) on top of the Partnership's NDEF level. Properties owned by the Funds will be treated somewhat differently inasmuch as some of these acquired tree farms contain a disproportionately large number of acres stocked with currently merchantable timber. As a result, harvest levels on these Fund properties are expected to be greater than what would be an NDEF level.

(amounts in MMBF)

	Annual NDEF Harvest Volume	Accumulated Volume Deferral 2008-10
Partnership Properties	43	27
Fund Properties*	27	23
Total	70	50

*The Partnership owns 20% of the Funds. On a look-through basis the Partnership's portion of the Funds' NDEF is 5 MMBF and its share of the Funds' accumulated deferral is also 5 MMBF.

Marketing and Markets. We market timber using the manufactured log method, where we engage independent logging contractors to harvest the standing timber and manufacture it into logs that we then sell on the open market. We retain title to the logs until delivery takes place, which normally occurs at a customer log yard. We sell our logs both domestically and internationally through log exporting intermediaries.

The export market for logs in the Pacific Northwest has been migrating over the last couple years from a market highly focused on Japan to a market that now includes more volume to Korea and China. Sawlogs sold to Korea and China are not of the high quality demanded by the Japanese market and, as a result, have not commanded the premium pricing generally attributed to the Japanese market. Logs flowing to markets in Korea and China have traditionally gone to domestic customers. We expect that these new outlets for logs will help to diversify our customer mix away from domestic mills that are more heavily dependent on the U.S. housing market. This new source of demand for domestic quality sawlogs should support increased pricing for all markets as domestic mills must now compete with this new and growing source of demand for Pacific Northwest sawlogs. Furthermore, many of our domestic sawmill customers are shipping significant volumes of finished lumber to China, which is allowing them to compete with the export market during a time when U.S. housing starts do not independently support higher log prices.

Logs sold to Japan, Korea, and China are sold to U.S.-based brokers who in turn sell directly to offshore customers. Over the last several years, the percentage of our annual production sold into export markets has ranged from 6% to 16%. However, in 2010, our export mix surged to 33% with the increased demand from Korea and China. Factors that affect the proportion of our sales to export markets include the relative strength of U.S. and foreign building markets, currency exchange rates, and ocean transportation costs.

In response to weak lumber markets over the past few years, domestic sawmills have lowered operating hours and eliminated shifts, resulting in lower capacity utilization and reduced demand for logs. However, as housing starts have stabilized and the Chinese export lumber market has emerged as a new source of demand, domestic mills have increased operating hours and added back shifts, thus increasing capacity utilization rates and demand for logs.

Customers. The Partnership sells its logs domestically to lumber mills and other wood fiber processors located throughout western Washington and northwest Oregon. The Partnership's logs are also sold to export intermediaries located at the ports of Tacoma, Olympia, Port Angeles, and Longview, Washington and Astoria, Oregon. Whether destined for domestic or export markets, the cost of transporting logs limits the destinations to which the Partnership can profitably deliver and sell its logs.

Weyerhaeuser Company, with logs flowing to both domestic and export markets, was the largest customer for our Fee Timber segment in 2010, representing 28% of segment revenue. The Partnership delivered logs to 43 separate customers during 2010 compared to 38 during 2009.

Competition. Most of our competitors are comparable in size or larger. Log sellers compete on the basis of quality, pricing, and the ability to satisfy volume demands for various types and grades of logs to particular markets. Management believes that the location, type, and grade of the Partnership's timber will enable it to compete effectively in these markets. However, our products are subject to increasing competition from a variety of non-wood and engineered wood products as well as competition from foreign-produced logs.

Forestry and Stewardship Practices. The Partnership's timberland operations incorporate management activities that include reforestation, control of competing brush in young stands, thinning of the timber to achieve optimal spacing after stands are established, fertilization, and road maintenance. During 2010, we planted 657,000 seedlings on 1,765 acres. This compares to the years 2009 and 2008 in which the Partnership planted 815,000 and 792,000 seedlings on 1,874 and 1,821 acres, respectively. Seedlings are generally planted from December to April depending on weather and soil conditions. Planting will vary from year to year based upon harvest level, the timing of harvest, and seedling mortality rates on stands planted in prior years. Management's policy is to stay current on its reforestation program, returning all timberlands to productive status in the first planting season.

All harvest and road construction activities are conducted under the forest practice rules and regulations of the applicable state. These regulations are comprehensive sets of rules that require project-specific permits that govern a defined set of forest operations. For example, an application for harvest or road construction must address soil stability and potential impact to public resources. In many cases we use scientifically based watershed analyses and we consult third-party, state-qualified, geo-technical consultants to promote safety and regulatory compliance. In addition to new road construction, existing roads are maintained to the standards of the applicable state forest practices act in order to minimize siltation of nearby streams and avoid slope failures.

In Washington, beginning in 2000, all roads must be evaluated for hazard and scheduled for upgrading or deconstruction (abandonment), if needed, by the end of 2015. We developed a compliance schedule for our roads in Washington and it was accepted by the state with efforts on track to complete all maintenance activities by 2015. Oregon does not have a similar road maintenance and abandonment plan requirement at present.

Sustainable Forestry Initiative (SFI®). Since 2001, we have been a member of the SFI forest certification program, an independent environmental review and certification program that promotes sustainable forest management, focusing on water quality, biodiversity, wildlife habitat, and species protection. With our voluntary entry into this certification program, we have been subject to independent audits of the required standards for the program. Management views this certification as an important indication of our commitment to manage our lands sustainably while continually seeking ways to improve our management practices. We believe this commitment is an important business practice that contributes positively to our reputation and to the long-term value of our assets.

Beginning in 2007, SFI third-party audits increased in frequency from every three years to annually. We were re-certified in 2010, which includes both the Partnership and the Funds properties. We believe this certification allows us to obtain the broadest market penetration for our logs while protecting the core timberland assets of the Partnership.

Fire Management. Management has taken a number of steps to mitigate risk of loss from fire, which is nonetheless possible on any timberland property. First, management maintains a well-developed road system that allows access and quick response to fires that may occur. Second, management maintains a fire plan and program that provides for increased monitoring activities and requires all operators to maintain adequate fire suppression equipment during the summer fire season. The disbursement of the major ownership blocks over a broad geographic range precludes the possibility of catastrophic loss should a major fire occur in any single area. It is industry practice to forego the purchase of fire insurance as it is cost prohibitive in light of the historic infrequency and relatively low risk of fire.

Timberland Management & Consulting

Background. In March 1997, our unitholders authorized management to expand our timberland business into the Investor Portfolio Management Business (IPMB). The IPMB has two complementary business strategies: timberland investment management and timberland management. In 1997, the Partnership formed two wholly owned subsidiaries, ORM, Inc. and Olympic Resource Management LLC (“ORMLLC”), to facilitate the IPMB activities.

ORMLLC has raised two timber funds with assets under management totaling \$150 million which includes our co-investment of \$28 million. These Funds allow us greater economies of scale in the management, acquisition, and disposition of timberland than would be possible with the Partnership’s investment capital alone. In addition, we generate asset management fees that are paid by the Funds for our management of the Funds’ portfolios. These Funds are consolidated into our financial statements, resulting in the elimination of \$1.5 million, \$908,000, and \$946,000 of management fee revenue in 2010, 2009, and 2008, respectively. These fees are eliminated through a corresponding decrease in operating expenses for the Fee Timber segment.

Operations. The Timberland Management & Consulting segment’s key operation has been to provide investment and timberland management services to the Funds and to other third-party timberland owners. We anticipate growth in this segment as we continue to manage the Funds, and any future funds successfully established by the Partnership. The Timberland Management & Consulting segment represents less than 1% of consolidated revenue in 2010 and 3% of consolidated revenue for each of the years ended December 31, 2009 and 2008, after the elimination of the fees generated from asset and timberland management of the Funds.

Timberland Investment Management. The goal of our timberland investment management program is to build and manage diversified timberland portfolios for third-party investors and the Partnership. Management views this objective as a means of increasing the Partnership’s total timberland base, through our co-investment, while at the same time improving overall management economies of scale, limiting acquisition costs, and generating fee income. We earn an asset management fee for managing this capital once timber properties are acquired. The asset and timberland management fees generated from managing the Funds are eliminated as a result of consolidation of the Funds into the Partnership’s financial statements. The elimination of these fees results in a decrease in the otherwise reported cost per acre of managing the Funds’ tree farms under our Fee Timber segment as well as eliminating the revenue generated from managing the Funds in the Timberland Management & Consulting segment. An effect of these eliminations is to make the Fee Timber results look better and the Timberland Management & Consulting results look correspondingly worse.

Fund I closed in August 2005 and has \$58 million invested in two tree farms totaling 24,000 acres. Fund II closed in March 2009 and has \$92 million invested in four tree farms for a combined total of 37,000 acres. With \$150 million of assets under management in the Funds, we are currently pursuing capital-raising and evaluating suitable timberland acquisitions for a new Fund III.

Timberland Management. Our timberland management activities provide forestland management, acquisition, and disposition services to timber property owners. These services generally take the form of a long-term contract where we provide management expertise. Specialized consulting assignments are performed on an ad-hoc basis. In July 2009, the timberland management assignment for Cascade Timberlands LLC (“Cascade”) was terminated after a four-and-a-half year tenure. We have acted as manager on over 1.5 million acres of timberland starting in the late 1990’s through the termination of the Cascade contract, but management considers such opportunities to be sporadic and difficult to predict.

Marketing. In addition to managing the Fund’s timberlands, we regularly pursue third-party timberland management opportunities in the western U.S. through direct marketing to timberland owners. Marketing and business development efforts include regular contact with forest products industry representatives, non-industry owners, and others who provide key financial services to the timberland sector. Our acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for us to market our management and consulting services.

Customers. Timberland management revenue in 2010 was de minimis and in 2009 only included one client.

Competition. We compete against both larger and comparably sized companies providing similar timberland management services. There are approximately 22 established timberland investment management organizations competing against us in this business. The companies in this group have access to established sources of capital and, in some cases, increased economies of scale that can put us at a disadvantage. Our value proposition to investors is our long track record of success in the Pacific Northwest and our co-investment in each of the funds. Regional companies that are even smaller than we are compete effectively on price for limited scope consulting and land management projects.

Limitation on Expenditures. The 1997 amendment to Pope Resources' Limited Partnership Agreement authorizing launch of the IPMB limits our cumulative net expenditures incurred in connection with the IPMB to \$5.0 million including debt guarantees. As of December 31, 2010 cumulative expenditures incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative income generated. Therefore, cumulative net expenditures as of December 31, 2010 against the \$5.0 million limit are zero.

Real Estate

Background. The Partnership's real estate activities are closely associated with the management of its timberlands. Management continually evaluates timberlands in terms of the best economic use, whether this means continuing to grow and harvest timber or seeking a rezone of the property for sale or development. After timberland has been logged, management has a choice between four primary alternatives for the underlying land: reforest and continue to use as timberland, sell as undeveloped property, improve to various levels of development for sale as improved property, or hold as property slated for later development or sale. Generally speaking, the Real Estate segment's activities consists of investing in and later reselling improved properties, and holding properties for later development and sale. As a result, revenue from this segment tends to fluctuate substantially, and is characterized by relatively long periods in which revenue is relatively low, while expenses incurred to increase the value of the Partnership's development properties may be higher. However, during periods of decreased demand, we keep soft cost and infrastructure investment to a minimum to mitigate outpacing the rate of lot or acreage absorption by the market. When improved properties are sold, income is recognized in the form of sale price net of acquisition and development costs.

Operations. Real Estate operations include leasing residential and commercial properties in the Port Gamble townsite and work considered by management necessary to maximize the value of the Partnership's portfolio of property that management believes has a higher-and-better-use than timberland. That portfolio currently consists of approximately 2,800 acres. In addition this segment works to negotiate conservation easements (CE) that typically encumber Fee Timber properties to preclude land from future development. For Real Estate projects, management secures entitlements and/or infrastructure necessary to make development possible and then sells the entitled property to a party who will construct improvements. The Real Estate segment represents 11%, 25%, and 13% of consolidated revenue in 2010, 2009, and 2008, respectively.

Development Properties

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

Master planned communities in Gig Harbor, Kingston, and Port Gamble, Washington make up approximately 26% of the acres in our development property portfolio. During 2010, no sales were generated from any of these projects. While many properties were being actively marketed during the past year, management elected to hold firm on its pricing rather than deeply discount offering prices in order to generate sales. Notwithstanding market inactivity, management believes the carrying values of the development properties do not require adjustment. Due to each property's size, development complexity, and regulatory environment, the projects are long-term in nature and require extensive time and capital investments to maximize returns.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of a mixed-use development project that includes a 16-acre retail/commercial site, 35 acres of business park lots, and 200 acres of land with residential zoning. In December 2008, management completed a preliminary plat submission for the 200-acre residential portion of this project that called for 558 single-family and 265 multi-family lots. A 20-year development agreement was approved in late 2010, followed by the preliminary plat approval in early 2011. These approvals allow for a residential development of 554 single family and 270 multi-family units. Key provisions of the development agreement and plat approval include: (a) extending the project approval from 7 to 20 years; (b) reserving sufficient domestic water supply, sanitary sewer, and traffic trip capacity on behalf of the project's 824 residential units; and (c) waiver of park impact fees in exchange for a 7-acre parcel of land for City park purposes. Site-plan specific entitlement for 11.5 acres of land zoned for use as a business park was also received in 2010. All components of this project have transportation, water and sewer capacities reserved for full build-out. Management has been in discussions with a number of different interested parties for sale of subsets of both the single- and multi-family portions of this project.

Bremerton. In 1999, the City of Bremerton approved the Partnership's request for a planned 264-acre mixed-use development on property located within the Bremerton city limits. In 2006, the Partnership completed the sale of the 203-acre residential component of this project. As a condition of the sale, the Partnership constructed infrastructure in 2006 and 2007 to serve the property. Of the remaining 61 acres, 15 acres were deeded to the Wright Creek Owners' Association and the City of Bremerton for roads and other common area improvements leaving a 46-acre industrial park which is being developed in two phases that will result in a total of 24 lots. Construction on the 9 lots that make up phase I was completed in 2007. A total of one lot has been sold from Phase I. At the completion of the sale of Phase I lots, infrastructure spending and marketing will commence for Phase II.

Kingston. The Partnership prepared and submitted a formal master plan and subdivision application in 2007 for the 356-acre Kingston property named "Arborwood" that calls for the development of 663 single-family and 88 multi-family lots. Final approval of a preliminary plat and a 15-year development agreement was completed in February 2010. Further development will not proceed until the market demonstrates an increased appetite for residential lots. The Partnership owns an additional 366 acres bordering this project, which has zoning for 5-acre lots.

Hansville. The Partnership owns a 152-acre residential development project in Hansville called "Chatham." The development is the result of a plat from 1913 that originally consisted of 10-acre lots that management has reestablished into 19 distinct parcels ranging from three to 10 acres in size. Construction was completed in late 2007 and the lots are currently being marketed for sale.

Port Ludlow. Port Ludlow represents a 256-acre property located just outside the Master Planned Resort boundary of Port Ludlow, Washington. In December 2008, a submission for plat approval was made to Jefferson County. Preliminary Plat approval is expected in late 2011 and, if obtained, will allow for up to 54 lots ranging from 1 to 1.5 acres each, with the balance of the property designated as open space. Development beyond the point of plat approval will not commence until demand for rural residential lots improves.

Rural Residential. Management launched the Rural Lifestyles program to capitalize on higher-and-better-use real estate values. These properties are typically non-contiguous smaller lots ranging in size between 5 and 40 acres with zoning ranging from one dwelling unit per 5 acres to one per 80 acres. Development and disposition strategies vary depending on the property's unique characteristics. Development efforts and costs expended to ready these properties for sale include work to obtain development entitlements that will increase the property's value as residential property as well as making improvements to existing logging roads, constructing new roads, extending dry utilities, and sometimes establishing gated entrances. As mentioned in the Real Estate background, investments in the Rural Lifestyles program have been restricted to costs necessary to achieve entitlements, while deferring construction costs until such point in time when market conditions improve.

Consulting. Management leveraged its knowledge in real estate by providing advice to banks and other land owners on their troubled real estate assets in 2009 and 2010. While this consulting activity contributed only a small amount to Real Estate revenue, it was very valuable in providing knowledge of lot inventories and prices, and the health of homebuilders in the local market.

Commercial Properties

Port Gamble. The Partnership currently owns and operates the town of Port Gamble, Washington, northwest of Kingston on the Kitsap Peninsula. Port Gamble was designated a "Rural Historic Town" under Washington's Growth Management Act in 1999. This designation allows for substantial new commercial, industrial, and residential development using historic land use patterns and densities while maintaining the town's unique architectural character. Operations at Port Gamble include commercial and residential lease activities, as well as the wedding and events business.

The Partnership's antecedent, Pope & Talbot, Inc. (P&T), operated a sawmill at Port Gamble from 1853 to 1995. Starting in 2002, management worked both directly and indirectly through P&T to remedy environmental contamination at the townsite and millsite and to monitor results of the cleanup efforts. After contamination was discovered at the townsite, millsite, and in the adjacent bay, the Partnership entered into a settlement and remediation agreement with P&T pursuant to which both parties allocated responsibility for cleanup costs. Under Washington law, both Pope Resources and P&T were "potentially liable persons" based on historic ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties. Following a series of actions under the U.S. Bankruptcy Code that began in 2007, P&T has been liquidated, leaving the Partnership as one of few potentially liable persons.

During the fourth quarter of 2010, review continued on the draft Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) reports related to Port Gamble. The reports have an estimated submission for a 30-day public comment period beginning in early March 2011. The public comments will be part of the data that informs a cleanup action plan anticipated to be filed with a consent decree in late 2011. The development of a cleanup action plan includes formalizing cost estimates and how costs will be shared between responsible parties, which will be reflected in the Partnership's environmental remediation accrual liability where and when appropriate.

Following a period of heavy rain in mid-December, oil from some long-buried tanks surfaced on the millsite and, as such, the environmental remediation accrual at December 31, 2010 contains costs estimated in connection with this second and separate remediation effort at Port Gamble. We will be completing site investigations and remediating contaminated sites as necessary.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Real Estate – Environmental Remediation Costs."

Port Ludlow Resort Community. In 2001, the Partnership sold a resort community and its water and sewer utilities in the community of Port Ludlow. The buyer of the project believes some remediation is required for contamination discovered on the site, and we have agreed to participate in an investigation in 2010 regarding any liability the Partnership may have or may be alleged to have. While we have not concluded that we have an obligation to remediate, we recognized an accrual as of December 31, 2010 for the Partnership's best estimate of its potential share of any remediation costs.

Marketing. Marketing activities in the Real Estate segment during 2010 consisted of marketing residential and commercial real estate for sale and lease.

Customers. Management typically markets its land for sale to private individuals, residential contractors, and developers of commercial property. Customers for rental space in the Port Gamble townsite consist of both residential and commercial tenants.

Competition. Real Estate activities consist primarily of adding value to current land holdings. Once those properties are ready for development, management will in most instances seek to market the property for sale, but in some instances may consider a strategy that would involve another developer with building expertise as a joint venture partner.

Transportation. Land values for the Real Estate portfolio are strongly influenced by transportation options between the western side of Puget Sound where our properties are located and the Seattle-Tacoma metropolitan corridor. Transportation options between these areas separated by bodies of water include driving on the Tacoma Narrows Bridge or taking one of several car/passenger ferries. Ferry transportation within the market area currently utilizes vessels that carry both automobiles and passengers from each of the communities of Kingston, Bremerton, and Bainbridge Island, respectively, to and from Edmonds and Seattle.

Employees

As of December 31, 2010, the Partnership employed 42 full-time, year-round salaried employees and 3 part-time and seasonal personnel, who are distributed among the segments as follows:

Segment	Full-Time	Part-Time/ Seasonal	Total
Fee Timber	14	-	14
Timberland Management & Consulting	5	-	5
Real Estate	13	3	16
General & Administrative	10	-	10
Totals	42	3	45

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

Government Regulation

In the operation and management of its tree farms, the Partnership is subject to federal and state law. Washington's Forest Practices Act, in effect since 1974, is among the most rigorous in the nation. In 2006, in concert with its Forest and Fish Law, Washington received a federal multi-species Habitat Conservation Plan (HCP) designation covering its forest regulations, meant to give timberland owners 50 years of regulatory stability. There is an adaptive management element to the HCP, where new scientific findings may result in some new or modified regulations which could result in increased costs, additional capital expenditures, and reduced operating flexibility.

In Oregon, the laws governing forest practices have the same objectives as in Washington, but lack both some of the rigor of Washington's regulatory overlay and a counterpart to Washington's HCP. Whereas in Washington there is a complex application process for forest practices that may take in excess of 30 days, in Oregon the landowner notifies the state of the landowner's operational intentions, and the regulations are enforced as part of compliance oversight of ongoing operations rather than as part of the notification phase.

There are potential changes to the regulatory climate that could affect forest practices in both states:

- A revised Northern Spotted Owl Recovery Plan is being worked on at the federal level that stipulates that, unlike prior versions, all forest lands should contribute to the recovery effort. Whereas past recovery plans relied on federal and state lands for habitat set-asides, the new plan may affect or preclude operations on private land deemed to be essential habitat. The 2010 Draft Recovery Plan is now in the peer review and public comment stage, with efforts being made to demonstrate the already large contribution being made to the recovery effort through Washington's HCP as well as significant habitat contributions on private land in both states.
- A lawsuit in Oregon resulted in a ruling that water channeling structures such as culverts on logging roads are, in fact, point sources of pollution. If this ruling is upheld on appeal, it could require an EPA discharge permit for each such structure, numbering millions of such permits across the nation.
- State budget shortfalls are affecting state regulatory agencies such that the states are expected to impose new, or increase existing, fees for the conduct of forest practices.

Regulatory Structure. Growing and harvesting of timber is subject to numerous laws and government policies to protect public resources such as wildlife, water quality, and other social values. Changes in those laws and policies can significantly affect local or regional timber harvest levels and market values of timber-based raw materials. Real estate development activities are also subject to numerous state and local regulations such as the Washington State Growth Management Act (GMA). In addition, the Partnership is subject to federal, state, and local pollution controls (with regard to air, water and land), solid and hazardous waste management, disposal and remediation laws, and regulations in each segment and all geographic regions in which it has operations.

Growth Management. Land holdings throughout Washington are affected by the GMA, which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated. The purposes of the GMA include: (1) direction of population growth to population centers (Urban Growth Areas), (2) reduction of "suburban sprawl", and (3) protection of historical sites. The Partnership works with local governments within the framework of the GMA to develop its real estate holdings to their highest and best use. Oregon also has growth management provisions in its land use laws which served as a model for Washington's growth management provisions. Oregon's land use laws are generally more stringent outside of urban areas, especially in commercial forest lands where residential conversions are often outright disallowed. An exception is a coastal property owned by Fund II. This property is unique for its Destination Resort zoning overlay which allows for comprehensive and integrated resort development. We will be examining this opportunity over the course of the Fund II's 10-year term

Forest Management Practices. Forest practice regulations in some U.S. states increasingly affect present or future harvest and forest management activities. For example, in some states, these rules have one or more of the following impacts: limiting the size of clear-cut harvest units; requiring some timber to be left unharvested to protect water quality and fish and wildlife habitat; regulating construction and maintenance of forest roads; requiring reforestation following timber harvest; and providing for procedures for state agencies to review and approve proposed forest practice activities.

Each state in which the Partnership owns or manages timberlands has developed "best management practices" to reduce the effects of forest practices on water quality and aquatic habitats. Additional, more stringent regulations may be adopted in order to achieve the following: enhance water quality standards under the federal Clean Water Act, protect fish and wildlife habitat, or advance other public policy objectives.

In the State of Washington, the Forests and Fish Law became the basis for revised Forest Practices Rules and Regulations. The Washington Forest Protection Association produced the Forest and Fish Report through the collaborative efforts of Washington's private landowners, federal, state and county governments, and Native American tribes. The goals of these revised rules are to:

- Provide compliance with the Endangered Species Act (ESA) for aquatic and riparian dependent species on private forest lands;
- Restore and maintain riparian habitat on private land to support a harvestable supply of fish;
- Meet the requirements of the Clean Water Act for water quality on private forest lands; and
- Keep the timber industry economically viable in the State of Washington.

The proposed Water Quality Standards that the Washington State Department of Ecology adopted in 2003 have undergone Department of Ecology and public scrutiny. As such, these rules should be sufficient to comply with the Anti-Degradation Implementation Plan as described in the Clean Water Act. In June 2006, the U.S. Fish & Wildlife Service and NOAA Fisheries signed a Forest Practices Habitat Conservation Plan (HCP). This HCP is a statewide program protecting 60,000 miles of streams on 9.3 million acres of forestland, set in motion by the Forests & Fish Law. It ensures landowners that practicing forestry in Washington meets the requirements for aquatic species designated by the federal Endangered Species Act.

The regulatory and non-regulatory forest management programs described above have increased operating costs and resulted in changes in the value of the Partnership's timberlands. Management does not expect the Partnership to be disproportionately affected by these programs as compared with typical timberland owners. Likewise, management does not expect that these programs will significantly disrupt its planned operations over large areas or for extended periods.

Water Quality. The U.S. Environmental Protection Agency also promulgated regulations in 2000 requiring states to develop total maximum daily load ("TMDL") allocations for pollutants in water bodies that have been determined to be "water quality impaired". The TMDL requirements set limits on pollutants that may be discharged to a body of water or set additional requirements, such as best management practices for nonpoint sources, including timberland operations, to reduce the amounts of pollutants in water quality impaired bodies of water. These requirements have impacted tree farming principally through rules requiring tree farms to better minimize siltation caused by roads, harvest operations and other management activities from coming in contact with water quality impaired bodies of water. TMDL targets will be established for specific water bodies in the states where the Partnership operates and these targets will be set so as to achieve water quality standards within 10 years, when practicable. In Washington, the Road Maintenance and Abandonment Planning section of the Forest Practices Rules and Regulations has been in place since 2001, under which all sedimentation problems associated with forest roads must be mitigated by 2015. The Partnership is on schedule to complete the necessary work to meet the 2015 deadline, which will largely address the issue of non-point pollution consisting of sedimentation originating from the Partnership's forest operations. It is not possible at this time to either estimate the capital expenditures that may be required for the Partnership to stay below the targets until a specific TMDL is promulgated or to determine whether these expenditures will have a material impact on the Partnership's financial condition or results of operations.

Endangered Species and Habitats. A number of fish and wildlife species that inhabit geographic areas near or within Partnership timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws in the United States. Federal ESA listings include the Northern Spotted Owl, marbled murrelet, numerous salmon species, bull trout, and steelhead trout in the Pacific Northwest. Listings of additional species or populations may result from pending or future citizen petitions or be initiated by federal or state agencies. Federal and state requirements to protect habitat for threatened and endangered species have resulted in restrictions on timber harvest on some timberlands, including some timberlands of the Partnership. Additional listings of fish and wildlife species as endangered, threatened, or sensitive under the ESA and similar state laws as well as regulatory actions taken by federal or state agencies to protect habitat for these species may, in the future, result in the following: an increase in operating costs; additional restrictions on timber harvests; impacts to forest management practices or real estate development activities; and potential impact on timber supply and prices.

Item 1A. RISK FACTORS

We are subject to statutory and regulatory risks that currently limit, and may increasingly limit, our ability to generate income. Our ability to grow and harvest timber can be significantly impacted 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. Additional regulations, whether or not adopted in response to such events, may make it more difficult 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. These regulations are likely to have a similar effect on our Timberland Management & Consulting operations, particularly in the case of the Funds. Specific examples of such regulations are cited above on page 13 in our discussion of government regulation.

Moreover, 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.

Our business may be affected by climate change initiatives. Environmental activists, global treaty organizations, the federal government, and numerous state legislatures have intensified their scrutiny of environmentally significant industries in response to well-publicized reports of the adverse impacts of global greenhouse gas emissions, deforestation, and similar environmental impacts upon the earth's climate. A broad range of proposals have been considered by state and federal regulatory authorities, whose stated objectives would be to mitigate potential climate change by reducing or eliminating activities and business practices that are allegedly tied to global climate change. A number of these proposals remain under active consideration. These proposals include a number of restrictions and requirements which, if adopted, would adversely affect the U.S. domestic timber industry generally, and our business in particular. These include initiatives to reduce timber harvests (to promote the natural recycling of carbon dioxide into oxygen and other byproducts), which, if adopted and applied to our timberlands, would adversely impact our fee timber income; initiatives to curb heavy equipment usage, which, if adopted, would tend to increase transportation and harvest costs; substantial increases in reporting and compliance, which, if adopted, would likely increase our general and administrative expense and, potentially, our costs of sales; and a variety of other components which may reduce our revenues or increase our expenses, particularly as it relates to our Fee Timber and our Timberland Management & Consulting segments.

We have certain environmental remediation liabilities associated with our Port Gamble and former Port Ludlow resort properties, and those liabilities may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula and, up until mid-2001, owned real estate property within the resort community of Port Ludlow in Jefferson County in western Washington. We are in active discussions with the Washington State Department of Ecology to promote protection of the environment, optimize and appropriately allocate the remaining cleanup liabilities, and maximize our control over the remediation process.

Management continues to monitor the Port Gamble and Port Ludlow cleanup processes closely. The \$1.9 million remediation liability balance as of December 31, 2010 represents our best current estimate of the remaining cleanup cost and most likely outcome to various contingencies within both locations. Where possible, the Company records to the most likely point estimate within the range and when no point estimate within the range is better than another, the Company records to the low end of the range of possible outcomes. These liabilities are based upon a number of estimates and judgments that are subject to change as the project progresses. Statistical models have been used to estimate the liability for the aforementioned matters and suggest a potential aggregate range of loss of \$744,000 to \$3.8 million.

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 (MLP) 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 three 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 but 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.

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. Recent economic events have dramatically slowed U.S. housing starts, which has reduced demand for lumber. In addition, imported lumber from Canada and increasing market acceptance of engineered wood products have acted to hold down the price of lumber. To the extent the housing crisis continues or deepens the negative impacts on our operating results could continue. Over the past decade, we have seen log prices erode in the Japanese market as competing logs and lumber from regions outside of the United States and engineered wood products have gradually gained market acceptance. These export markets for Pacific Northwest logs are significantly affected by fluctuations in United States, Japanese and, increasingly, Chinese and Korean economies, as well as by the foreign currency exchange rate between these Asian currencies and the U.S. dollar, as well as ocean transportation costs.

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 the ongoing economic crisis exacerbates existing borrowing restrictions that impact many of our customers, 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. Laws in the state of Washington limit our ability to offer seller-financing to non-business entities without appropriate certification from the Director of Financial Institutions. We are investigating our alternatives for complying with these new rules and until such time as we are compliant with these new systems, our ability to market raw land to certain individuals will be limited.

We are controlled by our managing general partner. As a 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, the shareholders of Pope MGP, Inc., Emily T. Andrews and Peter T. Pope, each have the ability to designate one of our directors and to veto the selection of each of our other directors, other than 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 of 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 Mrs. Andrews and Mr. Pope indirectly, have the ability to 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 you 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. Reimbursements for expenses totaled \$800 in 2010 and \$2,000 in 2009.

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, hurricanes, insects and disease, and during periods of unusually heavy rain and snowmelt, flooding and landslides may damage homes and personal property. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. While management believes we follow sound forest management and risk mitigation procedures, and all forest operations meet or exceed the rules and regulations governing forest practices in Washington and Oregon, we cannot be certain that we will not be the subject of claims based on allegations that we acted improperly in managing our property. 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. 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.

We compete with a number of larger competitors that may be better able than we to absorb the effects of 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 of our line of business. Moreover, the timber industry has experienced significant consolidation in recent years and, as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors' increases. While management believes the Partnership is at a competitive advantage over some of these companies because of our lack of vertical integration into forest products manufacturing, our advantageous tax structure, and management's 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.

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 in the Pacific Northwest. Because a portion of our cost of sales in our Fee Timber segment, which considers 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 & Consulting segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

Item 1B. UNRESOLVED SECURITIES AND EXCHANGE COMMISSION COMMENTS

None

Item 2. PROPERTIES

The following table reconciles acreage owned as of December 31, 2010 to acreage owned as of December 31, 2009. As noted previously, we own 20% of the Funds, and this table excludes the 61,000 acres of timberland owned by the Funds. Properties are typically transferred from Fee Timber to the Real Estate segment at the point in time when the Real Estate segment takes over responsibility for managing the properties with the goal of maximizing the properties' value upon disposition.

Description	2009	Transfers	Acquisitions	Other (1)	2010
<i>Timberland:</i>					
Hood Canal tree farm (2)	70,788	(312)	-	(10)	70,466
Columbia tree farm (2)	43,625	-	2	-	43,627
Total Timberland	114,413	(312)	2	(10)	114,093
<i>Land held for sale:</i>					
Bremerton - Wright Creek	1	(1)	-	-	-
Hansville - Chatham	10	(10)	-	-	-
Jefferson County	14	(14)	-	-	-
Everett - East Crest Hills	2	-	-	-	2
Timberland Ridge	40	(40)	-	-	-
Subtotal land held for sale	67	(65)	-	-	2
<i>Land held for development:</i>					
Bremerton - Wright Creek	44	1	1	-	46
Gig Harbor - Harbor Hill	251	-	-	-	251
Homestead	39	-	-	-	39
Jefferson County	70	143	-	-	213
Mason County	-	183	-	-	183
Kingston - Arborwood	356	-	-	-	356
Kingston - 5-Acre zoning	366	-	-	-	366
Nursery Hansville	106	-	-	-	106
Oak Bay	205	-	-	-	205
Hansville - Chatham	142	10	-	-	152
Port Gamble townsite	167	-	-	-	167
Shine Canyon	69	-	-	-	69
Port Ludlow - Tala Point	256	-	-	-	256
Tarboo Easement	129	-	-	-	129
Timberland Ridge	95	40	-	-	135
Walden	120	-	-	-	120
Other	41	-	-	-	41
Subtotal land held for development	2,456	377	1	-	2,834
Total Real Estate Acres	2,523	312	1	-	2,836
Grand Total Acres	116,936	-	3	(10)	116,929

(1) Certain parcels adjusted due to a Geographic Information Systems (GIS) reconciliation for Timberland ownership.

(2) A subset of this property is used as collateral for the Partnership's long-term debt, excluding debt of the Funds.

The following table provides dwelling unit (DU) per acre zoning for the Partnership's owned timberland and development properties as of December 31, 2010 and land sold during 2010:

Zoning Designation	Current Land Inventory (acres)			2010 Land Sales		
	Real Estate	Fee Timber	Totals	Acres	\$/Acre	Total Sales
Urban zoning	687	-	687	-	\$	-
1 DU per 5 acres	708	1,632	2,340	-	-	-
1 DU per 10 acres	131	713	844	-	-	-
1 DU per 20 acres	882	34,976	35,858	-	-	-
1 DU per 40 acres	45	2,219	2,264	-	-	-
1 DU per 80 acres	251	50,640	50,891	-	-	-
Forest Resource Lands	26	23,832	23,858	-	-	-
Open Space	20	81	101	-	-	-
Historic Rural Town	86	-	86	-	-	-
Total	2,836	114,093	116,929	-	\$	-

Item 3. LEGAL PROCEEDINGS

None.

Item 4. (RESERVED)

PART II

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

Market Information

Certain information respecting trades in the Partnership's equity securities is quoted on NASDAQ and traded under the ticker symbol "POPE". The following table sets forth the 2008 to 2010 quarterly ranges of low and high prices, respectively, for the Partnership's units together with per unit distribution amounts by the period in which they were paid:

	<u>High</u>	<u>Low</u>	<u>Distributions</u>
Year Ended December 31, 2008			
First Quarter	\$38.50	\$34.01	\$0.40
Second Quarter	37.50	32.01	0.40
Third Quarter	34.00	28.06	0.40
Fourth Quarter	28.48	15.00	0.40
Year Ended December 31, 2009			
First Quarter	\$22.89	\$15.61	\$0.20
Second Quarter	28.98	18.52	0.20
Third Quarter	25.28	21.56	0.20
Fourth Quarter	25.25	22.32	0.10
Year Ended December 31, 2010			
First Quarter	\$28.89	\$23.32	\$0.10
Second Quarter	28.90	25.02	0.10
Third Quarter	28.00	24.00	0.25
Fourth Quarter	38.61	26.62	0.25

Unitholders

As of February 3, 2011, there were 4,323,263 outstanding units and this represented 262 holders of record. Units outstanding exclude 53,223 units granted to management and members of the managing general partner's board of directors that are currently restricted from trading. The trading restriction for these units is lifted as the units vest. Restricted units granted to date vest over either a four- or two-year vesting schedule. Those grants that have a four-year vesting schedule vest either ratably over four years or 50% on the third anniversary of the grant date and the remaining 50% upon reaching the fourth anniversary. Two-year grants vest 50% upon reaching the first anniversary of the grant date and the remainder on the second anniversary.

Distributions

All cash distributions are at the discretion of the Partnership's managing general partner, Pope MGP, Inc. (the "Managing General Partner"). During 2010, the Partnership made two quarterly distributions of 10 cents per unit and two of 25 cents per unit that totaled \$3.2 million in the aggregate. The Partnership also distributed \$3.2 million in 2009; those amounts were paid at 20 cents per unit for the first three quarters and 10 cents per unit in the fourth quarter.

In recognition of the improvement in log prices and the resumption of higher harvest levels relative to 2009, the Partnership increased its distribution in the third quarter of 2010 to 25 cents per unit. The Managing General Partner, in its discretion, determines the amount of the quarterly distribution and regularly evaluates distribution levels. The Partnership recognizes that current economic conditions warrant continued sensitivity to the stewardship of cash balances. As such, the quarterly determination of distribution amounts, if any, will reflect the expectations of management and the Managing General Partner for the Partnership's liquidity needs.

Equity Compensation Plan Information

The Partnership maintains the Pope Resources 2005 Unit Incentive Plan, which authorizes the granting of nonqualified equity compensation in order to provide incentives to align the interests of management with those of unitholders. Pursuant to the plan, the Partnership issues restricted unit grants with vesting ranges between two and four years on the anniversary of the grant. The terms of these grants require that the grantee remain an employee as of the vesting date. As of December 31, 2010 there were 64,673 unvested and outstanding restricted units of which 28,823 units are scheduled to vest in 2011. Previously, the Partnership maintained the Pope Resources 1997 Unit Option Plan pursuant to which unit options were granted for purposes similar to the 2005 incentive plan. Upon the adoption of the 2005 Unit Incentive Plan, the Partnership ceased making further awards under the 1997 plan. As of December 31, 2010 there were fully vested options outstanding for the purchase of 47,874 units with a weighted average exercise price of \$14.85. Additional information regarding equity compensation arrangements, including the new 2010 incentive compensation program, is set forth in Note 7 and Item 11 Executive Compensation.

Repurchase of Equity Securities

In December 2008 we announced a unit repurchase plan pursuant to which the Partnership was authorized to repurchase limited partner units with an aggregate value of up to \$2.5 million. Since that time, we have increased the aggregate value of units authorized for repurchase to \$5 million and extended the repurchase plan to allow for repurchases through December 2011. As of December 31, 2010, there remained an unutilized authorization for unit repurchases of \$2.5 million. Partnership unit repurchases under this 2008 plan during 2010 were as follows:

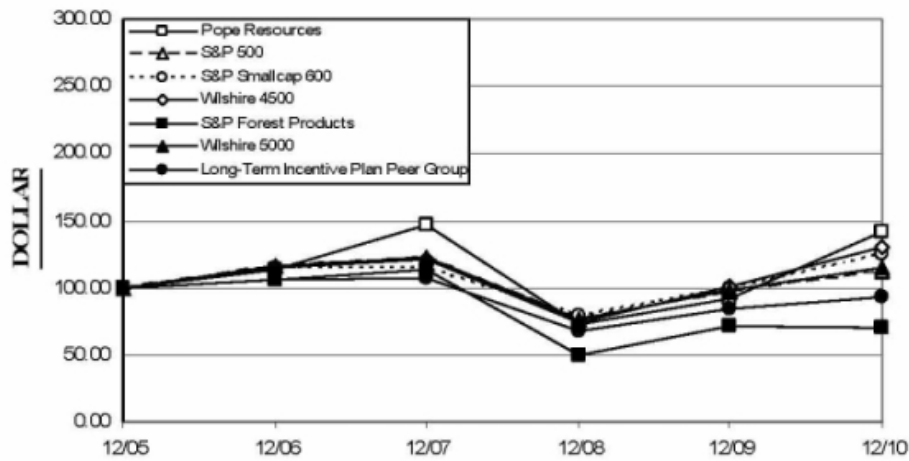
2008 \$2.5 million unit repurchase plan, following December 2010 extension				
	Quarter ended:			
	31-Mar	30-Jun	30-Sep	31-Dec
Total number of units purchased	-	-	13,316	948
Average price paid per unit	\$0.00	\$0.00	\$26.70	\$27.62
Total number of units purchased as part of publicly announced plans or programs	111,295	111,295	124,611	125,559
\$2.5 million unit repurchase extension	-	-	-	-
Approximate dollar value remaining to purchase units under the announced plans or programs (\$000's) *	\$2,865	\$2,865	\$2,510	\$2,484

* Total amount of repurchase plan less cumulative repurchases

On December 31, 2010, the Partnership repurchased 334,340 units from a single shareholder, outside the scope of the formal repurchase program, for \$35.50 per unit (which excludes a \$0.05 per unit commission paid on settlement). The units represent 7.2% of the total units outstanding at that time and were retired. As of February 18, 2011 we had not made any repurchases of units since year-end.

Performance Graph

The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's Forest Products Index and the Wilshire 4500 for the five years ended December 31, 2010. The total unitholder return assumes \$100 invested at the beginning of the period in the Partnership's units, the Standard and Poor's Forest Products Index, and the Wilshire 4500. The graph assumes distributions are reinvested.



The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's Forest Products Index, and the Wilshire 4500 for the five years ended December 31 2010. The total unitholder return assumes \$100 invested at the beginning of the period in the Partnership's units, the Standard and Poor's Forest Products Index, the Wilshire 4500, and Long-Term Incentive Plan Peer Group. The graph assumes distributions are reinvested.

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	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Pope Resources	100.00	114.23	147.01	72.75	92.38	141.60
S&P 500	100.00	115.80	122.16	76.96	97.33	111.99
S&P Smallcap 600	100.00	115.12	114.78	79.11	99.34	125.47
Wilshire 4500	100.00	115.28	121.50	74.08	101.48	130.33
S&P Forest Products	100.00	105.43	113.68	49.51	71.05	70.81
Wilshire 5000	100.00	115.77	122.27	76.75	98.47	115.37
Long-Term Incentive Plan Peer Group	100.00	106.05	107.15	67.12	84.09	93.17

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Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2008, 2009, or 2010.

Item 6. SELECTED FINANCIAL DATA

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

(Dollars in thousands, except per unit data)

Statement of operations data	Year Ended December 31,				
	2010	2009	2008	2007	2006
Revenue:					
Fee Timber	\$ 27,674	\$ 14,847	\$ 23,551	\$ 35,514	\$ 35,260
Timberland Management & Consulting	31	601	944	1,344	3,670
Real Estate	3,487	5,030	3,683	15,037	27,320
Total revenue	31,192	20,478	28,178	51,895	66,250
Operating income/(loss):					
Fee Timber	9,703	3,724	6,294	15,215	14,592
Timberland Management & Consulting	(1,250)	(375)	(543)	(883)	1,266
Real Estate (1)	(809)	1,663	(1,111)	5,163	13,864
General and Administrative	(4,731)	(3,733)	(3,951)	(4,782)	(3,817)
Total operating income	2,913	1,279	689	14,713	25,905
Net income (loss) attributable to unitholders	\$ 2,038	\$ (272)	\$ 1,162	\$ 15,508	\$ 24,910
Earnings (loss) per unit – diluted	\$ 0.43	\$ (0.07)	\$ 0.23	\$ 3.22	\$ 5.22
Distributions per unit	\$ 0.70	\$ 0.70	\$ 1.60	\$ 1.36	\$ 1.06
Balance sheet data					
Total assets	235,837	187,080	165,411	148,550	180,282
Long-term debt, net of current portion	50,468	28,659	28,169	29,385	30,866
Partners' capital	70,990	83,126	87,817	96,644	87,605
Debt to total capitalization (2)	36%	26%	25%	24%	27%

(1) Real Estate operating loss in 2010, 2009, 2007, and 2006 includes \$875,000, \$30,000, \$1,878,000, and \$260,000, respectively, of environmental remediation charges.

(2) Debt-to-total-capitalization ratio is calculated as the long-term debt of the partnership, excluding debt of the Funds, divided by Partner's capital

Free cash flow, a non-GAAP measure, provides users of financial statements an indication of liquidity and earnings performance. Since this measure starts with cash provided by operations, it does not include the increases or decreases resulting from changes in working capital that are included in operating cash flow presented on the Statement of Cash Flows. The Partnership has used the method detailed below for calculating free cash flow. Management recognizes that there are varying methods of calculating free cash flow and has provided the calculation below to aid investors that are attempting to reconcile between those different methods.

(Dollars in thousands, except per unit data)

Free cash flow (3):	Year Ended December 31,				
	2010	2009	2008	2007	2006
Cash provided by operations (4)	\$ 8,950	\$ 662	\$ 3,952	\$ 12,113	\$ 33,114
Plus:					
Net loss attributable to noncontrolling interests (5)	1,218	950	1,018	402	69
Less:					
Principal payments	(1,038)	(1,418)	(1,342)	(1,481)	(1,675)
Change in operating accounts and non-cash charges (6)	(3,295)	(585)	44	2,528	(4,004)
Capital expenditures, excluding timberland acquisitions (7)	(941)	(1,224)	(1,715)	(2,294)	(1,720)
Free cash flow	4,894	(1,615)	1,957	11,268	25,784
Other data					
Acres owned/managed (thousands)	175	150	405	430	433
Fee timber harvested (MMBF)	53	32	38	55	55

- (3) Management considers free cash flow, a non-GAAP measure, to be a relevant and meaningful indicator of liquidity and earnings performance commonly used by investors, financial analysts and others in evaluating companies in its industry and, as such, has provided this information in addition to the generally accepted accounting principle-based presentation of cash provided by operating activities.
- (4) In the third quarter of 2009, the Partnership changed its classification of cash flows to include real estate development capital expenditures within cash flows from operating activities. Prior to the end of the third quarter, these expenditures were reported within investing activities within the Partnership's statement of cash flows. Presentation of prior periods has been revised for consistent treatment of these expenditures for all periods presented.
- (5) Backs out the impact of the Funds and IPMB on Pope Resources' free cash flow.
- (6) Non-cash charges exclude cost of land sold, depletion, depreciation and amortization, and capitalized development activities.
- (7) Fund II acquired 25,000 and 12,000 acres of timberland in 2010 and 2009, respectively, and the Partnership acquired 1,180 acres of timberland in 2008. Fund I acquired 24,000 acres of timberland in 2006. The cost of these acquisitions was not included in the calculation of free cash flow.

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect management's estimates based upon our current goals, in light of management's knowledge of existing circumstances and expectations about future developments. Statements about expectations and future performance are "forward looking statements" which describe our goals, objectives and anticipated performance. These statements are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, you should not interpret these statements as promises that we will perform at a given level or that we will take any or all of the actions we currently expect to take. Our future actions, as well as our actual performance, will vary from our current expectations, and under various circumstances these variations may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled "Risk Factors" in Item 1A above. Some of the issues that may have an adverse and material impact on our business, operating results and financial condition include economic conditions that affect consumer demand for our products and the prices we receive for them; government regulation that affects our ability to access our timberlands and harvest logs from those lands; the implications of significant indirect sales to overseas customers, including currency translation, regulatory and tax matters; the effect of financial market conditions on our investment portfolio and related liquidity; environmental and land use regulations that limit our ability to harvest timber and develop property; access to debt financing by our customers as well as ourselves; and the impacts of climate change and natural disasters on our timberlands and on surrounding areas. 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 as of the date of the report, and we cannot undertake to update these statements as our business operations and environment change.

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

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), is engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets and operations, is the Fee Timber segment. This segment includes timberlands owned directly by the Partnership and operations of the Funds. Operations in this segment consist of growing timber to be harvested as logs for sale to export brokers and domestic manufacturers. The second most significant business in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits, entitlements, and, in some cases, installing infrastructure for raw land development and then realizing that land's value by the selling of larger parcels to buyers who will take the land further up the value chain, either to home buyers or to operators and lessors 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 until that project is sold resulting in operating income. Our third business is raising and investing capital from third parties for private equity timber funds and managing the timberland owned by both these funds and unaffiliated owners.

As of December 31, 2010, we owned 114,000 acres of timberland in western Washington, 61,000 acres of timberland for the Funds in Washington and Oregon, plus 2,800 acres of real estate held for sale or development. Our third-party services have historically been conducted in Washington, Oregon, and California.

Net income attributable to unitholders for the year ended December 31, 2010 totaled \$2.0 million, or \$0.43 per diluted ownership unit, on revenues of \$31.2 million. For the corresponding period in 2009, net loss attributable to unitholders totaled \$272,000, or \$0.07 per diluted ownership unit, on revenues of \$20.5 million. For the year ended December 31, 2010, cash flow from operations was \$9.0 million, compared to \$662,000 in 2009. Net income attributable to unitholders for the quarter ended December 31, 2010 totaled \$1.7 million, or \$0.35 per diluted ownership unit, on revenues of \$8.5 million. This compares to net loss attributable to unitholders for the quarter ended December 31, 2009 that totaled \$376,000, or \$0.08 per diluted ownership unit, on revenues of \$5.2 million.

Our revenues, net income and cash flows increased in 2010 from 2009 and 2008 primarily as a result of an increase in demand for logs in Asian markets, specifically China and Korea. Increased export lumber demand from China also contributed indirectly by helping our sawmill customers increase lumber exports at a time when domestic lumber demand is still soft due to depressed housing markets. Macroeconomic factors that reflect or influence the health of the U.S. housing market and have a bearing on our business revolve around employment growth, tight credits markets, and the supply of foreclosed homes. These factors resulted in record low housing starts in 2009, which negatively impacted our revenues, net income and cash flow. While these macroeconomic factors did not materially improve in 2010, their impact in 2010 on our business was overshadowed by the strength of log export markets and the performance of the U.S. Dollar against currencies of our competitors and customers.

Currency exchange rates influence the competitiveness of our logs in Asian export markets as well as the competitiveness of our domestic sawmill customers in the context of their Asian lumber exports relative to imported lumber from Canada, Europe, or the Southern Hemisphere. Our export logs are sold to domestic intermediaries who then export the logs. Exchange rates impact the ability of these intermediaries to compete in Asian markets with logs that originate from Canada, Russia, or the Southern Hemisphere. In 2010, the U.S. Dollar weakened against the Canadian, Australian and New Zealand Dollars, the Japanese Yen and Korean Won, while strengthening against the Russian Ruble. This relative currency weakness increased the attractiveness of our logs to Asian markets, particularly in China, whose Yuan is indexed to the U.S. Dollar.

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

Our current strategy for adding timberland acreage is centered on our private equity timber fund business model, which consists of raising investment capital from third-party investors and investing that capital, along with our own capital co-investment, into new timberland properties. We have raised two timber funds that have a combined \$150 million in assets under management. Our 20% co-investment in the Funds, which totals \$28 million, affords us a share of the Funds’ operating cash flows while allowing us to earn asset management and timberland management fees as well as incentive fees based upon the overall success of each fund. Management also believes that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management than could be cost-effectively maintained for the Partnership’s timberlands alone. Our Real Estate challenges center around how and when to “harvest” a parcel of land and capture the optimum value increment by selling the property, balancing the long-term risks of carrying and developing a property against the potential for income and positive cash flows upon sale.

Our consolidated revenue in 2010, 2009, and 2008, on a percentage basis by segment, was as follows:

Segment	2010	2009	2008
Fee Timber	89%	72%	84%
Timberland Management & Consulting	-%	3%	3%
Real Estate	11%	25%	13%

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

Outlook

We plan to increase harvest volumes in 2011 above the 53 MMBF harvested in 2010. Harvest volume deferred from 2008 to 2010, which totals 50 MMBF, provides us the flexibility to respond to strength in log markets by increasing our harvest level above our current sustainable harvest level of 70 MMBF, which includes 27 MMBF from the Funds. Export log markets are anticipated to offset continued weakness in domestic demand for logs, lumber, and land in 2011. Log markets in early 2011 have risen significantly from the end of 2010. To the extent this strength continues we may choose to increase harvest levels on both the Partnership and Fund properties above our current plan.

We are also anticipating operating results for our Real Estate segment will approximate 2010, as the market for developable land is expected to remain extremely weak in 2011. Until the market improves, we expect to concentrate our Real Estate activities primarily on conservation sales, the sale of CE's, and securing entitlements to our properties while deferring spending on infrastructure improvements wherever possible.

General & Administrative costs in 2011 are expected to decline from 2010, reflecting non-recurring consultant costs to establish a new incentive compensation program and greater initial accrual costs for the multi-year performance cycles.

RESULTS OF OPERATIONS

The following table reconciles net income (loss) attributable to unitholders for the years ended December 31, 2010 to 2009 and 2009 to 2008. In addition to the table's numeric analysis, the explanatory text that follows describes many of these changes by business segment.

YEAR TO YEAR COMPARISONS
(Amounts in \$000's)

	2010 vs. 2009	2009 vs. 2008
	Total	Total
Net income (loss) attributable to unitholders:		
2010 period	\$ 2,038	
2009 period	\$ (272)	\$ (272)
2008 period		\$ 1,162
Variance	<u>\$ 2,310</u>	<u>\$ (1,434)</u>
Detail of earnings variance:		
Fee Timber		
Log price realizations (A)	4,028	\$ (3,116)
Log volumes (B)	8,421	(2,673)
Depletion	(3,168)	1,469
Production costs	(2,905)	1,439
Other Fee Timber	(397)	311
Timberland Management & Consulting		
Management fee changes	(531)	(317)
Other Timberland Management & Consulting	(344)	485
Real Estate		
Land and conservation easement sales	(1,199)	1,433
Environmental remediation liability	(845)	(30)
Timber depletion on HBU sale	6	478
Other Real Estate	(434)	893
General & administrative costs	(998)	218
Net interest expense	(137)	(782)
Debt extinguishment costs	(113)	(1,137)
Other (taxes, noncontrolling interests, impairment)	926	(105)
Total change in earnings	<u>\$ 2,310</u>	<u>\$ (1,434)</u>

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

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

Fee Timber

Revenue and Operating Income

Fee Timber results include operations from 114,000 acres of timberland owned by the Partnership and 61,000 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 and northwestern Oregon and, to a lesser extent, from the lease of cellular communication towers together with the sale of gravel and other resources from our timberlands. Revenue from sales of timberland tracts will also appear periodically in results for this segment on the relatively infrequent occasions when those transactions occur. Our Fee Timber revenue is driven primarily by the volume of timber harvested. Fee timber expenses, which consist predominantly of depletion, harvest and transportation costs, vary directly and roughly proportionately with harvest volume and the resulting revenues. Revenue and costs related to harvest activities on timberland owned by the Funds are consolidated into this discussion of operations.

Revenue and operating income for the Fee Timber segment for each year in the three-year period ended December 31, 2010, are as follows:

(\$ Million) Year ended	Log Sale Revenue	Mineral, Cell Tower & Other Revenue	Total Fee Timber Revenue	Operating Income (Loss)	Harvest Volume (MBF)
Pope Resources Timber	\$ 20.7	\$ 1.6	\$ 22.3	\$ 9.5	42,277
Timber Funds	5.1	0.3	5.4	0.2	10,722
Total Fee Timber 2010	\$ 25.8	\$ 1.9	\$ 27.7	\$ 9.7	52,999
Pope Resources Timber	\$ 13.3	\$ 1.5	\$ 14.8	\$ 4.0	32,461
Timber Funds	-	-	-	(0.3)	-
Total Fee Timber 2009	\$ 13.3	\$ 1.5	\$ 14.8	\$ 3.7	32,461
Pope Resources Timber	\$ 16.7	\$ 2.0	\$ 18.7	\$ 6.7	32,455
Timber Funds	2.4	2.4*	4.8	(0.4)	5,293
Total Fee Timber 2008	\$ 19.1	\$ 4.4	\$ 23.5	\$ 6.3	37,748

*Conservation easement sale revenue

Fiscal Year 2010 compared to 2009. Revenue and operating income increased in 2010 from 2009 due to a 63% increase in harvest volume and a \$76 per MBF, or 19%, increase in log prices. Harvest volume increased as both export log markets strengthened relative to 2009 and new export lumber markets to China emerged. The planned harvest for 2010 was 32 MMBF from the Partnership timberlands and no harvest from the Funds, however we responded to improved export and domestic market conditions by harvesting more volume.

Our harvest in 2010 consisted of a relatively high 19.8% of the log volume from the Funds' tree farms, which were purchased much later than the Partnership's properties. The Funds' tree farms have a much higher cost basis and, as such, higher per-unit depletion charge. This resulted in only 2.1% of our Fee Timber operating income coming from the operations of the Funds' timberlands.

Fiscal Year 2009 compared to 2008. Revenue and operating income decreased in 2009 from 2008 due to a 14% lower harvest volume and a \$96 per MBF, or 19%, decline in log prices. The decrease in 2009 harvest volume from 2008 was due to continuing weak log markets which caused us to reduce harvest levels in 2009 below our planned harvest level. We originally planned to harvest 37 MMBF in 2009, but as 2009 progressed and log markets weakened below the levels that we had forecasted, we decided to defer additional harvested volume resulting in a 38% harvest deferral in 2009. Log prices declined in 2009 due in part to a decision to harvest a higher proportion of low quality stands that had a higher proportion of lower valued pulpwood. This decision was made in order to preserve more of our higher valued stands that contained more sawlog volume for a point in the future where sawlog prices are higher.

The CE sale completed by Fund I in 2008 is accounted for in the Fee Timber segment due to our policy of including all operations of the Funds in the Fee Timber segment. CE sales and land sales from the Hood Canal and Columbia tree farms made to buyers that plan to preserve the land from future development are accounted for in the Real Estate segment.

ORM Timber Funds. Due to the Partnership's management and control of the Funds, they are consolidated into our financial statements, with the 80% of these Funds owned by third parties reflected in our Statement of Operations under the caption "Net loss attributable to noncontrolling interest-ORM Timber Funds." Fund II acquired its first properties in October 2009 and, as result, had minimal impact on the consolidated segment performance in 2009 and 2008. We deferred harvesting from each of the Funds' tree farms in 2009 and the first quarter of 2010 in anticipation of weak log markets. However, we began harvesting from the Funds' tree farms during the second quarter of 2010 in response to improvements to domestic and export log markets and continued harvesting through the end of year to take advantage of higher prices. We harvested 11 MMBF from the Funds' tree farms in 2010, no volume in 2009, and 5 MMBF in 2008. The Funds collectively generated revenue of \$5.4 million in 2010 compared with \$28,000 of revenue in 2009 and \$4.8 million of revenue generated in 2008. The 2010 operating income of \$166,000 for the Funds is a \$460,000 improvement over 2009's operating loss of \$294,000 as a result of a 10.7 MMBF increase in harvest volume and a small Fund I land sale in 2010. Fund operating income as a percentage of revenue reflects the high basis relative to the historic Partnership timberlands and, as a result, higher depletion expense than the Partnership timberlands.

Log Volume

Log volume sold for each year in the three-year period ended December 31, 2010 was as follows:

Volume (in MBF)	2010	% Total	2009	% Total	2008	% Total
Sawlogs						
Douglas-fir	34,978	66%	22,383	69%	24,913	66%
Whitewood	7,096	13%	1,080	3%	3,121	8%
Cedar	865	2%	827	2%	795	2%
Hardwoods	941	2%	835	3%	977	3%
Pulpwood						
All Species	9,119	17%	7,336	23%	7,942	21%
Total	52,999	100%	32,461	100%	37,748	100%

Fiscal Year 2010 compared to 2009. Harvest volume increased 63% from 2009 to 2010. Strong Chinese export markets, and to a lesser extent Korean markets, prompted our decision to increase harvest volume above 2009's level. This strong export market has helped support domestic sawlog prices despite a soft domestic lumber market as domestic sawmills have had to increase log prices to compete for volume diverted to export markets. Many of our sawmill customers are able to afford higher log prices due to the emergence of a new export lumber market in China, for which many of these customers are producing a significant proportion of their overall lumber volume. Log volumes harvested in 2009 included a higher proportion of pulpwood due to our decision to focus harvest on lower quality timber stands to conserve higher value sawlog volume for better market conditions.

Fiscal Year 2009 compared to 2008. Log volume decreased 14% in 2009 from the 2008 harvest as management sought to preserve our asset value while log, lumber, and housing markets continued to decline throughout 2009. We would generally expect the proportion of harvest going to pulpwood markets to average between 10% and 15%. However, in 2009 and 2008 we concentrated our harvest on lower quality timber stands to sell logs into pulpwood markets which were not as dramatically impacted as other log markets by the downturn in housing. As such, pulpwood represented a relatively higher-than-normal proportion of harvest volume for both 2009 and 2008. This shift in weighting of our sort mix lowered the average realized price per MBF below what it might otherwise have been, but allowed more valuable stands to continue to grow in both volume and value.

Log Prices

Logs from the Partnership's tree farms serve a number of different domestic and export markets, with domestic mills historically representing our largest market segment. Throughout 2010, the relative strength of the Chinese export market has been a driving force for much of our log pricing. In contrast to the Japanese export market that has historically only diverted logs to Asia at the top end of the quality spectrum, the Chinese market accepts a log quality that is comparable to that which typically goes to the domestic market. Logs flowing from the Pacific Northwest to China in 2010 increased almost nine-fold from volumes shipped in the comparable period in 2009. Notwithstanding the low level of domestic housing starts, this increased export demand helped to keep upward pressure on domestic log prices throughout 2010.

We have categorized our sawlog volume by species, which is a significant driver of price realized as indicated by the table below. The average log price realized by species for each year in the three-year period ended December 31, 2010 was as follows:

		Fiscal Year			
		2010	Δ from 2009 to 2010		2009
			\$/MBF	%	
Sawlogs	Douglas-fir	\$ 528	\$ 93	21%	\$ 435
	Whitewood	446	137	44%	309
	Cedar	917	100	12%	817
	Hardwood	502	56	13%	446
Pulpwood	All Species	311	15	5%	296
Overall		486	76	19%	410

		Fiscal Year			
		2009	Δ from 2008 to 2009		2008
			\$/MBF	%	
Sawlogs	Douglas-fir	\$ 435	\$ (102)	-19%	\$ 537
	Whitewood	309	(103)	-25%	412
	Cedar	817	(428)	-34%	1,245
	Hardwood	446	(192)	-30%	638
Pulpwood	All Species	296	(63)	-18%	359
Overall		410	(96)	-19%	506

The overall log price realized in 2010 increased \$76/MBF, or 19%, compared to 2009, primarily due to the same export/domestic market dynamics mentioned above. In addition, the 2009 average log price reflected a high percentage of low value pulpwood compared to that seen in 2010's totals, 23% vs. 17%, respectively. Notwithstanding the overall improvements in year-over-year average log prices from 2009 to 2010, the increase was not sufficient to recover the \$96/MBF decline in the average price between 2008 and 2009.

Douglas-fir: Douglas-fir is noted for its structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. Demand and price for Douglas-fir sawlogs has historically been very dependent upon the level of new home construction in the U.S. Douglas-fir log prices realized in 2010 reflect some softening of this direct link between Douglas-fir sawlog prices and domestic housing starts with the dramatic increase in demand for all log species from China.

The rally in Douglas-fir sawlogs began in early 2010 with participants in the domestic supply chain for lumber increasing demand for logs in response to declining inventories. This increase in domestic demand coincided with an increase in export market demand from China, and to a lesser extent Korea. Single-family home starts remained at approximately 500,000 units during 2010, compared to approximately 1.7 million at its peak in 2005. The aforementioned inventory issue was largely addressed by domestic producers in the first quarter of 2010 and with the continued softness in housing starts, we saw sawmills quickly return in the second quarter to lower production levels. In the absence of strong export market demand this would have caused a deeper decline in log prices. There was, however, continued strength in the export market to China which created competition for Douglas-fir sawlogs. The 2010 price realized on Douglas-fir sawlogs was up \$93/MBF, or 21%, from 2009 as a result of the aforementioned competition between domestic mills and export markets. This increase nearly reversed the \$102/MBF, or 19%, decline in price from 2008 to 2009.

Whitewood: "Whitewood" is a term used to describe several softwood species, but for us primarily refers to western hemlock and spruce. Though generally considered to be of a lower quality than Douglas-fir, these logs are also used for manufacturing lumber and plywood. In addition, the same export market conditions described above have provided for strong whitewood export log demand in China as well as the traditional, but more modest export market for whitewood logs to Korea. The price realized on whitewood sawlogs in 2010 was up \$137/MBF, or 44%, versus 2009, also driven by the relative strength in the export log markets in 2010 compared to 2009. The 2010 increase was a large improvement over the \$103/MBF, or 25%, decline in price from 2008 to 2009.

Cedar: Cedar is a minor component in most upland timber stands and is generally used for outdoor applications such as fencing, siding and decking. Although there is a link between demand for these products and housing starts, this link is not as strong as with most other softwood species. A small spike in demand from buyers in 2010 helped drive a \$100/MBF, or 12%, increase in cedar prices over 2009. While the 2010 increase was welcome, it did not come close to clawing back the \$428/MBF, or 34%, decline we saw in cedar prices from 2008 to 2009.

Hardwood: "Hardwood" can refer to many different species, but on our tree farms primarily consists of red alder. The local mills that process red alder sawlogs are using the resource to manufacture lumber for use in furniture and cabinet construction as well as hardwood chips for the pulp and paper industry. In 2010, hardwood sawlog prices increased \$56/MBF, or 13%, when compared to 2009 in response to the continued modest demand for lumber, which came at a time when some mills had relatively low inventories 2010. This was a modest improvement over the \$192/MBF, or 30%, decline in price from 2008 to 2009.

Pulpwood: Pulpwood is a lower quality log of any species that is manufactured into wood chips. These chips are used primarily to make a full range of pulp and paper products from unbleached linerboard, used in paper bags and cardboard boxes, to fine paper and specialty products. The pulpwood market has enjoyed relative strength over the last couple of years as a direct result of sawmills taking significant downtime in response to the slowdown in housing starts. Sawmills typically provide the bulk of the chips used by pulp manufacturers, so curtailed sawmill production helped to push up the price of pulpwood sold directly to pulp mills. Pulpwood prices were up \$15/MBF, or 5%, when compared to the comparable period in 2009. The 2010 increase did not quite return pulpwood prices to those realized in 2008 of \$359/MBF but it was a meaningful directional improvement over the \$63/MBF, or 18%, decline in pulpwood price from 2008 to 2009.

Customers

Annual harvest volume and average price paid each year in the three-year period ended December 31, 2010 was as follows:

Destination	2010			2009			2008		
	Volume	%	Price	Volume	%	Price	Volume	%	Price
Export brokers	17,673	33%	\$ 526	4,876	15%	\$ 581	5,615	15%	\$ 610
Domestic mills	26,207	50%	520	20,249	62%	410	24,191	64%	531
Pulpwood	9,119	17%	311	7,336	23%	296	7,942	21%	359
Total	52,999	100%	\$ 486	32,461	100%	\$ 410	37,748	100%	\$ 506

Fiscal Year 2010 compared to 2009. Logs sold to export brokers increased to 33% from 15% of volume in 2010 and 2009, respectively, while volume sold to domestic mills declined to 50% from 62% in 2010 and 2009, respectively. This is a direct result of volume diverted to the Chinese and Korean export markets. Export volumes generated a \$61/MBF, or 10%, price decrease as a result of the shift from high-quality and high-priced logs sold to Japan in 2009 versus lower quality logs sold into Chinese and Korean markets in 2010. Logs sold to domestic mills increased in price by \$116/MBF, or 28%, as domestic mills competed for log volume with the Chinese and Korean export markets. As a percentage of overall volume, we directed fewer logs to the pulpwood market in 2010 compared to 2009, although prices increased \$15/MBF, or 5%. As discussed earlier, this was a result of harvesting lower quality timber in 2009 with a higher proportion of pulpwood to preserve higher quality sawlogs for a later time when markets improved.

Fiscal Year 2009 compared to 2008. Volumes by destination showed little relative change in 2009 compared with 2008. Export brokers represent those log buyers that purchase our logs and then resell them to customers in Japan, China, and Korea. This market channel accounted for 15% of both our 2009 and 2008 harvest. Domestic mills purchased 62% of harvest volumes in 2009 versus 64% in 2008. Pulp mills purchased 23% of our harvest volume in 2009 as compared to 21% of 2008.

Log prices realized from export broker sales declined \$29/MBF, or 5%, from 2008 to 2009 as the export market shifted from higher priced logs sent to Japan in 2008 to lower priced logs sent to China and Korea in 2009. Log prices realized from domestic mills dropped \$121/MBF, or 23%, during that same period as result of the contraction in the housing market which rippled through to domestic sawmills and other wood product manufacturers. Pulpwood prices decreased \$63/MBF, or 18%, between 2008 and 2009. Pulpwood prices were artificially high in 2008 as a result of chip shortages early in that year from sawmill downtime.

The export market for logs in the Pacific Northwest has been migrating over the last couple years from a market highly focused on Japan to a market that includes more volume to China and Korea. This change in the export market has resulted in a decline in the premium earned from the sale of logs to the export market while at the same time increasing export market demand for logs sourced in the Pacific Northwest. Sawlogs sold to Korea and China are not of the high quality demanded by the Japanese market and, as a result, do not command the premium pricing generally attributed to the Japanese market. However, this new source of demand for sawlogs in the Pacific Northwest will continue to exert pricing pressure on domestic mills that have been competing with this new and growing offshore source of demand for Pacific Northwest sawlogs. These new outlets for lower quality logs have helped to diversify our customer mix away from domestic mills that are more heavily dependent on the U.S. housing market.

Another way to look at the impact of these growing export markets is to combine the domestic and export log volumes, which increased \$79/MBF, or 18%, in value between 2009 and 2010, from \$443/MBF in 2009 to \$522/MBF in 2010. This nearly approaches the 19% decline in value between 2008 and 2009 of these combined export and domestic log volumes, which declined from \$545/MBF in 2008 to \$522/MBF in 2009. Over the two-year period from 2008 to 2010, the combined value of export and domestic logs declined by 4%. This decline would have been much steeper had we not had access to these higher levels of export log demand in China and Korea.

Harvest Volumes and Seasonality

The Partnership owns 114,000 acres of timberland in western Washington and the Funds own collectively 61,000 acres of timberland in western Washington and western Oregon. We are able to conduct year-round harvest activities on the Hood Canal tree farm and 12,000 acres of the Funds' properties because these properties are concentrated at low elevations. In contrast, the Columbia tree farm and the balance of the Funds' acres are at a higher elevation where harvest activities are generally not possible during the winter months when snow precludes access to the lands. Generally, we concentrate our harvests from the Hood Canal tree farm 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, when these various tree farms are combined, we can operate so that the pattern of quarterly volumes harvested is flatter than would be the case if looking at one tree farm in isolation.

The percentage of annual harvest volume by quarter for each year in the three-year period ended December 31, 2010 was as follows:

Year ended	Q1	Q2	Q3	Q4
2010	22%	27%	30%	21%
2009	27%	22%	20%	31%
2008	25%	38%	31%	6%

We entered 2010 with a plan to defer harvest volume in response to our expectation of continued weakness in log markets resulting from a slowdown in housing. That plan called for no harvest from the Funds. However, as the year progressed and export and domestic markets showed improvement, we gradually increased harvest volume commensurate with the increase in demand, which hit its peak in the third quarter. By the third quarter of 2010, we had gained confidence in the impact of the China log market and added volume to meet the surges in export and domestic demand.

In 2009, our harvest was weighted to the first and fourth quarters to take advantage of higher seasonal prices. For 2009, we pushed more than the usual amount of our harvest into the fourth quarter to take advantage of an uptick in market demand and increased prices driven by depleted inventories throughout the supply chain. The absence of company owned mills requiring volume and less concern with quarterly earnings fluctuations allows us to maximize value by making market timing adjustments. Furthermore, our practice of permitting excess harvest units provides maximum flexibility to make changes to harvest volumes.

Harvest volumes in 2008 were weighted to the first three quarters of the year. The precipitous fall-off in the fourth quarter of that year reflects the impact associated with the financial meltdown of 2008.

Cost of Sales

Cost of sales for the Fee Timber segment consists of harvest and haul costs and depletion expense. Harvest, haul, and depletion all vary directly with actual harvest volume. Harvest and haul costs represent the direct cost incurred to convert trees into logs and deliver those logs to their point of sale. Depletion expense represents the cost of acquiring or growing the harvested timber. The applicable depletion rate is derived by dividing the aggregate cost of timber, together with capitalized road expenditures, by the estimated volume of merchantable timber available for harvest at the beginning of that year. The depletion rate is applied to the volume harvested in a given period to calculate depletion expense for that period. Depletion expense is calculated by first deriving a depletion rate as follows:

$$\text{Depletion rate} = \frac{\text{Accumulated cost of timber and capitalized road expenditures}}{\text{Estimated volume of 35-year-and-older merchantable timber}}$$

Each year, the depletion rate is adjusted to account for “layers” of harvest volume exiting the pool and new “layers” of 35-year old timber volume and cost entering the pool. The depletion rate is then applied to future volume harvested to calculate depletion expense.

Fee Timber cost of sales for each year in the three-year period ended December 31, 2010 was as follows:

(\$ Million) Year ended	Harvest, Haul and Other	Cost of Conservation Easement Sale	Depletion	Total Cost of Sales
2010	\$8.9	-	\$5.2	\$14.1
2009	6.0	-	2.0	8.0
2008	7.5	2.2	3.4	13.1

Cost of sales increased \$6.1 million in 2010 from 2009 primarily as a result of a 63% harvest volume increase from 32 MMBF in 2009 to 53 MMBF in 2010, and because we harvested a significant portion of our 2010 harvest from the Funds’ timberlands, which have a much higher depletion rate than the Partnership’s legacy properties. Depletion expense increased \$3.2 million in 2010 relative to 2009. Of this increase, \$2.5 million is due to harvest of 11 MMBF from the Funds’ tree farms that did not occur in 2009 and \$639,000 is due to the harvest volume increase from the Hood Canal and Columbia tree farms. Fee Timber cost of sales decreased \$5.1 million in 2009 from 2008 as a result of a 5 MMBF decline in harvest volume in 2009 from 2008 and the non-recurring costs incurred in connection with the CE sale in 2008.

Fee Timber cost of sales, expressed on a per MBF basis for each year in the three-year period ended December 31, 2010, was as follows:

Year ended	Harvest, Haul and Other	Depletion	Total Cost of Sales *
2010	\$167	\$98	\$265
2009	184	62	246
2008	198	91	289

* Total excludes cost of conservation easement sale in 2008

Harvest costs vary based upon the physical site characteristics of acreage harvested. Harvest units that are difficult to access, or that are located on steep hillsides requiring cable harvest systems, are more expensive to harvest. Haul costs vary based upon the distance between the harvest site and the customer’s location. Harvest, haul and other costs per MBF decreased \$17/MBF in 2010 relative to 2009. This reduction is attributable to a decrease in pulpwood volume harvested which carries a higher harvest cost per MBF than sawlogs. Per MBF harvest and haul costs were lower in 2009 relative to 2008 due to the selection of less expensive harvest units in the face of weak log pricing.

We use a pooled depletion rate for volume harvested from the Hood Canal and Columbia tree farms that divides the combined book basis of the merchantable timber for both tree farms by the combined merchantable volume for both tree farms. On the other hand, for the Funds we calculate separate depletion rates for each of the six Fund tree farms and then present them for this report in terms of a blended aggregate rate. In 2009, we use and report the pooled depletion rate for volume harvested from the Hood Canal and Columbia tree farms as we had no timber harvest from the Funds’ tree farms. In 2008, we report two separate depletion rates, the pooled rate for the Hood Canal and Columbia tree farms and a separate blended rate for volume harvested from tree farms owned by Fund I.

Depletion expense resulting from timber harvest for each year in the three-year period ended December 31, 2010 was made up of the following:

	Year ended December 31, 2010		
	Pooled	Funds	Total
Volume harvested (MBF)	42,277	10,722	52,999
Rate/MBF	\$ 62	\$ 236	\$ 98
Depletion expense (000's)	\$ 2,640	\$ 2,529	\$ 5,169

	Year ended December 31, 2009	
	Pooled	Total
Volume harvested (MBF)	32,461	32,461
Rate/MBF	\$ 62	\$ 62
Depletion expense (000's)	\$ 2,001	\$ 2,001

	Year ended December 31, 2008		
	Pooled	Fund I	Total
Volume harvested (MBF)	32,455	5,293	37,748
Rate/MBF	\$ 65	\$ 254	\$ 91
Depletion expense (000's)	\$ 2,094	\$ 1,343	\$ 3,437

We harvested 53 MMBF of timber in 2010, with 11 MMBF of the total attributable to the Funds' timberlands. This compares to harvest of 32 MMBF in 2009, solely from the Partnership's timberlands, and harvest of 38 MMBF in 2008, with 5 MMBF of the 2008 total attributable to the Fund I timberlands. The Funds' depletion expense in 2010 and Fund I depletion expense in 2008 represent harvest from timberlands owned by the Funds that reflects a higher depletion rate than our combined pool of depletion costs for the Hood Canal and Columbia tree farms. The "Pooled" depletion consists primarily of historical timber cost that has been owned by the Partnership for many decades, as well as the Columbia tree farm property that was acquired in 2001. Depletion for the Funds' timber volume is derived from the cost of timber acquired more recently at a higher overall cost and, therefore, carries a higher depletion rate.

Depletion expense is generated from the harvest and sale of timber and periodically from Real Estate sales when land is sold with standing timber. Depletion expense generated from Real Estate sales, as was the case in 2008, is excluded from the Fee Timber depletion analysis.

Operating Expenses

Fee Timber operating expenses for each of the three years ended December 31, 2010, 2009, and 2008 were \$3.8 million, \$3.1 million, and \$4.2 million, respectively.

(\$ Million)	Year ended	2010	2009	2008
Operating Expenses	\$	3.8	\$ 3.1	\$ 4.2
Average Acres		162,484	144,277	137,780
\$/Acre	\$	23	\$ 22	\$ 30

Operating expenses for Fee Timber include management, silviculture and the cost of both maintaining existing roads and building temporary roads required for harvest activities for the 114,000 acres owned by the Partnership and the 61,000 acres owned by the Funds. Due to consolidation of the Funds into the Partnership's financial statements the fees generated from the management of the Funds are eliminated from the Fee Timber operating expenses. These management fees were \$1.5 million, \$908,000, and \$946,000 in 2010, 2009, and 2008, respectively. The increase in operating expense in 2010 over 2009 is due to the increase in activities to prepare tree farms for the 63% increase in harvest volume in 2010 relative to 2009. Operating expenses on a per-acre basis remained essentially flat due to the addition of 25,000 acres acquired by Fund II in the third quarter of 2010. Operating costs declined in 2009 from 2008 as a result of cost-cutting measures implemented in the first quarter of 2009. Operating expenses, on a per-acre basis, declined by a slightly greater amount relative to the actual expenses due to the additional acres acquired by Fund II in the fourth quarter of 2009.

Timberland Management & Consulting

Revenue and Operating Income

The Timberland Management & Consulting (TM&C) segment develops timberland property investment portfolios on behalf of the Funds. In addition, we provide our timberland management services to third-party owners of timberland. As of December 31, 2010, the TM&C segment managed two private equity timber funds representing a combined \$150 million of assets under management.

Revenue and expense generated through the management of the Funds is accounted for within the TM&C segment, but eliminated as a result of consolidation of the Funds into the Partnership's financial statements. The revenue generated from management of these Funds represents an expense to the Fee Timber segment which is eliminated when the Funds are consolidated into the Partnership's financial statements. Each fund is owned 20% by the Partnership and, as a result, 80% of these management fees are paid by third-party investors. We generated a total of \$1.5 million, \$908,000, and \$946,000 of management fee revenue in 2010, 2009, and 2008, respectively, each of which was eliminated in consolidation along with a corresponding decrease in operating expenses for the Fee Timber segment. At the close of 2010, the TM&C segment was managing 61,000 acres for the Funds compared with 36,000 acres at the end of 2009. We managed approximately 267,000 acres of timberland for Cascade Timberlands LLC (Cascade) and an additional 24,000 acres for Fund I at the end of 2008. Revenue and operating income for the TM&C segment for each year in the three-year period ended December 31, 2010, were as follows:

Year Ended December 31, (Millions)	2010	2009	2008
Revenue internal	\$ 1.5	\$ 1.5	\$ 1.9
Intersegment eliminations	(1.5)	(0.9)	(1.0)
Revenue external	\$ 0.0	\$ 0.6	\$ 0.9
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Operating income-internal	\$ 0.0	\$ 0.4	\$ 0.1
Intersegment eliminations	(1.3)	(0.8)	(0.6)
Operating loss-external	\$ (1.3)	\$ (0.4)	\$ (0.5)

Fiscal Year 2010 compared to 2009. After elimination of revenue generated from managing the Funds, revenue for 2010 was \$570,000 lower than in 2009 and operating loss was \$875,000 higher than in 2009. The decrease in revenue and increase in operating loss resulted primarily from the termination of our management contract with Cascade Timberlands LLC in July of 2009 and secondarily from an increase in segment operating expenses following acquisition by Fund II of 37,000 acres from the fourth quarter of 2009 through to the third quarter of 2010.

Fiscal Year 2009 compared to 2008. Revenue and operating loss for 2009 were \$343,000 and \$168,000 lower, respectively, than in 2008. The decrease in revenue is due to the elimination of the Cascade contract in mid-2009. The reduction in operating loss is due primarily to a reduction in expenses associated with formation of Fund II as well as cost-cutting efforts within the segment.

Operating Expenses

Fiscal Year 2010 compared to 2009. TM&C operating expenses increased \$305,000 in 2010 from 2009. The increase in operating expense results from a \$92 million increase in assets under management following acquisition of four tree farms representing 37,000 acres by Fund II.

Fiscal Year 2009 compared to 2008. TM&C operating expenses decreased \$511,000 in 2009 from 2008. This is attributable to elimination of costs following the mid-2009 termination of our Cascade management contract and the aforementioned reduction of expense associated with the formation of Fund II and cost-cutting efforts within the segment.

Real Estate

Revenue and Operating Income

The Partnership's Real Estate segment consists primarily of revenue from the sale of land and sales of CE's from the Partnership's timberland portfolio, together with residential and commercial property rents. Land sales can be for residential purposes or for conservation purposes; in the case of conservation land sales, these are categorized as conservation sales. The Partnership's Real Estate holdings are located primarily in the western Washington counties of Pierce, Kitsap, and Jefferson. Revenue in the Real Estate segment is generated through the sale of land, the rental of homes and commercial properties at the Port Gamble townsite, and the sale of land development rights. Land sales include the sale of unimproved land which generally consists of larger acreage sales rather than single lot sales and are normally completed with very little capital investment prior to sale. Rural residential lot sales generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale. Commercial and residential plat land sales represent land sold after development rights have been obtained and are generally sold with certain infrastructure improvements in place. Sales of development rights can take different forms, but in 2010 reflected the sale of a CE on 6,886 acres of the Columbia tree farm and in 2009 reflected the sale of a CE on 2,290 acres of the Hood Canal tree farm, both of which preclude future real estate development.

Results from Real Estate operations are expected to vary significantly from year to year as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land. Revenue and operating income for the Real Estate segment for each year in the three-year period ended December 31, 2010 were as follows (all dollar amounts in millions):

Year ended	Revenue	Environmental remediation expense	Operating income (loss)
2010	\$ 3.5	\$ 0.9	\$ (0.8)
2009	5.0	-	1.7
2008	3.7	-	(1.1)

Real Estate segment revenue for each year in the three-year period ended December 31, 2010 consisted of the following (all dollar amounts in thousands):

Description	Thousands			Per Acre Amounts	
	Revenue	Gross Margin	Acres Sold	Revenue	Gross Margin
Conservation Easement	\$ 2,400	\$ 2,244	6,886	\$ 349	\$ 326
Rentals	1,013	1,011	NA		
Other	74	70	NA		
2010 Total	\$ 3,487	\$ 3,325	6,886		
Conservation Easement	\$ 3,298	\$ 3,108	2,290	\$ 1,440	\$ 1,357
Rural Residential	521	328	50	10,420	6,566
Rentals	1,154	1,153	NA		
Other	57	49	NA		
2009 Total	\$ 5,030	\$ 4,638	2,340		
Conservation Easement	\$ 830	\$ 418	118	\$ 7,034	\$ 3,543
Conservation Sale	479	324	75	6,387	4,322
Rural Residential	1,147	734	141	8,135	5,206
Rentals	1,158	1,157	NA		
Other	69	71	NA		
2008 Total	\$ 3,683	\$ 2,704	334		

Fiscal Year 2010 compared to 2009. Revenue for the Real Estate segment declined by \$1.5 million in 2010 compared to 2009 due to a decline of \$898,000 in CE revenue and the absence of 2010 counterparts to 2009's rural residential land transactions. In 2010, we closed a \$2.4 million CE on nearly 6,900 acres in Skamania County. Similar to the 2009 CE sale, the 2010 sale was funded by the federal Forest Legacy program and restricts future development on the property while allowing continued management and harvest of timber. The sale provided a gross margin of \$2.2 million. The revenue is reported in the Real Estate segment as it was generated through the efforts of our Real Estate development segment and relates to Partnership timberlands. Operating loss increased \$2.5 million in 2010 over operating income in 2009. This is due primarily to the \$845,000 increase to the environmental remediation accrual, lower revenue realized on CE revenue in 2010 and the absence of 2010 counterparts to 2009 land sales.

Fiscal Year 2009 compared to 2008. In 2009, revenue for the Real Estate segment increased by \$1.3 million and operating income increased \$2.8 million from 2008 results. The large increase in revenue and operating results is attributed to a 2,290-acre CE sale on our Hood Canal tree farm in the third quarter of 2009 compared to an 118-acre CE sale for \$830,000 and two conservation sales totaling \$479,000 in 2008. The \$3.3 million of CE revenue in 2009 was funded by the federal Forest Legacy program and represents the culmination of five years of negotiation and discussions with Cascade Land Conservancy and the Washington State Department of Natural Resources. Similar to the 2010 CE sale, this CE will protect the land from development while allowing for continued growing and harvesting of timber. Cost-cutting measures in the Real Estate segment served to further increase operating income in 2009 over 2008.

In addition to the CE sale in 2009, there were 3 separate land transactions totaling 50 acres sold from the Rural Residential lot program. This compares to 5 separate land transactions totaling 141 acres sold in 2008. The Partnership's Rural Residential lot program typically produces lots from 5 to 80 acres in size, based on underlying zoning densities. This type of program entails an entitlement effort typically consisting of simple lot segregations and boundary line adjustments. Development activities include minor road building, surveying, and the extension of utilities. Demand for rural lots has dropped significantly since 2007 commensurate with decreased housing demand.

Management intends to offer rural residential lots to the market as appetite for raw land increases. In normal markets we target 150 to 300 acres of rural residential lot sales annually. The market for these types of land sales is expected to remain extremely weak in 2011 and, as a result, we will likely not meet this target in 2011.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2010, 2009, and 2008 was \$162,000, \$392,000, and \$979,000, respectively, with these amounts comprised of land basis and closing costs. CE sales, unlike land sales which include land basis in costs of sales, typically have little to no cost basis written off as part of the transaction. The step-wise decline in cost of sales from 2008 to 2009 to 2010 is due primarily to a progressive drop over this period in rural residential sales.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2010, 2009, and 2008, were \$3.3 million, \$2.9 million, and \$3.8 million, respectively. Operating expenses increased \$314,000 in 2010 compared to 2009 due to an increase in property taxes following cessation of capitalizing interest, property taxes and insurance to several long-term development projects. Capitalization of interest, property taxes and insurance to long-term development projects stops once the respective projects reach the point of substantial completion or construction activity has been intentionally delayed. Operating expenses decreased \$870,000 in 2009 compared to 2008 due primarily to cost-cutting efforts that have been undertaken during this prolonged downturn in the market for raw and developed land.

Basis in Real Estate Projects

“Land Held for Development” on our Consolidated Balance Sheet represents the Partnership’s cost basis in land that has been identified as having greater value as development property rather than as timberland. Our Real Estate segment personnel work with local officials to establish entitlements for further development of these parcels. Costs clearly associated with either development or with the construction of fully entitled projects are generally capitalized, whereas costs associated with projects that are in the entitlement phase are generally expensed. Those properties that are either for sale, under contract or the Partnership has an expectation they will sell within the next 12 months, are classified as a current asset under Land Held for Sale.

When facts and circumstances indicate that the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of such property or properties to the projected future undiscounted cash flows of the same property or properties. If it is determined that the carrying value of such assets may not be fully recoverable, we would recognize an impairment loss, adjusting for changes in estimated fair market value, and would charge this amount against current operations. We have continuously owned most of our land for decades. As a result, the land basis associated with most of our development properties is well below even the weakened current market values prevalent today. As such, we do not anticipate an asset impairment charge on our development projects.

Environmental Remediation

The Partnership has an accrual for estimated environmental remediation costs of \$1.9 million and \$1.3 million as of December 31, 2010 and 2009, respectively. The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the townsite/millsite of Port Gamble, and at Port Ludlow, Washington.

During the fourth quarter of 2010, review continued on the draft Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) reports related to Port Gamble. The reports have an estimated submission for a 30-day public comment period beginning in March 2011. The public comments will be part of the data that informs a cleanup action plan anticipated to be filed with a consent decree in late 2011. The development of a cleanup action plan includes formalizing cost estimates and how costs will be shared between responsible parties, which will be reflected in the Partnership’s environmental remediation accrual liability where and when appropriate.

The environmental remediation accrual contains costs estimated in connection with a second and separate remediation effort at Port Gamble as well as a third site within the resort community of Port Ludlow. We will be completing site investigations and remediating contaminated sites if and where required.

The environmental liability at December 31, 2010 is comprised of \$397,000 that the Partnership expects to expend in the next 12 months and \$1.5 million thereafter. Statistical models have been used to estimate the liability for the aforementioned matters and suggest a potential aggregate range of loss of \$744,000 to \$3.8 million. Activity in the environmental remediation liability is detailed as follows:

(\$ Thousands) Year ended December 31,	Balances at the Beginning of the Year	Additions to Accrual	Expenditures for Remediation	Balance at Year-end
2010	1,269	875	211	1,933
2009	1,554	30	315	1,269
2008	1,994	-	440	1,554

General & Administrative (G&A)

Fiscal Year 2010 compared to 2009. G&A costs were \$4.7 million in 2010 compared to \$3.7 million in 2009. This increase includes both the initial accrual for a new long-term incentive compensation plan's multi-year performance cycles and professional service fees associated with development of the new plan. G&A costs represented 15% of revenue in 2010.

Fiscal Year 2009 compared to 2008. G&A costs decreased \$218,000, or 6%, to \$3.7 million from \$4.0 million in 2008. The decrease in G&A expense is due to cost-cutting measures implemented in response to weak log and real estate markets. This decrease was offset by \$248,000 of legal expenses incurred in connection with an October 2009 arbitration hearing to resolve a dispute regarding our SLARS investment. G&A costs represented 18% of revenue in 2009.

Interest Income and Expense

Interest income for 2010 decreased to \$102,000 from \$219,000 in 2009 and \$965,000 in 2008. The progressively lower amounts of interest income from 2008 to 2009 to 2010 are due primarily to lower cash and investment balances coupled with a decrease in average interest earned on the portfolio.

Interest expense, net of interest capitalized to development projects, was \$1.2 million for 2010, 2009 and 2008. Interest expense, net of interest capitalized, was static from 2008 to 2010 in spite of the addition of an \$11 million mortgage by Fund II as a result of a decline in interest expense attributable to a decrease in borrowing rates offset by a decline in interest capitalized as a result of certain Real Estate projects no longer meeting interest capitalization requirements. With the exception of the operating line of credit, the Partnership's debt consists primarily of mortgage debt with fixed interest rates.

Debt Extinguishment Costs

In April 2010, we paid off an \$18.6 million mortgage with a 7.63% fixed interest rate, one year ahead of its scheduled maturity. The early retirement of this debt resulted in a \$1.2 million debt extinguishment charge. In September 2009, the Partnership incurred \$1.1 million of costs in connection with the early retirement of another timberland mortgage, which was also scheduled to mature in April 2011. These separate decisions to refinance were motivated by the opportunity to reduce cash used for both principal and interest payments, lower borrowing costs, and spread out future refinance risk across a number of years. The early debt extinguishment costs were funded in both cases by using new term loans from Northwest Farm Credit Services (NWFCFS).

Income Taxes

Pope Resources is a limited partnership and is, therefore, not subject to income tax. Instead, taxable income/loss flows through and is reported to unitholders each year on a Form K-1 for inclusion in each unitholder's tax return. Pope Resources does, however, have corporate subsidiaries that are subject to income tax and this is why a line item for such tax appears on the statements of operations. The corporate tax-paying entities are utilized for our third-party service fee businesses.

Fiscal Year 2010 compared to 2009. We recorded a tax benefit of \$290,000 in 2010 compared to a tax provision of \$39,000 in 2009. The tax benefit results from losses in the taxable corporate subsidiaries in 2010.

Fiscal Year 2009 compared to 2008. We recorded an income tax provision of \$39,000 in 2009, whereas we recorded a \$61,000 tax benefit in 2008. The tax provision recorded in 2009 reflects improved operating results in the subsidiary corporations that manage timberlands owned by the Partnership and Funds.

Noncontrolling interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represented the 80% portion of 2010 and 2009 net losses of the Funds, each of which is attributable to third-party owners of the Funds. The increase in net loss in 2010 is due to an increase in interest expense in Fund II related to a new term loan funded in September 2010 as well as costs incurred to prepare the Funds' tree farms for harvest in 2010. The decrease in this amount from 2008 is due to the decrease in operating loss of the Funds in 2009 as cost-saving measures were implemented in response to weak log markets and the decision to defer all harvest from the Funds' properties.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We ordinarily finance our business activities using funds from operations and, where appropriate in management's assessment, commercial credit arrangements with banks or other financial institutions. Funds generated internally from operations and externally through financing are expected to provide the required resources for the Partnership's future capital expenditures. The Partnership's debt-to-total-capitalization ratio, as measured by the carrying value of timberland, roads and timber, excluding noncontrolling interests and debt of the funds, was 36% at December 31, 2010 versus 26% as of December 31, 2009. The debt-to-total-capitalization ratio as of December 31, 2010 was primarily impacted by the \$9.6 million draw on the operating line of credit in late December to fund a \$11.9 million block unit repurchase; the expenditure of \$11.9 million to repurchase our units in 2010 also served to reduce partners' capital and the ratio's denominator, both of which serve to drive the ratio higher. The Partnership's debt agreements have covenants which are measured quarterly. Among the covenants measured is a requirement that the Partnership not exceed the maximum debt-to-total-capitalization ratio of 30%, with total capitalization defined and calculated as the fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with this covenant as of December 31, 2010 and expects to remain in compliance for at least the next twelve months. As such, all long-term debt agreements are appropriately classified on the balance sheet.

On April 16, 2010 we used existing cash balances along with proceeds from our operating line of credit to retire the \$18.6 million, 7.63% timberland mortgage due in April 2011 held by John Hancock Life Insurance Company (JHLIC). The early retirement of this mortgage triggered \$1.2 million of debt extinguishment costs. In June 2010, we entered into a new \$20.0 million term loan agreement with NWFCs. The new term loan is comprised of three tranches of varying maturities and weighted average interest rate of 5.26%. In addition to paying off the old loan held by JHLIC, proceeds from the new loan were used to finance the aforementioned debt extinguishment charge and add approximately \$200,000 to working capital.

In connection with the new term loan, we elected to extend the Partnership's revolving line of credit with NWFCs from August 2011 to August 2013 and to reduce the maximum borrowing limit from \$35 million to \$20 million. The line of credit had \$9.6 million drawn as of December 31, 2010. The interest rate under this credit facility is variable depending on the interest coverage ratio and uses LIBOR as a benchmark. The spread above the benchmark rate ranges from 225 to 325 basis points. On December 31, 2010, the interest rate applicable to outstanding balances was 2.55%. Management believes that the cash we hold in excess of our current operating needs together with the line of credit provide adequate liquidity for our near-term operating needs.

Simultaneous with a timberland acquisition during the third quarter of 2010, Fund II closed on an \$11 million timberland mortgage with MetLife. This mortgage is a non-amortizing, 10-year loan with a fixed interest rate of 4.85%. The agreement allows for, but does not require, annual principal payments of up to 10% without incurring a make-whole premium.

We plan to increase the 2011 harvest above the 53 MMBF harvested in 2010. The decision to increase harvest was made in response to the sawlog market improving due to the recovery of the economy and increased demand from foreign customers. Harvest deferrals from 2008 and 2009 provide us additional volume to comfortably and responsibly increase harvest to respond to market demands.

During the year ended December 31, 2010, overall cash and cash equivalents decreased \$4.8 million resulting primarily from the acquisition of timberlands for Fund II. In addition, at the end of 2010 we repurchased a large block of units at a total cost of \$11.9 million but financed \$9.6 million of this total by drawing on our line of credit, resulting in a net \$2.3 million drain on 2010 cash balances. During the year ended December 31, 2009, overall cash and cash equivalents decreased by \$10.8 million primarily due to the Fund II co-investment and the repurchase of units. The \$6.0 million variance in cash flow from 2010 to 2009 is due primarily to the following:

<i>Change from 2009 to 2010 (\$ thousands)</i>	<i>Amount</i>
Increase in cash provided by operations	\$ 8,288
Timberland acquisitions	(23,785)
Partnership units repurchased	(10,429)
Issuance of long-term debt, net of principal payments	20,892
Proceeds from Fund II capital call	11,273
Cash from option exercises	622
Cash distributions	(828)
Other	8
Total	\$ 6,041

Operating cash activities. The table below provides the components of operating cash flows for each annual period ended December 31. Cash received from customers and paid to suppliers and employees results from the harvest and sale of forest products from our tree farms; timberland management, disposition, and consulting services provided to timberland owners; and sales of development properties. Capitalized development activities include investment in our Real Estate properties to build infrastructure and acquire the entitlements necessary to make further development of the properties possible.

Operating cash activities (in thousands):	2010	2009	2008
Cash received from customers	\$ 31,289	\$ 20,854	\$ 29,071
Cash paid to suppliers and employees	(19,210)	(16,533)	(21,281)
Interest received	103	280	1,025
Interest paid, net of amounts capitalized	(903)	(1,226)	(1,401)
Debt extinguishment costs	(1,250)	(1,137)	-
Capitalized development activities	(1,075)	(1,639)	(3,451)
Income taxes refunded (paid)	(4)	63	(11)
Cash provided by operating activities	\$ 8,950	\$ 662	\$ 3,952

Cash provided by operating activities increased to \$9.0 million in 2010 from \$662,000 in 2009. The increase in cash provided by operating activities resulted primarily from the 63% increase in timber harvest combined with a \$564,000 reduction in capitalized development activity and \$323,000 reduction in interest paid. The reduction in development activity reflects management strategy to invest at a rate that does not outpace the real estate market. The reduction in interest paid reflects the decline in borrowing rates. We incurred capital expenditures for development costs in 2010 for the following Real Estate properties: \$406,000 at Gig Harbor, \$29,000 at Kingston, \$38,000 at Port Ludlow, \$570,000 of capitalized interest related to the Gig Harbor, Kingston, and Port Ludlow projects, and \$32,000 related to other miscellaneous projects.

Cash provided by operating activities decreased to \$662,000 in 2009 from \$4.0 million in 2008. The decrease in cash provided by operating activities resulted primarily from the decrease in timber harvest combined with a \$745,000 reduction in interest received as a result of a decline in invested balances and \$1.1 million of non-recurring extinguishment of debt costs from the early retirement of a timberland mortgage. These reductions to cash were offset by a \$1.8 million decline in capitalized development activities. We incurred capital expenditures for development costs in 2009 for the following Real Estate properties: \$238,000 at Gig Harbor, \$122,000 at Kingston, \$36,000 at Bremerton, \$48,000 at Port Ludlow, \$1.1 million of capitalized interest related to the Gig Harbor, Kingston and Port Ludlow projects, and \$104,000 related to other miscellaneous projects.

Investing cash activities. The table below reflects the annual components of cash used by year in investing activities for each annual period ended December 31. Recurring investing activities consist primarily of timberland acquisitions, investment portfolio liquidations, tree planting, road building, and asset acquisitions.

Investing activities (in thousands):	2010	2009	2008
Timber and roads	\$ (582)	\$ (617)	\$ (555)
Buildings and equipment	(359)	(607)	(1,160)
Timberland acquisitions	(58,206)	(34,421)	(904)
Redemption of short-term investments	1,497	1,815	26,775
Proceeds from the sale of fixed assets	-	50	41
Cash provided by (used in) investing activities	\$ (57,650)	\$ (33,780)	\$ 24,197

Cash used in investing activities was \$57.7 million in 2010 compared with cash used in investing activities of \$33.8 million in 2009. The increase in 2010 from 2009 is due primarily to the acquisition of Fund II properties. This increase was offset by a \$283,000 reduction in spending for buildings and equipment and timber and roads as a result of cost management efforts.

Cash used by investing activities decreased to \$33.8 million in 2009 from cash provided by investing activities of \$24.2 million in 2008. The decrease in 2009 from 2008 is due primarily to the acquisition of Fund II properties and a decline in redemption of SLARS. In 2009, we liquidated \$1.8 million in SLARS versus 2008 when we liquidated \$26.8 million in SLARS. During 2009, we invested \$607,000 in timber and roads and approximately \$617,000 in other capital expenditures.

Financing activities. The table below summarizes the components of cash used in financing activities for each year of the three-year period ended December 31, 2010. Our financing activities primarily reflect cash received in connection with long-term debt and Partners' capital.

Financing activities (in thousands):	2010	2009	2008
Cash distribution to unitholders	\$ (3,241)	\$ (3,219)	\$ (7,444)
ORM Timber Fund II, Inc. capital call	38,800	27,527	370
ORM Timber Funds distributions	(806)	-	(800)
Proceeds from line of credit	9,600	-	-
Unit repurchases	(12,267)	(1,838)	(3,940)
Repayment of long-term debt	(1,038)	(1,418)	(1,342)
Extinguishment of long-term debt	(18,554)	(8,478)	-
Proceeds from issuance of long-term debt	31,000	9,800	-
Debt issuance costs	(283)	(71)	-
Cash received from unit option exercises	622	-	644
Excess tax benefit from equity-based compensation	-	17	167
Preferred stock issuance - ORM Timber Fund II, Inc.	125	-	-
Preferred stock distribution - ORM Timber Fund II, Inc.	(15)	-	-
Cash provided by (used in) financing activities	\$ 43,943	\$ 22,320	\$ (12,345)

Cash provided by financing activities was \$43.9 million in 2010 as compared to cash provided by financing activities of \$22.3 million in 2009. This change is due primarily to the issuance of long-term debt, net of principal payments and the Fund II capital call. The increase is offset by an increase in unit repurchases in 2010 from 2009.

Cash provided by financing activities was \$22.3 million in 2009 as compared to cash used in financing activities of \$12.3 million in 2008. This change is due primarily to the capital call of \$27.5 million by Fund II investors for the acquisition of timberland properties. This was in addition to the \$4.2 million reduction in cash distribution to unitholders and the \$2.1 million reduction in unit repurchases from 2008. Cash distributions went from \$1.60 per unit in 2008 to \$0.70 per unit in 2009. The unit repurchases made in 2009 were part of a program which was extended in May 2009 and concludes in December 2011.

Expected future changes to cash flows

Operating activities. As discussed above, we plan to increase our harvest level in 2011. This increase is in response to the improving log market, especially driven by increased demand from foreign customers. Our budgeted capital expenditures for our Gig Harbor and Port Ludlow projects are expected to total \$586,000 and \$108,000, respectively, in 2011. The majority of Gig Harbor capital expenditure in 2011 is projected to be capitalized interest on the property. Capitalized interest will make up more than half the expenditures on the Port Ludlow property in 2011 where activities will primarily relate to continuation of entitlement efforts and planning for future construction.

Investing activities. Management has budgeted \$1.3 million of capital expenditures for 2011. These investments are primarily comprised of long-term investments supporting our fee timber operations; there are no planned property acquisitions for 2011.

Financing activities. Management is currently projecting that cash on hand, availability of drawing on the operating line of credit, and cash generated from operating activities will be sufficient to bridge the front-loading of the capital needs for development properties and co-investments in future timber funds.

Excluding noncontrolling interests and debt of the Funds, our debt-to-total-capitalization ratio as of December 31, 2010 was 36% and 12% as measured, respectively, by book value and market value of assets. Should a financing need arise, management is comfortable that there is room to take on additional debt with the ratios at these levels. Portions of the Hood Canal and Columbia tree farms secure the Partnership's current timberland mortgages and, in the case of Fund II, portions of Fund II's tree farms secure the MetLife timberland mortgage. To date, the Partnership's strong financial position has enabled fairly easy access to credit at reasonable terms when needed.

Seasonality

Fee Timber. The Partnership owns 114,000 acres of timberland in western Washington and the Funds own collectively 61,000 acres of timberland in western Washington and western Oregon. We are able to conduct year-round harvest activities on the Hood Canal tree farm and 12,000 acres of the Funds' properties because these properties are concentrated at low elevations. In contrast, the Columbia tree farm and the balance of the Funds' acres are at a higher elevation where harvest activities are generally not possible during the winter months when snow precludes access to the lands. Generally, we concentrate our harvests from the Hood Canal tree farm 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, when these various tree farms are combined, we can operate so that the pattern of quarterly volumes harvested is flatter than would be the case if looking at one tree farm in isolation.

Timberland Management & Consulting. Management revenue generated by this segment is made up of asset and timberland management fees. These fees, which primarily relate to our activities on behalf of the Funds and are eliminated in consolidation, vary based upon the amount of capital managed, the number of acres managed, 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 "lumpiness" 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.

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2010 consist of operating leases, and purchase obligations entered into in the normal course of business.

Obligation or Commitment (in 000's)	Payments Due By Period /Commitment Expiration Date				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Total debt	\$ 50,498	\$ 30	\$ 9,668	\$ 5,000	\$ 35,800
Operating leases	66	51	15	-	-
Interest on debt	21,518	2,462	4,344	3,915	10,796
Environmental remediation	1,933	397	1,536	-	-
Other long-term obligations	210	25	50	50	86
Total contractual obligations or commitments	\$ 74,225	\$ 2,965	\$ 15,613	\$ 8,965	\$ 46,682

Environmental remediation represents our estimate of potential liability associated with environmental contamination at Port Gamble and Port Ludlow. There may be certain monitoring activity beyond three years, but we are unable to estimate the timing and amounts at this time. Other long-term obligations consist of a \$210,000 liability for a supplemental employment retirement plan.

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

Off-Balance Sheet Arrangements

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

Capital Expenditures and Commitments

Projected capital expenditures in 2011 are \$2.2 million, of which \$476,000 is capitalized interest costs. Projected capital expenditures are currently expected to include \$586,000 for the Gig Harbor site and \$108,000 for Port Ludlow developments, of which \$460,000 and \$16,000 are capitalized interest, respectively. Interest capitalization ceases once projects reach the point of substantial completion or construction activity has been intentionally delayed. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions.

Government Regulation

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

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

ACCOUNTING MATTERS

Accounting Standards Not Yet Implemented

There are no accounting standards not yet implemented that are expected to materially impact the Partnership.

Critical Accounting Policies and Estimates

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

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

Depletion. Depletion represents the cost of timber harvested and the cost of the permanent road system that is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation in 2010, merchantable timber is defined as timber that is equal to or greater than 35 years of age.

To calculate the depletion rate, the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. The depletion cost on recently acquired timber, such as timber harvested from the Funds is higher than the Partnership's timberlands and may at times approximate the net stumpage realized on the sale.

Timber inventory volumes take into account the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's properties. Washington's forest practice regulations provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions to protect various fish and other wildlife species. Timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (cruising) together with adjustments made for estimated annual growth and the depletion of areas harvested.

The standing inventory system is subject to two processes each year to monitor accuracy. The first is the annual cruise process and the second is a comparison of (a) volume actually extracted by harvest to (b) inventory in the standing inventory system at the time of the harvest. A "cruise", which utilizes statistical sampling techniques, represents a physical measurement of timber on a specific set of acres. The cruise process is completed when the physical measurement totals are compared to the volume captured in the standing inventory system. Only productive acres with timber that is at least 20 years old are selected as subject to a cruise. The Partnership cruises 10-20% of its productive acres with 25-year-old or greater timber annually. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. As the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 6 inches are measured for inclusion in the inventory.

A hypothetical 5% change in estimated timber inventory volume would have changed 2010 depletion expense by \$146,000.

Environmental remediation. The Partnership has an accrual for estimated environmental remediation costs of \$1.9 million and \$1.3 million as of December 31, 2010 and 2009, respectively. The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the townsite/millsite of Port Gamble, and at Port Ludlow, Washington.

During the fourth quarter of 2010, review continued on the draft Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) reports related to Port Gamble. The reports have an estimated submission for a 30-day public comment period beginning in early March 2011. The public comments will be part of the data that informs a cleanup action plan anticipated to be filed with a consent decree in late 2011. The development of a cleanup action plan includes formalizing cost estimates and how costs will be shared between responsible parties, which will be reflected in the Partnership's environmental remediation accrual liability where and when appropriate.

The environmental remediation accrual contains costs estimated in connection with a second and separate remediation effort at Port Gamble as well as a third site within the resort community of Port Ludlow. We will be completing site investigations and remediating contaminated sites if and where required.

The environmental liability at December 31, 2010 is comprised of \$397,000 that the Partnership expects to expend in the next 12 months and \$1.5 million thereafter. Statistical models have been used to estimate the liability and suggest a potential aggregate range of loss of \$744,000 to \$3.8 million.

Property development costs: The Partnership is developing several master planned communities with the Gig Harbor, Kingston, and Port Gamble projects being the most notable currently. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative preconstruction value. This allocation of basis supports, in turn, the computation of those amounts reported as a current vs. long-term asset ("Land Held for Sale" and "Land Held for Development", respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales.

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

Percentage of Completion Revenue Recognition: The partnership accounts for revenue recognized from development sales consistent with the accounting standards relating to the sales of real estate. When a real estate transaction is closed with significant outstanding obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to complete the project. During 2010, there was no revenue recognized using the percentage of completion method, nor were there any sales where revenue will be subsequently recognized using the percentage of completion method.

Impairment of Long Lived Assets: The Partnership evaluates its long lived assets for impairment in accordance with accounting standards. The standards require recognition of an impairment loss in connection with long-lived assets used in a business when the carrying value exceeds the estimated future undiscounted cash flows attributable to those assets over the expected useful life. The Partnership obtains annual appraisals of its timberlands and compares the appraised value of those properties to the carrying value to determine if an asset impairment charge is necessary. The long-term holding period of timberland properties makes an asset impairment unlikely as the undiscounted expected cash flows from a timberland property would need to decrease very significantly to not total in excess of the carrying value of a timber property. When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations. The land basis associated with most of our development properties is well below current market value; therefore, an asset impairment charge on one of our development projects is not likely.

Consolidation of ORM Timber Fund I, LP (Fund I) and ORM Timber Fund II, Inc. (Fund II): Fund I and Fund II are owned 19% by Pope Resources, A Delaware Limited Partnership, 1% by Olympic Resource Management LLC (a wholly owned subsidiary of the Partnership), and 80% by third-party investors. Olympic Resource Management LLC is the general partner of Fund I and the manager of Fund II. Third-party investors do not have the right to dissolve these Funds or otherwise remove the general partner/manager without cause nor do they have substantive participating rights in major decisions of Fund I or Fund II. Based upon this governance structure, Olympic Resource Management LLC has presumptive control of Fund I and Fund II and, as a result, under accounting rules Fund I and Fund II must be consolidated into the Partnership's financial statements.

Incentive Compensation. The Human Resources Committee adopted a new incentive compensation program in 2010. The program has two components – the Performance Restricted Unit (“PRU”) plan and the Long-Term Incentive Plan (“LTIP”). Both components have a long-term emphasis, with the PRU plan focused on annual decision making and performance, and the LTIP focused on 3-year performance of the Partnership's publicly traded units relative to a group of peer companies. Compensation expense relating to the performance restricted units will be recognized over the four-year future service period. The first equity grants pursuant to this new program were not made until January 2011 and, as such, no equity compensation expense related to this program was recognized in 2010. As of December 31, 2010, we had accrued \$1.5 million, with \$200,000 of that total attributable to the cash component of the PRU element and the balance of \$1.3 million attributable to the LTIP portion.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At December 31, 2010, the Partnership had \$40.9 million of fixed-rate debt outstanding with a fair value of approximately \$41.9 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by \$2.9 million.

POPE RESOURCES

A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2010 and 2009, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule included in Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee for Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2011 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 9, 2011

Report of Independent Registered Public Accounting Firm

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

We have audited Pope Resources', A Delaware Limited Partnership (the Partnership), internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Pope Resources, A Delaware Limited Partnership, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 9, 2011, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 9, 2011

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(IN THOUSANDS)

ASSETS	2010	2009
Current assets:		
Pope cash and cash equivalents	\$ 237	\$ 6,035
ORM Timber Funds cash and cash equivalents	2,186	1,145
Cash and cash equivalents	2,423	7,180
Student loan auction rate securities, current	-	690
Accounts receivable, net	543	261
Land held for sale	3	367
Current portion of contracts receivable	219	320
Prepaid expenses and other	805	468
Total current assets	3,993	9,286
Properties and equipment, at cost:		
Land held for development	27,737	25,872
Land	33,980	25,072
Roads and timber, net of accumulated depletion of \$60,044 and \$54,743	164,961	120,457
Buildings and equipment, net of accumulated depreciation of \$7,739 and \$7,321	3,854	3,967
Total properties and equipment, at cost	230,532	175,368
Other assets:		
Contracts receivable, net of current portion	652	1,140
Student loan auction rate securities, non-current	-	796
Other	660	490
Total other assets	1,312	2,426
Total assets	\$ 235,837	\$ 187,080
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	\$ 868	\$ 586
Accrued liabilities	2,656	808
Current portion of environmental remediation liabilities	397	200
Current portion of long-term debt	30	831
Deferred revenue	674	469
Other current liabilities	191	196
Total current liabilities	4,816	3,090
Long-term debt, net of current portion	50,468	28,659
Environmental remediation liabilities, net of current portion	1,536	1,069
Other long-term liabilities	210	205
Commitments and contingencies		
Partners' capital:		
General partners' capital (units issued and outstanding 60 and 60)	992	1,089
Limited partners' capital (units issued and outstanding 4,203 and 4,520)	69,998	82,037
Noncontrolling interests	107,817	70,931
Total partners' capital and noncontrolling interests	178,807	154,057
Total liabilities, partners' capital, and noncontrolling interests	\$ 235,837	\$ 187,080

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2010	2009	2008
Revenue			
Fee Timber	\$ 27,674	\$ 14,847	\$ 23,551
Timberland Management & Consulting	31	601	944
Real Estate	3,487	5,030	3,683
Total revenue	<u>31,192</u>	<u>20,478</u>	<u>28,178</u>
Costs and expenses			
Cost of sales:			
Fee Timber	(14,184)	(7,980)	(13,092)
Real Estate	(162)	(392)	(979)
Total cost of sales	<u>(14,346)</u>	<u>(8,372)</u>	<u>(14,071)</u>
Operating expenses:			
Fee Timber	(3,787)	(3,143)	(4,165)
Timberland Management & Consulting	(1,281)	(976)	(1,487)
Real Estate	(3,259)	(2,945)	(3,815)
Environmental remediation	(875)	(30)	-
General & Administrative (G&A)	(4,731)	(3,733)	(3,951)
Total operating expenses	<u>(13,933)</u>	<u>(10,827)</u>	<u>(13,418)</u>
Operating income (loss)			
Fee Timber	9,703	3,724	6,294
Timberland Management & Consulting	(1,250)	(375)	(543)
Real Estate	(809)	1,663	(1,111)
General & Administrative (G&A)	(4,731)	(3,733)	(3,951)
Total operating income	<u>2,913</u>	<u>1,279</u>	<u>689</u>
Other income (expense)			
Interest expense	(1,815)	(2,317)	(2,469)
Interest capitalized to development projects	569	1,091	1,279
Interest income	102	219	965
Net gain (loss) on student loan auction rate securities dispositions	11	(66)	-
Impairment of student loan auction rate securities	-	(252)	(381)
Total other expense	<u>(1,133)</u>	<u>(1,325)</u>	<u>(606)</u>
Debt extinguishment costs	(1,250)	(1,137)	-
Income (loss) before income taxes	<u>530</u>	<u>(1,183)</u>	<u>83</u>
Income tax benefit (expense)	290	(39)	61
Net income (loss)	<u>820</u>	<u>(1,222)</u>	<u>144</u>
Net loss attributable to noncontrolling interests-ORM Timber Funds	1,218	950	1,018
Net income (loss) attributable to unitholders	<u>\$ 2,038</u>	<u>\$ (272)</u>	<u>\$ 1,162</u>
Allocable to general partners	27	(4)	15
Allocable to limited partners	2,011	(268)	1,147
Earnings (loss) per unit attributable to unitholders:			
Basic	<u>\$ 0.43</u>	<u>\$ (0.07)</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.43</u>	<u>\$ (0.07)</u>	<u>\$ 0.23</u>
Distributions per unit	<u>\$ 0.70</u>	<u>\$ 0.70</u>	<u>\$ 1.60</u>

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(IN THOUSANDS)

	Attributable to Pope Resources		Noncontrolling Interests	Total
	General Partners	Limited Partners		
December 31, 2007	\$ 1,244	\$ 95,400	\$ 45,802	\$ 142,446
Net income and comprehensive income	30	1,132	(1,018)	144
Cash distributions	(96)	(7,348)	(800)	(8,244)
Capital call	-	-	370	370
Excess tax benefit from equity-based compensation	2	165	-	167
Equity-based compensation	8	576	-	584
Unit repurchases	(51)	(3,889)	-	(3,940)
Proceeds from option exercises	9	635	-	644
December 31, 2008	\$ 1,146	\$ 86,671	\$ 44,354	\$ 132,171
Net loss and comprehensive loss	(4)	(268)	(950)	(1,222)
Cash distributions	(42)	(3,177)	-	(3,219)
Capital call	-	-	27,527	27,527
Excess tax benefit from equity-based compensation	1	16	-	17
Equity based compensation	12	609	-	621
Unit repurchases	(24)	(1,814)	-	(1,838)
December 31, 2009	\$ 1,089	\$ 82,037	\$ 70,931	\$ 154,057
Net income and comprehensive income	64	1,974	(1,218)	820
Cash distributions	(42)	(3,199)	(821)	(4,062)
Proceeds from option exercises	19	603	-	622
Preferred stock issuance	-	-	125	125
Capital call	-	-	38,800	38,800
Equity-based compensation	22	690	-	712
Unit repurchases	(160)	(12,107)	-	(12,267)
December 31, 2010	\$ 992	\$ 69,998	\$ 107,817	\$ 178,807
Weighted average units outstanding		12/31/2010	12/31/2009	12/31/2008
Basic		4,554	4,539	4,597
Diluted		4,578	4,539	4,661

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(IN THOUSANDS)

	2010	2009	2008
Cash flows from operating activities:			
Cash received from customers	\$ 31,289	\$ 20,854	\$ 29,071
Cash paid to suppliers and employees	(19,210)	(16,533)	(21,281)
Interest received	103	280	1,025
Interest paid, net of amounts capitalized	(903)	(1,226)	(1,401)
Debt extinguishment costs	(1,250)	(1,137)	-
Capitalized development activities	(1,075)	(1,639)	(3,451)
Income taxes received (paid)	(4)	63	(11)
Net cash provided by operating activities	<u>8,950</u>	<u>662</u>	<u>3,952</u>
Cash flows from investing activities:			
Capital expenditures	(941)	(1,224)	(1,715)
Proceeds from sale of fixed assets	-	50	41
Redemption of short-term investments	1,497	1,815	26,775
Timberland acquisitions by ORM Timber Funds	(58,206)	(34,421)	(904)
Net cash provided by (used in) investing activities	<u>(57,650)</u>	<u>(33,780)</u>	<u>24,197</u>
Cash flows from financing activities:			
Cash distributions to unitholders	(3,241)	(3,219)	(7,444)
Capital call- ORM Timber Fund II, Inc.	38,800	27,527	370
Cash distributions- ORM Timber Funds	(806)	-	(800)
Borrowings on line of credit	9,600	-	-
Unit repurchases	(12,267)	(1,838)	(3,940)
Repayment of long-term debt	(1,038)	(1,418)	(1,342)
Extinguishment of long-term debt	(18,554)	(8,478)	-
Proceeds from issuance of long-term debt	31,000	9,800	-
Debt issuance costs	(283)	(71)	-
Proceeds from option exercises	622	-	644
Excess tax benefit from equity-based compensation	-	17	167
Preferred stock issuance- ORM Timber Fund II, Inc.	125	-	-
Preferred stock distribution- ORM Timber Fund II, Inc.	(15)	-	-
Net cash provided by (used in) financing activities	<u>43,943</u>	<u>22,320</u>	<u>(12,345)</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,757)</u>	<u>(10,798)</u>	<u>15,804</u>
Cash and cash equivalents:			
Beginning of year	7,180	17,978	2,174
End of year	<u>\$ 2,423</u>	<u>\$ 7,180</u>	<u>\$ 17,978</u>

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
SCHEDULE TO CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(IN THOUSANDS)

Reconciliation of net income (loss) to net cash provided by operating activities:	2010	2009	2008
Net income (loss)	\$ 820	\$ (1,222)	\$ 144
Depletion	5,169	2,001	3,915
Equity-based compensation	712	621	584
Excess tax benefit from equity-based compensation	-	(17)	(167)
Depreciation and amortization	642	810	774
Write-off of debt issuance costs	32	-	-
(Gain) loss on student loan auction rate securities	(11)	318	381
Deferred taxes, net	(252)	(222)	(143)
Cost of land sold	67	127	2,614
Capitalized development activities	(1,075)	(1,639)	(3,451)
Increase (decrease) in cash from changes in operating accounts:			
Deferred revenue	205	126	(63)
Accounts receivable	(282)	239	385
Contracts receivable	174	11	571
Prepaid expenses and other current assets	(71)	(138)	5
Accounts payable and accrued liabilities	2,157	(45)	(1,526)
Other current liabilities	(6)	35	53
Environmental remediation	664	(285)	(440)
Other long-term liabilities	5	(31)	(62)
Other long-term assets	-	(6)	384
Other, net	-	(21)	(6)
Net cash provided by operating activities	\$ 8,950	\$ 662	\$ 3,952

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Nature of operations**

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged primarily in managing timber resources on its own properties as well as those owned by others. Pope Resources' active subsidiaries include ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC, which provides timberland management and consulting activities and is responsible for developing the timber fund business; Olympic Property Group I, LLC, which manages the Port Gamble townsite and millsite and land that is held as development property; and OPG Properties LLC, which owns land that is held as development property. These consolidated financial statements also include the Funds. With respect to Fund I, Olympic Resource Management LLC is the general partner and owns 1% while Pope Resources owns 19%. Olympic Resource Management LLC is the manager of Fund II and owns 1% while Pope Resources owns 19%. The purpose of both Funds is to invest in timberlands. See Note 3 for additional information.

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

Principles of consolidation

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

General partner

The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions, income and other capital related items between the general and limited partners is pro rata among all units outstanding. The managing general partner of the Partnership is Pope MGP, Inc. and it receives an annual management fee of \$150,000 as compensation for performing its duties as managing general partner.

Noncontrolling interests:

Noncontrolling interests represents the 80% interest in Fund I and Fund II owned by third-party investors. These entities are consolidated into Pope Resources' financial statements due to our control over the entities (see Note 3).

Significant estimates and concentrations in financial statements

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

Cost of sales

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

Concentration of credit risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and contracts receivable. The Partnership limits its credit exposure by considering the creditworthiness of potential customers. The Partnership's allowance for doubtful accounts is \$10,423 and \$8,779 at December 31, 2010 and 2009, respectively.

Contracts receivable

The Partnership sells land parcels under contracts requiring minimum cash down payments of 20% to 25% at interest rates between 7% and 8.75% per annum. While one contract has a repayment term of 15 years, loans are typically structured with repayments based on a 20-year amortization schedule culminating in a balloon payment within 5 to 7 years. The Partnership reduces credit risk on contracts through down payment requirements and utilizing the underlying land as collateral.

At December 31, 2010, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows (in thousands):

2011	\$	219
2012		23
2013		194
2014		307
2015		9
Thereafter		119
Total	\$	<u>871</u>

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Operating loss and tax credit carryforwards are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Property and equipment

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

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations.

Buildings and equipment consisted of the following as of December 31, 2010 and 2009 (in thousands):

<u>Description</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Buildings	\$ 8,177	\$ 7,996
Equipment	2,795	2,676
Furniture and fixtures	621	617
Total	\$ 11,593	\$ 11,289
Accumulated depreciation	(7,739)	(7,321)
Net buildings and equipment	<u>\$ 3,854</u>	<u>\$ 3,967</u>

Timber and roads

The depletion rate is calculated by dividing estimated merchantable timber inventory into the cost basis of merchantable inventory as of the beginning of the year. The Partnership capitalizes the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Capitalized roads are depleted as timber is harvested. The road depletion rate is calculated by dividing the cost of capitalized roads at the beginning of the year by merchantable timber inventory. The resulting rate is applied to timber harvested during the year to determine road depletion expense. To calculate the depletion rate the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. Timber harvested by the Funds is accounted for and depleted separate from the Partnership's timberlands due to the third-party owners in the Funds.

Land held for development or sale

Land held for development represents the Partnership's cost basis in land that has been identified as having greater value as development than timber property. Our Real Estate segment works with these properties to establish entitlements with city and county officials that allow for further development. Project costs clearly associated with development or construction of these properties are capitalized. Indirect costs that do not clearly relate to projects under development or construction are expensed as incurred. Those properties that are either under contract or the Partnership has an expectation they will sell within the next 12 months are classified as a current asset under Land Held for Sale.

Deferred revenue

Deferred revenue represents the unearned portion of revenue collected. The balance at December 31, 2010 of \$674,000 and December 31, 2009 of \$469,000 primarily represents the unearned portion of the amounts received on cell tower leases and to a lesser extent deferred revenue on land sales.

Revenue recognition

Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes, upon receipt of adequate down payment, and receipt of the buyer's obligation to make sufficient continuing payments towards the purchase of the property. The Partnership normally does not sell real estate with less than a 20% down payment. Management fees and consulting service revenues are recognized as the related services are provided.

Land and CE sales

The Partnership considers the sale of land and CE's to be part of its normal operations and therefore recognizes revenue from such sales and cost of sales for the Partnership's basis in the property sold. Cash generated from these sales is included in cash flows from operations on the Partnership's statements of cash flows. Similarly, investments to acquire land to be held for sale or development, as well as costs incurred to develop those properties, are also included in cash flows from operations within the statements of cash flows.

In December 2010, the Partnership sold a \$2.4 million CE on nearly 6,900 acres in Skamania County. The sale was funded by the federal Forest Legacy program and restricts future development on the property while allowing continued management and harvest of timber. The sale provided a gross margin of \$2.2 million. The revenue is reported in the Real Estate segment.

Equity-based compensation

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

On the date of grant, these restricted units are owned by the employee, officer, or director of the Partnership, subject to a trading restriction that is in effect during the vesting period. As of December 31, 2010, total compensation expense related to non-vested awards not yet recognized was \$516,000 with a weighted average 11 months remaining to vest.

Comprehensive income (loss)

Comprehensive income (loss) consists solely of net income (loss).

Income per partnership unit

Basic net earnings (loss) per unit are based on the weighted average number of units outstanding during the period. Diluted net earnings (loss) per unit is calculated by dividing net income (loss) attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders and dividends paid to Fund II preferred shareholders, by the weighted average units outstanding during the year plus additional units that would have been outstanding assuming the exercise of in-the-money unit equivalents using the treasury stock method.

The table below displays how we arrived at options used to calculate dilutive unit equivalents and subsequent treatment of dilutive unit equivalents based on net income (loss) for the period:

(Thousands)	Year Ended December 31,		
	2010	2009	2008
Average per unit trading price	\$ 30.80	\$ 21.07	\$ 27.29
Total options outstanding	47,874	163,053	166,053
Less: options with strike price above average trading price (out-of-the-money)	(1,464)	(41,323)	(1,869)
Options used in calculation of dilutive unit equivalents	46,410	121,730	164,184
Net income (loss) attributable to Pope Resources' unitholders	\$ 2,038	\$ (272)	\$ 1,162
Dilutive unit equivalents	24	42	64
Less: unit equivalents considered anti-dilutive due to net loss in period	-	(42)	-
Dilutive unit equivalents used to calculate dilutive EPS	24	-	64

The following table shows how we arrived at basic and diluted income per unit:

(Thousands)	Year Ended December 31,		
	2010	2009	2008
Net income (loss) attributable to Pope Resources' unitholders	\$ 2,038	\$ (272)	\$ 1,162
Nonforfeitable distributions paid to unvested restricted unitholders	(45)	(39)	(99)
Dividends paid to Fund II preferred shareholders	(15)	-	-
Net income (loss) attributable to outstanding unitholders	\$ 1,978	\$ (311)	\$ 1,063
Weighted average units outstanding (in thousands):			
Basic	4,554	4,539	4,597
Dilutive effect of unit equivalents	24	-	64
Diluted	4,578	4,539	4,661
Earnings (loss) per unit: Basic	\$ 0.43	\$ (0.07)	\$ 0.23
Earnings (loss) per unit: Diluted	\$ 0.43	\$ (0.07)	\$ 0.23

For 2010, options to purchase 1,464 units at prices ranging from \$30.98 to \$37.73 were not included in the calculation of dilutive unit equivalents as they were anti-dilutive. This is compared with 2009, when options to purchase 41,323 units at prices ranging from \$21.35 to \$37.73 were not included and 2008, when options to purchase 4,869 units at prices ranging from \$27.88 to \$37.73 were not included in the calculation of dilutive unit equivalents as they were anti-dilutive.

Statements of cash flows

The Partnership considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Non-cash investing activities for the year ended December 31, 2008 included the following:

- \$596,000 held in trust by an IRC Section 1031 exchange facilitator as of December 31, 2007 used to acquire timberlands as of March 31, 2008.
- \$360,000 for capital improvements accrued in 2007 and paid 2008. This amount is partially offset by \$70,000 of accrued investing activity in 2008 and paid in 2009.
- \$203,000 of long-term debt incurred in 2008 relating to a cost-share reimbursement to the City of Tacoma for bridge construction ensuring continued access to Fund I property.

Fund II Preferred Shares

Fund II issued 125 par \$0.01 shares of its 12.5% Series A Cumulative Non-Voting Preferred Stock (Series A Preferred Stock) at \$1,000 per share for total proceeds of \$125,000 in March 2010. Each holder of the Series A Preferred Stock is entitled to a liquidation preference of \$1,000 per share. Dividends on each share of Series A Preferred Stock will accrue on a daily basis at the rate of 12.5% per annum. Upon redemption, the Series A Preferred Shares will be settled in cash and are not convertible into any other class or series of shares or Partnership units. Redemption timing is controlled by Fund II. The maximum amount that the consolidated subsidiary could be required to pay to redeem the instruments upon settlement is \$125,000 plus accrued but unpaid dividends. The Series A Preferred Stock is recorded within noncontrolling interests on the consolidated balance sheet and are considered participating securities for purposes of calculating earnings (loss) per share.

Accounting pronouncements adopted in 2010

On January 4, 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements (ASU 2010-06)*. ASU 2010-06 requires additional disclosure within the roll forward activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, ASU 2010-06 requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Level 2 and Level 3. ASU 2010-06 was adopted for the Partnership's first quarter ending March 31, 2010, except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements, for which disclosures are not required until the Partnership's first quarter of fiscal 2011. During 2010, the Partnership did not have any transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy. The adoption of the additional disclosures for Level 1 and Level 2 fair value measurements did not have an impact on the Partnership's financial position, results of operations or cash flows. The Partnership is currently evaluating the potential impact of the disclosures regarding Level 3 fair value measurements.

Multiple Deliverables Arrangements (Topic 605 of ASU 2009-13) – was issued in September 2009. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This accounting standard is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This guidance is effective for us on January 1, 2011, however management does not believe that there will be a significant impact of this new standard on the Partnership's financial position, results of operations, cash flows, or disclosures.

In July 2010, the FASB also issued an initial draft of new financial statement presentation requirements. These new requirements, as currently drafted, would substantially change the way financial statements are presented by disaggregating information in financial statements to explain the components of its financial position and financial performance. These changes will impact the presentation of the financial statements only and are not expected to impact the Company's overall financial position, results of operations, or cash flows.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2010 presentation including allocations between GP and LP in the Statement of Partners' Capital and Comprehensive Income (loss).

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments held at December 31, 2010 and 2009 were as follows:

	December 31, 2010		
	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Cash and cash equivalents	\$ 2,423	\$ -	\$ 2,423

	December 31, 2009		
	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Cash and cash equivalents	\$ 7,180	\$ -	\$ 7,180
Securities maturing after ten years:			
Auction rate securities, current	925	(235)	690
Auction rate securities, non-current	1,000	(204)	796

During 2010, we liquidated the remaining \$1.5 million of auction rate securities held as of December 31, 2009 resulting in a realized gain of nearly \$11,000. This realized gain resulted from the following three transactions:

Date	Description	Proceeds	Basis	Gain/(Loss)
Jan 21st	Pennsylvania Higher Education	\$ 25,000	\$ 18,653	\$ 6,347
Jan 28th	Pennsylvania Higher Education	702,000	671,490	30,510
Mar 5th	Brazos	770,000	796,100	(26,100)
	Total	\$ 1,497,000	\$ 1,486,243	\$ 10,757

For the same period in 2009, we reported an unrealized loss of \$252,000 in addition to a \$66,000 realized loss.

ASC 820 *Fair Value Measurements and Disclosures* was followed to determine the fair value of the Partnership's investments. ASC 820 defines a hierarchy of three levels of evidence used to determine fair value:

- Level 1 - quoted prices for identical assets/liabilities in active markets
- Level 2 - quoted prices in a less active market, quoted prices for similar but not identical assets/liabilities, observable inputs other than quoted prices
- Level 3 - significant unobservable inputs including the Partnership's own assumptions in determining the fair value of investments

Under current credit market conditions, there is limited market data for SLARS, thus available Level 1 inputs for use in determining a market value were not available historically. Specific securities under the general description of SLARS are unique and there are no actively traded markets that one can observe to determine a value for a specific security unless a transaction is identified for the security held within our portfolio. We sold one security during the fourth quarter of 2009 and used that transaction as a Level 2 indicator of value for the rest of the portfolio. The following table provides the fair value measurements of applicable Partnership financial assets according to the levels defined in ASC 820 as of December 31, 2010 and 2009:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,423	\$ -	\$ -	\$ 2,423
Total financial assets at fair value	\$ 2,423	\$ -	\$ -	\$ 2,423

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 7,180	\$ -	\$ -	\$ 7,180
Auction rate securities, current	-	690	-	690
Auction rate securities, non-current	-	796	-	796
Total financial assets at fair value	\$ 7,180	\$ 1,486	\$ -	\$ 8,666

The table below summarizes the change in the consolidated balance sheet carrying value associated with Level 3 financial assets for the annual periods ended December 31, 2010 and 2009:

Activity for Securities Valued Using Level 3 Inputs	2010	2009
Balance at beginning of period	\$ -	\$ 3,619
Transfers into Level 3	-	-
Transfers out of Level 3	-	(1,486)
Dispositions	-	(1,815)
Unrealized losses	-	(252)
Realized losses on dispositions	-	(66)
Balance at end of period	\$ -	\$ -

3. ORM TIMBER FUND I, LP (FUND I) AND ORM TIMBER FUND II, INC. (FUND II)

The Funds were formed by Olympic Resource Management LLC (ORMLLC) for the purpose of attracting investor 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. Both Funds will operate for a term of ten years from the end of the drawdown period. The drawdown period for Fund I ended on August 1, 2007 and the drawdown period for Fund II will end in March 2011 or after Fund II is fully invested, whichever occurs sooner.

Pope Resources and ORMLLC together own 20% of each Fund and both are consolidated into the Partnership's financial statements. The Funds' statements of operations for the years ended December 31, 2010, 2009, and 2008 reflect losses of \$1.3 million, \$1.2 million, and \$1.3 million, respectively. These losses include management fees paid to ORMLLC of \$1.5 million, \$908,000, and \$946,000 for 2010, 2009, and 2008, respectively, which are eliminated in consolidation.

The Partnership's consolidated financial statements included Fund I and Fund II assets and liabilities at December 31, 2010 and 2009, which were as follows:

	2010	2009
Cash	\$ 2,186	\$ 1,145
Other current assets	413	38
Timber, land, and roads (net of \$5,141 and \$2,612 of accumulated depletion in 2010 and 2009)	144,063	88,342
Other long-term assets	141	6
Total assets	<u>\$ 146,803</u>	<u>\$ 89,531</u>
Current liabilities excluding long-term debt	\$ 954	\$ 741
Current portion of long-term debt	30	29
Total current liabilities	984	770
Long-term debt	11,068	98
Funds' equity	134,751	88,663
Total liabilities and equity	<u>\$ 146,803</u>	<u>\$ 89,531</u>

4. LONG-TERM DEBT

(Amounts in thousands:)	At December 31,	
	2010	2009
Pope Resources debt:		
Mortgages payable to NWFCS, collateralized by timberlands, as follows:		
Five-year tranche, interest at 4.10% with monthly interest-only payments. Matures in July 2015.	\$ 5,000	\$ -
Seven-year tranche, interest at 4.85% with monthly interest-only payments. Matures in July 2017.	5,000	-
Ten-year tranche, interest at 6.40%, collateralized by timberlands with monthly interest-only payments. Matures September 2019.	9,800	9,800
Fifteen-year tranche, interest at 6.05% with monthly interest-only payments. Matures in July 2025.	10,000	-
	<u>29,800</u>	9,800
Mortgage payable to JHLIC, interest at 7.63%, collateralized by timberlands with monthly interest payments and annual principal payments. Repaid in April 2010.	-	19,303
Local improvement district assessments, with interest ranging from 5.03% to 6.5%.	-	260
Operating line of credit, variable interest rate based on LIBOR variable plus 2.25%, with monthly interest-only payments. Matures August 2013.	9,600	
Total Partnership debt	<u>39,400</u>	<u>29,363</u>
ORM Timber Funds debt:		
Fund I note payable to the City of Tacoma, with interest at 4.5%, with monthly principal and interest payments maturing January 2014.	98	127
Fund II mortgage payable to MetLife, interest at 4.85%, collateralized by Fund II timberlands with quarterly interest payments maturing September 2020.	11,000	-
Total ORM Timber Funds debt	<u>11,098</u>	<u>127</u>
Consolidated subtotal	50,498	29,490
Less current portion	(30)	(831)
Consolidated long-term debt	<u>\$ 50,468</u>	<u>\$ 28,659</u>

The Partnership's debt agreements contain a covenant which requires the Partnership not to exceed a maximum debt-to-total- capitalization ratio of 30%, with total capitalization defined and calculated as the fair market (vs. carrying) value of timberland, roads and timber . The Partnership is in compliance with this covenant as of December 31, 2010 and expects to remain in compliance for at least the next 12 months.

Fund II's debt agreements contain a requirement to maintain a loan-to-value ratio of less than 40%. Fund II is in compliance with this covenant as of December 31, 2010 and expects to remain in compliance for at least the next 12 months.

At December 31, 2010, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2011	\$	30
2012		32
2013		9,633
2014		3
2015		5,000
Thereafter		35,800

On April 16, 2010 we used existing cash balances along with proceeds from our operating line of credit to retire the \$18.6 million, 7.63% timberland mortgage due in April 2011 held by JHLIC. The early retirement of this mortgage triggered \$1.2 million of debt extinguishment costs. In June 2010, we entered into a new \$20.0 million term loan agreement with the NWFCS. The new term loan is comprised of three tranches of varying maturities and weighted average interest rate of 5.26%. In addition to paying off the old loan held by JHLIC, proceeds from the new loan were used to finance the aforementioned debt extinguishment charge and add approximately \$200,000 to working capital.

In connection with the new term loan, we elected to extend the Partnership's revolving line of credit with NWFCS from August 2011 to August 2013 and to reduce the maximum borrowing limit from \$35 million to \$20 million. The line of credit had \$9.6 million drawn as of December 31, 2010. This unsecured revolving loan agreement has a debt covenant that requires maintenance of a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market value of timberland, which the Partnership passed at December 31, 2010. The interest rate under this credit facility uses LIBOR as a benchmark. The spread above the benchmark rate is variable depending on the interest coverage ratio but ranges from 225 to 325 basis points. As of December 31, 2010 the rate (benchmark plus the spread) was 255 basis points.

As part of the debt refinancing and the reduction in borrowing capacity, the Partnership wrote off unamortized loan fees of \$32,000.

Simultaneous with a timberland acquisition during the third quarter of 2010, Fund II closed on an \$11 million timberland mortgage with MetLife. The mortgage is a non-amortizing 10-year loan with an interest rate of 4.85%. The agreement allows for, but does not require, annual principal payments of up to 10% without incurring a make-whole premium.

Accrued interest relating to all debt instruments was \$453,000 at December 31, 2010, and is included in accrued liabilities.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, short-term investments, 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. The fair value of the Partnership's and Funds' fixed-rate debt having a carrying value of \$40.9 million and \$29.5 million has been estimated based on current interest rates for similar financial instruments to be approximately \$41.9 million and \$30.5 million as of December 31, 2010 and 2009, respectively.

6. INCOME TAXES

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

	2010	2009	2008
Income (loss) before income taxes	\$ 530	\$ (1,183)	\$ 83
Less: Income/(loss) earned in entities that pass-through pre-tax earnings to the partners	1,408	(1,263)	144
Income (loss) subject to income taxes	<u>\$ (878)</u>	<u>\$ 80</u>	<u>\$ (61)</u>

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

	2010	2009	2008
Current	\$ 38	\$ (278)	\$ (249)
Deferred	252	222	143
Paid in capital	-	17	167
Total	<u>\$ 290</u>	<u>\$ (39)</u>	<u>\$ 61</u>

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

	2010	2009	2008
Statutory tax on income	34%	34%	34%
Income earned in entities that pass-through pre-tax earnings to the partners	(67%)	(37%)	(107%)
Effective income tax rate	<u>(33%)</u>	<u>(3%)</u>	<u>(73%)</u>

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

	2010	2009	2008
Current (included in prepaid expenses and other)	\$ 401	\$ 111	\$ 100
Non current (included in other assets)	335	373	162
Total	<u>\$ 736</u>	<u>\$ 484</u>	<u>\$ 262</u>

The deferred tax assets are comprised of the following:

	2010	2009	2008
Employee-related accruals	\$ 647	\$ 403	\$ 205
Depreciation	38	25	7
Other	51	56	50
Total	\$ 736	\$ 484	\$ 262

The Partnership has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2010. This conclusion is based on anticipated future taxable income and tax planning strategies to generate taxable income, if needed. The partnership will continue to reassess the need for a valuation allowance during each future reporting period.

7. UNIT INCENTIVE PLAN

The Partnership's 2005 Unit Incentive Plan (the Plan) authorized the granting of nonqualified equity compensation to employees, officers, and directors of the Partnership. A total of 1,105,815 units have been reserved for issuance under the Plan of which there are 1,005,044 units authorized but unissued as of December 31, 2010. The Partnership issued 26,200 restricted units in two grants under the Plan in 2010. One of the 2010 grants vests over two years with 50% vesting after one year and the remaining 50% vesting after the second year from the grant date provided the grantee is still an employee as of the vesting date. The other grant vests over four years with 50% vesting on the third anniversary and the remaining 50% vesting on the fourth, provided the grantee remains an employee, officer, or director as of the vesting date. Two of the 2009 unit grants vest over four years with 50% vesting on the third anniversary and the remaining 50% vesting on the fourth, provided the grantee remains an employee, officer, or director as of the vesting date. One of the 2009 unit grants vests over two years with 50% vesting after one year and the remaining 50% vesting after the second year from the grant date provided the grantee is still an employee, officer, or director as of the vesting date. The grantee may not transfer restricted units until the holder fulfills the vesting requirements.

One of the two components of the new incentive compensation program adopted in 2010 is the PRU plan. Compensation expense relating to the performance restricted units will vest 25% per year over a 4 year future service period. The first equity grants pursuant to this new program were not made until January 2011 and, as such, no equity compensation expense related to this program was recognized in 2010. As of December 31, 2010, we had accrued \$1.5 million in accrued liabilities relating to the 2010 incentive compensation program, with \$200,000 of that total attributable to that portion of the PRU that is paid out in cash. See discussion in Item 11.

The new incentive compensation program does not affect the existence or availability of the 2005 Unit Incentive Plan or change its terms. The 2005 Unit Incentive Plan provides a one-way linkage to the new program because it (2005 Plan) has already established the formal framework by which unit grants, options, etc., can be issued. More specifically, the 2005 Plan has an impact on the mechanics of how that portion of the new program that awards equity is implemented.

Restricted Units

The Human Resources Committee makes awards of restricted units to certain employees, plus the officers and directors of the Partnership and its subsidiaries. The restricted unit grants vest over two to four years and are compensatory in nature. Restricted unit awards entitle the recipient to full distribution rights during the vesting period but are restricted from disposition and may be forfeited until the units vest. The fair value, which equals the market price at date of grant, is charged to income on a straight line basis over the vesting period. Grants to retirement-eligible individuals are expensed immediately.

Restricted unit activity for the three years ended December 31, 2010 was as follows:

	Units	Weighted Avg Grant Date Fair Value (\$)
Outstanding December 31, 2007	53,250	37.27
Grants	19,500	32.99
Vested, net of units tendered back	(8,896)	33.87
Tendered back to pay tax withholding	(479)	37.13
Forfeited	(1,500)	37.15
Outstanding December 31, 2008	61,875	36.42
Grants	11,695	20.52
Vested, net of units tendered back	(16,196)	34.32
Tendered back to pay tax withholding	(1,179)	33.98
Outstanding December 31, 2009	56,195	33.76
Grants	26,200	25.15
Vested, net of units tendered back	(16,334)	38.29
Tendered back to pay tax withholding	(1,388)	39.24
Outstanding December 31, 2010	64,673	29.01

Unit Options

There were 1,005,044, 1,028,744, and 1,037,918 units available for issuance under the 2005 Unit Incentive Plan as of December 31, 2010, 2009, and 2008 respectively. Unit options have not been granted since December 2005. Unit options granted prior to January 1, 2006 were non-qualified options granted at an exercise price not less than 100% of the fair value on the grant date. Unit options granted to employees vested over four or five years. Directors had the option of receiving their annual retainer in the form of unit options and those options vested immediately as they were granted monthly for services rendered during the month. Options granted have a life of ten years.

	Options	Exercise Price (\$)
Vested December 31, 2007	199,856	15.97
Unvested December 31, 2007	6,200	15.96
Outstanding December 31, 2007	206,056	15.97
Exercised	(40,003)	16.08
Vested	6,200	15.96
Outstanding and Vested December 31, 2008	166,053	16.08
Expired	(3,000)	27.88
Outstanding and Vested December 31, 2009	163,053	15.86
Exercised	(75,692)	14.96
Expired	(2,500)	24.13
Tendered back to pay exercise price and tax withholding*	(36,987)	18.46
Outstanding and Vested December 31, 2010	47,874	14.85

*Upon exercise of options, grantees have the choice of tendering back units to pay for their option exercise price and tax on gain. Tax withholding is calculated at the minimum statutory rate.

There are no unvested unit options at December 31, 2010.

The aggregate spread between the option exercise price and unit market price (intrinsic value) of all options outstanding with a positive intrinsic value at December 31, 2010 was \$1.0 million. There were 75,692 options exercised during 2010. The weighted average remaining contractual term for all outstanding and exercisable options at December 31, 2010 was 2.0 years.

8. PARTNERSHIP UNIT REPURCHASE PLANS

The Partnership adopted a unit repurchase plan in December 2008 pursuant to which was authorized to repurchase limited partner units with an aggregate value of up to \$2.5 million. Since that time, we have increased the aggregate value of units authorized for repurchase to \$5 million and extended the repurchase plan to allow for repurchases through December 2011. As of December 31, 2010, there remained an unutilized authorization for unit repurchases of \$2.5 million.

In addition to the December 2008 unit repurchase plan, the Partnership repurchased 334,340 units from a single shareholder on December 31, 2010 for \$35.50 per unit which excludes a \$0.05 per unit commission paid on settlement. The units represent 7.2% of the total units outstanding at that time and were retired.

9. EMPLOYEE BENEFITS

As of December 31, 2010 all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During the years 2008 through 2010 the Partnership matched 50% of employees' contributions up to 8% of an individual's compensation. The Partnership's contributions to the plan amounted to \$123,000, \$131,000, and \$150,000 for the years ended December 31, 2010, 2009, and 2008 respectively.

10. COMMITMENTS AND CONTINGENCIES

Environmental remediation

The Partnership has an accrual for estimated environmental remediation costs of \$1.9 million and \$1.3 million as of December 31, 2010 and 2009, respectively. The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the townsite/millsite of Port Gamble, and at Port Ludlow, Washington.

During the fourth quarter of 2010, review continued on the draft Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) reports related to Port Gamble. The reports have an estimated submission for a 30-day public comment period beginning in early March 2011. The public comments will be part of the data that informs a cleanup action plan anticipated to be filed with a consent decree in late 2011. The development of a cleanup action plan includes formalizing cost estimates and how costs will be shared between responsible parties, which will be reflected in the Partnership's environmental remediation accrual liability where and when appropriate.

The environmental remediation accrual contains costs estimated in connection with a second and separate remediation effort at Port Gamble as well as a third site within the resort community of Port Ludlow. We will be completing site investigations and remediating contaminated sites if and where required.

The environmental liability at December 31, 2010 is comprised of \$397,000 that the Partnership expects to expend in the next 12 months and \$1.5 million thereafter. Statistical models have been used to estimate the liability and suggest a potential aggregate range of loss of \$744,000 to \$3.8 million.

Performance bonds

In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had performance bonds of \$340,000 and \$428,000 outstanding at December 31, 2010 and 2009 respectively.

Operating leases

The Partnership has non-cancelable operating leases for automobiles, office space, and computer equipment. The lease terms are from 12 to 48 months. Rent expense under the operating leases totaled \$79,000, \$105,000, and \$127,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

At December 31, 2010 future annual minimum rental payments under non-cancelable operating leases were as follows:

<u>Year</u>	<u>Amount</u>
2011	51,000
2012	15,000
2013	-
2014	-

Supplemental Employee Retirement Plan

The Partnership has a supplemental employee retirement plan for a retired key employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits with a fixed payment set at \$25,013 annually. The Partnership accrued \$31,000 and \$43,000 in 2010 and 2009, respectively, for this benefit based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the projected liability as of December 31, 2010 and 2009 was \$211,000 and \$205,000, respectively.

Contingencies

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

11. RELATED PARTY TRANSACTIONS AND NONCONTROLLING INTEREST

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

12. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management & Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from both the Partnership's 114,000 acres of fee timberland in Washington and the Funds' 61,000 acres in Washington and Oregon.

The Timberland Management & Consulting segment provides investment management, disposition, and technical forestry services in connection with 24,000 acres for Fund I and 37,000 acres for Fund II.

The Real Estate segment's operations consist of management of development properties and the rental of residential and commercial properties in Port Gamble and Kingston, Washington. Real Estate manages a portfolio of 2,800 acres of higher-and-better-use properties as of December 31, 2010. All of the Partnership's real estate activities are in the State of Washington.

For the year ended December 31, 2010, the Partnership had one customer that represented 24% of consolidated revenue, or \$7.6 million. The revenue was generated by the Fee Timber segment. For the year ended December 31, 2009, the Partnership had two customers that represented 16% and 10% of consolidated revenue, or \$3.3 million and \$2.1 million, respectively. The revenues from both customers were generated by the Fee Timber segment.

Identifiable assets are those used exclusively in the operations of each industry segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses, or the cost basis of the Partnership's administrative office for purposes of evaluating segment performance. Intersegment transactions are valued at prices that approximate the price that would be charged to a major third-party customer. Details of the Partnership's operations by business segment for the years ended December 31 were as follows (in thousands):

	2010	2009	2008
Revenue			
Partnership Fee Timber	22,474	14,977	19,282
Funds Fee Timber	5,370	31	4,845
Total Combined Fee Timber	27,844	15,008	24,127
Timberland Management & Consulting	1,519	1,509	1,890
Real Estate	3,535	5,078	3,723
Total Revenue (Internal)	32,898	21,595	29,740
Elimination of Intersegment Revenue	(1,706)	(1,117)	(1,562)
Total Revenue (External)	31,192	20,478	28,178
Intersegment Revenue or Transfers			
Partnership Fee Timber	(170)	(161)	(577)
Funds Fee Timber	-	-	-
Total Combined Fee Timber	(170)	(161)	(577)
Timberland Management & Consulting	(1,488)	(908)	(946)
Real Estate	(48)	(48)	(39)
Total Intersegment Revenue or Transfers	(1,706)	(1,117)	(1,562)
Operating Income (Loss)			
Partnership Fee Timber	9,657	4,131	7,217
Funds Fee Timber	(1,307)	(1,185)	(1,278)
Total Combined Fee Timber	8,350	2,946	5,939
Timberland Management & Consulting	55	355	138
Real Estate	(761)	1,711	(1,437)
G&A	(4,731)	(3,733)	(3,951)
Total Operating Income (Internal)	2,913	1,279	689
Intersegment Charges or Transfers			
Partnership Fee Timber	(119)	(113)	(538)
Funds Fee Timber	1,472	891	893
Total Combined Fee Timber	1,353	778	355
Timberland Management & Consulting	(1,305)	(730)	(681)
Real Estate	(48)	(48)	326
G&A	-	-	-
Total Intersegment Charges or Transfers	-	-	-
Total Operating Income (External)	2,913	1,279	689

	2010	2009	2008
Depreciation, Amortization and Depletion			
Partnership Fee Timber	2,883	2,413	2,381
Funds Fee Timber	2,534	-	1,341
Total Combined Fee Timber	5,417	2,413	3,722
Timberland Management & Consulting	3	17	127
Real Estate	240	190	684
G&A	151	191	156
Total	5,811	2,811	4,689
Assets			
Partnership Fee Timber	54,990	57,982	59,911
Funds Fee Timber	146,803	89,531	55,836
Total Combined Fee Timber	201,793	147,513	115,747
Timberland Management & Consulting	10	38	54
Real Estate	31,757	30,604	28,752
G&A	2,277	8,925	20,858
Total	235,837	187,080	165,411
Capital and Land Expenditures			
Partnership Fee Timber	524	532	1,795
Funds Fee Timber	58,311	34,553	269
Total Combined Fee Timber	58,835	35,085	2,064
Timberland Management & Consulting	2	-	3
Real Estate-development activities	1,075	1,639	3,451
Real Estate-other	185	537	-
G&A	125	23	552
Total	60,222	37,284	6,070
Revenue by product/service			
Domestic forest products	18,384	12,016	17,698
Export forest products, indirect	9,290	2,831	3,426
Conservation easements and sales	2,400	3,298	3,736
Fees for service	31	632	944
Homes, lots, and undeveloped acreage	1,087	1,701	2,374
Total	31,192	20,478	28,178

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands except per unit amounts)	Revenue	Income (loss) from operations	Net income (loss) attributable to unitholders	Earnings (loss) per partnership unit: Basic	Earnings (loss) per partnership unit: Diluted
2010					
First quarter	\$ 5,966	\$ 572	\$ 451	\$ 0.10	\$ 0.10
Second quarter	8,089	131	(1,126)	(0.25)	(0.25)
Third quarter	8,591	889	1,050	0.23	0.22
Fourth quarter	8,546	1,321	1,663	0.35	0.35
2009					
First quarter	\$ 4,979	\$ (41)	\$ (123)	\$ (0.03)	\$ (0.03)
Second quarter	3,666	(724)	(693)	(0.16)	(0.16)
Third quarter	6,615	2,118	920	0.20	0.20
Fourth quarter	5,218	(74)	(376)	(0.08)	(0.08)

Quarterly fluctuations in data result from the addition and/or deferral of harvest volumes as well as the timing of real estate and CE sales, as disclosed in our quarterly filings. Management considered the disclosure requirements of Item 302(a)(3) and does not note any extraordinary, unusual, or infrequently occurring items except as disclosed.

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

None

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control Over Financial Reporting

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

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

Management has evaluated the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2010 based on the control criteria established in a report entitled *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, the Partnership's management has concluded that the Partnership's internal control over financial reporting is effective as of December 31, 2010.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all errors or misstatements and all fraud. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance that the objectives of the policies and procedures are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Changes in Internal Control over Financial Reporting

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

9B. OTHER INFORMATION.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

The Partnership has no directors. Instead, the Board of Directors of its managing general partner, Pope MGP, Inc. (the "Managing General Partner"), serves in that capacity. The Managing General Partner's address is the same as the address of the principal offices of the Partnership. Pope MGP, Inc. receives \$150,000 per year for serving as Managing General Partner of the Partnership. Until 2010, the Managing General Partner also was entitled to a disproportionate share of the Partnership's income derived from its investor portfolio management business; however, this special allocation was eliminated in 2010.

The following table identifies the executive officers and directors of the Managing General Partner as of February 15, 2011. Officers of the Managing General Partner hold identical offices with the Partnership.

<u>Name</u>	<u>Age</u>	<u>Position, Background, and Qualifications to Serve</u>
David L. Nunes ⁽²⁾	49	President and Chief Executive Officer, and Director, from January 2002 to present. President and Chief Operating Officer from September 2000 to January 2002. Senior Vice President Acquisitions & Portfolio Development from November 1998 to August 2000. Vice President Portfolio Development from December 1997 to October 1998. Director of Portfolio Development from April 1997 to December 1997 of Pope MGP, Inc. and the Partnership. Held numerous positions with the Weyerhaeuser Company from 1988 to 1997, the last of which was Strategic Planning Director. Mr. Nunes, as the Partnership's CEO, serves as the only management representative on the board of directors, and is an ex officio member in that regard. Additionally, Mr. Nunes' operational experience and his hands-on knowledge of the Partnership's business and executive team allows him to provide a perspective on the execution of the Partnership's business plans and strategies not available to the non-management directors.
Thomas M. Ringo	57	Vice President and CFO from December 2000 to present. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership. Tax Manager of Westin Hotel Company, 1985 to March 1989. Tax Consultant for Price Waterhouse, 1981 to 1985.
John E. Conlin ^{(2), (3), (4)}	52	Director; Co-President and COO, NWQ Investment Management, 2006 to present; Member, Board of Advisors, Victory Park Capital, 2009 to present; Member, Corporate Advisory Board, University of Michigan, Ross School of Business, 2006 to present; Member, University of Rochester Endowment Committee, 2006 to present; Director, ACME Communications, 2005 to 2008; Director, Cannell Capital Management 2002 to 2006; CEO, Robertson Stephens, Inc, from 2001 to 2003; COO, Robertson Stephens, Inc, from 1999 to 2000. Held numerous positions with Credit Suisse from 1983 to 1999, the last of which was Managing Director. Mr. Conlin's background in corporate finance, capital-raising and financial analysis bring the Partnership a perspective that is unique among our directors. Moreover, Mr. Conlin offers an ability to assess capital needs, structures and returns relating to the performance and operation of the Partnership, the Funds, and our strategic goals and objectives.

Douglas E. Norberg ^{(1), (3), (4), (5)}	70	Director; Vice Chairman, Wright Runstad & Company, 2000 to 2007; President, Wright Runstad & Company, 1975 until 2000. Wright Runstad & Company is in the business of real estate investing, development, and management. Mr. Norberg has extensive knowledge of real estate development, marketing and management, and consults regularly with management regarding the Partnership's real property portfolio. Mr. Norberg also brings years of experience evaluating strategic alternatives for various real property opportunities.
Peter T. Pope ^{(1), (4)}	76	Director; Director, Pope & Talbot, Inc. 1971 to 2007; Chairman of the Board and CEO of Pope & Talbot, Inc., 1971 to 1999. Mr. Pope retired as CEO of Pope & Talbot, Inc. in 1999. Mr. Pope is also a director and President of Pope EGP, Inc. Mr. Pope has been a director since the formation of the Partnership and brings an historical perspective on the Partnership's assets and business that we believe is critical to the Partnership's recent successes. Moreover, Mr. Pope has more than 50 years' experience in the operation and management of all aspects of the forest products industry, which affords him the ability, not only to assess and advise regarding the Partnership's own lines of business, but also on those of the companies with which the Partnership serves as a supplier, advisor, manager, customer and client. Finally, Mr. Pope's experience offers a perspective which spans multiple business cycles that we believe is critical as management faces the current economic downturn, affording us an improved ability to tailor the Partnership's strategic and tactical responses to changing market conditions.
J. Thurston Roach ^{(1), (3), (4)}	69	Director; private investor; Director, Deltic Timber Corporation, December 2000 to present; Director, CellFor Inc. from November 2002 to May 2009; Outside Director, NBBJ Design, LLP, from November 2007 to present; Director, The Liberty Corporation May 1994 to January 2006; President and CEO, HaloSource Corporation, October 2000 to November 2001; Director, HaloSource Corporation, October 2000 to February 2002; Senior Vice President and CFO, Owens Corning, January 1999 to April 2000; Senior Vice President and President of Owens Corning's North American Building Materials Systems Business, February 1998 to December 1998; Vice Chairman, Simpson Investment Company, July 1997 to February 1998; President, Simpson Timber Company, January 1996 to June 1997; Senior Vice President and Chief Financial Officer and Secretary, Simpson Investment Company, August 1984 to December 1995. Mr. Roach's experience as a senior executive and director at other timber and resource companies offer the Partnership insight into the practical issues facing public companies, and his specific knowledge of the timber and timberland markets, both in the Pacific Northwest and elsewhere, allow him to provide extensive input on both strategic and tactical business decisions confronting the board. His specific experience as Audit Committee chair for another public company has been leveraged effectively into a similar role at the Partnership.

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

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner's Articles of Incorporation provide that directors are divided into two classes, each class serving a period of two years. The Managing General Partner's shareholders elect approximately one-half of the members of the Board of Directors annually. The terms of the Class A directors expire on December 31, 2012, and the terms of the Class B directors expire on December 31, 2011. The directors' election to the Managing General Partner's Board of Directors is subject to a voting agreement between the Managing General Partner's two shareholders, Mr. Peter T. Pope and Mrs. Emily T. Andrews. Mr. Pope serves as his own appointee, and J. Thurston Roach serves as Mrs. Andrews' appointee to the Board of Directors. The Managing General Partner's Board of Directors met seven times in 2010 with five of the meetings in person to discuss Partnership matters. The composition of our Board of Directors is established by the Limited Partnership Agreement and accordingly, as permitted by NASDAQ Rules IM-5065-7 and 5615(a)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Past Directorships. During the period 2006 through 2010, Messrs. Pope, Roach, and Conlin served on boards of other public companies as outlined in the following table.

Individual's Name	Name of Public Company	Term of Directorship
Peter T. Pope	Pope & Talbot, Inc. (NYSE:POP)	1971 - 2007
J. Thurston Roach	The Liberty Corporation (NYSE:LC)	1994 - 2006
J. Thurston Roach	Deltic Timber Company (NYSE:DEL)	2000 - present
John E. Conlin	ACME Communications (NASDAQ:ACME)	2005 - 2008

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

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

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

Audit Committee. The Audit Committee of the Managing General Partner's Board of Directors is comprised of three outside directors who comply with the Securities Exchange Act and NASDAQ's qualification requirements for Audit Committee members. The Audit Committee met to discuss the Partnership eight times during 2010. The Audit Committee's Chairman is J. Thurston Roach and its designated financial expert is Douglas E. Norberg. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unitholders; and (3) determining the salary, bonus, unit option and other compensation of the Partnership's executive officers and senior management. The Human Resources Committee met five times during 2010. Mr. John E. Conlin served as Chairman of the Human Resources Committee in 2010. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

The Partnership is a reporting company pursuant to Section 12 of the Securities Exchange Act of 1934 ("Exchange Act"). Under Section 16(a) of the Exchange Act, and the rules promulgated hereunder, directors, officers, greater than 10% shareholders, and certain other key personnel (the "Reporting Persons") are required to report their ownership and any change in ownership of Partnership units to the Securities and Exchange Commission. The Partnership believes that the Reporting Persons have complied with all Section 16(a) filing requirements applicable to them. In making the foregoing statement, the Partnership has relied solely upon oral or written representations of the Reporting Persons, and copies of the reports that the Reporting Persons have filed with the SEC.

Code of Ethics

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

Overview

Objectives of our Executive Compensation Program

The objective of our executive compensation program is to reward performance and to attract, motivate, and retain those employees who embrace a culture of achievement with a long-term perspective. Our executive compensation plans consist of two general components: salary and our new long-term incentive program (the “Incentive Program”), which is intended to reward selected management employees who provide services to the Partnership for performance that builds long-term unitholder value. The Incentive Program examines participants’ performance and decision making each year, with an eye towards rewarding behavior that is linked to adding long-term value to unitholders. In addition, the Incentive Program addresses the Partnership’s performance over a trailing three year period so as to promote a long-term focus and to reward performance fairly over time. While the Partnership had a previous incentive compensation program that was also focused on building long-term unitholder value, the Incentive Program improves both transparency for and alignment with the Partnership’s unitholders, while providing for administrative simplicity. Payments are made under the Incentive Program during the first quarter of each year beginning in 2011, respecting the three-year period ending on December 31 of the prior year, and as a result, information depicted in this report include amounts paid in 2011 with respect to performance in 2010, 2009 and 2008.

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

The Board’s Human Resources Committee has responsibility for establishing our compensation objectives and approving all compensation for the CEO, his immediate subordinates, and the broader management team that participates in the Incentive Program. The committee’s primary focus is in designing a compensation system that adequately rewards and motivates employees, and then to monitor the execution of this system. In designing the Partnership’s compensation system, the committee focuses on maintaining fairness and balance between the interests of our employees and those of our unitholders. With that in mind, the committee intends that the Incentive Program be continuing and permanent for participants but can suspend and or terminate the Incentive Program at any time, as long as previously earned awards are not forfeited. In its role as manager of the Incentive Program, the committee has the authority to determine all matters relating to awards to be granted thereunder, and has sole authority to interpret its provisions and any applicable rule or regulation.

The Incentive Program has two components – the Performance Restricted Unit (“PRU”) plan and the Long-Term Incentive Plan (“LTIP”). Both components have a long-term emphasis, with the PRU plan focused on annual decision making, and the LTIP focused on 3-year performance of the Partnership’s publicly traded units relative to a group of peer companies to be determined at the beginning of each plan cycle. The Incentive Program was developed after considerable deliberation by the committee and its compensation consultant. The Incentive Program is unusual in its exclusive emphasis on long-term decision making and performance. The committee believes this focus is appropriate for the nature of the Partnership’s assets and for strengthening the alignment with unitholders, particularly when the Partnership’s capital structure is of a nature that does not require substantial focus on short-term performance (other than, of course, as it impacts longer-term outcomes). Each of these two Program components is described in more detail below.

The committee has from time-to-time engaged compensation consultants to assist the committee in assessing the market for top executives. Historically, these consultants have provided a limited scope of services on behalf of the committee and their roles generally have been confined to specific peer analyses or assessments of specific compensation components within the Partnership’s then-existing compensation structures. These consultants generally have performed no other services for the Partnership or its subsidiaries or management. Amounts paid to such consultants on an annual basis have ranged between \$10,000 and \$20,000.

In 2010, however, the committee engaged Farient Advisors, a compensation consulting advisory firm, to assist in the development of the Incentive Program. Farient was paid \$193,000 during 2010 for its efforts in this regard and worked directly with the Human Resources (HR) Committee and was responsible to the committee for its deliverables. In addition, Farient was also paid \$109,000 in 2010 to advise the Board on other compensation related matters. The Partnership has not paid Farient for services other than those described above.

Elements of Compensation

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

Base Salary. Base salary represents that portion of compensation that is designed to provide the executive with a stable and predictable cash payment at a level that is competitive with other similarly situated companies. In establishing base salary levels for executives and other members of the management team, the committee has used compensation consultant data, taking into account such factors as competitive industry salaries, general and regional economic conditions, and the size and geographic differences of “peer” companies against which the Partnership is compared. Using that data, the committee attempts to tailor our executives’ base compensation to our executives’ scope of responsibilities, individual performance, and contribution to our organization. Adjustments in base salary are usually made effective March 1 of each year, unless circumstances (such as a promotion) warrant otherwise. Base salaries for the Partnership’s executives have been held flat since 2008, in large part because of the financial climate affecting the Partnership’s business, the Partnership’s economic performance, and the limited need to increase compensation to meet competitive pressures.

Incentive Program. Our Incentive Program has been designed using a combination of the LTIP, which awards cash incentives based on total return to unitholders, together with the PRU plan, which uses a blend of cash and restricted limited partner units to reward annual decision making that is aligned with the Partnership’s strategies. By designing the Incentive Program to align with both long-term decision making and performance, the committee believes it has mitigated the risk to the Partnership that could be driven by excessive focus on short-term goals.

Long-Term Incentive Program (LTIP). The LTIP replaces the Partnership’s prior cash bonus plan for the CEO and his direct management reports, and focuses on total shareholder return measured over a rolling three-year period ending on the last day of the fiscal year for which the award is to be computed. Specifically, at the beginning and end of each period, the Partnership measures the arithmetic average trading price of the Partnership’s limited partner units over the sixty trading day period preceding the first day and the last day of the three-year measurement period. The Partnership also takes into account all distributions to unitholders during that period, and compares the resulting total returns to those provided to security holders within a group of the Partnership’s peers as measured using the same methodology. Those peers, which for 2010 are as depicted in the following table, are established based upon the recommendation of the Partnership’s compensation consultant and include companies within the forest products industry, as well as those in real estate and those having a strong focus on land or natural resources.

Forest Products	Real Estate	Agriculture	Metals & Mining
Deltic (DEL)	Amer. Realty Inv. (ARL)	Alico (ALCO)	China Direct (CDII)
Plum Creek (PCL)	Amer. Spectrum (AQQ)	Griffin Land (GRIF)	Jaguar Mining (JAG)
Potlatch (PCH)	Avatar Holdings (AVTR)	Limoneira (LMNR)	Royal Gold (RGLD)
Rayonier (RYN)	EastGroup Properties (EGP)		
St. Joe (JOE)	First Potomac (FPO)		
Weyerhaeuser (WY)	InterGroup Corp. (INTG)		
	Maui Land & Pineapple (MLP)		
	Monmouth RE Investment (MNR)		
	NTS Realty (NLP)		
	Tejon Ranch (TRC)		
	Thomas Properties Group (TPGI)		

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

Participants in the LTIP. Participation in the LTIP is comprised of the CEO and the five key managers who report directly to the CEO.

Performance Restricted Unit Plan ("PRU"). The PRU is the equity-based element of the Incentive Program, although awards can be made in cash, restricted units, or a combination of each. Awards from this component of the Incentive Program are based upon a pool established at the beginning of each fiscal year and adjusted upward or downward as participants are added to or deleted from the Incentive Program. For 2010 the total award pool consisted of up to 6,000 units for the CEO and 21,200 units for all other participants as a group.

Determination of Performance Targets. PRU targets are determined for the various participants on the basis of the participant's role in the Partnership's management, and are measured on the basis of unit-specific performance, as follows:

Fee Timber. Fee Timber PRU levels are determined on the basis of revenue enhancements and cost controls affecting Fee Timber operating income. These criteria include management of harvest volume, maximization of log sale prices, management of selling costs such as harvest and haul costs, results of Sustainable Forestry Initiatives audits, and segment free cash flow.

Timberland Management & Consulting. TM&C participants are evaluated on the basis of investor capital commitments, placement of timber fund investments, cumulative assets under management, internal rates of return for the Funds, and segment operating income.

Real Estate. Because our real estate revenues vary tremendously with market conditions, and sale transactions are relatively infrequent, real estate participants are evaluated heavily on the basis of goals that do not tie fully to completed sales, including the estimated impact of entitlements and land improvements on the market value of our portfolio properties. To a lesser degree these personnel are also evaluated on the basis of sale prices as a percentage (or multiple) of book value and on segment free cash flow.

Corporate. Our corporate personnel have PRU targets measured on a broad variety of factors, including increases in net asset value, optimization of debt-to-capitalization ratios and working capital, and growth in distributable income, profit, and free cash flow.

Performance targets are communicated to Incentive Program participants at the beginning of each fiscal year and generally will be held constant throughout that year and recalibrated only based upon significant capital needs or changes in the competitive environment. Most participants can expect to earn 100% of their targeted payout award for each year; however, the committee has the discretion to reduce the award levels in the event of poor performance or decision-making that exposes the Partnership to significant risk or loss, or to increase those awards up to an additional 100% of the targeted award levels for generating or implementing decisions, plans or programs that are of major positive influence on the Partnership.

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

Participants in the PRU. In addition to the named executive officers, participants in the PRU include approximately 16 additional management personnel either one or two levels organizationally below the Partnership's CEO. As job duties change, the participants may be modified by the committee.

Clawbacks. The HR Committee acknowledges that the Partnership's incentive compensation program will be subject to the clawback provisions of the recently passed Dodd-Frank Act. In the meantime, the HR Committee reserves the right and option to require the return of incentive compensation paid pursuant to the Incentive Program in any instances of fraudulent employee misconduct or a restatement of the Partnership's financial reports affecting the calculation of the payout amounts. The Partnership will adhere to all applicable regulations of the SEC, the Nasdaq, and other governmental authorities regarding obligations to require disgorgement of erroneous or excessive compensation.

Perquisites and Other Personal Benefits. We do not provide perquisites or other personal benefits to our executive officers or senior managers, such as company cars, country club or social club memberships, reserved parking spaces, separate dining facilities, or company-funded use of personal financial/tax consultants. An exception to the foregoing is that the senior manager who oversees our timberland operations is provided a company vehicle. We do not own or lease aircraft for our executives' personal use. Our health care and medical insurance programs, as well as our defined contribution retirement plan (401(k)) are the same for all salaried employees, including officers. Further information regarding our defined contribution plan is set forth below in the paragraph entitled "Defined Contribution Retirement Savings Plan."

Defined Benefit Pension Plans. Other than the supplemental retirement plan discussed below with respect to one former executive, none of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us.

Defined Contribution Retirement Savings Plan. As of December 31, 2010 all our employees are eligible to participate in our defined contribution plan, which is a tax qualified plan pursuant to Section 401(k) of the Code. During 2010 and 2009 the Partnership matched 50% of the employees' contributions up to 8% of compensation. Partnership contributions to the plan amounted to \$123,000, \$131,000 and, \$150,000, for each of the years ended December 31, 2010, 2009 and 2008, respectively. Employees become fully vested in the Partnership's contribution over a six-year period. The Partnership does not discriminate between executive and non-executive employees with respect to any aspect of this plan.

Supplemental Retirement Plan. We have a supplemental retirement plan for George H. Folquet, a retired executive. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits and makes an annual fixed-amount payment of \$25,013. The Partnership accrued an additional \$30,881 in 2010 for this benefit based on an updated approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the liability as of December 31, 2010 was \$210,688.

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

Severance and Other Termination Benefits

The committee recognizes the possibility that, as with all publicly traded entities, a change in control of Pope Resources or its Managing General Partner may occur and that the uncertainty created by this potential event could result in the loss or distraction of executives, with a resulting detriment to unitholders. To that end, Pope Resources has entered into change in control agreements with Messrs. Nunes and Ringo that are intended to align executive and unitholder interests by enabling these executives to promote the Partnership’s interests in connection with strategic transactions that may be in the best interests of unitholders without undue concern for personal circumstances.

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

- cash payments equal to two times the executive’s base salary, plus the executive’s target bonus for the year in which the change in control occurred;
- immediate vesting of all outstanding unit option awards consistent with the terms of the Pope Resources 2005 Equity Incentive Plan (and, to the extent applicable, all remaining unvested awards under the Partnership’s 1997 Unit Option Plan); and
- continued coverage for the executive and dependents under Pope Resources’ health and welfare plan for up to 18 months after termination.

The following table summarizes the cash payments that would have been due Pope Resources’ executive officers if a change in control event had occurred on December 31, 2010.

<u>Name</u>	<u>Two times base salary</u>	<u>Target bonus</u>	<u>Total cash payments</u>
David L. Nunes, President & CEO	\$ 636,540	\$ 180,000	\$ 816,540
Thomas M. Ringo, Vice President & CFO	\$ 413,752	\$ 80,000	\$ 493,752

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

Policy With Respect to \$1 Million Deduction Limit

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

Officer Unit Ownership Guidelines

We do not have a formal unit ownership guideline for executive officers, but note that as of February 18, 2011 Mr. Nunes owns units of Pope Resources that had a value of 13.1 times his 2010 base salary. Similarly, Mr. Ringo owns Pope Resources units as of February 18, 2011 that had a value of 6.1 times his 2010 base salary. Of these owned unit positions, Mr. Nunes acquired 28% of his through open-market purchases, 53% through exercises of unit options, and another 19% through vesting of restricted units while Mr. Ringo acquired 12% of his through open-market purchases, 61% through exercises of unit options, and another 27% through vesting of restricted units. Messrs. Nunes and Ringo have an additional 14,400 and 6,175 unvested restricted units, respectively, that are not included in the ownership totals above. Mr. Nunes' unvested restricted units had a value on February 18, 2011 of \$648,000, or 2.0 times 2010 base salary. On February 18, 2011 Mr. Ringo's unvested restricted units had a value of \$278,000, or 1.3 times 2010 base salary. Combining both the fully owned and the unvested positions, the value of the year-end positions in our limited partner units for Messrs. Nunes and Ringo were 15.2 and 7.5 times their respective 2010 base salaries.

Summary Compensation Table

The following table sets forth information regarding compensation earned by our named executive officers for the years 2008 through 2010:

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (1)	Unit Awards (\$) (2)	Non-equity Incentive Program Compensation (\$) (3)	All Other Compensation (\$ (4)	Total (\$)
David L. Nunes President and CEO	2010	318,270	-	219,120	166,800	20,080	724,270
	2009	318,270	87,500	197,600	-	18,550	621,920
	2008	316,725	113,758	188,811	-	34,750	654,044
Thomas M Ringo V.P.and CFO	2010	206,876	-	98,604	74,133	14,910	394,523
	2009	206,876	45,188	65,455	-	15,375	332,894
	2008	205,872	47,250	99,368	-	24,200	376,690

- (1) For 2008 and 2009, the amounts shown represent cash bonus payouts earned in the year indicated but paid in the subsequent year.
- (2) The amount for 2010 represents the market value on the date of grant of restricted units received in January 2011 as compensation under the PRU plan for 2010 performance. Expense will be recognized, however, over the four-year vesting period of this grant with 25% vesting each year. The amount for 2009 represents the market value on the date of grant of restricted units received in January 2010 as compensation for 2009 performance. Expense for the January 2010 grant will be recognized over the two-year vesting period with 50% vesting after one year and the balance upon the second anniversary of the grant. The amount for 2008 represents two grants – one in March 2009 and one in August 2008. The March 2009 grant represents compensation for 2008 performance. On the other hand, the August 2008 grant was based on the historical practice of awarding a set number of units per year with the number of units granted based on the executive's management position. Units granted under these two awards are subject to a trading restriction until the units vest over four years with 50% vesting after three years and the remaining 50% vesting on the fourth anniversary of the grant date.
- (3) Represents awards earned in 2010 under the LTIP but paid out in January 2011 discussed in the Compensation Discussion and Analysis beginning on page 85.
- (4) Amounts represent matching contributions to the Partnership's 401(k) plan made by the Partnership on behalf of the executive, and distributions received by the executive on unvested restricted Partnership units (the value of the restricted units is described under footnote (2) above and not repeated here.)

Grants of Plan Based Awards Table

The following table supplements the Summary Compensation Table and lists both annual and long-term incentive awards made during 2010 to each named executive officer.

Name	Type of Award	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Program Awards (1)			Estimated Future Payouts Under Equity Incentive Program Awards			All Other Unit Awards: Number of Shares of Unit or Units (#) (2)	All Other Options Awards: Number of Securities Underlying Options (#)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
David L. Nunes President and CEO	LTIP Cycle 1	No grant date	-	180,000	360,000							
	LTIP Cycle 2	No grant date	-	180,000	360,000							
	LTIP Cycle 3	No grant date	-	180,000	360,000							
	RU	January 12, 2010						8,000		24.70	197,600	
Thomas M. Ringo V.P. and CFO	LTIP Cycle 1	No grant date	-	80,000	160,000							
	LTIP Cycle 2	No grant date	-	80,000	160,000							
	LTIP Cycle 3	No grant date	-	80,000	160,000							
	RU	January 12, 2010						2,650		24.70	65,455	

(1) Reflects potential awards under the LTIP. The LTIP was implemented in 2010 with Cycle 1 corresponding to the performance period 2008 – 10, Cycle 2 to performance period 2009 – 11, and Cycle 3 to performance period 2010 – 12. Payouts for Cycle 1 are reflected in the Summary Compensation Table. If there are payouts for Cycles 2 and 3 they will occur in January 2012 and January 2013, respectively. A description of how the LTIP works is described above beginning on page 86.

(2) Reflects the grant of time-based restricted units that will vest over a two-year period.

Unit Incentive Program

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

Units Available for Issuance

There are 1,105,815 units authorized under the Plan. As of December 31, 2010 there were 1,005,044 authorized but not issued units in the Plan. The units issued or issuable under the Plan have been registered on a Form S-8 registration statement.

Term of Unit Options

The term of each option is ten years from the date of grant, unless the plan administrator establishes a shorter or longer period of time as evidence in the award agreement.

Vesting Schedule

Under the PRU plan, restricted units granted will vest ratably over four years, with 25% vested on the first anniversary of grant, the next 25% on the second anniversary of grant, and so on. Previous to implementation of the PRU plan, restricted unit grants historically had a four-year vesting period with 50% vesting after three years and the remaining 50% vesting after the fourth year. An exception to this was the January 2010 grant that had a two-year vesting period with 50% vesting after one year and the remaining 50% vesting after the second year. The shortening of the vesting period in the most recent grant reflected the fact that this incentive compensation element was viewed by the committee as part of the bonus award for 2009 performance, but paid in restricted units rather than cash. Given its association with the past, a foreshortened vesting period was deemed appropriate. Prior grants of restricted units were awarded primarily with a view toward future performance and retention of the executive's services.

Unit Appreciation Rights

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

Adjustments, Changes in Our Capital Structure

The number and kind of units available for grant under the Plan and any outstanding options under the 1997 plan, as well as the exercise price of outstanding options, will be subject to adjustment by the committee in the event of any merger or consolidation.

Administration

The committee has full discretionary authority to determine all matters relating to units granted under the Plan.

The committee has the authority to determine the persons eligible to receive options, the number of units subject to each option, the exercise price of each option, any vesting schedules, and any acceleration on the vesting schedules and any extension of the exercise period.

Amendment and Termination

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

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

The following table summarizes the outstanding equity award holdings held by our named executive officers as of December 31, 2010:

Name	Option Awards					Unit Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Units That Have Not Vested (#)	Market Value of Units That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
David L. Nunes President and CEO	-	-	-	-	-	16,900	621,920	-	11,830
Thomas M. Ringo V.P. and CFO	-	-	-	-	-	7,300	268,640	-	5,110

The following table summarizes the number of units acquired and amounts realized by our named executive officers during the year ended December 31, 2010 on the exercise of unit options and vesting of restricted units.

Name	Option Awards		Unit Awards	
	Number of Units Acquired on Exercise	Value Realized on Exercise	Number of Units Acquired on Vesting	Value Realized on Vesting
	(#)	(\$)	(#) (1)	(\$)
David L. Nunes President and CEO	41,000	\$ 516,265	4,500	\$ 111,870
Thomas M. Ringo V.P. and CFO	8,100	\$ 172,652	2,500	\$ 62,150

(1) Of the 2,500 units acquired upon vesting in 2010 by Mr. Ringo, he tendered back 738 of those units with a value of \$18,311 to the Partnership in lieu of paying cash for payroll taxes due on the vesting. As such, Mr. Ringo retained a net position of 1,762 of these units. Mr. Nunes did not tender back any units in connection with his vesting and satisfied his payroll tax obligations with a cash payment to the Partnership.

Director Compensation

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2010:

Name	Fees Earned or Paid in Cash (\$)	Unit Awards (\$ (1))	Option Awards (\$ (2))	Non Equity Incentive Program Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation (\$ (3))	Total (\$)
John E. Conlin	36,250	39,990	-	-	-	2,063	51,258
Douglas E. Norberg	29,500	39,990	-	-	-	2,063	47,283
Peter T. Pope	26,500	39,990	-	-	-	2,063	44,283
J. Thurston Roach	39,500	39,990	-	-	-	2,063	54,283

- (1) Amounts represent the market value on the date of grant (May 25, 2010) of restricted units received during the year. These units are subject to a trading restriction until the units vest. These unit grants vest 50% on the third anniversary of the grant in May 2013 and the remaining 50% on the fourth anniversary of the grant date in May 2014. For each of Messrs. Norberg, Pope, and Roach a total of 375 restricted units granted during fiscal year 2006 vested and became eligible for trading on March 8, 2010 and an additional 375 restricted units granted during fiscal year 2007 vested and became eligible for trading on January 31, 2010.
- (2) No options were awarded in 2010.
- (3) Amounts represent distributions received on unvested restricted Partnership units and the value realized upon vesting of prior grants of restricted units.

Compensation of the outside directors of Pope MGP, Inc. consists of a monthly retainer of \$1,500 plus a \$1,000 per day fee for each board meeting attended and \$500 for participation in a board meeting via telephone. The Chairman of the Audit Committee receives an additional annual retainer amount of \$7,000 that is paid in a monthly pro rata fashion. The Chairman of the Human Resources Committee receives an additional annual retainer of \$5,000, also paid pro rata on a monthly basis. Both the Chairman of the Audit and Human Resources Committees receive an additional \$500 fee per committee meeting.

Report of the Human Resources Committee on Executive Compensation

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

The committee's report is also intended to describe in general terms the process the committee undertakes and the matters it considers in determining the appropriate compensation for the Partnership's executive officers, Mr. Nunes and Mr. Ringo.

Responsibilities and Composition of the Committee

The committee is responsible for (1) establishing compensation programs for executive officers of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unitholders; and (3) determining the salary, bonus, unit option, and other compensation of the Partnership's executive officers.

The committee is currently comprised of Douglas E. Norberg, Peter T. Pope, J. Thurston Roach, and John Conlin. Mr. Conlin served as Committee Chair during 2010. None of the members are officers or employees of the Partnership or the General Partner.

Conclusion

The HR Committee believes that for 2010 the compensation terms for Mr. Nunes and Mr. Ringo, as well as for our other management personnel, were clearly related to the realization of the goals and strategies established by the Partnership.

John E. Conlin, Chairman

Douglas E. Norberg

Peter T. Pope

J. Thurston Roach

Audit Committee Report on Financial Statements

The Audit Committee of the General Partner's Board of Directors has furnished the report set forth in the following section entitled "Responsibilities and Composition of the Audit Committee" on the Partnership's year-end financial statements and audit for fiscal year 2010. The Audit Committee's report is intended to identify the members of the Audit Committee and describe in general terms the responsibilities the Audit Committee assumes, the process it undertakes, and the matters it considers in reviewing the Partnership's financial statements and monitoring the work of the Partnership's external auditors.

Responsibilities and Composition of the Audit Committee

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

The Audit Committee is comprised of J. Thurston Roach, John E. Conlin, and Douglas E. Norberg. Mr. Roach serves as Audit Committee Chair. All members of the Audit Committee are independent as defined under NASDAQ Rule 4200(a) (15), and all are financially literate. Mr. Norberg is designated as a "financial expert" as defined under Section 10A (m) of the Securities Exchange Act of 1934 and NASDAQ Rule 4350(d).

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

Conclusion

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

J. Thurston Roach, Chairman
John E. Conlin
Douglas E. Norberg

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

Principal Unitholders

As of February 18, 2011, the following persons were known or believed by the Partnership to be the beneficial owners of more than 5% of the outstanding Partnership units:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Units⁽¹⁾</u>	<u>Percent of Class</u>
Emily T. Andrews 600 Montgomery Street 35th Floor San Francisco, CA 94111	557,100	⁽²⁾ 12.7
Peter T. Pope 1500 S.W. 1st Avenue Portland, OR 97201	310,762	⁽³⁾ 7.1
James H. Dahl 501 Riverside Avenue, Suite 902 Jacksonville, FL 32202	232,291	⁽⁴⁾ 5.3

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes unit options exercisable within 60 days but excludes those options where the exercise price renders them anti-dilutive. Also includes restricted units that are both vested and unvested since beneficial owner receives distributions on all such restricted units.
- (2) Includes 1,090 units owned by her husband, Adolphus Andrews, Jr. as to which she disclaims beneficial ownership. Also includes a total of 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares voting and investment power.
- (3) Includes (a) 200,925 units held by a limited liability company controlled by Mr. Pope; (b) 38,392 units owned by Mr. Pope; (c) 8,820 units held in trust for one of his children; (d) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which he shares investment and voting power; and (f) 2,625 unvested restricted units.
- (4) Mr. Dahl filed a Schedule 13G on February 4, 2011 that declared he is the direct beneficial owner of 40,945 Partnership units and that he owns another 191,346 units through various trusts over which he retains sole voting and investment power.

Management

As of February 18, 2010, the beneficial ownership of the Partnership units of (1) the named executives (2) the directors of the Partnership's general partners, (3) the general partners of the Partnership, and (4) the Partnership's officers, directors and general partners as a group, was as follows. **

Name	Position and Offices	Number of Units ⁽¹⁾	Percent of Class
David L. Nunes	Chief Executive Officer and President, Pope MGP, Inc. and the Partnership; Director, Pope MGP, Inc.	107,400 ⁽²⁾	2.4
Thomas M. Ringo	Vice President and CFO, Pope MGP, Inc. and the Partnership	34,424 ⁽³⁾	*
John E. Conlin	Director, Pope MGP, Inc.	18,645 ⁽⁴⁾	*
Douglas E. Norberg	Director, Pope MGP, Inc.	63,508 ⁽⁵⁾	1.4
Peter T. Pope	Director, Pope MGP, Inc. and Pope EGP, Inc.; President, Pope EGP, Inc.	310,762 ⁽⁶⁾	7.1
J. Thurston Roach	Director, Pope MGP, Inc.	11,250 ⁽⁷⁾	*
Pope EGP, Inc.	Equity General Partner of the Partnership	54,000	1.2
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000	*
All general partners, directors and officers of general partners, and officers of the Partnership as a group (6 individuals and 2 entities)		545,989 ⁽⁸⁾	12.4

* Less than 1%

** The address of each of these parties is c/o Pope Resources, 19245 Tenth Avenue NE, Poulsbo, WA 98370.

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes unit options that are exercisable within 60 days but excludes those options where the exercise price renders them anti-dilutive. Also includes restricted units that are both vested and unvested since beneficial owner receives distributions on all such restricted units.
- (2) Units shown for Mr. Nunes include 93,000 owned units and 14,400 of unvested restricted units.
- (3) Units shown for Mr. Ringo include 28,249 owned units and 6,175 unvested restricted units.
- (4) Includes 2,625 unvested restricted units issued to Mr. Conlin.
- (5) Includes 2,625 unvested restricted units issued to Mr. Norberg.
- (6) Includes (a) 200,925 units held by a limited liability company controlled by Mr. Pope; (b) 38,392 units owned by Mr. Pope; (c) 8,820 units held in trust for one of his children; (d) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which he shares investment and voting power; and (f) 2,625 unvested restricted units.
- (7) Includes 2,625 owned units, currently exercisable options to purchase 6,000 units issued to Mr. Roach, and 2,625 unvested restricted units.
- (8) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Mr. Pope. Mr. Pope and Emily T. Andrews, own all of the outstanding stock of Pope MGP, Inc. and Pope EGP, Inc. Includes currently exercisable options to purchase 6,000 units and 31,075 unvested restricted units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2010.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	47,874	\$ 14.85	1,005,044
Equity compensation plans not approved by security holders	-	-	-
Total	47,874	\$ 14.85	1,005,044

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Allocation of Income. The 1997 amendment to Pope Resources' Limited Partnership Agreement contained a provision that allowed for profit sharing of the IPMB income between the Partnership's wholly-owned subsidiary, ORM, Inc. and Pope MGP, Inc., the managing general partner of the Partnership. No payments have been made pursuant to this agreement since 2007. In 2010, the managing general partner terminated its profit sharing opportunity under this program.

General Partner Fee. Pope MGP, Inc. receives an annual fee of \$150,000, and reimbursement of administrative costs for its services as managing general partner of the Partnership, as stipulated in the Partnership Agreement.

ORM Timber Fund I, LP ("Fund I"). Pope Resources, A Delaware Limited Partnership owns 19% and Olympic Resource Management LLC owns 1% and is the general partner of Fund I. David L. Nunes and Thomas M. Ringo invested less than 1% of the capital in Fund I. The majority of this commitment was paid in the fourth quarter of 2006 when Fund I acquired timberland.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees related to the Partnership's principal accountants, KPMG LLP, during 2010 and 2009.

Description of services	2010	%	2009	%
Audit (1)	\$ 319,500	80%	\$ 325,000	79%
Audit related (2)	40,500	10%	40,000	10%
Tax (3):				
Tax return preparation	9,200	3%	9,200	2%
General tax consultation	29,225	7%	35,000	9%
Total	\$ 398,425	100%	\$ 409,200	100%

(1) Fees represent the arranged fees for the years presented, including the annual audit of internal controls as mandated under Sarbanes-Oxley section 404, and out-of-pocket expenses reimbursed during the years presented.

(2) Fees represent the arranged fees for the years presented in connection with the audits of Olympic Resource Management LLC, ORM Timber Fund I LP, and ORM Timber Operating Company II, LLC.

(3) Fees paid for professional services in connection with tax consulting and tax return preparation.

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

PART IV**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE**

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Financial Statement Schedule

	Environmental Remediation Liability Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balances at the End of the Period
Year Ended December 31, 2008	1,994,000	-	440,000	1,554,000
Year Ended December 31, 2009	1,554,000	30,000	315,000	1,269,000
Year Ended December 31, 2010	1,269,000	875,000	211,000	1,933,000

Exhibits.

No.	Document
3.1	Certificate of Limited Partnership. (1)
3.2	Limited Partnership Agreement, dated as of November 7, 1985. (1)
3.3	Amendment to Limited Partnership Agreement dated December 16, 1986. (2)
3.4	Amendment to Limited Partnership Agreement dated March 14, 1997. (4)
3.5	Certificate of Incorporation of Pope MGP, Inc. (1)
3.6	Amendment to Certificate of Incorporation of Pope MGP, Inc. (3)
3.7	Bylaws of Pope MGP, Inc. (1)
3.8	Certificate of Incorporation of Pope EGP, Inc. (1)
3.9	Amendment to Certificate of Incorporation of Pope EGP, Inc. (3)
3.10	Bylaws of Pope EGP, Inc. (1)
3.11	Amendment to Limited Partnership Agreement dated October 30, 2007. (12)
3.12	Audit Committee Charter. (10)
4.1	Specimen Depository Receipt of Registrant. (1)
4.2	Limited Partnership Agreement dated as of November 7, 1985, as amended December 16, 1986 and March 14, 1997 (<i>see Exhibits 3.2, 3.3 and 3.4</i>).
4.3	1997 Unit Option Plan Summary (5) and Pope Resources 2005 Unit Incentive Plan. (11)
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Transfer and Indemnity Agreement between the Partnership and P&T dated as of December 5, 1985. (1)
10.2	Environmental Remediation Agreement. (7)
10.3	Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company dated April 29, 1992. (6)
10.4	Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company dated May 13, 1992. (6)

- 10.5 Second Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated May 25 1993. (6)
- 10.6 Third Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company dated December 19, 1995. (6)
- 10.7 Fourth Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company dated December 20, 1999. (6)
- 10.8 Amended and Restated Timberland Deed of Trust and Security Agreement with Assignment of Rents and Fixture Filing between Pope Resources and John Hancock Life Insurance Company dated March 29, 2001. (6)
- 10.9 Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company dated April 29, 1992. (6)
- 10.10 Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company dated May 25, 1993. (6)
- 10.11 Second Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated December 19, 1995. (6)
- 10.12 Third Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company dated December 20, 1999. (6)
- 10.13 Fourth Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company dated March 29, 2001. (6)
- 10.14 Note Purchase Agreement between Pope Resources, John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company, dated March 29, 2001. (6)
- 10.15 Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Life Insurance Company dated March 29, 2001, in the principal amount of \$23,500,000. (6)
- 10.16 Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Life Insurance Company dated March 29, 2001 in the principal amount of \$4,500,000. (6)
- 10.17 Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Variable Life Insurance Company dated March 29, 2001, in the principal amount of \$2,000,000. (6)
- 10.18 Timberland Deed of Trust and Security Agreement With Assignment of Rents and Fixture Filing between Pope Resources, Jefferson Title Company and John Hancock Life Insurance Company, dated March 29, 2001. (6)
- 10.19 Purchase and sale agreement with Costco Wholesale Corp dated December 22, 2003. (8)
- 10.20 Form of Change of control agreement. (10)
- 10.21 Purchase and sales agreement for Quilcene Timberlands dated September 28, 2004. (9)
- 10.22 Long term management agreement with Cascade Timberlands LLC dated December 31, 2004. (9)

- 10.23 First amendment to Note purchase agreement with John Hancock Life Insurance Company. (10)
- 10.24 Second amendment to Note purchase agreement with John Hancock Life Insurance Company. (10)
- 10.25 Third amendment to Note purchase agreement with John Hancock Life Insurance Company. (10)
- 10.26 Fourth amendment to Note purchase agreement with John Hancock Life Insurance Company. (10)
- 10.27 Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated July 31, 2008. (15)
- 10.28 Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated July 31, 2008. (15)
- 10.29 Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated September 25, 2009. (16)
- 10.30 Term Note from Pope Resources to Northwest Farm Credit Services, PCA dated September 25, 2009. (16)
- 10.31 First amendment to revolving operating note with Northwest Farm Credit Services, PCA dated September 25, 2009. (16)
- 10.32 Mortgage to Northwest Farm Credit Services, PCA, dated September 25, 2009. (16)
- 10.33 First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated June 10, 2010.
- 10.34 Amendment No. 1 to First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated August 6, 2010.
- 10.35 First Amended and Restated Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010
- 10.36 Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010.
- 10.37 First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated June 10, 2010.
- 10.38 Amendment No. 1 to First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated August 6, 2010.
- 10.39 Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated June 10, 2010.
- 10.40 Amendment No. 1 to Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated June 15, 2010.
- 10.41 Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, FLCA dated June 10, 2010.
- 10.42 Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, PCA dated June 10, 2010.

- 10.43 Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010.
- 10.44 First Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated February 7, 2011.
- 10.45 Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated September 1, 2010.
- 10.46 Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated September 1, 2010.
- 10.47 Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010.
- 10.48 Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010.
- 10.49 Incentive Compensation Program Summary – revised February 2011.
- 18.1 Letter from Independent Registered Public Accounting Firm related to change in accounting principle. (16)
- 21.1 Significant Subsidiaries.
- 23.1 Consent of Registered Independent Public Accounting Firm. (13)
- 31.1 Certificate of Chief Executive Officer. (13)
- 31.2 Certificate of Chief Financial Officer. (13)
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (13)
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (13)
- 99.1 Press Release of the Registrant dated February 14, 2010 (14)

- (1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.
- (2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1987.
- (3) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
- (4) Incorporated by reference from the Partnership's Proxy Statement filed on February 14, 1997.
- (5) Incorporated by reference to the Company's Form S-8 Registration Statement (SEC file number 333-46091) filed with the Commission on February 11, 1998.
- (6) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2001.
- (7) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2002.
- (8) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2003.
- (9) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2004.
- (10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2005.
- (11) Filed with Form S-8 on September 9, 2005.
- (12) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2007.
- (13) Filed with this annual report for the fiscal year ended December 31, 2009.
- (14) Incorporated by reference to the Current Report on Form 8-K filed by the Registrant on February 12, 2010.
- (15) Incorporated by reference to the Current Report on Form 10-Q filed by the Registrant on August 6, 2008.
- (16) Incorporated by reference to the Current Report on Form 10-Q filed by the Registrant November 5, 2009.

SIGNATURES

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

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: March 9, 2011

By /s/ David L. Nunes

President and
Chief Executive Officer

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

Date: March 9, 2011

By /s/ David L. Nunes

David L. Nunes,
President and Chief Executive Officer (principal executive officer),
Partnership and Pope MGP, Inc.; Director, Pope MGP, Inc.

Date: March 9, 2011

By /s/ Thomas M. Ringo

Thomas M. Ringo
Vice President & CFO (principal financial and accounting officer),
Partnership and Pope MGP, Inc.

Date: March 9, 2011

By /s/ John E. Conlin

John E. Conlin
Director, Pope MGP, Inc.

Date: March 9, 2011

By /s/ Douglas E. Norberg

Douglas E. Norberg
Director, Pope MGP, Inc.

Date: March 9, 2011

By /s/ Peter T. Pope

Peter T. Pope
Director, Pope MGP, Inc.

Date: March 9, 2011

By /s/ J. Thurston Roach

J. Thurston Roach
Director, Pope MGP, Inc.

**FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

DATED AS OF JUNE 10, 2010

AMONG

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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**FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

THIS FIRST AMENDED AND RESTATED MASTER LOAN AGREEMENT (this "Loan Agreement") is made and entered into effective June 10, 2010, 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 September 25, 2009, effective on the date hereof.

RECITALS

WHEREAS, Borrower has requested that Lender make a \$20,000,000.00 loan to Borrower to refinance existing long term debt;

WHEREAS, Lender has agreed to make the requested Loan available to Borrower on the terms and conditions hereinafter set forth, which shall apply to Loan Nos. 56548-841, 56548-442 and to any future Loans made subject to this Loan Agreement; and

WHEREAS, as a condition to making the Loan, Borrower and Lender have agreed to amend and restate, in its entirety, the Note evidencing Loan No. 56548-841 on the same date as 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. Capitalized terms not otherwise defined herein shall have the meanings given in the Note(s) or other Loan Documents. As used herein:

"Adjusted Partners' Capital" means the GAAP based amount of the capital account of the partners of Borrower, adjusted for book to market value differences in Timberlands, 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.

"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.

“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, a Delaware limited partnership, provided however, for purposes of covenant compliance, “Borrower” shall include all subsidiaries of Pope Resources, a Delaware Limited Partnership, whose financial statements should, under GAAP, be consolidated with 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 Pool” shall have the meaning given in Section 5.03 hereof.

“Company” and “Companies” means Borrower, as well as any present or future Subsidiaries whose financial statements and accounting procedures should, in accordance with GAAP, be consolidated with those of Borrower.

“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 Capital Expenditures” means, for any period, all internally financed operating capital expenditures (excluding: (i) timberland acquisitions, (ii) the portion of the same associated with the non-controlling interest in Timber Funds; and (iii) capitalized interest associated with capital expenditures) of Companies, on a consolidated basis for such period, as determined in accordance with GAAP.

“Consolidated Cash Flow Coverage Ratio” means, as of any date of determination for the prior four fiscal quarters, the ratio of (a) Consolidated EBITDDA minus Consolidated Capital Expenditures to (b) the sum of: (i) scheduled principal payments from the previous year (not including balloon principal payments that have been refinanced); (ii) required principal payments associated with asset sales; and (iii) Consolidated Interest Expense.

“Consolidated EBITDDA” means, for any period, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense (excluding the portion associated with the minority interest in Timber Funds); (f) the cost of land sold by Companies; and, (g) plus or minus, as the case may be, Consolidated Taxes to the extent recognized in the computation of Consolidated Net Income, all as determined in accordance with GAAP.

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

“Consolidated Net Income” means, for any period, the net income or net loss attributable to unitholders, 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 Companies 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 B hereto.

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

“Fee Timberland” means all timber and timberland owned by Borrower.

“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: (a) all obligations of Borrower for borrowed money; (b) all obligations of Borrower evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made; (c) all obligations of Borrower under conditional sale or other title retention agreements relating to property purchased by Borrower (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 Borrower issued or assumed as the deferred purchase price of property or services purchased by Borrower (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 Borrower; (e) all obligations of Borrower under take-or-pay or similar arrangements or under commodities agreements; (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by Borrower, whether or not the obligations secured thereby have been assumed; (g) all guaranty obligations of Borrower; (h) the principal portion of all obligations of Borrower under capital leases; (i) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of Borrower and, without duplication, all drafts drawn thereunder (to the extent unreimbursed); and (j) all obligations of Borrower in respect to any Swap Termination Value of any Swap Contract between Borrower and any Swap Issuer. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which Borrower is a general partner or a joint venturer.

"Indebtedness to Total Capitalization Ratio" means, as of any date of determination, Companies' Indebtedness, excluding the portion thereof associated with the non-controlling interest in Timber Funds, divided by the sum of (a) Companies' Indebtedness excluding the portion thereof associated with the non-controlling interest in Timber Funds, plus (b) Adjusted Partner's Capital.

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

"Laws" means all ordinances, codes, statutes, rules, regulations, licenses, permits, orders, injunctions, writs or decrees of any Governmental Authority, 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.

"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 the 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 the Note and the other Loan Documents, plus all interest accrued thereon.

"Loan Documents" means all of the contractual obligations associated with the Loans, including but not limited to: this Loan Agreement; the Notes; the Membership Agreement, security documents and other documents or instruments as required by Lender, executed in connection with the Loans, 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.

"Loans per MBF" means the sum of (a) the principal balances of the Loans and (b) the principal balance(s) of the PCA Loan(s) *divided by* the MBF.

“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.

“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.

“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;

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.

"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.

“Subsidiary” means, as to any Person, (a) any corporation more than 50 percent of whose 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; provided however, Section 7.03.c.i. shall exclude Timber Funds from such definition.

“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.

“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 I, LP, ORM Timber Fund II, Inc. and any future similar timberland investment entity.

2. **Loans.**

2.01 Loans. Subject to the terms and conditions set forth herein, Lender agrees to amend and restate Loan No. 56548-841 and to make Loan No. 56548-442 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 Generally. All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Lender in U.S. Dollars and in immediately available funds as further described in the Note(s) and according to the terms of the Note(s).

2.05 Accounting Terms means, except as otherwise provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters to be delivered to Lender hereunder shall be prepared in accordance with GAAP, applied on a consistent basis.

3. General Authorization. Borrower hereby authorizes any one of the following named individuals to request funds be deposited or disbursed from any Loan Borrower may have with Lender, to request on behalf of Borrower, advances under the Loans and to execute any notice in order to effect prepayment, repricing or payment of any Loan Segment (as that term may be defined in a given Note). Individuals authorized hereunder: a Responsible Officer or any other individual(s) as authorized by Borrower in a written authorization provided to Lender. Any such request shall be conclusively presumed to have been made to or for the benefit of Borrower.

4. Conditions Precedent. The obligation of Lender to close 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. If real Property is Collateral for one or more Loans, a title insurance commitment acceptable to Lender;
- 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; and
- l. Copies of the most recent timberland appraisals covering all fee timber and timberlands currently owned by Borrower.

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. Borrower shall have complied with all conditions precedent contained herein and in Lender's escrow instructions and commitment letters for any Loan, if any;
- c. Payment by Borrower to Lender of the following amounts:
 - i. Any unpaid balance of any Loan fees; and
 - ii. All unpaid costs and expenses to Lender; and
- d. All representations and warranties made in the Loan Documents are true and correct.

5. Liens and Collateral.

5.01 **Creation of Liens.** As security for the prompt payment and performance of Borrower's Obligations, Borrower hereby agrees to assign and pledge to Lender all of its right, title and interest in and to, and grants to Lender, Liens upon the Collateral. In order to further evidence such Liens, upon Lender's request, Borrower shall execute, acknowledge where required for perfection purposes, and deliver on or before the Closing Date, the Deeds of Trust, consents, notices, subordinations, indemnities, assignments, security agreements, financing statements and other Loan Documents required by Lender.

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 reperfect 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 lien(s) 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 lien(s) 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 reasonable 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.

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 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: 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, 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. Such consolidated statements 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, 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, 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. 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;

vi. 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;

vii. 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

viii. 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.

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. Optional Appraisal of Collateral. Lender may, at any time, request an appraisal of Collateral. Borrower shall be responsible for the cost of 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 subsequent appraisals, provided there is no Event of Default or Incipient Default.

g. Biennial Appraisal. Beginning with the 2010 Fiscal Year, Borrower shall have all Collateral owned by Borrower appraised every other year by Marty Healy or another appraiser approved by Lender, 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. above.

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.
- 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, beginning with the 2010 Fiscal Year;
- b. Consolidated Cash Flow Coverage Ratio shall be greater than or equal to 1.1:1 to be measured quarterly on a four quarter rolling basis, beginning with the 2011 Fiscal Year-End financial statements;
- c. The sum of the outstanding balances of the Loans and the PCA Loans *divided by* the most recent Biennial Appraised Timberland Value shall not exceed 50%, to be measured as of each Fiscal Year-End; and
- d. The Loans per MBF shall not exceed \$250 / MBF. The Loans per MBF will be measured annually as of each Fiscal Year End. Borrower may add or substitute Collateral satisfactory to Lender to maintain the Loans per MBF relationship. If Timber Cutting Payments are made, instead of substituting collateral, such payments shall be applied pro-rata, based upon the total outstanding principal balances of the Loans and the PCA Loan(s).
- 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. 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.** Change its Fiscal Year-End or amend, modify or change its Organization Documents, which 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) Timber Fund Indebtedness, to the extent allowed under the governing documents of such 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); and (ix) 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.

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 the Loans, unless the Note for a particular Loan provides for a different Prepayment Fee, in which case the Note for the Loan will control. All Loans are subject to the following Breakage Fees.

9.01 Prepayment Fee.

a. Exemption to Prepayment Fee. Principal prepayments made while a Loan or 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 or a LIBOR Maturity Date, as applicable, for the Loan or Loan Segment being prepaid. Other prepayments of principal shall be subject to a Prepayment Fee.

b. "Prepayment" Defined. "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, Guarantors and 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 shall be payable, on demand, and shall be an amount calculated on a make-whole basis, consistent with the procedure described in Exhibit C hereof.

9.02 Breakage Fee. In the event Borrower provides Lender Notice that Loan principal is to be prepaid, after which Borrower revokes such Notice, then Borrower shall immediately pay Lender, on demand, a Breakage Fee in an amount calculated on a make-whole basis, consistent with the procedure described in Exhibit C hereof.

9.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee using the calculation on a make-whole basis, consistent with the procedure described on Exhibit C hereof, provided however, a participant may use a different value than Lender for the Initial and Final Reference Rates, as those terms are described in Exhibit C hereof.

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 Indemnity; Waiver of Damages by Borrower.

a. 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.

b. 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.

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

d. 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 facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or, subject to Section 11.03 below, e-mail 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: Thomas M. Ringo
19245 Tenth Ave. NE
Poulsbo, WA 98370
Facsimile: (360) 697-1476
E-mail: tringo@orminc.com
- ii. If to Lender:
Attention: Kristy Searles
Northwest Farm Credit Services, FLCA
650 Hawthorne Ave. SE, Suite #210
Salem, OR 97301
Facsimile: (503) 373-3006
E-mail: NWFCsalemagribusiness@farm-credit.com

b. Effectiveness. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (1) actual receipt by the relevant party hereto and (2) (a) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (b) if delivered by Certified Mail, Return Receipt Requested, upon receipt; (c) if delivered by Facsimile, when sent and receipt has been confirmed by telephone; and (d) if delivered by e-mail (which form of delivery is subject to the provisions of Section 11.03 below), when delivered. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

11.02 Facsimile Documents and Signatures. Loan Documents may be transmitted and or signed by facsimile. 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, as applicable. 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 facsimile document or signature.

11.03 Use of E-mail. E-mail, internet or intranet websites may be used only to distribute routine communications, such as financial statements, covenant reporting, billing statements and other like information and to distribute Loan Documents for execution by the parties thereto, but may not be used for any other purpose, unless approved by Lender. Provided, an original signed document that has been scanned and attached to an e-mail shall have the same force and effect as a document sent by facsimile.

12. **Participation.** Notwithstanding any other provision of this Loan Agreement, Borrower understands that Lender may at any time enter into participation agreements with one or more participating lenders, whereby Lender will allocate certain percentages of its commitment to these lenders. Borrower acknowledges that, for the convenience of all parties, this Loan Agreement is being entered into with Lender only, and that Borrower's Obligations under this Loan Agreement are undertaken for the benefit of, and as an inducement to, any such participating lender as well as Lender, and Borrower hereby grants to each participating lender, all the rights and remedies afforded Lender hereunder.

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 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. In this Loan Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise stated the word “from” means “from and including” and the word “to” or “until” means “to and including.”

d. 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 definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns and (iii) 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.

e. 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.

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.

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

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____
David L. Nunes, President and CEO

EXHIBIT A
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, FLCA

Reference is made to that certain First Amended and Restated Master Loan Agreement, dated as of June 10, 2010, (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. Companies' Indebtedness at Calculation Date	\$	
B. Indebtedness associated with non-controlling interest in Timber Funds 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 per GAAP at Calculation Date	\$	
b. Book Value of timberland at Calculation Date	\$	
c. Book value of timber and roads net of depletion at Calculation Date	\$	
d. Book value of timberland, timber, and roads net of depletion for Timber Funds at Calculation Date	\$	
e. Most recent Biennial Appraised Timberland Value	\$	
f. Adjusted Partners Capital (Line I.D.1.a. minus I.D.1.b. minus I.D.1.c. plus I.D.1.d. plus I.D.1.e.)	\$	
2. Numerator from line I.C. above	\$	
E. Denominator (Line I.D.1.f. plus Line I.D.2.)	\$	
Ratio of Indebtedness to Total Capitalization (Line I.C. divided by Line I.E.)		
Maximum Allowed		0.30

II. Section 7.02 b. - Consolidated Cash Flow Coverage Ratio

(measured quarterly beginning with the Fiscal Year-end 2011)

A. Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "Subject Period")

1. Consolidated Net Income for the subject period	\$
2. Consolidated Interest Expense for the subject period	\$
3. Consolidated depreciation expense for the subject period	\$
4. Consolidated amortization expense for the subject period	\$
5. Consolidated depletion expense for the subject period (excluding the portion associated with the non-controlling interest in Timber Funds)	\$
6. Cost of land sold	\$
7. Consolidated Taxes for the subject period (to the extent considered in calculating Consolidated Net Income)	\$
8. Consolidated EBITDDA (the sum of Lines II.A.1 through II.A.7. inclusive)	\$

B. Consolidated Capital Expenditures \$

C. Numerator (Line II.A.8. minus Line II.B.) \$

D. Denominator - debt service for subject period \$

1. Consolidated Interest Expense for subject period \$

2. Scheduled principal payments and principal payments associated with
asset sales during the subject period \$

3. Denominator - debt service for subject period \$

(Line II.D.1. plus Line II.D.2.) \$

Consolidated Cash Flow Coverage Ratio (Line II.C. divided by Line II.D.3.)

Minimum Allowed **1.1 : 1**

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

(measured annually at Fiscal Year-end)

A. Combined Balance of Loan Nos. 56548-811,841 and 442 \$

B. Most recent Biennial Appraised Timberland Value \$

Loan to Value Ratio (Line III.A. divided by Line III.B.)

Maximum Allowed **50%**

**IV. Section 7.02 d. - Loans per MBF
(measured annually)**

A. Combined Balance of Loan Nos. 56548-811,841 and 442	\$
B. Total Merchantable Timber volume on Collateral at Calculation Date	
1. Merchantable Timber volume on Collateral at end of prior subject period	
2. Merchantable Timber volume harvested from Collateral for the subject period	
3. Merchantable Timber volume growth on Collateral for the subject period	
4. Merchantable Timber volume change as a result of addition or subtraction of timberland property during subject period	
5. Other changes in Merchantable Timber volume, due to cruises and other, for the subject period	
C. Merchantable Timber volume on Collateral as of Calculation Date (Line B.1. minus Line IV.B.2. plus Line IV.B.3 plus or minus Line IV.B.4 plus or minus Line IV.B.5)	
Loans per MBF (Line IV.A. divided by Line IV.C.)	
Maximum Allowed	\$250/MBF

EXHIBIT C
PREPAYMENT / BREAKAGE FEE CALCULATION

A. Definitions. For purposes of this Exhibit C, the following definitions apply:

1. "Prepayment Amount," for the purpose of a Prepayment Fee, means the amount of any principal prepayment.
2. "Prepayment Amount," for the purpose of a Breakage Fee, means the principal that Borrower has indicated on a Notice to be advanced or priced using a Fixed Rate Option.
3. "Remaining Fixed Pricing Period," for any principal priced with a Fixed Rate Option, means the period of time beginning (a) on the date a principal prepayment is made or, (b) in the case of a Breakage Fee, on the date Notice is given and ending on the Fixed Rate Maturity Date.
4. "Initial Reference Rate," for any principal priced with a Fixed Rate Option, means the annualized rate used by Lender or a participant to obtain the funds loaned to Borrower in the case of a Prepayment Fee, or the annualized rate applicable on the last Pricing Date, or on the date Notice of prepayment is given, as the case may be, in the case of a Breakage Fee.
5. "Final Reference Rate" means the annualized rate Lender or a participant would use to fund a new advance in such amount for the Remaining Fixed Pricing Period on the date of such prepayment. For a Breakage Fee, the Final Reference Rate means the annualized rate as of the date Notice is given.

B. Calculation of Prepayment/Breakage Fee. The Prepayment and the Breakage Fees are calculated on a make-whole basis in five (5) steps as provided below:

1. Compare the Initial Reference Rate and the Final Reference Rate. If the Initial Reference Rate is less than or equal to the Final Reference Rate, the Prepayment / Breakage Fee is zero. If the Initial Reference Rate is greater than the Final Reference Rate, complete the following steps to calculate the Prepayment / Breakage Fee.
2. Calculate the interest payment that will accrue on the Prepayment Amount over the Remaining Fixed Pricing Period at the Initial Reference Rate ("Initial Interest Amounts").
3. Calculate the interest payment that will accrue on the Prepayment Amount over the Remaining Fixed Pricing Period at the Final Reference Rate ("Final Interest Amounts").

4. Calculate the “Differential Interest Amount” for each interest payment due during the Remaining Fixed Pricing Period by subtracting the Final Interest Amount from the Initial Interest Amount for each such payment.
5. The Prepayment or Breakage Fee is the sum of the discounted present value of each Differential Interest Amount, discounted at the Final Reference Rate from the date such payment would be due back to the prepayment date, or in the case of a Breakage Fee, on the date Notice is given.

An example of a Prepayment / Breakage Fee calculation is attached hereto as Exhibit C-1.

**EXHIBIT C-1
EXAMPLE OF PREPAYMENT / BREAKAGE FEE CALCULATION**

Prepayment Amount	\$1,000,000.00
Initial Reference Rate	5.50%
Final Reference Rate	5.00%
Scheduled Interest Payments in the Remaining Fixed Pricing Period	1
Remaining Fixed Pricing Period	90 Days
Installment Period	Quarterly

Compare Rates – Step 1

Initial Reference Rate	5.50%
Final Reference Rate	5.00%
<i>(The Final Reference Rate is the 90-day Current Discount Note Rate, as adjusted by Lender)</i>	
<i>Continue to the next step because the Initial Reference Rate is greater than the Final Reference Rate.</i>	

Scheduled Interest Payments at the Initial Reference Rate – Step 2

<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Balance</u>
1	\$13,750.00	\$1,000,000.00
<i>[(\$1,000,000.00 x 5.50%) / 4 = \$13,750.00]</i>		
<i>Carry forward the Initial Interest Amounts to Step 4</i>		

Scheduled Interest Payments at the Final Reference Rate – Step 3

<u>Interest Payment</u>	<u>Final Interest Amounts</u>	<u>Balance</u>
1	\$12,500.00	\$1,000,000.00
<i>[(\$1,000,000.00 x 5.00%) / 4 = \$12,500.00]</i>		
<i>Carry forward the Final Interest Amounts to Step 4</i>		

Interest Difference – Step 4

<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Final Interest Amounts</u>	<u>Differential Interest Amount</u>
1	\$13,750.00	\$12,500.00	\$1,250.00
<i>Carry forward the Differential Interest Amount to Step 5</i>			

Net Present Value of Differential Interest Amounts – Step 5

<u>Interest Payment</u>	<u>Final Reference Rate</u>	<u>Present Value Factor</u>	<u>Differential Interest Amount</u>	<u>Present Value</u>
1	5.00%	0.98765	\$1,250.00	<u>\$1,234.57</u>
Prepayment/Breakage Fee				<u>\$1,234.57</u>

**AMENDMENT NO. 1 TO FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

THIS AMENDMENT NO. 1 TO FIRST AMENDED AND RESTATED MASTER LOAN AGREEMENT (this "Amendment") is made and entered into effective August 6, 2010, by and between **NORTHWEST FARM CREDIT SERVICES, FLCA** ("Lender") and **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a First Amended and Restated Master Loan Agreement dated June 10, 2010 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the "Loan Agreement") and other Loan Documents, as that term is defined therein;

WHEREAS, Borrower and Lender have agreed to certain definitions to reflect certain accounting entries performed by Borrower; and

WHEREAS, Borrower and Lender desire to modify the Loan Agreement for the purposes stated herein.

NOW, THEREFORE, for good and valuable consideration, Borrower and Lender agree as follows:

1. Except as expressly modified or changed herein, all terms and conditions of the Loan Agreement and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder.

2. The following definitions contained in Article 1 of the Loan Agreement are hereby amended to provide as follows:

"Consolidated Cash Flow Coverage Ratio" means, as of any date of determination for the prior four fiscal quarters, the ratio of (a) Consolidated EBITDDA minus Consolidated Capital Expenditures to (b) the sum of: (i) scheduled principal payments from the previous year (not including balloon principal payments that have been refinanced or the portion associated with the non-controlling interest in Timber Funds); (ii) required principal payments associated with asset sales, excluding the portion associated with the non-controlling interest in Timber Funds; and (iii) Consolidated Interest Expense.

"Consolidated EBITDDA" means, for any period, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense; (f) the cost of land sold by Companies; and, (g) plus or minus, as the case may be, Consolidated Taxes to the extent recognized in the computation of Consolidated Net Income, all as determined in accordance with GAAP, excluding the portions of depreciation expense, amortization expense, depletion expense and cost of land sold associated with the non-controlling interest in Timber Funds.

“Consolidated Interest Expense” means, for any period, all interest expense (including capitalized interest cost and the interest component under Capital Leases) of Companies on a consolidated basis, all as determined in accordance with GAAP, excluding the portion associated with the non-controlling interest in Timber Funds.

“Consolidated Taxes” means, as of any date of determination, the provision for federal, state and other income taxes of Companies on a consolidated basis, as determined in accordance with GAAP, excluding the portion associated with the non-controlling interest in Timber Funds.

3. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. This Amendment shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents shall remain in effect and is valid, binding and enforceable according to its terms, except as modified by this Amendment. Time is of the essence in the performance of the Loan Agreement and the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender.

In Witness Whereof, the parties hereto have duly executed this Amendment to be effective as of the date first above written.

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

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By: _____
Authorized Agent

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP, Inc., a Delaware corporation, its Managing General Partner

By: _____
Thomas M. Ringo, Vice President and
CFO

Date: June 10, 2010

Pope Resources, a Delaware Limited Partnership
Customer/Note No. 56548-841**FIRST AMENDED AND RESTATED
TERM NOTE**

THIS FIRST AMENDED AND RESTATED TERM NOTE (this "Note") is made and entered into effective as of the date first written above, by and between **NORTHWEST FARM CREDIT SERVICES, FLCA** ("Lender") and **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a Term Note, dated September 25, 2009, as amended or otherwise modified (the "Prior Note");

WHEREAS, Borrower and Lender desire to create a "pool" of collateral to act as security for the Loan and other Loans made by Lender and Lender's affiliate Northwest Farm Credit Services, PCA; and

WHEREAS, Borrower and Lender desire to amend and restate the Prior Note on the terms and conditions stated herein such that upon execution hereof and upon Lender obtaining the required lien position in the Collateral, the Prior Note shall be replaced with this Note and of no further force and effect.

NOW THEREFORE, for value received, on the Loan Maturity Date, Borrower, as principal, jointly and severally, promises to pay to Lender, 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 sum of **Nine Million Eight Hundred Thousand and No/100's Dollars (\$9,800,000.00)**, or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter.

1. Definitions. For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the First Amended and Restated Master Loan Agreement, dated on or about the same date herewith, as it may be amended, restated or otherwise modified (the "Loan Agreement").

"Applicable Margin" means, for purposes of calculating the applicable interest rate for any day for the Loan, 2.1 percent, per annum.

"Borrower" means Pope Resources, A Delaware Limited Partnership, a Delaware limited partnership; provided however, for purposes of covenant compliance, "Borrower" shall include all subsidiaries of Pope Resources, a Delaware Limited Partnership, whose financial statements should, under GAAP be consolidated with Pope Resources, A Delaware Limited Partnership.

“Collateral” means all the property pledged to secure this Loan as described in the Loan Documents, including but not limited to the real property consisting of approximately 58,554 acres of fee-owned timberland, located in Washington, together with all improvements located thereon, as more particularly described in that certain Mortgage dated of or around the same date herewith.

“Default Interest Rate” shall have the meaning set forth in Section 7.03 hereof.

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

“Fixed Rate Maturity Date” shall have the meaning set forth in Section 4 hereof; provided however, if a Fixed Rate Maturity Date falls on a date that is not a Business Day, the Fixed Rate Maturity Date shall be deemed to be the preceding Business Day.

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

“Lender” means Northwest Farm Credit Services, FLCA.

“Loan” or “Loan No. 56548-841” 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 the Note and all other documents executed in connection with the Loan, including but not limited to the Loan Agreement, Mortgage dated on or about the same date herewith, and all renewals, extensions, amendments, modifications, substitutions and replacements thereof.

“Loan Maturity Date” means September 1, 2019.

“Loan Purpose” means (a) to re-finance Borrower’s existing long term debt with John Hancock Life Insurance Company, including any associated prepayment and breakage fees, and (b) to pay Loan fees and all of Lender’s reasonable transaction costs.

“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.

“Notice” shall have the meaning as set forth in Paragraph 2 hereof.

“Pricing Date” means the Business Day the Loan began to accrue interest under a the 10-year Fixed Rate Option.

“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.

2. Loan Fee, Expenses, Stock and Notice.

2.01 Loan Fee. Borrower has paid Lender the Loan origination fee set forth in a separate Loan fee letter, dated September 25, 2009.

2.02 Costs and Expenses. Borrower shall pay Lender on the Closing Date, and subsequently on Lender’s demand, all of Lender’s reasonable transaction expenses, including but not limited to costs and expenses relating to title policies, appraisals of Collateral and fees and costs directly related to recording, filing and closing, whether or not the Loan is disbursed.

2.03 Stock. Borrower shall comply with the capitalization requirements of ACA, as indicated in the Loan Agreement.

2.04 Notice of Prepayment and Pricing.

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

b. **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. Advance. The proceeds of the Loan have been fully advanced. The Loan is not a revolving loan. Once Loan principal has been repaid, it may not be reborrowed.

4. Pricing. Borrower priced the Loan with a fixed rate equal to the 10-year Fixed Rate Option, as defined herein, plus the Applicable Margin. For purposes hereof: (i) the “10-year Fixed Rate Option” 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 the Loan shall be the corresponding anniversary of the first day of the month following the Pricing Date if the Pricing Date is not the first day of a month or the corresponding anniversary of the Pricing Date if such Pricing Date is the first day of a month.

5. **Payment.**

5.01 **Payment of Loan.**

- a. Payment of Interest. Borrower shall pay the interest that accrues on the Loan on the first day of the following month.
- b. Payment of Principal. The principal associated with the Loan shall be repaid in full on the Fixed Rate Maturity Date.
- c. Payment in Full on Loan Maturity Date. The unpaid principal balance, unpaid interest thereon, and all other amounts due under the Note and the other Loan Documents shall be paid on the Loan Maturity Date.

5.02 **Payment in Full on Loan Maturity Date.** The unpaid principal balance, unpaid interest thereon, and all other amounts due under this Note and the other Loan Documents shall be paid on the Loan Maturity Date.

5.03 **Application of Payments.** Regularly scheduled payments billed shall be applied to amounts owed by Borrower as billed on the date of Lender's receipt of payment. Any payment shall be applied as of the date of receipt first to accounts receivable for reimbursable expenses, second to default interest, third to billed interest, fourth to billed principal, fifth to unpaid principal, and any remainder to accrued and unpaid interest. In addition, so long as there is no Event of Default or Incipient Default, principal prepayments shall not alter the obligation to pay scheduled payments until the Loan is paid in full.

5.04 **Timber Cutting Payments.** Lender will calculate a Timber Cutting Payment annually, at the Fiscal Year End. The Timber Cutting Payment will be due and payable 15 days after it is billed. A Timber Cutting Payment shall not excuse Borrower from making any other required payments. Timber Cutting Payments will be subject to the Prepayment Fee provisions hereof.

6. **Prepayment and Breakage Fees.** The Loan is subject to the Prepayment and Breakage Fees set forth in the Loan Agreement.

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 events identified in the Loan Agreement as an Event of Default shall constitute an "Event of Default" under this Note.

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 shall equal four percent (4%) per annum above the interest rate in effect 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 at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan until paid in full.

7.04 **Application of Payments Following Default or Incipient Default.** Notwithstanding anything to the contrary hereunder or in the other Loan Documents, in the Event of Default or Incipient Default, Lender shall have the right to apply payments made by or on the account of Borrower and any funds held in any FPF Account for the Loan at any time.

8. **Loan Terms, Provisions and Covenants.** The Loan is subject to the terms, provisions and covenants contained herein and in the other Loan Documents.

9. **Miscellaneous Terms.**

9.01 **Notice of Default.** Borrower shall provide Lender immediate Notice of any Event of Default or Incipient Default under this Note and the other Loan Documents.

9.02 **Interest Rates.** Interest rates described herein are per annum rates and are calculated on the basis of the actual number of days elapsed during the year for the actual number of days in the year. If any payment date is not a Business Day, then payment shall be due on the next Business Day.

9.03 **Exhibits.** All Exhibits hereto are incorporated herein and made a part of this Note.

9.04 **Index and Index Source.** The Indexes used herein do not necessarily represent the lowest rates charged by Lender on its loans. If any Index or Index Source provided for herein becomes unavailable during the Loan term, Lender will choose a new Index or Index Source, which it determines, in the good faith, reasonable exercise of its sole discretion, is comparable, to be effective upon notification thereof to Borrower.

9.05 **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. 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.

9.06 **Authorization.** Borrower authorizes David L. Nunes or Thomas M. Ringo, or any other individual(s) as they or either of them may authorize in writing, to request advances of principal under this Note, to confirm interest rates and lock-in fees, and to provide Lender notice of pricing, repricing or prepayment as required under this Note.

9.07 **Advances, Fees and Costs.** Borrower shall pay Lender, on demand, all attorney fees and costs incurred in any loan or loan servicing actions 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 and Breakage Fees shall be payable on demand and shall accrue interest under the interest rate in effect for the Loan on such date and shall be treated as an advance under the Loan.

9.08 **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.

9.09 **General Provisions.** Borrower agrees to this Note as of the date first 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 the Loan may be indexed, adjusted, renewed or renegotiated. Lender may at any time, without notice, release all or any part of the security for the Loan, including the real estate and or personal property covered by the Loan Documents; grant extensions, deferments, renewals or reamortizations of any part of the Loan 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 Loan, 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 Loan or any part thereof or to make additional or future loans to Borrower.

9.10 **Counterparts.** 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.

9.11 **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.

9.12 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 the General Partners of Borrower, other than their interests in the Collateral. The foregoing shall in no way otherwise affect the personal liability of Borrower.

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.

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By: _____
Authorized Agent

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____
David L. Nunes, President and CEO

Pay to the Order of CoBank, ACB.

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:

Technical Accounting Services
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 First Amended and Restated Term Note dated June 10, 2010, as renewed, extended, amended or restated, made by Borrower and payable to the order of Lender.

SELECT ONE: Prepayment of Principal

Principal Amount _____
Date to be Effective _____

Date: _____

BORROWER

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

Date: June 10, 2010

Pope Resources, a Delaware Limited Partnership
Customer/Note No. 56548-442

TERM NOTE

For Value Received, on the Loan Maturity Date, Borrower, as defined below, as principal, jointly and severally, 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 Term Note (this "Note") may designate in writing, the principal balance of **Twenty Million and no/100's Dollars (\$20,000,000.00)** (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, the Base Rate Loan Segment and the Fixed Rate 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 First Amended and Restated Master Loan Agreement, dated on or about the same date herewith, as amended, restated or otherwise modified (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 that corresponds to the elected Rate Option:

<u>Rate Options</u>	<u>Applicable Margin</u>
Base Rate	3.50%
5- and 7-year Fixed Rate	1.70%
15-year Fixed Rate	1.60%

"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 during the Commitment Period.

"Borrower" means Pope Resources, A Delaware Limited Partnership, a Delaware limited partnership; provided however, for purposes of covenant compliance, "Borrower" shall include all subsidiaries of Pope Resources, a Delaware Limited Partnership, whose financial statements should, under GAAP be consolidated with Pope Resources, A Delaware Limited Partnership.

"Collateral" means all the property pledged to secure the Loan as described in the Loan Documents, including but not limited to the real property consisting of approximately 58,554 acres of fee-owned timberland, located in Washington, together with all improvements located thereon, as more particularly described in that certain Mortgage dated of or around even date herewith.

"Commitment Period" means the period of time from the date of this Note to the date 60 days thereafter, or at Lender's option in the Event of Default or Incipient Default.

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

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

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

“Fixed Rate Maturity Date” shall have the meaning set forth 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.

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

“Lender” means Northwest Farm Credit Services, FLCA.

“LIBOR” means the rate per annum at approximately 11:00 a.m. (London, England time) on the date that is two (2) Business Days prior to the beginning of the relevant interest period by reference to the British Bankers’ Association Interest Settlement Rates for deposits in Dollars (the “Index”), as set forth by the Bloomberg Information Service or any successor thereto, which has been designated by the British Bankers’ Association as an authorized information vendor for the purpose of displaying such rates (the “LIBOR Index Source”) for a period equal to such interest period.

“Loan” or “Loan No. 56548-442” 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, the Loan Agreement, the Mortgage and the Environmental Indemnity, dated on or about the same date herewith, and all renewals, extensions, amendments, modifications, substitutions and replacements thereof.

“Loan Maturity Date” means the earlier of: (1) September 1, 2025; (2) the Fixed Rate Maturity Date for the Loan Segment priced with the 15-Year Fixed Rate Option; or (3) at Lender’s option in the Event of Default or Incipient Default.

“Loan Purpose” means (a) to refinance existing indebtedness, and (b) to pay Loan fees and all of Lender’s reasonable transaction costs.

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

“Lockout Period Expiration Date” means the corresponding anniversary of the first day of the month following the Pricing Date for a given Fixed Rate Loan Segment, if the Pricing Date is not the first day of the month or the corresponding anniversary of the Pricing Date, if the Pricing Date is the first day of a month; provided however, if such day falls on a date that is not a Business Day, then the Lockout Period Expiration Date shall be deemed to be the preceding Business Day, unless such Business Day falls in another calendar month, in which case the Lockout Period Expiration Date shall be deemed to be the succeeding Business Day.

“Notice” shall have the meaning as set forth in paragraph 2.04 hereof.

“Prepayment Option” means one of the prepayment options set forth in Section 6.02 hereof.

“Pricing Date” means the Business Day 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.

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

2. Loan Origination Fee, Expenses, Stock and Notice.

2.01 Loan Fee. Borrower shall pay Lender the Loan fees set forth in a separate Loan fee letter.

2.02 Costs and Expenses. Borrower shall pay Lender on the Closing Date, and subsequently on Lender’s demand, all of Lender’s reasonable transaction expenses, including but not limited to costs and expenses relating to title policies, appraisals of Collateral and fees and costs directly related to recording, filing and closing, whether or not the Loan is disbursed.

2.03 Stock. Borrower shall comply with the capitalization requirements of ACA, as indicated in the Loan Agreement.

2.04 Notice of Prepayment and Pricing.

a. Prepayment of Principal. Borrower shall provide Lender with irrevocable Notice of the amount of a 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 Fixed Rate Loan Segment using a Fixed Rate Option by 10:00 a.m. Spokane time on the Pricing Date.

c. **Prepayment Option.** Borrower shall provide Lender irrevocable Notice of election of a Prepayment Option for a Fixed Rate Loan Segment using one of the options set forth in Section 6.02 hereof by 10:00 a.m. Spokane time on the Pricing Date. If Borrower fails to provide Notice of election of a Prepayment Option as set forth above, the Loan Segment being priced will be subject to Lender's make whole Prepayment Fee.

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

3. **Advances and Pricing Elections.**

3.01 **Advances.** So long as there is no Event of Default or Incipient Default, Lender will advance Loan proceeds during the Commitment Period, up to the Total Commitment Amount. To the extent there is any unadvanced Loan commitment at the end of the Commitment Period, Lender's duty to advance Loan principal shall expire. The Loan is not a revolving loan. Once Loan principal has been advanced and repaid, it may not be reborrowed.

3.02 **Pricing Election.** During the Commitment Period, and upon irrevocable Notice to Lender in accordance with paragraph 2.04 above, as to principal (i) in the amount of an advance or (ii) in the Base Rate Loan Segment, Borrower shall elect to designate \$5,000,000.00 of the Loan principal to bear interest at the 5-Year Fixed Rate Option, \$5,000,000.00 of the Loan principal to bear interest at the 7-Year Fixed Rate Option and \$10,000,000.00 of the Loan principal to bear interest at the 15-Year Fixed Rate Option; provided however, that there is no Event of Default or Incipient Default.

4. **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 remain constant for such month. Provided however, if a LIBOR rate cannot be ascertained using this method for a given month, then the Base Rate shall be determined for any day of such month by use of the NW Variable Base. The "NW Variable Base" on any given date, is the per annum interest rate equal to the Index for the NW Variable Base on such date plus the Applicable Margin. On any given date, the "Index" for the NW Variable Base is a per annum interest rate, as made available and determined by Northwest Farm Credit Services, PCA (the "NW Variable Base Index Source") in its sole discretion, on the last Business Day of the prior month. The Applicable Margin may be adjusted to provide a new interest rate under the NW Variable Base that is comparable to the LIBOR Variable Base.

4.02 5-, 7- or 15-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 5-, 7- or 15-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 5, 7 and 15 years; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the "5-, 7- and 15-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 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 the Pricing Date is the first day of a month.

4.03 Changes in Circumstances. In the event that, on any date on which an interest rate for pricing the Loan or a Loan Segment is to be determined, Lender determines that the applicable interest rate can not be ascertained or does not adequately reflect the cost to Lender of making or maintaining its Loan or Loan Segment(s) for which the interest rate is to be determined, 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 Index and or Applicable Margin for pricing of the Loan or applicable Loan Segment(s).

5. Payment.

5.01 Interest Payments. During the term of the Loan, Borrower shall make quarterly interest only payments, which payments shall consist of interest that accrued during such previous period on the balance of each Loan Segment. Interest only payments shall be due on July 1, 2010 and on the first day of each Fiscal Quarter thereafter.

5.02 Payment Upon Maturity of Fixed Rate Loan Segments. Each Fixed Loan Segment shall be repaid in full upon its respective Fixed Rate Maturity Date.

5.03 Payment in Full on Loan Maturity Date. The unpaid principal balance of this Note, 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.

5.04 Application of Payments. Regularly scheduled payments billed under Loan Segments shall be applied to Loan Segments and to amounts owed by Borrower as billed under each Loan Segment on the date of Lender's receipt of payment. Any payment for a Loan Segment shall be applied as of the date of receipt first to accounts receivable for reimbursable expenses, second to default interest, third to billed interest, fourth to billed principal, fifth to unpaid principal, and any remainder to unpaid interest. In addition, so long as there is no Event of Default or Incipient Default, principal prepayments shall be applied to principal under a given Fixed Rate Loan Segment, as selected by Borrower, in inverse order of its maturity, and shall not alter the obligation to pay scheduled payments until the indebtedness for each Fixed Rate Loan Segment is paid in full.

5.05 Timber Cutting Payments. Lender will calculate a Timber Cutting Payment annually, at the Fiscal Year-End. The Timber Cutting Payment will be due and payable 15 days after it is billed. After the pro-rata allocation of the Timber Cutting Payment between Loans is made pursuant to the Loan Agreement and so long as there is no Event of Default or Incipient Default, Borrower may elect the Loan Segment(s) against which the Timber Cutting Payment will be applied. A Timber Cutting Payment shall not excuse Borrower from making any other required payments. Timber Cutting Payments will be subject to the Prepayment Fee provisions hereof.

6. Prepayment and Breakage Fees.

6.01 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 (i) any prepaid principal under an election of Section 6.02 a. below, if the prepayment is received after the applicable lockout period or (ii) for any prepaid principal up to the 10 percent per calendar year limitation under an election of Section 6.02 b. below. Other prepayments of principal shall be subject to a Prepayment Fee, as described in the Loan Agreement.

6.02 Prepayment Fee Options.

a. **Lockout Period Option.** Under this Prepayment Option, Borrower may prepay all or a portion of a Fixed Rate Loan Segment after the applicable lockout period without incurring a Prepayment Fee. This Prepayment Option is subject to an "Option Fee" represented as basis points to be added to the Applicable Margin for the applicable Fixed Rate Loan Segment. Lender will absorb the first 10 basis points of the Option Fee.

The "lockout period" for this Prepayment Option is the period of time beginning with the Pricing Date for the applicable Fixed Rate Loan Segment and ending on the corresponding Lockout Period Expiration Date. Borrower may select one lockout period per Fixed Rate Loan Segment. For the 5-year Fixed Rate Loan Segment, Borrower may select from a 1-year or 2-year lockout period. For the 7-year Fixed Rate Loan Segment, Borrower may select from a 1-year, 2-year or 3-year lockout period. For the 15-year Fixed Rate Loan Segment, Borrower may select from a 1-year, 2-year, 3-year or 5-year lockout period.

Upon request of Borrower, by 8:00 a.m. Spokane time, Lender will quote the Option Fees for the lockout periods associated with each Fixed Rate Loan Segment, by 9:00 a.m. Spokane time.

b. **10 Percent Option.** Under this Prepayment Option, Borrower may prepay up to 10 percent of the principal amount of a Fixed Rate Loan Segment per calendar year without incurring a Prepayment Fee. This Prepayment Option is subject to an "Option Fee" represented as basis points to be added to the Applicable Margin for the applicable Fixed Rate Loan Segment. Lender will absorb the first 10 basis points of the Option Fee.

For purposes of this Prepayment Option, the 10% amount is computed on the principal amount of each Fixed Rate Loan Segment on its respective Pricing Date.

Upon request of Borrower by 8:00 a.m. Spokane time, Lender will quote the Option Fees associated with each Fixed Rate Loan Segment, by 9:00 a.m. Spokane time.

c. **Make Whole Option.** Prepayments of a Fixed Rate Loan Segment under this Prepayment Option shall be subject to a Prepayment Fee, as described in the Loan Agreement.

6.03 Breakage Fee. The Loan is subject to the Breakage Fees set forth in the Loan Agreement.

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 events identified in any of the Loan Documents as an Event of Default shall constitute an "Event of Default" under this Note.

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, 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 Application of Payments Following Default or Incipient Default. Notwithstanding anything to the contrary hereunder or in the other Loan Documents, in the Event of Default or Incipient Default, Lender shall have the right to apply payments made by or on the account of Borrower and any funds held in any FPF Account for the Loan to any Loan Segments as Lender may determine in its sole discretion at any time.

8. Loan Terms, Provisions and Covenants. The Loan is subject to the terms, provisions and covenants contained herein and in the other Loan Documents.

9. Miscellaneous Terms.

9.01 Notice of Default. Borrower shall provide Lender immediate notice of any Event of Default or Incipient Default under this Note and the other Loan Documents.

9.02 Interest Rates. The Base Rate described herein is a per annum rate and is calculated on the basis of the actual number of days elapsed for a 360 day year. The Fixed Rate Options described herein are per annum rates and are calculated on the basis of the actual number of days elapsed during the year for the actual number of days in the year. If any payment date is not a Business Day, then payment shall be due on the next Business Day.

9.03 Exhibits. All Exhibits hereto are incorporated herein and made a part of this Note.

9.04 Index and Index Source. The Indexes used herein do not necessarily represent the lowest rates charged by Lender on its loans. If any Index or Index Source provided for herein becomes unavailable during the Loan term, Lender will choose a new Index or Index Source which it determines, in its sole good faith discretion, is comparable to be effective upon notification thereof to Borrower.

9.05 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. 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.

9.06 Authorization. Borrower authorizes David L. Nunes or Thomas M. Ringo or any other individual(s) as they or either of them may authorize in writing, to request advances of principal under this Note, to confirm interest rates and lock-in fees, and to provide Lender notice of pricing, repricing or prepayment, as required under this Note.

9.07 Advances, Fees and Costs. Borrower shall pay Lender, on demand, all attorney fees and costs incurred 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 and Breakage Fees shall be payable, on demand, and shall accrue interest under the interest rate in effect for the Base Rate Loan Segment or any other Loan Segment as Lender may select on such date and shall be treated as an advance under such Loan Segment.

9.08 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.

9.09 General Provisions. Borrower agrees to this Note as of the date first 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 the Loan, including the real estate and or personal property covered by the Loan Documents; grant extensions, deferments, renewals or reamortizations of any part of the Loan 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 Loan, 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 Loan or any part thereof or to make additional or future loans to Borrower.

9.10 Counterparts. 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.

9.11 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.

9.12 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 the General Partners of Borrower, other than their interests in the Collateral. The foregoing shall in no way otherwise affect the personal liability of Borrower.

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: David L. Nunes, President and CEO

Pay to the Order of CoBank, ACB.

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:

Technical Accounting Services
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 Term Note, dated June 10, 2010, as amended or supplemented, made by Borrower and payable to the order of Lender.

ADVANCES, PRICING OR PREPAYMENT

- SELECT ONE:
- Base Rate Loan Segment
 - Fixed Rate Loan Segment
 - New Advance
 - Pricing
 - Conversion to Fixed Rate Loan Segment
 - Prepayment of Principal

PREPAYMENT OPTION (only for use when pricing a Fixed Rate Loan Segment)

- SELECT ONE:
- Lockout Period
 - 10 Percent
 - Make Whole

Loan Segment Currently Priced Under Option _____

Principal Amount _____

To New Pricing Option _____

Lockout Period _____

Date to be Effective _____

Date: _____

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

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

**FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

DATED AS OF JUNE 10, 2010

AMONG

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

AS BORROWER

AND

NORTHWEST FARM CREDIT SERVICES, PCA

AS LENDER

**FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT
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**FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

THIS FIRST AMENDED AND RESTATED MASTER LOAN AGREEMENT (this "Loan Agreement") is made and entered into effective June 10, 2010, 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 July 31, 2008, effective on the date hereof.

RECITALS

WHEREAS, Borrower has requested that Lender renew a \$20,000,000.00 operating loan; and

WHEREAS, Lender has agreed to renew the requested Loan available to Borrower on the terms and conditions hereinafter set forth, which shall apply to Loan No. 56548-811 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. Capitalized terms not otherwise defined herein shall have the meanings given in the Note(s) or other Loan Documents. As used herein:

"Adjusted Partners' Capital" means the GAAP based amount of the capital account of the partners of Borrower, adjusted for book to market value differences in Timberlands, 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.

"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.

“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, a Delaware limited partnership, provided however, for purposes of covenant compliance, “Borrower” shall include all subsidiaries of Pope Resources, a Delaware Limited Partnership, whose financial statements should, under GAAP, be consolidated with 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 Pool” shall have the meaning given in Section 5.03 hereof.

“Company” and “Companies” means Borrower, as well as any present or future Subsidiaries whose financial statements and accounting procedures should, in accordance with GAAP, be consolidated with those of Borrower.

“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 Capital Expenditures” means, for any period, all internally financed operating capital expenditures (excluding: (i) timberland acquisitions, (ii) the portion of the same associated with the non-controlling interest in Timber Funds; and (iii) capitalized interest associated with capital expenditures) of Companies, on a consolidated basis for such period, as determined in accordance with GAAP.

“Consolidated Cash Flow Coverage Ratio” means, as of any date of determination for the prior four fiscal quarters, the ratio of (a) Consolidated EBITDDA minus Consolidated Capital Expenditures to (b) the sum of: (i) scheduled principal payments from the previous year (not including balloon principal payments that have been refinanced); (ii) required principal payments associated with asset sales; and (iii) Consolidated Interest Expense.

“Consolidated EBITDDA” means, for any period, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense (excluding the portion associated with the minority interest in Timber Funds); (f) the cost of land sold by Companies; and, (g) plus or minus, as the case may be, Consolidated Taxes to the extent recognized in the computation of Consolidated Net Income, all as determined in accordance with GAAP.

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

“Consolidated Net Income” means, for any period, the net income or net loss attributable to unitholders, 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 Companies 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 B hereto.

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

“Fee Timberland” means all timber and timberland owned by Borrower.

“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: (a) all obligations of Borrower for borrowed money; (b) all obligations of Borrower evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made; (c) all obligations of Borrower under conditional sale or other title retention agreements relating to property purchased by Borrower (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 Borrower issued or assumed as the deferred purchase price of property or services purchased by Borrower (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 Borrower; (e) all obligations of Borrower under take-or-pay or similar arrangements or under commodities agreements; (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by Borrower, whether or not the obligations secured thereby have been assumed; (g) all guaranty obligations of Borrower; (h) the principal portion of all obligations of Borrower under capital leases; (i) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of Borrower and, without duplication, all drafts drawn thereunder (to the extent unreimbursed); and (j) all obligations of Borrower in respect to any Swap Termination Value of any Swap Contract between Borrower and any Swap Issuer. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which Borrower is a general partner or a joint venturer.

“Indebtedness to Total Capitalization Ratio” means, as of any date of determination, Companies’ Indebtedness, excluding the portion thereof associated with the non-controlling interest in Timber Funds, divided by the sum of (a) Companies’ Indebtedness excluding the portion thereof associated with the non-controlling interest in Timber Funds, plus (b) Adjusted Partner’s Capital.

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

“Laws” means all ordinances, codes, statutes, rules, regulations, licenses, permits, orders, injunctions, writs or decrees of any Governmental Authority, 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.

“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 the 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 the Note and the other Loan Documents, plus all interest accrued thereon.

“Loan Documents” means all of the contractual obligations associated with the Loans, including but not limited to: this Loan Agreement; the Notes; the Membership Agreement, security documents and other documents or instruments as required by Lender, executed in connection with the Loans, 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.

“Loans per MBF” means the sum of (a) the principal balances of the Loan(s) and (b) the principal balance(s) of the FLCA Loan(s) *divided by* the MBF.

“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.

“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.

“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

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.

"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.

"Subsidiary" means, as to any Person, (a) any corporation more than 50 percent of whose 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; provided however, Section 7.03.c.i. shall exclude Timber Funds from such definition.

"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.

"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 I, LP, ORM Timber Fund II, Inc. and any future similar timberland investment entity.

2. Loans.

2.01 Loans. Subject to the terms and conditions set forth herein, Lender agrees to make Loan No. 56548-811 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 Generally.** All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Lender in U.S. Dollars and in immediately available funds as further described in the Note(s) and according to the terms of the Note(s).

2.05 **Accounting Terms** means, except as otherwise provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters to be delivered to Lender hereunder shall be prepared in accordance with GAAP, applied on a consistent basis.

3. **General Authorization.** Borrower hereby authorizes any one of the following named individuals to request funds be deposited or disbursed from any Loan Borrower may have with Lender, to request on behalf of Borrower, advances under the Loans and to execute any notice in order to effect prepayment, repricing or payment of any Loan Segment (as that term may be defined in a given Note). Individuals authorized hereunder: a Responsible Officer or any other individual(s) as authorized by Borrower in a written authorization provided to Lender. Any such request shall be conclusively presumed to have been made to or for the benefit of Borrower.

4. **Conditions Precedent.** The obligation of Lender to close 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. If real Property is Collateral for one or more Loans, a title insurance commitment acceptable to Lender;

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; and

l. Copies of the most recent timberland appraisals covering all fee timber and timberlands currently owned by Borrower.

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

c. Payment by Borrower to Lender of the following amounts:

i. Any unpaid balance of any Loan fees; and

ii. All unpaid costs and expenses to Lender; and

d. All representations and warranties made in the Loan Documents are true and correct.

5. Liens and Collateral.

5.01 Creation of Liens. As security for the prompt payment and performance of Borrower's Obligations, Borrower hereby agrees to assign and pledge to Lender all of its right, title and interest in and to, and grants to Lender, Liens upon the Collateral. In order to further evidence such Liens, upon Lender's request, Borrower shall execute, acknowledge where required for perfection purposes, and deliver on or before the Closing Date, the Deeds of Trust, consents, notices, subordinations, indemnities, assignments, security agreements, financing statements and other Loan Documents required by Lender.

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 reperfect 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 lien(s) 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 lien(s) 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 Loan(s) 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 reasonable expenses associated with the lien releases identified in this Section 5.40, 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.

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 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: 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, 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. Such consolidated statements 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, 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, 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. 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;

vi. 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;

vii. 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

viii. 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.

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. Optional Appraisal of Collateral. Lender may, at any time, request an appraisal of Collateral. Borrower shall be responsible for the cost of 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 subsequent appraisals, provided there is no Event of Default or Incipient Default.

g. Biennial Appraisal. Beginning with the 2010 Fiscal Year, Borrower shall have all Collateral owned by Borrower appraised every other year by Marty Healy or another appraiser approved by Lender, 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. above.

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.

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, beginning with the 2010 Fiscal Year;
- b. The sum of the outstanding balances of the Loan(s) and the FLCA Loans *divided* by the most recent Biennial Appraised Timberland Value shall not exceed 50%, to be measured as of each Fiscal Year-End; and
- c. The Loans per MBF shall not exceed \$250/MBF. The Loans per MBF will be measured annually as of each Fiscal Year End. Borrower may add or substitute Collateral satisfactory to Lender to maintain the Loans per MBF relationship. If Timber Cutting Payments are made, instead of substituting collateral, such payments shall be applied pro-rata, based upon the total outstanding principal balances of the Loan(s) and the FLCA Loan(s).

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. 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.** Change its Fiscal Year-End or amend, modify or change its Organization Documents, which 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.
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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 Lender 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) Timber Fund Indebtedness, to the extent allowed under the governing documents of such 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); and (ix) 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.

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 the Loans, unless the Note for a particular Loan provides for a different Prepayment Fee, in which case the Note for the Loan will control. All Loans are subject to the following Breakage Fees.

9.01 Prepayment Fee.

a. Exemption to Prepayment Fee. Principal prepayments made while a Loan or 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 or a LIBOR Maturity Date, as applicable, for the Loan or Loan Segment being prepaid. Other prepayments of principal shall be subject to a Prepayment Fee.

b. “Prepayment” Defined. “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, Guarantors and 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 shall be payable, on demand, and shall be an amount calculated on a make-whole basis, consistent with the procedure described in Exhibit C hereof.

9.02 Breakage Fee. In the event Borrower provides Lender Notice that Loan principal is to be prepaid, after which Borrower revokes such Notice, then Borrower shall immediately pay Lender, on demand, a Breakage Fee in an amount calculated on a make-whole basis, consistent with the procedure described in Exhibit C hereof.

9.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee using the calculation on a make-whole basis, consistent with the procedure described on Exhibit C hereof, provided however, a participant may use a different value than Lender for the Initial and Final Reference Rates, as those terms are described in Exhibit C hereof.

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 Indemnity; Waiver of Damages by Borrower.

a. **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.

b. 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.

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

d. 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 facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or, subject to Section 11.03 below, e-mail 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: Thomas M. Ringo
19245 Tenth Ave. NE
Poulsbo, WA 98370
Facsimile: (360) 697-1476
E-mail: tringo@orminc.com

ii. If to Lender:

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

b. **Effectiveness.** All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (1) actual receipt by the relevant party hereto and (2) (a) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (b) if delivered by Certified Mail, Return Receipt Requested, upon receipt; (c) if delivered by Facsimile, when sent and receipt has been confirmed by telephone; and (d) if delivered by e-mail (which form of delivery is subject to the provisions of Section 11.03 below), when delivered. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

11.02 Facsimile Documents and Signatures. Loan Documents may be transmitted and or signed by facsimile. 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, as applicable. 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 facsimile document or signature.

11.03 Use of E-mail. E-mail, internet or intranet websites may be used only to distribute routine communications, such as financial statements, covenant reporting, billing statements and other like information and to distribute Loan Documents for execution by the parties thereto, but may not be used for any other purpose, unless approved by Lender. Provided, an original signed document that has been scanned and attached to an e-mail shall have the same force and effect as a document sent by facsimile.

12. Participation. Notwithstanding any other provision of this Loan Agreement, Borrower understands that Lender may at any time enter into participation agreements with one or more participating lenders, whereby Lender will allocate certain percentages of its commitment to these lenders. Borrower acknowledges that, for the convenience of all parties, this Loan Agreement is being entered into with Lender only, and that Borrower's Obligations under this Loan Agreement are undertaken for the benefit of, and as an inducement to, any such participating lender as well as Lender, and Borrower hereby grants to each participating lender, all the rights and remedies afforded Lender hereunder.

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 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. In this Loan Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise stated the word "from" means "from and including" and the word "to" or "until" means "to and including."

d. 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 definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns and (iii) 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.

e. 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.

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.

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

**BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP**

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____
David L. Nunes, President and CEO

EXHIBIT A
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, PCA

Reference is made to that certain First Amended and Restated Master Loan Agreement, dated as of June 10, 2010, (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

[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. Companies' Indebtedness at Calculation Date	\$	
B. Indebtedness associated with non-controlling interest in Timber Funds at Calculation Date	\$	
C. Numerator (Line I.A. minus Line I.B.)	\$	
D. Total Capitalization at Calculation Date	\$	
1. Adjusted Partners' Capital at Calculation Date	\$	
a. Partners' capital per GAAP at Calculation Date	\$	
b. Book Value of timberland at Calculation Date	\$	
c. Book value of timber and roads net of depletion at Calculation Date	\$	
d. Book value of timberland, timber, and roads net of depletion for Timber Funds at Calculation Date	\$	
e. Most recent Biennial Appraised Timberland Value	\$	
f. Adjusted Partners Capital (Line I.D.1.a. minus I.D.1.b. minus I.D.1.c. plus I.D.1.d. plus I.D.1.e.)	\$	
2. Numerator from line I.C. above	\$	
E. Denominator (Line I.D.1.f. plus Line I.D.2.)	\$	
Ratio of Indebtedness to Total Capitalization (Line I.C. divided by Line I.E.)		
Maximum Allowed		0.30

**II. Section 7.02 b. - Loans to Biennial Appraised Timberland Value
(measured annually at Fiscal Year-end)**

A. Combined Balance of Loan Nos. 56548-811,841 and 442	\$	
B. Most recent Biennial Appraised Timberland Value	\$	
Loan to Value Ratio (Line II.A. divided by Line II.B.)		
Maximum Allowed		50%

**III. Section 7.02 c. - Loans per MBF
(measured annually)**

A. Combined Balance of Loan Nos. 56548-811,841 and 442	\$
B. Total Merchantable Timber volume on Collateral at Calculation Date	
1. Merchantable Timber volume on Collateral at end of prior subject period	
2. Merchantable Timber volume harvested from Collateral for the subject period	
3. Merchantable Timber volume growth on Collateral for the subject period	
4. Merchantable Timber volume change as a result of addition or subtraction of timberland property during subject period	
5. Other changes in Merchantable Timber volume due to cruises and other for the subject period	
C. Merchantable Timber volume on Collateral as of Calculation Date (Line B.1. minus Line III.B.2. plus Line III.B.3 plus or minus Line III.B.4. plus or minus Line III.B.5)	
Loans per MBF (Line III.A. divided by Line III.C.)	
Maximum Allowed	\$250/MBF

IV. Consolidated Interest Coverage Ratio (Pricing Only) - (measured quarterly)

A. Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "subject period")	
1. Consolidated Net Income for the subject period	\$
2. Consolidated Interest Expense for the subject period	\$
3. Consolidated depreciation expense for the subject period	\$
4. Consolidated amortization expense for the subject period	\$
5. Consolidated depletion expense for the subject period (excluding the portion associated with the non-controlling interest in Timber Funds)	\$
6. Cost of land sold	\$
7. Consolidated Taxes for the subject period (to the extent considered in calculating Consolidated Net Income)	\$
8. John Hancock Insurance Company make whole costs (not applicable after March 31, 2011)	\$
9. Consolidated EBITDDA (the sum of Lines IV.A.1 through I.A.8. inclusive)	\$
B. Consolidated Capital Expenditures	\$
C. Numerator (Line IV.A.9. minus Line B.)	\$
D. Denominator - Consolidated Interest Expense for subject Period	\$
E. Consolidated Interest Coverage Ratio (Line IV.C. divided by Line IV.D.)	

EXHIBIT C
PREPAYMENT / BREAKAGE FEE CALCULATION

A. Definitions. For purposes of this Exhibit C, the following definitions apply:

1. “Prepayment Amount,” for the purpose of a Prepayment Fee, means the amount of any principal prepayment.
2. “Prepayment Amount,” for the purpose of a Breakage Fee, means the principal that Borrower has indicated on a Notice to be advanced or priced using a Fixed Rate Option.
3. “Remaining Fixed Pricing Period,” for any principal priced with a Fixed Rate Option, means the period of time beginning (a) on the date a principal prepayment is made or, (b) in the case of a Breakage Fee, on the date Notice is given and ending on the Fixed Rate Maturity Date.
4. “Initial Reference Rate,” for any principal priced with a Fixed Rate Option, means the annualized rate used by Lender or a participant to obtain the funds loaned to Borrower in the case of a Prepayment Fee, or the annualized rate applicable on the last Pricing Date, or on the date Notice of prepayment is given, as the case may be, in the case of a Breakage Fee.
5. “Final Reference Rate” means the annualized rate Lender or a participant would use to fund a new advance in such amount for the Remaining Fixed Pricing Period on the date of such prepayment. For a Breakage Fee, the Final Reference Rate means the annualized rate as of the date Notice is given.

B. Calculation of Prepayment/Breakage Fee. The Prepayment and the Breakage Fees are calculated on a make-whole basis in five (5) steps as provided below:

1. Compare the Initial Reference Rate and the Final Reference Rate. If the Initial Reference Rate is less than or equal to the Final Reference Rate, the Prepayment / Breakage Fee is zero. If the Initial Reference Rate is greater than the Final Reference Rate, complete the following steps to calculate the Prepayment / Breakage Fee.
2. Calculate the interest payment that will accrue on the Prepayment Amount over the Remaining Fixed Pricing Period at the Initial Reference Rate (“Initial Interest Amounts”).
3. Calculate the interest payment that will accrue on the Prepayment Amount over the Remaining Fixed Pricing Period at the Final Reference Rate (“Final Interest Amounts”).

4. Calculate the “Differential Interest Amount” for each interest payment due during the Remaining Fixed Pricing Period by subtracting the Final Interest Amount from the Initial Interest Amount for each such payment.
5. The Prepayment or Breakage Fee is the sum of the discounted present value of each Differential Interest Amount, discounted at the Final Reference Rate from the date such payment would be due back to the prepayment date, or in the case of a Breakage Fee, on the date Notice is given.

An example of a Prepayment / Breakage Fee calculation is attached hereto as Exhibit C-1.

**EXHIBIT C-1
EXAMPLE OF PREPAYMENT / BREAKAGE FEE CALCULATION**

Prepayment Amount	\$1,000,000.00
Initial Reference Rate	5.50%
Final Reference Rate	5.00%
Scheduled Interest Payments in the Remaining Fixed Pricing Period	1
Remaining Fixed Pricing Period	90 Days
Installment Period	Quarterly

Compare Rates – Step 1	
Initial Reference Rate	5.50%
Final Reference Rate	5.00%
<i>(The Final Reference Rate is the 90-day Current Discount Note Rate, as adjusted by Lender)</i>	
<i>Continue to the next step because the Initial Reference Rate is greater than the Final Reference Rate.</i>	

Scheduled Interest Payments at the Initial Reference Rate – Step 2		
<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Balance</u>
1	\$13,750.00	\$1,000,000.00
		\$1,000,000.00
<i>[((\$1,000,000.00 x 5.50%)/4) = \$13,750.00]</i>		
<i>Carry forward the Initial Interest Amounts to Step 4</i>		

Scheduled Interest Payments at the Final Reference Rate – Step 3		
<u>Interest Payment</u>	<u>Final Interest Amounts</u>	<u>Balance</u>
1	\$12,500.00	\$1,000,000.00
		\$1,000,000.00
<i>[((\$1,000,000.00 x 5.00%)/4) = \$12,500.00]</i>		
<i>Carry forward the Final Interest Amounts to Step 4</i>		

Interest Difference – Step 4			
<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Final Interest Amounts</u>	<u>Differential Interest Amount</u>
1	\$13,750.00	\$12,500.00	\$1,250.00
<i>Carry forward the Differential Interest Amount to Step 5</i>			

Net Present Value of Differential Interest Amounts – Step 5				
<u>Interest Payment</u>	<u>Final Reference Rate</u>	<u>Present Value Factor</u>	<u>Differential Interest Amount</u>	<u>Present Value</u>
1	5.00%	0.98765	\$1,250.00	\$1,234.57
Prepayment/Breakage Fee				\$1,234.57

**AMENDMENT NO. 1 TO FIRST AMENDED AND RESTATED
MASTER LOAN AGREEMENT**

THIS AMENDMENT NO. 1 TO FIRST AMENDED AND RESTATED MASTER LOAN AGREEMENT (this "Amendment") is made and entered into effective August 6, 2010, by and between **NORTHWEST FARM CREDIT SERVICES, PCA** ("Lender") and **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a First Amended and Restated Master Loan Agreement dated June 10, 2010 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the "Loan Agreement") and other Loan Documents, as that term is defined therein;

WHEREAS, Borrower and Lender have agreed to certain definitions to reflect certain accounting entries performed by Borrower; and

WHEREAS, Borrower and Lender desire to modify the Loan Agreement for the purposes stated herein.

NOW, THEREFORE, for good and valuable consideration, Borrower and Lender agree as follows:

1. Except as expressly modified or changed herein, all terms and conditions of the Loan Agreement and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder.
2. The following definition contained in Article 1 of the Loan Agreement is hereby deleted, "Consolidated Cash Flow Coverage Ratio".
3. The following definitions contained in Article 1 of the Loan Agreement are hereby amended to provide as follows:

"Consolidated EBITDDA" means, for any period, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense; (f) the cost of land sold by Companies; and, (g) plus or minus, as the case may be, Consolidated Taxes to the extent recognized in the computation of Consolidated Net Income, all as determined in accordance with GAAP, excluding the portions of depreciation expense, amortization expense, depletion expense and cost of land sold associated with the non-controlling interest in Timber Funds.

“Consolidated Interest Expense” means, for any period, all interest expense (including capitalized interest cost and the interest component under Capital Leases) of Companies on a consolidated basis, all as determined in accordance with GAAP, excluding the portion associated with the non-controlling interest in Timber Funds.

“Consolidated Taxes” means, as of any date of determination, the provision for federal, state and other income taxes of Companies on a consolidated basis, as determined in accordance with GAAP, excluding the portion associated with the non-controlling interest in Timber Funds.

4. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. This Amendment shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents shall remain in effect and is valid, binding and enforceable according to its terms, except as modified by this Amendment. Time is of the essence in the performance of the Loan Agreement and the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender.

In Witness Whereof, the parties hereto have duly executed this Amendment to be effective as of the date first above written.

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

LENDER:
NORTHWEST FARM CREDIT SERVICES, PCA

By: _____
Authorized Agent

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP, Inc., a Delaware corporation, its Managing General Partner

By: _____
Thomas M. Ringo, Vice President and
CFO

Date: June 10, 2010

Pope Resources, A Delaware Limited Partnership
Customer/Note No. 56548-811

REVOLVING OPERATING NOTE

For Value Received, on the Loan Maturity Date, Borrower, as defined below, as principal, promises to pay to Lender, as defined below, or order, at its office in Spokane, Washington, or such other place as the holder of this Revolving Operating Note (this "Note") may designate in writing, the principal sum of **Twenty Million and no/100's Dollars (\$20,000,000.00)** (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 First Amended and Restated Master Loan Agreement, dated on or about the same date herewith (as amended and modified, the "Loan Agreement").

"Applicable Margin" means the per annum percentage set forth below, which corresponds to the Borrower's Pricing Level as of the most recent Calculation Date.

Pricing Level	Consolidated Interest Coverage Ratio	Applicable Margin for Base Rate	Applicable Margin for Fixed Rate Options	Unuse Commitment Fee
I	≥ 3.00:1.00	2.25%	2.25%	0.15%
II	≥ 2.00:1.00	2.75%	2.75%	0.25%
III	< 2.00:1.00	3.25%	3.25%	0.35%

The pricing level shall be determined and adjusted on the date ten (10) Business Days after the date Borrower provides Lender the Compliance Certificate, as required herein, for Borrower's most recent Calculation Date (each, an "Adjustment Date"); provided however, that the initial pricing level shall be III and shall remain at such pricing level until the first Adjustment Date occurring after the first Calculation Date following the Closing Date. On such Adjustment Date and on each Adjustment Date thereafter, the pricing level shall be determined by the Consolidated Interest Coverage Ratio as of the most recent Calculation Date. If Borrower fails to timely provide Lender the Compliance Certificate for such most recent Calculation Date, the pricing level commencing the day after the due date thereof shall be the highest pricing level, which shall remain in effect until subsequently adjusted ten (10) Business Days after the delivery of the required Compliance Certificate. Any adjustment in the pricing level shall be applicable to all existing Loan Segments. Provided, however, in the Event of Default, Lender shall have the right at any time to change to the highest pricing level and the applicable interest rate shall also be subject to default interest, as provided in Section 7.03 hereof. In calculating the pricing level, Lender will use the Consolidated Interest Coverage Ratio, notwithstanding any grace period provided for in the Loan Documents.

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

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

“Beneficiary” means the party designated as the recipient of a Letter of Credit issued by Lender under this Loan.

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

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

“Closing Date” means the date the Loan Documents are fully executed and the conditions precedent to Loan closing have been met to Lender’s satisfaction or waived by Lender in writing.

“Collateral” means all the property pledged to secure the Loan as described in the Loan Documents, including but not limited to the real property consisting of approximately 58,554 acres of fee-owned timberland, located in Washington, together with all improvements located thereon, as more particularly described in that certain Mortgage dated of or around the same date herewith.

“Commitment Period” means the Closing Date to the Loan Maturity Date.

“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) Consolidated EBITDDA minus Consolidated Capital Expenditures to (b) Consolidated Interest Expense. The payment of mark to market costs to John Hancock Insurance Company (approximately \$2,400,000) shall be excluded from the calculation through the Fiscal Quarter ending March 31, 2011.

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

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

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

“Fixed Rate Maturity Date” shall have the meaning given in Section 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 Section 4.02 hereof.

“Lender” means Northwest Farm Credit Services, PCA.

“Letter of Credit” means a letter of credit issued by Lender to a Beneficiary at the request of Borrower.

“LIBOR” means the rate per annum at approximately 11:00 a.m. (London time) on the date that is two (2) Business Days prior to the beginning of the relevant interest period by reference to the British Bankers’ Association Interest Settlement Rates for deposits in Dollars (the “Index”), as set forth by the Bloomberg Information Service or any successor thereto, which has been designated by the British Bankers’ Association as an authorized information vendor for the purpose of displaying such rates (the “LIBOR Index Source”) for a period equal to such interest period.

“Loan” or “Loan No. 56548-811” 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 Loan Agreement, the Mortgage dated on or about the same date herewith and all renewals, extensions, amendments, modifications, substitutions and replacements thereof.

“Loan Maturity Date” means August 1, 2013.

“Loan Purpose” means (a) to provide financing for Borrower’s operating and capital needs (including distributions to Borrower’s unitholders in the ordinary course of business and repurchases of partnership units from Borrower’s unitholders as may be approved by Borrower’s Board of Directors), and (b) to pay for Stock, Loan fees and all of Lender’s reasonable transaction costs.

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

“LOC Loan Segment” means the total principal commitment of all Letters of Credit issued by Lender under this Note.

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

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

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

“Unused Commitment Fee” shall have the meaning given in Section 2.01 hereof.

2. **Loan Fee, Expenses, Stock and Notice.**

2.01 Loan Fee. Borrower shall pay Lender the Loan fees, set forth in a separate Loan fee letter, on the Closing Date. In addition, Borrower shall pay Lender, quarterly in arrears, an Unused Commitment Fee to be calculated by multiplying the average daily unused balance of the Loan by the annual percentage indicated in the pricing grid in the definition of Applicable Margin and dividing the resulting product by four. The Unused Commitment Fee shall be due on the first day following each Fiscal Quarter-End and shall be payable by the tenth day following each Fiscal Quarter-End.

2.02 Costs and Expenses. Borrower shall pay Lender, on the Closing Date and subsequently on Lender’s demand, all costs and expenses related to closing, whether or not the Loan is disbursed.

2.03 Stock. Borrower shall comply with the capitalization requirements of ACA, as provided in the Loan Agreement.

2.04 **Notice.**

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 three Business Days prior to the Business Day the prepayment will be made.

b. **Pricing.** Borrower shall provide Lender irrevocable Notice of pricing of a Fixed Rate Loan Segment by 10:00 a.m. Spokane time three days prior to the Pricing Date.

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

3. **Advances and Pricing Elections.**

3.01 Advances. So long as there is no Event of Default or Incipient Default under this Note or the other Loan Documents during the Commitment Period, Lender will make advances to Borrower on a Disbursement Date for a purpose consistent and in compliance with the Loan Documents in amounts requested by Borrower, provided that, after giving effect to any requested advance, the aggregate principal amount of such advances made hereunder will not exceed the Total Commitment Amount. The advances constitute a revolving line of credit. During the Commitment Period, Borrower may borrow, repay and reborrow Loan principal on the terms and conditions contained herein.

3.02 **Letters of Credit.** Lender will made Letters of Credit available to Borrower as one means of advancing Loan proceeds. Borrower may only request Letters of Credit prior to the Loan Maturity Date within the Total Commitment Amount for an approved Loan purpose and so long as there is no Event of Default or Incipient Default under the Loan Documents. Letters of Credit are subject to the terms and conditions of this Note and the other Loan Documents, including, but not limited to, the following terms and conditions:

a. **Purpose.** Lender and Borrower agree that the sole purpose for the advance of any Loan proceeds under a Letter of Credit shall be by Lender to pay directly to the Beneficiary designated therein, upon its written demand, pursuant to the terms of that certain Letter of Credit, issued by Lender for the account of Borrower.

b. **Termination.** Lender's duty to advance loan proceeds to the Beneficiary shall terminate on July 20, 2013, or the earlier termination of the Letter of Credit. The aggregate amount that Lender shall be required to advance shall be limited to the commitment amount of such Letter of Credit.

c. **Payment.** In the event any amount is advanced under a Letter of Credit, Borrower shall repay interest and principal associated with such advance pursuant to the terms of this Note.

d. **Letter of Credit Fee.** Borrower shall pay Lender a fee of one and one half percent (1.5%) of the Letter of Credit commitment amount, at inception and annually during the term of such Letter of Credit, for each Letter of Credit issued.

e. **Indemnification.** Borrower shall defend, indemnify and hold Lender harmless for any and all claims, damages, liabilities, costs or expenses whatsoever by Borrower, or any other party ("liabilities") which Lender may incur or suffer by reason of or in conjunction with Lender's performance under a Letter of Credit except only if and to the extent that any such liability shall be caused by the willful misconduct or gross negligence of Lender in performing its obligations under such Letter of Credit. Provided however, Lender may rely on the documents presented to Lender by the Beneficiary in accordance with the Letter of Credit as to any and all matters set forth therein, whether or not any statement or any document presented pursuant thereto proves to be forged, fraudulent, invalid or insufficient in any respect or any statement therein proves to be untrue or inaccurate in any respect. Borrower shall reimburse Lender for any legal or other expenses incurred in connection with investigating or defending against any of the foregoing except if the same is due to Lender's gross negligence or willful misconduct. The indemnities contained herein shall survive the expiration of any Letter of Credit.

f. LOC Loan Segment. Any LOC Loan Segment shall be treated as fully disbursed for purposes of determining the amount that Borrower may borrow under the Loan.

3.03 Pricing Elections. Upon irrevocable Notice to Lender, as to principal (i) in the amount of an advance, (ii) in a 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 an advance or the unpaid principal balance of such Loan Segment on such Pricing Date to bear interest at any Rate Option; provided however, that (1) there is no Event of Default or Incipient Default; (2) Borrower shall price principal in Fixed Rate Loan Segments in initial minimum principal amounts of \$1,000,000.00; (3) no Fixed Rate Option may be selected which would have for its Fixed Rate Maturity Date a date later than the Loan Maturity Date; and (4) there are no more than five Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option three Business Days prior to a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the unpaid principal balance of such Loan Segment shall be priced at the Base Rate effective on such Pricing Date.

3.04 Single Base Rate Loan Segment. If on a Pricing Date, a Loan Segment is priced under the Base Rate resulting in more than one Loan Segment priced under the Base Rate, all Loan principal priced under the Base Rate will be treated as a single Base Rate Loan Segment by combining the principal balances from all such Loan Segments priced under the Base Rate on such Pricing Date.

4. 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 remain constant for such month. Provided however, if a LIBOR rate cannot be ascertained using this method for a given month, then the Base Rate shall be determined for any day of such month by use of the NW Variable Base. The "NW Variable Base" on any given date, is the per annum interest rate equal to the Index for the NW Variable Base on such date plus the Applicable Margin. On any given date, the "Index" for the NW Variable Base is a per annum interest rate, as made available and determined by Northwest Farm Credit Services, PCA (the "NW Variable Base Index Source") in its sole discretion, on the last Business Day of the prior month. The Applicable Margin may be adjusted to provide a new interest rate under the NW Variable Base that is comparable to the LIBOR Variable Base.

4.02 1-, 3-, or 6- Month LIBOR Fixed Rate Options. A Fixed Rate Loan Segment may be priced at a fixed rate equal to the 1-, 3-, or 6- Month LIBOR, as made available by the LIBOR Index Source plus the Applicable Margin. With the LIBOR Fixed Rate Options: (i) rates may be fixed for an Interest Period, as defined herein of 1-, 3-, or 6- months; and (ii) rates take effect on the Pricing Date. For purposes hereof, the "Interest Period" shall mean a period commencing on the Pricing Date and ending on the numerically corresponding day of the month that is 1, 3, or 6 months thereafter (the "Fixed Rate Maturity Date").

4.03 Additional Pricing Options. In the event Borrower should desire to price a Loan Segment using an Index, Pricing Date and repricing 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, which rate shall be effective on the date determined upon terms and conditions and within timeframes as Lender may prescribe at the time of the quote.

4.04 Changes in Circumstances. In the event that, on any date on which an interest rate for pricing the Loan or a Loan Segment is to be determined, Lender determines that the applicable interest rate can not be ascertained or does not adequately reflect the cost to Lender of making or maintaining its Loan or Loan Segment(s) for which the interest rate is to be determined, 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 Index and or Applicable Margin for pricing of the Loan or applicable Loan Segment(s).

5. Payment.

5.01 Payment of Loan Segments. Borrower shall make quarterly interest only payments, which payments shall consist of interest that accrued during such period on the unpaid principal balance of each Loan Segment. Interest only payments shall be paid on or before the tenth day of the following month.

5.02 Payment in Full on Loan Maturity Date. The unpaid principal balance, unpaid interest thereon, and all other amounts due under this Note and the other Loan Documents shall be paid on the Loan Maturity Date.

5.03 Application of Payments. So long as there is no Event of Default or Incipient Default, payments received prior to the Loan Maturity Date, in amounts other than as billed, shall be applied to Loan Segments, as of the date of receipt, as follows:

- a. First to any fees and reimbursable expenses due under this Note or any other Loan Documents;
- b. Second to billed and unpaid interest by Loan Segment, beginning with the Loan Segment bearing the highest interest rate and then to Loan Segments in descending order of their interest rates. Provided however, if two or more Loan Segments are subject to the same interest rate as of the date of receipt of payment, the payment shall be applied first to the Base Rate Loan Segment, then to the Fixed Rate Loan Segment with the earliest Fixed Rate Maturity Date and then to the Fixed Rate Loan Segments in increasing order of their Fixed Rate Maturity Dates;
- c. Third to the principal balance in the Base Rate Loan Segment; and
- d. Thereafter to Borrower's FPF Account, except where Borrower provides Lender Notice that such payment amount should be applied against one of the Fixed Rate Loan Segments subject to the Prepayment Fee as provided for herein. Provided however, on the Loan Maturity Date, payments shall be applied as provided in subparagraphs a.-c. above, and then to the principal balance in any Fixed Rate Loan Segments.

5.04 Payment from FPF Account. Upon Borrower's request, Lender will apply funds, if any, held in the FPF Account with respect to the Loan to the unpaid balance, if any, of the Loan. Each payment from the FPF Account will be applied to Loan Segments as provided for in subparagraphs a.-c. of Section 5.03 above. The FPF Account is governed by the terms of the Loan Documents. In the Event of Default or Incipient Default, Lender shall have the right to apply payments made by or for the account of Borrower, including without limitation, from the FPF Account, to any Loan Segment as Lender may determine, in its sole discretion, at any time.

5.05 Timber Cutting Payments. Lender will calculate a Timber Cutting Payment annually, at the Fiscal Year-End. The Timber Cutting Payment will be due and payable 15 days after it is billed. After the pro-rata allocation of the Timber Cutting Payment between Loans is made pursuant to the Loan Agreement and so long as there is no Event of Default or Incipient Default, Borrower may elect the Loan Segment(s) against which the Timber Cutting Payment will be applied. A Timber Cutting Payment shall not excuse Borrower from making any other required payments. Timber Cutting Payments will be subject to the Prepayment Fee provisions hereof.

6. Prepayment and Breakage Fees. The Loan is subject to the Prepayment and Breakage Fees indicated in the Loan Agreement.

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 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. Borrower shall fail generally to pay its debts as such debts become due, or becomes insolvent or becomes the subject of an insolvency proceeding.

d. This Note 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 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.** The Default Interest rate applicable to a delinquent payment for a Loan Segment shall remain at the rate in effect on such Loan Segment at the time such payment was due. 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 each Loan Segment, until paid in full.

8. **Loan Terms, Provisions and Covenants.** The Loan is subject to the terms, provisions and covenants of this Note and the other Loan Documents.

9. **Miscellaneous.**

9.01 **Notice of Default.** Borrower shall provide Lender immediate Notice of any Event of Default or Incipient Default under this Note and the other Loan Documents.

9.02 **Interest Rates.** The interest rates set forth herein, including that used to compute the unused commitment fee, are per annum rates and are calculated on the basis of the actual number of days elapsed during the year for a 360 day year. If any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day.

9.03 **Exhibits.** All Exhibits hereto are incorporated herein and made a part of this Note.

9.04 **Index and Index Source.** The Indexes used herein do not necessarily represent the lowest rates charged by Lender on its loans. If any Index or Index Source provided for herein becomes unavailable during the Loan 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.

9.05 **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. 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.

9.06 **Authorization.** Borrower authorizes a Responsible Officer, or any other individual(s) as Borrower may authorize in writing, to request advances of principal under this Note, to confirm interest rates and lock-in fees, and to provide Lender notice of pricing, repricing or prepayment, as required under this Note.

9.07 Advances, Fees and Costs. Borrower shall pay Lender, on demand, all attorney fees and costs incurred 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 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.

9.08 Funds Management Services. Lender may provide funds management services to Borrower. Upon request, Lender shall provide Borrower a quote for identified funds management services. 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 the Loan. The funds management services and fees may be adjusted upon reasonable notice by Lender.

9.09 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.

9.10 General Provisions. Borrower agrees to this Note as of the date first 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 the Loan, including the real estate and or personal property covered by the Loan Documents; grant extensions, deferments, renewals or reamortizations of any part of the Loan 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 Loan, 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 Loan or any part thereof or to make additional or future loans to Borrower.

9.11 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.

9.12 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 the General Partners of Borrower, other than their interests in the Collateral. The foregoing shall in no way otherwise affect the personal liability of Borrower.

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: _____
David L. Nunes, President and CEO

Pay to the Order of CoBank, ACB.

EXHIBIT A
NOTICE/CONFIRMATION

To:
Technical Accounting Services
Northwest Farm Credit Services, PCA
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

NOTICE

This Notice is provided pursuant to the Revolving Operating Note dated June 10, 2010, as extended, renewed, amended or restated.

o **PRICING.** If checked, Borrower elects to price or reprice principal in a Loan Segment as follows:

<input type="checkbox"/> New Advance	
<input type="checkbox"/> Base Rate Loan Segment	
<input type="checkbox"/> Fixed Rate Loan Segment Currently Priced Under Fixed Rate Option	
Principal Amount	_____
To New Fixed Rate Option	_____
To be Effective (Date)	_____

o **PREPAYMENT OF PRINCIPAL.** If checked, Borrower elects to prepay principal as follows:

<input type="checkbox"/> Base Rate Loan Segment	
<input type="checkbox"/> Fixed Rate Loan Segment	
<input type="checkbox"/> Priced	
Under Option	_____
Principal Amount	_____
To be Effective (Date)	_____

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

Date: _____

By: _____
Authorized Agent

CONFIRMATION

Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, PCA

Date: _____

By: _____
Authorized Agent

AMENDMENT NO. 1 TO REVOLVING OPERATING NOTE

THIS AMENDMENT NO. 1 TO REVOLVING OPERATING NOTE (this "Amendment") is made and entered into effective June 15, 2010, by and between **NORTHWEST FARM CREDIT SERVICES, PCA** ("Lender") and **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a Revolving Operating Note dated June 10, 2010 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the "Note") and certain related loan documents referenced as Loan No. 56548-811, (herein, as at any time amended, extended, restated, renewed, supplemented or modified, collectively the "Loan Documents");

WHEREAS, Borrower and Lender have agreed that Borrower qualifies for incentive pricing, which was not reflected in the Note; and

WHEREAS, Borrower and Lender desire to modify the Note for the purposes stated herein.

NOW, THEREFORE, for good and valuable consideration, Borrower and Lender agree as follows:

1. Except as expressly modified or changed herein, all terms and conditions of the Note and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder.

2. The narrative following the pricing grid in the definition of "Applicable Margin" contained in Section 1 of the Note is hereby amended, in its entirety, to provide as follows:

The pricing level shall be determined and adjusted on the date ten (10) Business Days after the date Borrower provides Lender the Compliance Certificate, as required herein, for Borrower's most recent Calculation Date (each, an "Adjustment Date"); provided however, that the initial pricing level shall be II and shall remain at such pricing level until the first Adjustment Date occurring after the first Calculation Date following the Closing Date. On such Adjustment Date and on each Adjustment Date thereafter, the pricing level shall be determined by the Consolidated Interest Coverage Ratio as of the most recent Calculation Date. If Borrower fails to timely provide Lender the Compliance Certificate for such most recent Calculation Date, the pricing level commencing the day after the due date thereof shall be the highest pricing level, which shall remain in effect until subsequently adjusted ten (10) Business Days after the delivery of the required Compliance Certificate. Any adjustment in the pricing level shall be applicable to all existing Loan Segments. Provided, however, in the Event of Default, Lender shall have the right at any time to change to the highest pricing level and the applicable interest rate shall also be subject to default interest, as provided in Section 7.03 hereof. In calculating the pricing level, Lender will use the Consolidated Interest Coverage Ratio, notwithstanding any grace period provided for in the Loan Documents.

3. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. This Amendment shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents shall remain in effect and is valid, binding and enforceable according to its terms, except as modified by this Amendment. Time is of the essence in the performance of the Loan Documents. This Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender.

In Witness Whereof, the parties hereto have duly executed this Amendment to be effective as of the date first above written.

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

LENDER:
NORTHWEST FARM CREDIT SERVICES, PCA

By: _____
Authorized Agent

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP, Inc., a Delaware corporation, its Managing General Partner

By: _____
David L. Nunes, President and CEO

After Recording Return To:
Salem Agribusiness
P.O. Box 13309
Salem, OR 97309

Document 1 Title: Mortgage

Grantors:

Grantees:

Pope Resources, A Delaware Limited Partnership

Northwest Farm Credit Services, FLCA

Document 2 Title: Financing Statement

Grantors:

Grantees:

Pope Resources, A Delaware Limited Partnership

Northwest Farm Credit Services, FLCA

Document 3 Title: Fixture Filing

Grantors:

Grantees:

Pope Resources, A Delaware Limited Partnership

Northwest Farm Credit Services, FLCA

Abbreviated legal description:

Ptns of Sec. 24, T7N, R5E; Ptns. of Secs. 3-11; 14-23; 27-29 & 33, T7N, R6E; Skamania County, Washington

Additional legal is on Exhibit A on Page 26-31

Assessor's Property Tax Parcel Numbers: 07-05-00-0-0-2600-0; 07-06-00-0-0-0200-00;
07-06-00-0-0-0300-00; 07-06-00-0-0-0400-00; 07-06-00-0-0-0500-00; 07-06-00-0-0-0600-00;
07-06-00-0-0-0700-00; 07-06-00-0-0-0800-00; 07-06-00-0-0-0900-00; 07-06-00-0-0-1000-00;
07-06-00-0-0-1200-00; 07-06-00-0-0-1300-00; 07-06-00-0-0-1400-00; 07-06-00-0-0-1490-00;
07-06-00-0-0-1480-00; 07-06-00-0-0-1590-00; 07-06-00-0-0-1500-00; 07-06-00-0-0-1600-00;
07-06-00-0-0-1700-00; 07-06-00-0-0-1800-00; 07-06-00-0-0-2600-00; 07-06-00-0-0-2700-00;
07-06-00-0-0-2800-00; 07-06-00-0-0-3000-00; 07-06-00-0-03100-00

**MORTGAGE, FINANCING STATEMENT
AND FIXTURE FILING
(Open End)**

THIS MORTGAGE IS ALSO INTENDED TO BE A SECURITY AGREEMENT.

THIS MORTGAGE IS ALSO INTENDED TO BE A FILING AGAINST TIMBER TO BE CUT.

NOTICE: THIS MORTGAGE IS A LINE OF CREDIT MORTGAGE. THE MAXIMUM PRINCIPAL AMOUNT TO BE ADVANCED UNDER THE SECURED OBLIGATION (AS DEFINED BELOW) IS \$60,000,000.00. IN ADDITION, THIS MORTGAGE SECURES ALL OTHER INDEBTEDNESS EVIDENCED BY THE SECURED OBLIGATIONS OR OTHERWISE CREATED IN CONNECTION WITH THIS MORTGAGE, WHICH INDEBTEDNESS IS POTENTIALLY UNLIMITED. THE SECURED OBLIGATIONS PROVIDE FOR LOAN MATURITY DATES AS LATE AS JUNE 1, 2040 (EXCLUSIVE OF THE OPTION TO RENEW OR EXTEND).

ATTENTION: COUNTY RECORDER: This Mortgage covers goods that are or are to become affixed to or fixtures on the land described in Exhibit A hereto and is to be filed for record in the records where mortgages on real estate are recorded. Additionally, this instrument covers and should be appropriately indexed, not only as a mortgage, but also as a financing statement covering timber to be cut and goods that are or are to become fixtures on the real property described herein.

NOTICE: THE SECURED OBLIGATIONS PROVIDE FOR A VARIABLE INTEREST RATE.

This Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing (this "Mortgage"), dated as of June 10, 2010, is executed by **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP**, a Delaware limited partnership ("Mortgagor"), whose address is 19245 Tenth Ave NE, Poulsbo, WA 98370, in favor of and for the benefit of **NORTHWEST FARM CREDIT SERVICES, FLCA**, a corporation organized and existing under the laws of the United States ("Mortgagee"), whose address is 1700 South Assembly Street, Spokane, WA 99224-2121, P. O. Box 2515, Spokane, WA 99220-2515. Each capitalized term used and not otherwise defined in this Mortgage shall have the meaning given such term in the First Amended and Restated Master Loan Agreement, as amended (the "Loan Agreement") executed by Mortgagor on or around even date herewith. "Loan Documents" as used herein means all documents and instruments signed in connection with the Loan (as defined herein) and other Loans made by Mortgagee to Mortgagor or an affiliate of Mortgagor and any extensions, renewals, amendments, substitutions and replacements thereto.

Pursuant to the terms and conditions of the Loan Agreement, Mortgagor has agreed to grant this Mortgage in favor of Mortgagee to provide security for Mortgagor's obligations under the Note described herein, the Loan Agreement and the related Loan Documents and any and all other documents entered into pursuant thereto.

**ARTICLE 1
GRANT OF SECURITY**

Mortgagor, in consideration of the indebtedness secured by this Mortgage, irrevocably bargains, sells, grants, mortgages, transfers, conveys, assigns and warrants to Mortgagee, for the benefit and security of Mortgagee, all Mortgagor's existing and future rights, titles, interests, estates, powers and privileges in or to the following (collectively the "Collateral"):

1.1 Real Estate.

- a. That certain real property located in Skamania County, State of Washington, more particularly described on Exhibit A attached hereto and incorporated herein (the "Land").
- b. All buildings, wells and other improvements now or hereafter located on the Land, including, but not limited to, the Fixtures (as defined below), and all other equipment, machinery, appliances and other articles attached to such buildings and other improvements (collectively the "Improvements");
- c. All fixtures (including without limitation, goods that are or become so related to the Land that an interest in them arises under the real estate law) and any additions or replacements (collectively the "Fixtures") now or hereafter located on, attached to, installed in or used in connection with the Land;
- d. All timber (aka "forest tree species"), whether standing or down, cut or under contract to be cut, now or hereafter growing or located on the Land, and whether or not said timber is merchantable, all logs, lumber and forest products of any nature, all proceeds and products thereof (the "Timber");
- e. All rights, rights-of-way, easements, licenses, profits, claims, demands, privileges, grazing privileges, tenements, hereditaments and appurtenances now owned or hereafter acquired by Mortgagor and used in connection with the Land and the Improvements or as a means of access to either or both, including without limitation, all rights over the property of third persons which are related thereto, and all unaccrued trespass and surface damage claims appurtenant thereto, and all written operations plans and all permits and approvals related to the Land and Improvements;

- f. All of Mortgagor's right, title and interest in and to any land within any right-of-way of any open or proposed street adjoining the Land, and any and all sidewalks, alleys, strips and gores of land adjacent to or used in connection with the Land and Improvements;
- g. All of Mortgagor's existing and future rights in (including without limitation, royalty and leasehold rights) oil, gas and other mineral rights in or relating to the Land;
- h. All waters, water courses, water rights and riparian rights (including without limitation, shares of stock evidencing the same) in or relating to the Land;
- i. All existing and future leases and subleases relating to the Land and Improvements or any interest in them, including without limitation, all deposits, advance rentals and other similar payments, but not including the Rents, as defined and separately assigned in Article 5;
- j. All options to purchase, exchange or lease the Collateral or any interest in it (and any greater estate in the Collateral and acquired by exercise of such options);
- k. All Mortgagor's other existing or future estates, homestead or other claims or demands, both in law and in equity in the Land, including without limitation, (i) all awards made for the partial or complete taking by eminent domain, or by any proceeding or purchase in lieu of eminent domain, of the Collateral, and (ii) all proceeds, including general intangibles and payment intangibles, of any insurance covering the Collateral; and
- l. All cash or non-cash proceeds of the sale, lease, license, exchange or other disposition of the Collateral or general intangibles, including payment intangibles, arising therefrom. Proceeds include all subsidy payments, in cash or in kind, which may be made to Mortgagor by any person, entity or governmental agency, including but not limited to, payments and entitlements from state and federal farm programs, as well as any type of property insurance; and any rights arising out of Collateral, collections and distributions on Collateral.

1.2 Personal Property. As further security for the payment, performance and observance of the Secured Obligations, Mortgagor, as debtor, hereby grants to Mortgagee, as secured party, a security interest in all of Mortgagor's existing and future right, title and interest in, to and under the following: all (a) contracts and policies of insurance and proceeds thereof, which may insure all or any portion of the Collateral against casualties and theft; (b) condemnation proceeds for all or any portion of the Collateral; and (c) cash or non-cash proceeds of the Collateral (including but not limited to, general intangibles, including payment intangibles, and all proceeds, which constitute property of the types described in clauses (a) through (c) of this Paragraph) and all right of Mortgagor to receive proceeds of any insurance, indemnity, warranty or guaranty payable by reason of loss of or damage to any of the Collateral. This Mortgage constitutes a security agreement for all purposes under the Uniform Commercial Code in effect in the State where the Mortgagor resides. In addition to all other rights and remedies provided for in this Mortgage, Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code. Mortgagor agrees that at least 10-days' notice to Mortgagor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification with respect to the personal property Collateral. If Mortgagee shall so require, Mortgagor upon the occurrence of an Event of Default, will make the Collateral that constitutes personal property available to Mortgagee at a place designated by Mortgagee, which is reasonably convenient to Mortgagee. In addition, Mortgagor shall execute such instruments and documents as Mortgagee reasonably may require from time to time to further evidence, implement or perfect any of Mortgagee's rights, remedies and security interests.

1.3 Fixture Filing and Financing Statement. This Mortgage is intended to serve as a Fixture filing and as a financing statement covering timber to be cut pursuant to the terms of the applicable Uniform Commercial Code. This Mortgage is to be recorded in the real estate records of the County in which the Land is located. In that regard, the following information is provided:

Name of Mortgagor, as Debtor:	Pope Resources, A Delaware Limited Partnership Attn: Thomas M. Ringo
Address of Mortgagor:	19245 Tenth Ave, NE Poulsbo, WA 98370
Name of Mortgagee, as Secured Party:	Northwest Farm Credit Services, FLCA Attn: Kristy Searles
Address of Mortgagee:	P.O. Box 13309 Salem, OR 97309

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties. Mortgagor represents and warrants to Mortgagee as follows:

a. Mortgagor hereby authorizes Mortgagee to file, at anytime, one or more financing statements and any amendments and continuations thereof, describing any personal property or fixtures described herein, without further signature of Mortgagor. Mortgagor hereby represents and warrants that Mortgagor's State of formation is the State of Delaware and Mortgagor's exact legal name is as set forth herein.

b. Mortgagor is the sole legal and equitable owner of the Collateral;

c. Except as otherwise previously disclosed to Mortgagee, Mortgagor has the exclusive right to harvest any Timber, if any, from the Land and has the exclusive right to use the appurtenant rights and the operating permits;

d. Without thereby limiting the generality of the foregoing, and except as otherwise previously disclosed to Mortgagee, Mortgagor has not assigned or granted any harvest or access rights or interests, or sold or leased any part of the Land or the Improvements, if any, to any other person (individual, organization or governmental unit);

e. There are no claims, liens, encumbrances (including judgments, levies and the like), or security interest ("Liens") covering the Collateral or any part or item thereof except easements and reservations of record which are listed on the title policy delivered by Mortgagor;

f. To the best of Mortgagor's knowledge, and other than have been disclosed to Mortgagee, there are no federal, state or local laws, regulations, rules or standards ("Laws"), or permits, orders, injunctions, citations, notices of civil penalty, restraining orders, judgments or the like issued by any governmental unit ("orders") which are now in effect and which would restrict any material use of the Collateral;

g. Mortgagor has taken all actions necessary and has been duly authorized under its governing limited partnership agreement to execute, acknowledge, deliver and perform the Secured Obligations;

h. This Mortgage has been executed, acknowledged and delivered on behalf of Mortgagor by partners, members, representatives or officers, as applicable, of Mortgagor duly authorized to perform such acts;

i. This Mortgage is the legally valid and binding contract of Mortgagor, and is enforceable against Mortgagor in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the rights and remedies of creditors generally and by general principles of equity, whether applied by a court of law or equity; and

j. To the best of Mortgagor's knowledge, neither the execution of this Mortgage nor the payment and performance of the Secured Obligations will materially violate any Laws or orders affecting Mortgagor or the Collateral or constitute a breach or Event of Default by Mortgagor under any agreement, contract, loan indenture, lease, instrument or like document ("Contract") to which Mortgagor is a party or the Collateral is bound.

The foregoing representations and warranties will survive and not be merged or otherwise eliminated by any conveyance, voluntarily or through foreclosure, of the Collateral to Mortgagee or its nominee. Mortgagor hereby agrees to indemnify, defend and hold harmless Mortgagee from and against any and all claims, loss, liability, damages, liens, penalties, costs and expenses of any nature or kind whatsoever arising from or related to any misstatement of any material fact in the foregoing representations and warranties or the omission therein to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

ARTICLE 3 SECURED OBLIGATIONS

3.1 Debts, Liabilities and Secured Obligations. The Collateral secures the following indebtedness, obligations, commitments and agreements (collectively the "Secured Obligations"):

a. The obligations owed by Mortgagor or Borrower to Mortgagee and all outstanding commitments to lend by Mortgagee to Mortgagor or Borrower under the Loan Documents and all fees, expenses and reasonable attorneys' fees required thereunder, including all extensions, renewals, modifications, amendments and replacements thereof;

b. The payment of all other sums that may be advanced by or otherwise be due to Mortgagee under any provision of this Mortgage or under any other Loan Document, with interest thereon at the rates provided therein; and

c. The performance of each and every one of the covenants and agreements of Mortgagor or Borrower contained:

i. Herein; and

ii. In the other Loan Documents.

The sum of the Secured Obligations owed by Mortgagor or Borrower to Mortgagee and outstanding commitments made by Mortgagee to Mortgagor or Borrower as of the date of this Mortgage total approximately \$29,800,000.00, as currently evidenced by Note No(s) 56548-841 and 56548-442 dated on or around even date herewith. It is contemplated that this Mortgage shall secure additional loans made to Mortgagor or Borrower from time to time but not after June 1, 2020, and not having a maturity date exceeding June 1, 2040. This Mortgage secures the sum of the Secured Obligations owed by Mortgagor or Borrower to Mortgagee as of the date hereof and shall secure additional extensions of credit and advances made by Mortgagee to Mortgagor or Borrower. The continuing validity and priority of this Mortgage for future extensions of credit and advances shall not be impaired by the fact that at certain times no outstanding indebtedness to Mortgagee or commitments from Mortgagee to make future extensions of credit or advances exists. Provided, however, the unpaid principal balances of the Secured Obligations secured by this Mortgage shall not at any given time exceed \$60,000,000.00.

Notice is hereby given that the interest rate, payment terms or balance due on the Notes may be indexed, adjusted, renewed or renegotiated.

Mortgagor acknowledges that the Secured Obligations are unconditional in nature and will not be released, discharged or otherwise affected by (a) any damage to or destruction or condemnation of the Collateral or any part thereof, (b) any governmental requirement affecting the use or enjoyment of the Collateral, (c) any defect in title to or lien on the Collateral, (d) any Bankruptcy Event involving Mortgagor or Borrower, (e) any claim that Mortgagor or Borrower has or may claim to have against Mortgagee or its participants, and whether or not relating to any related agreement between Mortgagee and Mortgagor or Borrower or (f) any other occurrence of similar or dissimilar nature and whether or not Mortgagor or Borrower has actual or constructive notice thereof.

**ARTICLE 4
COVENANTS**

4.1 Payment of Secured Obligations. Mortgagor shall pay the Secured Obligations when due.

4.2 Maintenance, Repair, Alterations.

4.2.1 Maintenance, Repair, and Alterations: Affirmative Covenants. Mortgagor shall:

a. Keep the Collateral in good condition and repair;

b. Complete promptly and in a good and workmanlike manner, any Improvement which may be constructed on the Land, and promptly restore in like manner any Improvement which may be damaged or destroyed, and pay when due all claims for labor performed and materials furnished for such construction or restoration;

- c. Comply with all statutes, laws, ordinances, regulations, orders, rulings, rules, consents, permits, licenses, conditions of approval and authorizations of any court or governmental or regulatory body having jurisdiction over Mortgagor, the Land or Improvements (“Laws and Ordinances”);
- d. Comply with any condominium or other plan, declaration of covenants, conditions and restrictions, reciprocal easement agreements to which the Land is subject (“CC&Rs”), any owners' association articles and bylaws affecting the Land, and such exceptions to title acceptable to Mortgagee (“Permitted Exceptions”);
- e. Keep and maintain abutting grounds, sidewalks, roads, parking and landscape areas in good, neat order and repair;
- f. Comply with the provisions of any leases constituting part of the Collateral;
- g. Obtain and maintain in full force and effect all permits necessary for the use, occupancy and operation of the Collateral; and
- h. Do any and all other acts, except as otherwise prohibited or restricted by the Loan Documents, which may be reasonably necessary to protect or preserve the value of the Collateral and the rights of Mortgagee in it.

4.2.2 Maintenance, Repair and Alterations: Negative Covenants. Mortgagor shall not, except upon the prior written consent of Mortgagee, which shall not be unreasonably withheld or delayed:

- a. Remove, demolish or materially alter any of the Improvements, other than to make non-structural repairs in the ordinary course of business which preserve or increase the value of the Land;
- b. Commit, suffer or permit any act to be done in, upon or to any part of the Collateral in violation of any Laws and ordinances, CC&Rs, or Permitted Exceptions now or hereafter affecting the Collateral;
- c. Commit or permit any waste or deterioration of the Collateral;
- d. Take (or fail to take) any action, which would increase the risk of fire or other hazard occurring to or affecting the Collateral or which otherwise would impair the security of Mortgagee in the Collateral; or

e. Initiate, join in or consent to any change in any zoning ordinance, general plan, specific plan, private restrictive covenant or other public or private restriction limiting the uses that may be made of the Land or Improvements by Mortgagor without the prior written consent of Mortgagee. Mortgagor has notified Lender that it is negotiating a conservation easement on a portion of the Land. Lender will be reasonable in evaluating any subordination requests related to such conservation easement.

4.3 Insurance.

4.3.1 Policies Required. Mortgagor shall at all times maintain in full force and effect, at Mortgagor's sole cost and expense, with insurers reasonably satisfactory to Mortgagee, insurance policies reasonably required by Mortgagee from time to time that are usual and customarily in use in Mortgagor's industry.

Prior to the expiration of each policy, Mortgagor shall deliver to Mortgagee evidence reasonably satisfactory to Mortgagee of renewal or replacement of such policy.

4.3.2 Required Policy Provisions. Each policy of insurance required under this Mortgage shall meet such other requirements as Mortgagee may reasonably require.

4.3.3 Claims. Mortgagor shall give Mortgagee immediate notice of any claim to any portion of the Collateral in excess of \$100,000.00, whether or not covered by insurance. If covered, Mortgagor authorizes Mortgagee, if Mortgagee so elects, to make proof of loss, and to commence, to appear in, defend and prosecute any claim or action arising from any applicable policy and to settle, adjust or compromise any claim under any such policy. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in-fact for all such purposes. Neither Mortgagee nor Mortgagor shall settle, adjust or compromise any such claim without the prior written approval of the other, which approval shall not be unreasonably withheld or delayed.

4.3.4 Assignment of Policies. If this Mortgage is foreclosed or other transfer of title or assignment of the Collateral is made in satisfaction of all or part of the Secured Obligations, then all right, title and interest of Mortgagor in and to all policies of insurance required by Section 4.3.1 above and all unearned premiums paid on them shall, without further act, pass to the purchaser or grantee of the Collateral. Provided, however, some policies of insurance and related unearned premiums may require the policy underwriter's consent.

4.3.5 Waiver of Subrogation. Mortgagor waives all right to recover against Mortgagee (or any officer, employee, agent or representative of Mortgagee) for any loss incurred by Mortgagor from any cause insured against or required by any Loan Document to be insured against, provided however, that this waiver of subrogation shall not apply to any insurance policy if such policy's coverage would be materially reduced or impaired as a result. Mortgagor shall obtain only policies which permit this waiver of subrogation.

4.4 Condemnation and Other Awards. Upon learning of the actual or threatened condemnation or other taking for public or quasi-public use of all or any part of the Land, Mortgagor shall immediately notify Mortgagee. Mortgagor shall take all actions reasonably required by Mortgagee in connection with such condemnation or other taking to defend and protect the interests of Mortgagor, Mortgagee in the Land. At Mortgagee's option, Mortgagee or Mortgagor may be the named party in such proceeding. Regardless of the adequacy of its security, Mortgagee shall be entitled to participate in, control and be represented by counsel of its choice in such proceeding. All condemnation proceeds shall first be applied to reimburse Mortgagee for all their reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection of such award or settlement. The balance of such award or settlement shall be applied by Mortgagee against the Secured Obligations in such order as Mortgagee may determine.

4.5 Taxes and Impositions (Impounds). Mortgagor shall pay, prior to delinquency, all of the following (collectively the "Impositions"):

- a. All general and special real property taxes and assessments imposed on the Land; and
- b. All other taxes and assessments and charges assessed on the Land (or on the owner and/or operator of the Land) which create or may create a lien on the Land (or on any Improvement or Fixture used in connection with the Land); including, without limitation, non-governmental levies and assessments under applicable CC&Rs; and
- c. All business taxes; and
- d. All license fees, taxes and assessments imposed on Mortgagee (other than Mortgagee's income or franchise taxes) which are measured by or based upon (in whole or in part) the amount of the Secured Obligations.

If permitted by law, Mortgagor may pay the Imposition in installments (together with any accrued interest). Upon demand by Mortgagee from time to time, Mortgagor shall deliver to Mortgagee, within 30 days following the due date of any Imposition, evidence of payment reasonably satisfactory to Mortgagee. In addition, upon demand by Mortgagee, at Mortgagor's expense, from time to time, Mortgagor shall furnish to Mortgagee a tax reporting service for the Collateral of a type and duration, and with a company reasonably satisfactory to Mortgagee.

4.5.1 Reserves on Impositions (Impounds). If Mortgagee requires following the occurrence of an Event of Default, Mortgagor, at the time of making each installment payment on the Note, or at such other intervals as Mortgagee reasonably designates, shall deposit with Mortgagee such sum as Mortgagee reasonably estimates to be necessary to pay installments of Impositions and insurance policies next becoming due (collectively, the "Impounds") upon any of the Land, Fixtures and Improvements. All such Impounds may be held by Mortgagee and applied in such order as Mortgagee may elect for payment of Impositions or other sums secured by this Mortgage at Mortgagee's election. Such Impounds shall constitute additional collateral for the Secured Obligations. Except as otherwise provided by law, Mortgagee shall have no obligation regarding such Impounds other than to account to Mortgagor for their receipt and application. Upon any transfer by Mortgagee of its rights or interests in the Secured Obligations or of this Mortgage, Mortgagee may turn over to the transferee such of those Impounds as Mortgagee then holds, and Mortgagee's responsibilities with respect to the Impounds shall terminate. Upon any transfer by Mortgagor of the Land or Improvements, Mortgagor's interest in any such Impounds shall be deemed automatically transferred to such transferee.

4.6 Utilities. Mortgagor shall promptly pay all gas, irrigation, electricity, water, sewer and other utility charges incurred for the benefit of the Collateral or which may become a lien against the Collateral; and all other similar public or private assessments and charges relating to the Collateral, regardless of whether or not any such charge is or may become a lien on the Collateral.

4.7 Liens: Non-Permitted Exceptions. Mortgagor shall not cause or permit, or agree or consent to cause or permit in the future (upon the happening of a contingency or otherwise), any of the Collateral, whether now owned or hereafter acquired, to be subject to a lien, whether voluntarily or by operation of law, in each case, without the prior written consent of Mortgagee, except the following:

- a. Liens securing taxes, assessments or governmental charges or levies being contested in good faith by appropriate proceedings as permitted by law;
- b. Statutory liens of carriers, mechanics, materialmen, loggers and other liens imposed by law arising in the ordinary course of business of Mortgagor which are in effect for no more than ninety (90) days (and which are satisfied or discharged, including by bonding pursuant to ORS 87.076 before such period ends) or which are being contested by Mortgagor in good faith by appropriate proceedings, but which are in no event the subject of any foreclosure or similar proceeding;
- c. Attachment or judgment liens in the amount of no more than \$50,000.00 in respect of judgments against Mortgagor that are either satisfied or discharged within thirty (30) days or are stayed upon appeal, but which are in no event the subject of any foreclosure or similar proceeding;

d. Attachment or judgment liens in the amount of more than \$50,000.00 in respect of judgments against Mortgagor that are either satisfied or discharged (including by way of posting a bond or other arrangement satisfactory to Mortgagee, in Mortgagee's sole discretion if the lien is being contested by borrower in good faith by appropriate proceedings within thirty (30) days, but which are in no event the subject of any foreclosure or similar proceeding;

e. Liens in favor of the Mortgagee that secure obligations under any of the Loan Documents;

Except as provided above, Mortgagor shall not cause, incur or permit to exist any lien, encumbrance or charge ("Non-Permitted Exceptions") upon all or any part of the Collateral or any interest in the Collateral other than Permitted Exceptions. Mortgagor shall pay and promptly discharge, at Mortgagor's sole cost and expense, all such Non-Permitted Exceptions. If Mortgagor fails to do so, the Mortgagee may, but shall not be obligated to, discharge them, without notice to or demand on Mortgagor, and without inquiring into the validity of such Non-Permitted Exceptions or the existence of any defense or offset to them. Mortgagee may discharge Non-Permitted Exceptions either by (a) paying the amount claimed to be due, or (b) procuring their discharge by depositing in a court a bond or the amount claimed or otherwise giving security for such claim, or (c) in any other manner permitted or required by law. Mortgagor shall, immediately upon demand by Mortgagee, pay Mortgagee's reasonable costs and expenses incurred in connection with such discharge, together with interest on such costs from the date of such expenditure until paid at the default rate of interest described in the Notes ("Default Interest Rate").

4.8 Sale or Lease of Collateral: Due on Sale Clause. Except in the ordinary course of business, Mortgagor shall not sell, lease, sublease or otherwise transfer all or any part of the Collateral or any interest in it, without the prior written consent of Mortgagee, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. The sale and harvesting of Timber shall be considered activity in the ordinary course of business as long as Mortgagor maintains compliance with Section 9.02 (d) of the Loan Agreement. All material leases of any part of the Collateral lasting in duration of more than one year, containing a provision of rental income of more than \$20,000 in any one year, or involving property of more than 100 acres of land must be submitted to Mortgagee for approval prior to execution, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. Transfers requiring Mortgagee's prior written consent shall include, without limitation, the following:

a. Involuntary transfers and transfers by operation of law;

b. Liens, encumbrances and assignments as security for obligations, whether voluntary or involuntary; and

c. Any Change of Control of Mortgagor. As used herein, "Change of Control" shall mean a change in the power, directly or indirectly, to (i) vote 50% or more of the voting securities (or membership interests, as applicable) having ordinary voting power for the election of directors or officers (or Persons functioning in substantially similar roles) of Mortgagor or (ii) direct or cause the direction of the management and policies of Mortgagor whether by contract or otherwise. Transfer of the beneficial interests and/or voting rights of the voting securities of the managing general partner of Mortgagee to or for the benefit of lineal descendants of the current beneficial holders shall not be deemed a "Change of Control" for purposes of this Mortgage.

d. No sale, lease or other transfer shall relieve Mortgagor from primary liability for its obligations under the Notes and Loan Documents or relieve any guarantor from any liability under any guaranty. Upon any such transfer to which Mortgagee does not consent, Mortgagee at its option may, without prior notice, declare all Secured Obligations immediately due and payable without presentment, demand, protest or further notice of any kind, and may exercise all rights and remedies provided in this Mortgage or under applicable law.

4.9 Inspections. Mortgagor authorizes Mortgagee and its agents, representatives and employees, upon reasonable notice to Mortgagor, to enter at any time upon any part of the Collateral for the purpose of performing a Subsequent Valuation, inspecting the Collateral, taking soil or groundwater samples and conducting tests to investigate for the presence of hazardous materials, provided such entry shall cause as little disruption to the occupants of the Collateral as possible, and provided Mortgagee restores the Collateral to its pre-inspection condition if Mortgagee's inspection activities cause damage to the Collateral. Mortgagor agrees to pay the costs and expenses of Mortgagee incurred in such inspections and examinations, including without limitation, Mortgagee's attorneys' fees, if such inspection was made necessary because of an Event of Default, whether the services are provided by Mortgagee's employees, agents or independent contractors. Any inspection or review by Mortgagee is solely for Mortgagee's benefit to protect Mortgagee's security and preserve Mortgagee's rights under this Mortgage. Mortgagee owes no duty of care to protect Mortgagor or any other party against, or to inform Mortgagor or any other party of, any adverse condition affecting the Collateral, including any defects in the design or construction of the Improvements or Fixtures. No inspection by Mortgagee shall constitute a waiver of any Event of Default.

4.10 Defense of Actions. Mortgagor shall notify Mortgagee of any action or proceeding purporting to affect (a) the security of this Mortgage, (b) any of the Loan Documents, (c) all or any part of the Collateral or any interest in it, (d) any additional or other security for the Secured Obligations, or (e) the interests, rights, powers or duties of Mortgagee under this Mortgage. Mortgagor, at no cost or expense to Mortgagee, shall appear in and defend the same. If Mortgagee elects to become or is made a party to such action or proceeding, Mortgagor shall indemnify, defend and hold Mortgagee harmless from all related liability, damage, cost and expense reasonably incurred by Mortgagee (including, without limitation, reasonable attorneys' fees and expenses consistent with Section 4.13 of this Mortgage), whether or not such action or proceeding is prosecuted to judgment or decision.

4.11 Protection of Security. If Mortgagor fails to make any payment or to do any act required by this Mortgage or any of the other Loan Documents, Mortgagee may do so. Mortgagee may decide to do so, in its own discretion, without obligation to do so, without further notice or demand, and without releasing Mortgagor in such manner and to such extent as it may reasonably deem necessary to protect the security of this Mortgage. In connection with such actions, Mortgagee has the right, without limitation, but not the obligation: (a) to enter upon and take possession of the Collateral; (b) to make additions, alterations, repairs and improvements to the Land, Improvements or Fixtures which in its judgment may be necessary or proper to keep the Collateral in good condition and repair; (c) to appear and participate in any action or proceeding affecting or which may affect the lien or charge of this Mortgage or the rights or powers of Mortgagee; (d) to pay, purchase, contest or compromise any encumbrance, claim, charge, lien or debt (excepting Permitted Encumbrances) which in its judgment may affect the security of this Mortgage or appear to be prior or superior to this Mortgage; and (e) in exercising such powers, to pay all necessary or appropriate costs and expenses and employ necessary or desirable consultants.

4.12 Mortgagee's Powers. If Mortgagor fails to pay any sum, other than principal and interest on the Secured Obligations, or to perform or comply with any other obligation required by any Loan Document, Mortgagee at its election may pay such sum or comply with such obligation. Without affecting the liability of Mortgagor or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Mortgage, Mortgagee may, from time to time, do any of the following: (a) release any person so liable, (b) extend the maturity or alter any of the terms of any such obligation (provided however, that the consent of Mortgagor shall be required for extension or alteration of any unpaid obligation of Mortgagor to Mortgagee), (c) waive any provision of this Mortgage or grant other indulgences, (d) release or reconvey, or cause to be released or reconveyed, at any time at Mortgagee's option, all or any part of the Collateral, (e) take or release any other or additional security for any Secured Obligation, or (f) make arrangements with debtors in relation to the Secured Obligations. Waiver by Mortgagee of any right or remedy as to any transaction or occurrence shall not be deemed to be a waiver of any future transaction or occurrence. By accepting full or partial payment or performance of any Secured Obligation after due or after the filing of a notice of default and election to sell, Mortgagee shall not have thereby waived its right to (i) require prompt payment and performance in full, when due, of all other Secured Obligations, (ii) declare a default for failure to so pay or perform, or (iii) proceed with the sale under any notice of default and election to sell previously given by Mortgagee, or as to any unpaid balance of the indebtedness secured by this Mortgage.

4.13 Reimbursement of Costs, Fees and Expenses: Secured by Mortgage. Mortgagor shall pay, on demand, to the maximum allowable under applicable law, all reasonable costs, fees, expenses, advances, charges, losses and liabilities paid or incurred by Mortgagee in administering this Mortgage, the collection of the Secured Obligations, and Mortgagee's exercise of any right, power, privilege or remedy under this Mortgage. Such amounts include, without limitation (a) foreclosure fees and expenses, receiver's fees and expenses, (b) costs and fees paid or incurred by Mortgagee and/or any receiver appointed under this Mortgage in connection with the custody, operation, use, maintenance, management, protection, preservation, collection, appraisal, sale or other liquidation of the Collateral, (c) advances made by Mortgagee to complete or partially construct all or part of any Improvements which may have been commenced on the Land, or otherwise to protect the lien or charge of this Mortgage, (d) costs of evidence of title, costs of surveys and costs of appraisals, and costs resulting from Mortgagor's failure to perform any of the provisions of this Mortgage. Fees, costs and expenses of attorneys shall include the reasonable fees and disbursements of Mortgagee's outside and staff counsel and of any experts and agents (including fees of law clerks, paralegals, investigators and others not admitted to the bar but performing services under the supervision of an attorney), and including such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Collateral, in protecting the lien or priority of any Loan Document, or in any litigation or controversy connected with the Secured Obligations, including any bankruptcy, receivership, injunction or other proceeding, or any appeal from or petition for review of any such proceeding. Reasonable counsel fees shall include fees incurred not only in enforcing the Secured Obligations in any bankruptcy or receivership proceeding, but also any fees incurred in participating in the bankruptcy or receivership proceedings generally. Such sums shall be secured by this Mortgage and shall bear interest from the date of expenditure until paid at the Default Interest Rate.

ARTICLE 5
ASSIGNMENT OF RENTS, ISSUES AND PROFITS

5.1 Assignment of Rents, Issues and Profits. Mortgagor absolutely, unconditionally and irrevocably assigns and transfers to Mortgagee all of its right, title and interest in and to all rents, issues, profits, royalties, income and other proceeds and similar benefits derived from the Collateral (collectively the "Rents"), and gives to Mortgagee the right, power and authority to collect such Rents. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in-fact, at the option of Mortgagee, at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and or sue, in its name or in Mortgagor's name, for all Rents, and to apply them to the Secured Obligations. Mortgagee hereby grants to Mortgagor a license to collect and retain Rents (but not more than one month in advance unless the written approval of Mortgagee has first been obtained) so long as an Event of Default shall not have occurred and be continuing. The assignment of the Rents in this Article 5 is intended to be an absolute assignment from Mortgagor to Mortgagee and not merely the passing of a security interest.

5.2 Collection Upon Default. Upon the occurrence of an Event of Default, Mortgagor's license to collect the Rents shall automatically terminate. Upon such termination, Mortgagee may, at any time, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Secured Obligations, do any of the following: (a) enter upon and take possession of all or any part of the Collateral; (b) with or without taking possession of the Collateral in its own name, sue for or otherwise collect Rents (including those past due and unpaid, and all prepaid Rents and all other security or other deposits paid by tenants to Mortgagor); and (c) apply the Rents (less costs and expenses of operation and collection, including, without limitation, attorneys' fees, whether or not suit is brought or prosecuted to judgment) to any Secured Obligation, and in such order as Mortgagee may determine, even if payment or performance of said Secured Obligation may not then be due. Mortgagor agrees that, upon the occurrence of any Event of Default, Mortgagor shall promptly deliver all Rents and security deposits to Mortgagee. The collection of Rents, or the entering and taking possession of the Land, or the application of Rents as provided above, shall not (i) cure or waive any Event of Default or notice of default under this Mortgage or the other Loan Documents, (ii) invalidate any act performed in response to such Event of Default or pursuant to such notice of default, or (iii) cause Mortgagee to be deemed a mortgagee-in-possession of all or any part of the Land.

5.3 Assigned Leases. Mortgagor agrees, with respect to each lease and sublease (collectively the "Assigned Leases") any portion of which has been assigned to Mortgagee under this Mortgage, as follows:

5.3.1 Mortgagor shall promptly perform all of Mortgagor's obligations as landlord under each Assigned Lease and shall immediately notify Mortgagee in writing of any notice of default received by Mortgagor from the tenant. At Mortgagee's request, Mortgagor will have tenant execute estoppel certificates and subordination agreements acceptable to Mortgagee.

5.3.2 Mortgagor shall diligently enforce the performance of all of the obligations of the tenant under each Assigned Lease; shall not waive any default or waive, release or discharge any such tenant of or from any such obligation; and shall not cancel, terminate or modify any Assigned Lease without Mortgagee's prior written consent.

5.3.3 Mortgagor hereby represents and warrants to Mortgagee, with respect to each Assigned Lease that is presently in effect (collectively the "Current Assigned Leases"), (a) that Mortgagor has delivered to Mortgagee a true and complete copy of each Current Assigned Lease, together with all amendments, modifications and supplements thereto; (b) that Mortgagor has not accepted any payment of Rent (or other charge) under any Current Assigned Lease more than one month in advance; and (c) that, to the best of each Mortgagor's knowledge, no material default by Mortgagor or any other person under any Current Assigned Lease remains uncured.

5.4 Further Assignments. Upon Mortgagee's demand from time to time, Mortgagor shall execute and deliver to Mortgagee recordable assignments of Mortgagor's interest in any and all leases, subleases, contracts, rights, licenses and permits now or hereafter affecting all or any part of the Land. Such assignments shall be made by instruments in form and substance satisfactory to Mortgagee; provided however, that no such assignment shall be construed as imposing upon Mortgagee any obligation with respect thereto. Mortgagee may, at its option, exercise its rights under this Mortgage or any such specific assignment and such exercise shall not constitute a waiver of any right under this Mortgage or any such specific assignment.

ARTICLE 6
REMEDIES UPON DEFAULT

6.1 Events of Default. The occurrence of any of the following events or conditions shall constitute an event of default (“Event of Default”) under this Mortgage:

6.1.1 Mortgagor fails to pay any amount owing under this Mortgage within three business days after written notice from Mortgagee or Mortgagee’s agent that the same is due; or

6.1.2 Mortgagor fails to pay any taxes, insurance premiums, assessments or rents required under this Mortgage within thirty business days after written notice from Mortgagee or Mortgagee’s agent that the same is due; or

6.1.3 Mortgagor fails to observe or perform any other obligation contained in this Mortgage within thirty business days after written notice from Mortgagee or Mortgagee’s agent that the same is due; or

6.1.4 The occurrence of an Event of Default under the Notes, Loan Agreement or any other Loan Documents; or

6.1.5 All or any portion of the Improvements or Fixtures are destroyed by fire or other casualty and Mortgagor fails to satisfy all of the restoration conditions within the time periods specified in Section 4.3 of this Mortgage; or

6.1.6 All or any material part of the Land or other Collateral is condemned, taken in eminent domain, seized or appropriated by any governmental or quasi-governmental agency or entity.

6.2 Acceleration Upon Default: Additional Remedies. Upon the occurrence of an Event of Default, Mortgagee may, at its option, exercise all of the applicable rights and remedies set forth in the Notes, Loan Agreement or any other Loan Documents and, in addition, declare all Secured Obligations to be immediately due and payable without any presentment, demand, protest or further notice of any kind; and whether or not Mortgagee exercises any said right or remedy, Mortgagee may:

6.2.1 Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its Collateral;

- a. Enter upon and take possession of all or part of the Collateral, in its own name or in the name of Mortgagee;
- b. Conduct environmental assessments and surveys and do any other acts which it deems necessary or desirable to preserve the value, marketability or rentability of all or part of the Collateral or interest in the Collateral or increase the Collateral's income, or protect the lien or charge of this Mortgage;
- c. With or without taking possession of the Collateral, sue for or otherwise collect the Rents, including those past due and unpaid; and
- d. Apply the Rents (less costs and expenses of operation and collection including attorneys' fees) to any Secured Obligations, all in such order as Mortgagee may determine;

The entering and taking possession of the Collateral, the collection of such Rents and their application shall not cure or waive any Event of Default or notice of default or invalidate any act done in response to them. Regardless of whether possession of the Collateral or the collection, receipt and application of any of the Rents is by Mortgagee or a receiver, the Mortgagee shall be entitled to exercise every right provided for in the Loan Agreement and other Loan Document or by law upon occurrence of any Event of Default, including the right to exercise the power of sale;

6.2.2 Commence an action to foreclose this Mortgage, appoint a receiver, or specifically enforce any of the covenants contained in this Mortgage;

6.2.3 Exercise all of the rights and remedies available to a secured party under the applicable Uniform Commercial Code in such order and in such manner as Mortgagee, in its sole discretion, may determine, including without limitation, requiring Mortgagor to assemble the Collateral and make the Collateral available to Mortgagee at a reasonably convenient location. The expenses of retaking, holding, preparing for sale or the like shall include reasonable attorneys' fees and other expenses of Mortgagee and shall be secured by this Mortgage; and/or

6.2.4 Exercise all other rights and remedies provided in this Mortgage, in any other Loan Document or other document or agreement now or hereafter securing all or any portion of the Secured Obligations, or as provided by law or in equity.

6.3 Appointment of Receiver. Upon the occurrence of an Event of Default under this Mortgage, Mortgagee, without notice to Mortgagor or anyone claiming under Mortgagor, and without regard to the then value of the Collateral or the interest of Mortgagor in it, shall have the right to enter the Land in person or to apply to any court having jurisdiction to appoint a receiver or receivers of the Land, Fixtures or Improvements. Mortgagor irrevocably consents to such appointment and waives notice of any such application. The actions that Mortgagee or such receiver may take in connection with such entry may include, but are not limited to (a) modifying, compromising obligations under, terminating and implementing remedies with respect to the Assigned Leases, and (b) entering into, modifying or terminating any contractual arrangements, subject to Mortgagee's right at any time to discontinue any of the same without liability. Mortgagee is further authorized by this provision to request the court to appoint a general receiver and to empower the receiver to (i) sell or lease all or any portion of the Land, Fixtures or Improvements, (ii) collect and apply to the outstanding balances of the Notes all sales or lease proceeds, or hold the proceeds pending a court order approving the receiver's final report and account, and (iii) hold the collections as cash collateral pending such court order or foreclosure sale. Any such receiver(s) shall also have all the usual powers and duties of receivers in similar cases and all the powers and duties of Mortgagee in case of entry as provided in this Mortgage, and shall continue to exercise all such powers until the date of confirmation of sale of the Land, Fixtures or Improvements, unless such receivership is sooner terminated. If Mortgagee elects to enter or take possession of the Land, Fixtures or Improvements, it will not assume any liability to Mortgagor or any other person for operation or maintenance of the Land, Fixtures or Improvements, and Mortgagor expressly waives any such Mortgagee liability.

6.4 Application of Funds After Default. Except as otherwise provided in this Mortgage, upon the occurrence of an Event of Default, Mortgagee may at any time, with notice to Mortgagor if providing such notice will not adversely delay the exercise of Mortgagee's rights or remedies, apply to any Secured Obligation, in such manner and order as Mortgagee may elect, even if such Secured Obligation may not yet be due, any amounts received and held by Mortgagee to pay insurance premium or impositions or as Rents, or as insurance or condemnation proceeds, and all other amounts received by Mortgagee from or on account of Mortgagor or the Collateral, or otherwise. The receipt, use or application of any such amounts shall not affect the maturity of any Secured Obligation, any of the rights or powers of Mortgagee under the terms of any Loan Document, or any of the obligations of Mortgagor or any guarantor under the Loan Agreement or any other Loan document; or cure or waive any Event of Default or notice of default under the Note(s) and Loan Agreement or any other Loan Document; or invalidate any act of Mortgagee.

6.5 Remedies Not Exclusive. Mortgagee shall be entitled to enforce payment and performance of any Secured Obligation and to exercise all rights and powers under this Mortgage or any other Loan Document or other agreement or any law, even if some or all of the Secured Obligations may be otherwise secured, whether by guaranty, deed of trust, mortgage, pledge, lien, assignment or otherwise. Neither the acceptance nor enforcement (whether by court action or pursuant to the power of sale or other powers herein contained) of this Mortgage shall impair Mortgagee's right to realize upon or enforce any other security held by Mortgagee. Mortgagee shall be entitled to enforce this Mortgage and any other security for the Secured Obligations held by Mortgagee in such order and manner as it may in its absolute discretion determine. No remedy conferred upon or reserved to Mortgagee is intended to be exclusive of any other remedy in this Mortgage, and other agreement, or at law, but each shall be cumulative and in addition to every other remedy available to Mortgagee. Every power or remedy given by any of the Loan Documents to the Mortgagee or to which it may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Mortgagee, and it may pursue inconsistent remedies. Mortgagor may be joined in any action brought by Mortgagee to foreclose under or otherwise enforce this Mortgage.

6.6 Request for Notice. Mortgagor requests that a copy of any notice of default and that a copy of any notice of sale under this Mortgage be mailed to it at the address set forth in the first paragraph of this Mortgage.

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

**ARTICLE 7
MISCELLANEOUS**

7.1 Amendments. This instrument cannot be waived, modified, discharged or terminated except in writing signed by the party against whom enforcement of such changes is sought.

7.2 Waivers. Mortgagor waives, to the extent permitted by law, (a) the benefit of all laws (whenever enacted) providing for any appraisal before sale of any portion of the Collateral, (b) all rights of valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the Secured Obligations and marshaling in the event of foreclosure of this Mortgage, and (c) all rights and remedies which Mortgagor may have under the laws of the State of Washington regarding the rights and remedies of sureties.

7.3 Statements by Mortgagor. Mortgagor shall, within 10 days after notice from Mortgagee, deliver to Mortgagee a written statement setting forth whether Mortgagor has any knowledge that any offset or defense exists against the Secured Obligations.

7.4 Statements by Mortgagee. For any statement or accounting requested by Mortgagor or any other entitled person pursuant to applicable law, or for any other document or instrument furnished to Mortgagor by Mortgagee, Mortgagee may charge: (a) the maximum amount permitted by law at the time of the request, (b) if no such maximum, then the greater of Mortgagee's customary charges or the actual cost to Mortgagee.

7.5 Notices. All notices, demands, approvals and other communications shall be made in writing to the appropriate party at the address set forth in the first paragraph of this Mortgage. All such notices shall be made in accordance with the Loan Agreement.

7.6 Headings. Article and section headings are included in this Mortgage for convenience of reference only and shall not be used in construing this Mortgage.

7.7 Severability. Every provision of this Mortgage is intended to be severable. The illegality, invalidity or unenforceability of any provision of this Mortgage shall not in any way affect or impair the remaining provisions of this Mortgage, which provisions shall remain binding and enforceable.

7.8 Subrogation. To the extent that proceeds of the Note are used, either directly or indirectly, to pay any outstanding lien, charge or prior encumbrance against the Collateral, Mortgagee shall be subrogated to any and all rights and liens held by any owner or holder of such outstanding liens, charges and prior encumbrances, regardless of whether such liens, charges or encumbrances are released.

7.9 No Merger of Lease. Foreclosure of the lien created by this Mortgage on the Land, Fixtures or Improvements shall not destroy or terminate any Assigned Lease or other lease or sublease then existing and affecting all or any portion of the Land, Fixture or Improvement, unless the Mortgagee or any purchaser at such foreclosure sale shall so elect. No act by or on behalf of Mortgagee or any such purchaser shall terminate any Assigned Lease or other lease or sublease unless a Mortgagee or such purchaser shall give written notice of termination to such tenant or subtenant. If both the lessor's and lessee's estate under any lease which constitutes a part of the Land, Fixture or Improvement shall become vested in one owner, this Mortgage and its lien shall not be destroyed or terminated by application of the doctrine of merger unless Mortgagee so elects, as evidenced by recording a written declaration so stating. Until Mortgagee so elects, Mortgagee shall continue to have and enjoy all of the rights, powers and privileges of Mortgagee under this Mortgage as to the separate estates.

7.10 Governing Law. This Mortgage shall be governed by, and construed in accordance with, the substantive laws of the State of Washington except where the location of the Land 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.

7.11 Statute of Limitations. Mortgagor hereby waives, to the fullest extent permitted by law, the right to plead, use or assert any statute of limitations as a plea, defense or bar to any Secured Obligation, or to any complaint or other pleading or proceeding filed, instituted or maintained for the purpose of enforcing this Mortgage or any rights under it.

7.12 Interpretation. In this Mortgage the singular shall include the plural and the masculine shall include the feminine and the neuter and vice versa, if the context so requires; and the word "person" shall include corporation, partnership or other form of association. Any reference in this Mortgage to any document, instrument or agreement creating or evidencing an obligation secured hereby shall include such document, instrument or agreement both as originally executed and as it may from time to time be modified.

7.13 Further Assurances. Mortgagor agrees to do or cause to be done such further acts and things and to execute and deliver or to cause to be executed and delivered such additional assignments, agreements, powers and instruments as Mortgagee may reasonably require to: (a) correct any defect, error or omission in this Mortgage or the execution or acknowledgment of this Mortgage, (b) subject to the lien of this Mortgage any of Mortgagor's properties covered or intended to be covered by this Mortgage, (c) perfect, maintain and keep valid and effective such lien, (d) carry into effect the purposes of this Mortgage, or (e) better assure and confirm to Mortgagee its respective rights, powers and remedies under this Mortgage.

7.14 Successors and Assigns. Subject to Section 4.8 above, this Mortgage applies to, inures to the benefit of and binds all parties to this Mortgage, their heirs, legatees, devisees, administrators, executors, successors and assigns.

7.15 Appraisal and Property Valuation Costs. Mortgagor acknowledges that Mortgagee has a legitimate business need to remain apprised of the current value of the Collateral, and Mortgagee from time to time after recordation of this Mortgage may order a valuation ("Subsequent Valuation") of the Property. Mortgagor shall cooperate in allowing Mortgagee or its agents reasonable access to the Collateral for the purpose of performing any such Subsequent Valuation, whether it is in the form of an appraisal or any other method of valuing the Collateral. Mortgagor shall pay promptly to Mortgagee, on demand, the costs of any such Subsequent Valuation, whether performed by employees, agents, or independent contractors of Mortgagee.

7.16 Waiver of Marshalling Rights. Mortgagor for itself and for all parties claiming through or under Mortgagor, and for all parties who may acquire a lien on or interest in the Land, hereby waives all rights to have the Collateral and/or any other property which is now or later may be security for any Secured Obligation ("Other Collateral") marshaled upon any foreclosure of this Mortgage or on a foreclosure of any other security for any of the Secured Obligations. Mortgagee shall have the right to sell, and any court in which foreclosure proceedings may be brought shall have the right to order a sale of the Collateral and any or all of the Other Collateral, as a whole or in separate parcels, in any order Mortgagee may designate.

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

7.18 Permitted Exceptions. All of the title exceptions set forth on the title commitment or commitments issued in connection with the closing of the Loan secured by this Mortgage are Permitted Exceptions, except for those monetary liens that are to be paid off in connection with the closing of the Loan secured by this Mortgage.

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.

IN WITNESS WHEREOF, Mortgagor has duly executed this Mortgage as of the date first above written.

MORTGAGOR:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: _____
David L. Nunes, President and CEO

STATE OF)
WASHINGTON)
County of KITSAP)ss.

On this ____ day of June 2010, before me personally appeared David L. Nunes, known to me to be the President and CEO of Pope MGP Inc., the managing general partner of the limited partnership that executed the within instrument, and acknowledged that he executed the same as such managing general partner and in the limited partnership name freely and voluntarily.

Notary Public for the State of: Washington
Residing at: Indianola
My commission expires: May 20, 2014
Printed Name: Susan M. Graham-Schuyler

Mortgagee acknowledges that this Mortgage is subject to a security interest in favor of CoBank, ACB ("Bank") and by its acceptance hereto and pursuant to and in confirmation of certain agreements and assignments by and between Mortgagee and Bank, does assign, transfer, and set over the same unto Bank, its successors and assigns, to secure all obligations of Mortgagee to Bank, provided that pursuant to such agreements and assignments Mortgagee has authority to perform all loan servicing and collection actions and activities hereunder, including without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this Mortgage until the Bank, by instrument recorded in the office in which this Mortgage is recorded, revokes such authority.

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EXHIBIT A
PROPERTY DESCRIPTION

PARCEL 1

Section 24, Township 7 North, Range 5 East of the Willamette Meridian, Skamania County, Washington. Except the Southeast Quarter of said Section 24.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots O-1 Through O-24.

PARCEL 2

Section 3, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots D-1 Through D-32.

PARCEL 3

Section 4, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots C-1 Through C-32.

PARCEL 4

Section 5, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots B-1 Through B-32.

PARCEL 5

Section 6 Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots A-1 Through A-32.

PARCEL 6

Section 7, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots E-1 Through E-32.

PARCEL 7

All of Section 8, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots F-1 Through F-5,
F-7 Through F-28.

Also F-6 together with the South Half of the North Half of the Southeast Quarter of the Northwest Quarter.

EXCEPT that portion lying within Four Peaks Subdivision as recorded in Book B of Plats, Page 60, Skamania County Records.

PARCEL 8

Section 9, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots G-1 Through G-32.

PARCEL 9

Section 10, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots H-1 Through H-32.

PARCEL 10

The West Half of Section 11, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots I-1 Through I-16.

PARCEL 11

The North Half of the Northeast quarter of Section 14, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots N-1 Through N-4.

PARCEL 12

Section 15, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots M-1 Through M-32.

PARCEL 13

Section 16, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots L-1 Through L-32.

PARCEL 14

Section 17, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots K-1 Through K-32.

PARCEL 15

Government Lots 1, 2, 3 and 4, the East half of the West half, the North half of the Northeast quarter, the Southwest quarter of the Southeast quarter and the Southwest quarter of the Northeast quarter of Section 18, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots J-1 Through J-23.

EXCEPT that portion conveyed to Marshall and Melba Moore, by deed recorded in Book 194, Page 10.

PARCEL 16

Section 19, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots P-1 Through P-32.

PARCEL 17

Section 20, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots Q-1 Through Q-32.

PARCEL 18

Section 21, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots R-1 Through R-32.

PARCEL 19

Section 22, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots S-1 Through S-32.

PARCEL 20

The West half, the West half of the Southeast quarter and Government Lots 1 and 2, all in Section 23, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots T-1 Through T-19.

Also Lot T-20 being the South half of the Southwest Quarter of the Southeast Quarter and the South Half of the Southeast Quarter of the Southeast Quarter.

EXCEPT that portion conveyed to Pine Creek Boulder recorded in Auditor File No. 2004155506.

PARCEL 21

Section 27, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots W-1 Through W-31.

EXCEPTING from said Section 27, the following described tracts:

That portion conveyed to Swift Creek Estates by deed recorded under Auditor's File No. 99965, Book 85, Page 66 described as follows:

Beginning at the Southeast corner of said Section 27; thence North $0^{\circ}04'20''$ East 60.96 feet, more or less, along the Easterly line of said Section 27 to the Southerly right of way boundary of Lewis River Road commonly called the N-90 Road; thence South $86^{\circ}17'00''$ West 569.87 feet, more or less, along said Southerly right of way boundary; thence South $3^{\circ}43'00''$ East 25 feet, more or less, to a point on the Southerly line of said Section 27; thence South $89^{\circ}48'15''$ East 566 feet, more or less, along said Southerly line to the point of Beginning.

ALSO EXCEPTING that portion of the East half of the Southeast quarter of Section 27, being that certain Short Plat as recorded in Skamania County on November 3, 1987, in Book 3 of Short Plats, Page 125, recorded under Auditor's File No. 104203.

PARCEL 22

Section 28, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots V-1 Through V-29.

EXCEPTING from said Section 28 the following described tracts:

Beginning at a point on the West line of said Section 28 which is South $0^{\circ}16'55''$ East a distance of 1,674.98 feet from the West quarter section corner thereof and running thence South $25^{\circ}37'$ East 498.22 feet; thence South $47^{\circ}34'30''$ East 595.58 feet; thence North $59^{\circ}33'30''$ East 240.47 feet; thence South $40^{\circ}26'$ East 296.84 feet; thence South $89^{\circ}49'45''$ West 1,050.02 feet to the Southwest corner of said Section 28; and thence North $0^{\circ}16'55''$ West 958.19 feet to the point of beginning.

ALSO EXCEPTING, Beginning at a point on the South line of said Section 28 which is North 89°49'45" East 2,006.72 feet from the Southwest corner thereof; and running thence North 78°19'30" East 237.50 feet; thence North 33°28' East 235.01 feet; thence North 63°23' East 464.47 feet; thence North 21°05'30" East 360.93 feet; thence North 17°30'30" East 212.97 feet; thence North 57°42' East 110.31 feet; thence South 16°09'30" East 375.99 feet; thence South 10°31'30" East 336.26 feet; thence South 31°11' West 416.74 feet to a point on the South line of said Section 28, which is South 89°52'30" West 2,259.98 feet from the Southeast corner thereof; thence South 89°52'30" West 380.01 feet to the South quarter corner of said Section 28; and thence South 89°49'45" West 634.99 feet to the Point of Beginning.

PARCEL 23

Section 29, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots U-1 Through U-17.

EXCEPT that portion conveyed to Pacific Power and Light Co. By deed recorded under Auditor's File No. 55342, Book 46, Page 115, described as lying South and West and below the 1,000 feet.

PARCEL 24

Section 33, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots V-25, V-26 & X-1.

EXCEPT that portion conveyed to Pacific Power and Light Co. By deed recorded under Auditor's File No. 55342, Book 46, Page 115, described as lying South and West and below the 1,000 feet.

Also except all that portion lying Southerly of Swift Reservoir.

Assessor's Property Tax Parcel Numbers: 07-05-00-0-0-2600-0; 07-06-00-0-0-0200-00;
07-06-00-0-0-0300-00; 07-06-00-0-0-0400-00; 07-06-00-0-0-0500-00; 07-06-00-0-0-0600-00;
07-06-00-0-0-0700-00; 07-06-00-0-0-0800-00; 07-06-00-0-0-0900-00; 07-06-00-0-0-1000-00;
07-06-00-0-0-1200-00; 07-06-00-0-0-1300-00; 07-06-00-0-0-1400-00; 07-06-00-0-0-1490-00;
07-06-00-0-0-1480-00; 07-06-00-0-0-1590-00; 07-06-00-0-0-1500-00; 07-06-00-0-0-1600-00;
07-06-00-0-0-1700-00; 07-06-00-0-0-1800-00; 07-06-00-0-0-2600-00; 07-06-00-0-0-2700-00;
07-06-00-0-0-2800-00; 07-06-00-0-0-3000-00; 07-06-00-0-03100-00

After Recording Return To:
Salem Agribusiness
P.O. Box 13309
Salem, OR 97309

Document 1 Title: Mortgage

Grantors:	Grantees:
Pope Resources, A Delaware Limited Partnership	Northwest Farm Credit Services, PCA

Document 2 Title: Financing Statement

Grantors:	Grantees:
Pope Resources, A Delaware Limited Partnership	Northwest Farm Credit Services, PCA

Document 3 Title: Fixture Filing

Grantors:	Grantees:
Pope Resources, A Delaware Limited Partnership	Northwest Farm Credit Services, PCA

Abbreviated legal description:

Ptns of Sec. 24, T7N, R5E; Ptns. of Secs. 3-11; 14-23; 27-29 & 33, T7N, R6E; Skamania County, Washington

Additional legal is on Exhibit A on Page 26-31

Assessor's Property Tax Parcel Numbers: 07-05-00-0-0-2600-0; 07-06-00-0-0-0200-0;
07-06-00-0-0-0300-0; 07-06-00-0-0-0400-0; 07-06-00-0-0-0500-0; 07-06-00-0-0-0600-0;
07-06-00-0-0-0700-0; 07-06-00-0-0-0800-0; 07-06-00-0-0-0900-0; 07-06-00-0-0-1000-0;
07-06-00-0-0-1200-0; 07-06-00-0-0-1300-0; 07-06-00-0-0-1400-0; 07-06-00-0-0-1490-0;
07-06-00-0-0-1480-0; 07-06-00-0-0-1590-0; 07-06-00-0-0-1500-0; 07-06-00-0-0-1600-0;
07-06-00-0-0-1700-0; 07-06-00-0-0-1800-0; 07-06-00-0-0-2600-0; 07-06-00-0-0-2700-0;
07-06-00-0-0-2800-0; 07-06-00-0-0-3000-0; 07-06-00-0-03100-0

**MORTGAGE, FINANCING STATEMENT
AND FIXTURE FILING
(Open End)**

THIS MORTGAGE IS ALSO INTENDED TO BE A SECURITY AGREEMENT.

THIS MORTGAGE IS ALSO INTENDED TO BE A FILING AGAINST TIMBER TO BE CUT.

NOTICE: THIS MORTGAGE IS A LINE OF CREDIT MORTGAGE. THE MAXIMUM PRINCIPAL AMOUNT TO BE ADVANCED UNDER THE SECURED OBLIGATION (AS DEFINED BELOW) IS \$40,000,000.00. IN ADDITION, THIS MORTGAGE SECURES ALL OTHER INDEBTEDNESS EVIDENCED BY THE SECURED OBLIGATIONS OR OTHERWISE CREATED IN CONNECTION WITH THIS MORTGAGE, WHICH INDEBTEDNESS IS POTENTIALLY UNLIMITED. THE SECURED OBLIGATIONS PROVIDE FOR LOAN MATURITY DATES AS LATE AS JUNE 1, 2040 (EXCLUSIVE OF THE OPTION TO RENEW OR EXTEND).

ATTENTION: COUNTY RECORDER: This Mortgage covers goods that are or are to become affixed to or fixtures on the land described in Exhibit A hereto and is to be filed for record in the records where mortgages on real estate are recorded. Additionally, this instrument covers and should be appropriately indexed, not only as a mortgage, but also as a financing statement covering timber to be cut and goods that are or are to become fixtures on the real property described herein.

NOTICE: THE SECURED OBLIGATIONS PROVIDE FOR A VARIABLE INTEREST RATE.

This Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing (this "Mortgage"), dated as of June 10, 2010, is executed by **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP**, a Delaware limited partnership ("Mortgagor"), whose address is 19245 Tenth Ave NE, Poulsbo, WA 98370, in favor of and for the benefit of **NORTHWEST FARM CREDIT SERVICES, PCA**, a corporation organized and existing under the laws of the United States ("Mortgagee"), whose address is 1700 South Assembly Street, Spokane, WA 99224-2121, P. O. Box 2515, Spokane, WA 99220-2515. Each capitalized term used and not otherwise defined in this Mortgage shall have the meaning given such term in the First Amended and Restated Master Loan Agreement, as amended (the "Loan Agreement") executed by Mortgagor on or around even date herewith. "Loan Documents" as used herein means all documents and instruments signed in connection with the Loan (as defined herein) and other Loans made by Mortgagee to Mortgagor or an affiliate of Mortgagor and any extensions, renewals, amendments, substitutions and replacements thereto.

Pursuant to the terms and conditions of the Loan Agreement, Mortgagor has agreed to grant this Mortgage in favor of Mortgagee to provide security for Mortgagor's obligations under the Note described herein, the Loan Agreement and the related Loan Documents and any and all other documents entered into pursuant thereto.

**ARTICLE 1
GRANT OF SECURITY**

Mortgagor, in consideration of the indebtedness secured by this Mortgage, irrevocably bargains, sells, grants, mortgages, transfers, conveys, assigns and warrants to Mortgagee, for the benefit and security of Mortgagee, all Mortgagor's existing and future rights, titles, interests, estates, powers and privileges in or to the following (collectively the "Collateral"):

1.1 Real Estate.

- a. That certain real property located in Skamania County, State of Washington, more particularly described on Exhibit A attached hereto and incorporated herein (the "Land").
- b. All buildings, wells and other improvements now or hereafter located on the Land, including, but not limited to, the Fixtures (as defined below), and all other equipment, machinery, appliances and other articles attached to such buildings and other improvements (collectively the "Improvements");
- c. All fixtures (including without limitation, goods that are or become so related to the Land that an interest in them arises under the real estate law) and any additions or replacements (collectively the "Fixtures") now or hereafter located on, attached to, installed in or used in connection with the Land;
- d. All timber (aka "forest tree species"), whether standing or down, cut or under contract to be cut, now or hereafter growing or located on the Land, and whether or not said timber is merchantable, all logs, lumber and forest products of any nature, all proceeds and products thereof (the "Timber");
- e. All rights, rights-of-way, easements, licenses, profits, claims, demands, privileges, grazing privileges, tenements, hereditaments and appurtenances now owned or hereafter acquired by Mortgagor and used in connection with the Land and the Improvements or as a means of access to either or both, including without limitation, all rights over the property of third persons which are related thereto, and all unaccrued trespass and surface damage claims appurtenant thereto, and all written operations plans and all permits and approvals related to the Land and Improvements;

- f. All of Mortgagor's right, title and interest in and to any land within any right-of-way of any open or proposed street adjoining the Land, and any and all sidewalks, alleys, strips and gores of land adjacent to or used in connection with the Land and Improvements;
- g. All of Mortgagor's existing and future rights in (including without limitation, royalty and leasehold rights) oil, gas and other mineral rights in or relating to the Land;
- h. All waters, water courses, water rights and riparian rights (including without limitation, shares of stock evidencing the same) in or relating to the Land;
- i. All existing and future leases and subleases relating to the Land and Improvements or any interest in them, including without limitation, all deposits, advance rentals and other similar payments, but not including the Rents, as defined and separately assigned in Article 5;
- j. All options to purchase, exchange or lease the Collateral or any interest in it (and any greater estate in the Collateral and acquired by exercise of such options);
- k. All Mortgagor's other existing or future estates, homestead or other claims or demands, both in law and in equity in the Land, including without limitation, (i) all awards made for the partial or complete taking by eminent domain, or by any proceeding or purchase in lieu of eminent domain, of the Collateral, and (ii) all proceeds, including general intangibles and payment intangibles, of any insurance covering the Collateral; and
- l. All cash or non-cash proceeds of the sale, lease, license, exchange or other disposition of the Collateral or general intangibles, including payment intangibles, arising therefrom. Proceeds include all subsidy payments, in cash or in kind, which may be made to Mortgagor by any person, entity or governmental agency, including but not limited to, payments and entitlements from state and federal farm programs, as well as any type of property insurance; and any rights arising out of Collateral, collections and distributions on Collateral.

1.2 Personal Property. As further security for the payment, performance and observance of the Secured Obligations, Mortgagor, as debtor, hereby grants to Mortgagee, as secured party, a security interest in all of Mortgagor's existing and future right, title and interest in, to and under the following: all (a) contracts and policies of insurance and proceeds thereof, which may insure all or any portion of the Collateral against casualties and theft; (b) condemnation proceeds for all or any portion of the Collateral; and (c) cash or non-cash proceeds of the Collateral (including but not limited to, general intangibles, including payment intangibles, and all proceeds, which constitute property of the types described in clauses (a) through (c) of this Paragraph) and all right of Mortgagor to receive proceeds of any insurance, indemnity, warranty or guaranty payable by reason of loss of or damage to any of the Collateral. This Mortgage constitutes a security agreement for all purposes under the Uniform Commercial Code in effect in the State where the Mortgagor resides. In addition to all other rights and remedies provided for in this Mortgage, Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code. Mortgagor agrees that at least 10-days' notice to Mortgagor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification with respect to the personal property Collateral. If Mortgagee shall so require, Mortgagor upon the occurrence of an Event of Default, will make the Collateral that constitutes personal property available to Mortgagee at a place designated by Mortgagee, which is reasonably convenient to Mortgagee. In addition, Mortgagor shall execute such instruments and documents as Mortgagee reasonably may require from time to time to further evidence, implement or perfect any of Mortgagee's rights, remedies and security interests.

1.3 Fixture Filing and Financing Statement. This Mortgage is intended to serve as a Fixture filing and as a financing statement covering timber to be cut pursuant to the terms of the applicable Uniform Commercial Code. This Mortgage is to be recorded in the real estate records of the County in which the Land is located. In that regard, the following information is provided:

Name of Mortgagor, as Debtor: Pope Resources, A Delaware Limited Partnership
Attn: Thomas M. Ringo

Address of Mortgagor: 19245 Tenth Ave, NE
Poulsbo, WA 98370

Name of Mortgagee, as Secured Party: Northwest Farm Credit Services, PCA
Attn: Kristy Searles

Address of Mortgagee: P.O. Box 13309
Salem, OR 97309

ARTICLE 2 REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties. Mortgagor represents and warrants to Mortgagee as follows:

a. Mortgagor hereby authorizes Mortgagee to file, at anytime, one or more financing statements and any amendments and continuations thereof, describing any personal property or fixtures described herein, without further signature of Mortgagor. Mortgagor hereby represents and warrants that Mortgagor's State of formation is the State of Delaware and Mortgagor's exact legal name is as set forth herein.

b. Mortgagor is the sole legal and equitable owner of the Collateral;

c. Except as otherwise previously disclosed to Mortgagee, Mortgagor has the exclusive right to harvest any Timber, if any, from the Land and has the exclusive right to use the appurtenant rights and the operating permits;

d. Without thereby limiting the generality of the foregoing, and except as otherwise previously disclosed to Mortgagee, Mortgagor has not assigned or granted any harvest or access rights or interests, or sold or leased any part of the Land or the Improvements, if any, to any other person (individual, organization or governmental unit);

e. There are no claims, liens, encumbrances (including judgments, levies and the like), or security interest ("Liens") covering the Collateral or any part or item thereof except easements and reservations of record which are listed on the title policy delivered by Mortgagor;

f. To the best of Mortgagor's knowledge, and other than have been disclosed to Mortgagee, there are no federal, state or local laws, regulations, rules or standards ("Laws"), or permits, orders, injunctions, citations, notices of civil penalty, restraining orders, judgments or the like issued by any governmental unit ("orders") which are now in effect and which would restrict any material use of the Collateral;

g. Mortgagor has taken all actions necessary and has been duly authorized under its governing limited partnership agreement to execute, acknowledge, deliver and perform the Secured Obligations;

h. This Mortgage has been executed, acknowledged and delivered on behalf of Mortgagor by partners, members, representatives or officers, as applicable, of Mortgagor duly authorized to perform such acts;

i. This Mortgage is the legally valid and binding contract of Mortgagor, and is enforceable against Mortgagor in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the rights and remedies of creditors generally and by general principles of equity, whether applied by a court of law or equity; and

j. To the best of Mortgagor's knowledge, neither the execution of this Mortgage nor the payment and performance of the Secured Obligations will materially violate any Laws or orders affecting Mortgagor or the Collateral or constitute a breach or Event of Default by Mortgagor under any agreement, contract, loan indenture, lease, instrument or like document ("Contract") to which Mortgagor is a party or the Collateral is bound.

The foregoing representations and warranties will survive and not be merged or otherwise eliminated by any conveyance, voluntarily or through foreclosure, of the Collateral to Mortgagee or its nominee. Mortgagor hereby agrees to indemnify, defend and hold harmless Mortgagee from and against any and all claims, loss, liability, damages, liens, penalties, costs and expenses of any nature or kind whatsoever arising from or related to any misstatement of any material fact in the foregoing representations and warranties or the omission therein to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

ARTICLE 3 SECURED OBLIGATIONS

3.1 Debts, Liabilities and Secured Obligations. The Collateral secures the following indebtedness, obligations, commitments and agreements (collectively the "Secured Obligations"):

a. The obligations owed by Mortgagor or Borrower to Mortgagee and all outstanding commitments to lend by Mortgagee to Mortgagor or Borrower under the Loan Documents and all fees, expenses and reasonable attorneys' fees required thereunder, including all extensions, renewals, modifications, amendments and replacements thereof;

b. The payment of all other sums that may be advanced by or otherwise be due to Mortgagee under any provision of this Mortgage or under any other Loan Document, with interest thereon at the rates provided therein; and

c. The performance of each and every one of the covenants and agreements of Mortgagor or Borrower contained:

i. Herein; and

ii. In the other Loan Documents.

The sum of the Secured Obligations owed by Mortgagor or Borrower to Mortgagee and outstanding commitments made by Mortgagee to Mortgagor or Borrower as of the date of this Mortgage total approximately \$20,000,000.00, as currently evidenced by Note No. 56548-811 dated on or around even date herewith. It is contemplated that this Mortgage shall secure additional loans made to Mortgagor or Borrower from time to time but not after June 1, 2020, and not having a maturity date exceeding June 1, 2040. This Mortgage secures the sum of the Secured Obligations owed by Mortgagor or Borrower to Mortgagee as of the date hereof and shall secure additional extensions of credit and advances made by Mortgagee to Mortgagor or Borrower. The continuing validity and priority of this Mortgage for future extensions of credit and advances shall not be impaired by the fact that at certain times no outstanding indebtedness to Mortgagee or commitments from Mortgagee to make future extensions of credit or advances exists. Provided, however, the unpaid principal balances of the Secured Obligations secured by this Mortgage shall not at any given time exceed \$40,000,000.00.

Notice is hereby given that the interest rate, payment terms or balance due on the Notes may be indexed, adjusted, renewed or renegotiated.

Mortgagor acknowledges that the Secured Obligations are unconditional in nature and will not be released, discharged or otherwise affected by (a) any damage to or destruction or condemnation of the Collateral or any part thereof, (b) any governmental requirement affecting the use or enjoyment of the Collateral, (c) any defect in title to or lien on the Collateral, (d) any Bankruptcy Event involving Mortgagor or Borrower, (e) any claim that Mortgagor or Borrower has or may claim to have against Mortgagee or its participants, and whether or not relating to any related agreement between Mortgagee and Mortgagor or Borrower or (f) any other occurrence of similar or dissimilar nature and whether or not Mortgagor or Borrower has actual or constructive notice thereof.

**ARTICLE 4
COVENANTS**

4.1 Payment of Secured Obligations. Mortgagor shall pay the Secured Obligations when due.

4.2 Maintenance, Repair, Alterations.

4.2.1 Maintenance, Repair, and Alterations: Affirmative Covenants. Mortgagor shall:

a. Keep the Collateral in good condition and repair;

b. Complete promptly and in a good and workmanlike manner, any Improvement which may be constructed on the Land, and promptly restore in like manner any Improvement which may be damaged or destroyed, and pay when due all claims for labor performed and materials furnished for such construction or restoration;

- c. Comply with all statutes, laws, ordinances, regulations, orders, rulings, rules, consents, permits, licenses, conditions of approval and authorizations of any court or governmental or regulatory body having jurisdiction over Mortgagor, the Land or Improvements (“Laws and Ordinances”);
- d. Comply with any condominium or other plan, declaration of covenants, conditions and restrictions, reciprocal easement agreements to which the Land is subject (“CC&Rs”), any owners' association articles and bylaws affecting the Land, and such exceptions to title acceptable to Mortgagee (“Permitted Exceptions”);
- e. Keep and maintain abutting grounds, sidewalks, roads, parking and landscape areas in good, neat order and repair;
- f. Comply with the provisions of any leases constituting part of the Collateral;
- g. Obtain and maintain in full force and effect all permits necessary for the use, occupancy and operation of the Collateral; and
- h. Do any and all other acts, except as otherwise prohibited or restricted by the Loan Documents, which may be reasonably necessary to protect or preserve the value of the Collateral and the rights of Mortgagee in it.

4.2.2 Maintenance, Repair and Alterations: Negative Covenants. Mortgagor shall not, except upon the prior written consent of Mortgagee, which shall not be unreasonably withheld or delayed:

- a. Remove, demolish or materially alter any of the Improvements, other than to make non-structural repairs in the ordinary course of business which preserve or increase the value of the Land;
- b. Commit, suffer or permit any act to be done in, upon or to any part of the Collateral in violation of any Laws and ordinances, CC&Rs, or Permitted Exceptions now or hereafter affecting the Collateral;
- c. Commit or permit any waste or deterioration of the Collateral;
- d. Take (or fail to take) any action, which would increase the risk of fire or other hazard occurring to or affecting the Collateral or which otherwise would impair the security of Mortgagee in the Collateral; or

e. Initiate, join in or consent to any change in any zoning ordinance, general plan, specific plan, private restrictive covenant or other public or private restriction limiting the uses that may be made of the Land or Improvements by Mortgagor without the prior written consent of Mortgagee. Mortgagor has notified Lender that it is negotiating a conservation easement on a portion of the Land. Lender will be reasonable in evaluating any subordination requests related to such conservation easement.

4.3 Insurance.

4.3.1 Policies Required. Mortgagor shall at all times maintain in full force and effect, at Mortgagor's sole cost and expense, with insurers reasonably satisfactory to Mortgagee, insurance policies reasonably required by Mortgagee from time to time that are usual and customarily in use in Mortgagor's industry.

Prior to the expiration of each policy, Mortgagor shall deliver to Mortgagee evidence reasonably satisfactory to Mortgagee of renewal or replacement of such policy.

4.3.2 Required Policy Provisions. Each policy of insurance required under this Mortgage shall meet such other requirements as Mortgagee may reasonably require.

4.3.3 Claims. Mortgagor shall give Mortgagee immediate notice of any claim to any portion of the Collateral in excess of \$100,000.00, whether or not covered by insurance. If covered, Mortgagor authorizes Mortgagee, if Mortgagee so elects, to make proof of loss, and to commence, to appear in, defend and prosecute any claim or action arising from any applicable policy and to settle, adjust or compromise any claim under any such policy. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in-fact for all such purposes. Neither Mortgagee nor Mortgagor shall settle, adjust or compromise any such claim without the prior written approval of the other, which approval shall not be unreasonably withheld or delayed.

4.3.4 Assignment of Policies. If this Mortgage is foreclosed or other transfer of title or assignment of the Collateral is made in satisfaction of all or part of the Secured Obligations, then all right, title and interest of Mortgagor in and to all policies of insurance required by Section 4.3.1 above and all unearned premiums paid on them shall, without further act, pass to the purchaser or grantee of the Collateral. Provided, however, some policies of insurance and related unearned premiums may require the policy underwriter's consent.

4.3.5 Waiver of Subrogation. Mortgagor waives all right to recover against Mortgagee (or any officer, employee, agent or representative of Mortgagee) for any loss incurred by Mortgagor from any cause insured against or required by any Loan Document to be insured against, provided however, that this waiver of subrogation shall not apply to any insurance policy if such policy's coverage would be materially reduced or impaired as a result. Mortgagor shall obtain only policies which permit this waiver of subrogation.

4.4 Condemnation and Other Awards. Upon learning of the actual or threatened condemnation or other taking for public or quasi-public use of all or any part of the Land, Mortgagor shall immediately notify Mortgagee. Mortgagor shall take all actions reasonably required by Mortgagee in connection with such condemnation or other taking to defend and protect the interests of Mortgagor, Mortgagee in the Land. At Mortgagee's option, Mortgagee or Mortgagor may be the named party in such proceeding. Regardless of the adequacy of its security, Mortgagee shall be entitled to participate in, control and be represented by counsel of its choice in such proceeding. All condemnation proceeds shall first be applied to reimburse Mortgagee for all their reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection of such award or settlement. The balance of such award or settlement shall be applied by Mortgagee against the Secured Obligations in such order as Mortgagee may determine.

4.5 Taxes and Impositions (Impounds). Mortgagor shall pay, prior to delinquency, all of the following (collectively the "Impositions"):

- a. All general and special real property taxes and assessments imposed on the Land; and
- b. All other taxes and assessments and charges assessed on the Land (or on the owner and/or operator of the Land) which create or may create a lien on the Land (or on any Improvement or Fixture used in connection with the Land); including, without limitation, non-governmental levies and assessments under applicable CC&Rs; and
- c. All business taxes; and
- d. All license fees, taxes and assessments imposed on Mortgagee (other than Mortgagee's income or franchise taxes) which are measured by or based upon (in whole or in part) the amount of the Secured Obligations.

If permitted by law, Mortgagor may pay the Imposition in installments (together with any accrued interest). Upon demand by Mortgagee from time to time, Mortgagor shall deliver to Mortgagee, within 30 days following the due date of any Imposition, evidence of payment reasonably satisfactory to Mortgagee. In addition, upon demand by Mortgagee, at Mortgagor's expense, from time to time, Mortgagor shall furnish to Mortgagee a tax reporting service for the Collateral of a type and duration, and with a company reasonably satisfactory to Mortgagee.

4.5.1 Reserves on Impositions (Impounds). If Mortgagee requires following the occurrence of an Event of Default, Mortgagor, at the time of making each installment payment on the Note, or at such other intervals as Mortgagee reasonably designates, shall deposit with Mortgagee such sum as Mortgagee reasonably estimates to be necessary to pay installments of Impositions and insurance policies next becoming due (collectively, the "Impounds") upon any of the Land, Fixtures and Improvements. All such Impounds may be held by Mortgagee and applied in such order as Mortgagee may elect for payment of Impositions or other sums secured by this Mortgage at Mortgagee's election. Such Impounds shall constitute additional collateral for the Secured Obligations. Except as otherwise provided by law, Mortgagee shall have no obligation regarding such Impounds other than to account to Mortgagor for their receipt and application. Upon any transfer by Mortgagee of its rights or interests in the Secured Obligations or of this Mortgage, Mortgagee may turn over to the transferee such of those Impounds as Mortgagee then holds, and Mortgagee's responsibilities with respect to the Impounds shall terminate. Upon any transfer by Mortgagor of the Land or Improvements, Mortgagor's interest in any such Impounds shall be deemed automatically transferred to such transferee.

4.6 Utilities. Mortgagor shall promptly pay all gas, irrigation, electricity, water, sewer and other utility charges incurred for the benefit of the Collateral or which may become a lien against the Collateral; and all other similar public or private assessments and charges relating to the Collateral, regardless of whether or not any such charge is or may become a lien on the Collateral.

4.7 Liens: Non-Permitted Exceptions. Mortgagor shall not cause or permit, or agree or consent to cause or permit in the future (upon the happening of a contingency or otherwise), any of the Collateral, whether now owned or hereafter acquired, to be subject to a lien, whether voluntarily or by operation of law, in each case, without the prior written consent of Mortgagee, except the following:

- a. Liens securing taxes, assessments or governmental charges or levies being contested in good faith by appropriate proceedings as permitted by law;
- b. Statutory liens of carriers, mechanics, materialmen, loggers and other liens imposed by law arising in the ordinary course of business of Mortgagor which are in effect for no more than ninety (90) days (and which are satisfied or discharged, including by bonding pursuant to ORS 87.076 before such period ends) or which are being contested by Mortgagor in good faith by appropriate proceedings, but which are in no event the subject of any foreclosure or similar proceeding;
- c. Attachment or judgment liens in the amount of no more than \$50,000.00 in respect of judgments against Mortgagor that are either satisfied or discharged within thirty (30) days or are stayed upon appeal, but which are in no event the subject of any foreclosure or similar proceeding;

d. Attachment or judgment liens in the amount of more than \$50,000.00 in respect of judgments against Mortgagor that are either satisfied or discharged (including by way of posting a bond or other arrangement satisfactory to Mortgagee, in Mortgagee's sole discretion if the lien is being contested by borrower in good faith by appropriate proceedings within thirty (30) days, but which are in no event the subject of any foreclosure or similar proceeding;

e. Liens in favor of the Mortgagee that secure obligations under any of the Loan Documents;

Except as provided above, Mortgagor shall not cause, incur or permit to exist any lien, encumbrance or charge ("Non-Permitted Exceptions") upon all or any part of the Collateral or any interest in the Collateral other than Permitted Exceptions. Mortgagor shall pay and promptly discharge, at Mortgagor's sole cost and expense, all such Non-Permitted Exceptions. If Mortgagor fails to do so, the Mortgagee may, but shall not be obligated to, discharge them, without notice to or demand on Mortgagor, and without inquiring into the validity of such Non-Permitted Exceptions or the existence of any defense or offset to them. Mortgagee may discharge Non-Permitted Exceptions either by (a) paying the amount claimed to be due, or (b) procuring their discharge by depositing in a court a bond or the amount claimed or otherwise giving security for such claim, or (c) in any other manner permitted or required by law. Mortgagor shall, immediately upon demand by Mortgagee, pay Mortgagee's reasonable costs and expenses incurred in connection with such discharge, together with interest on such costs from the date of such expenditure until paid at the default rate of interest described in the Notes ("Default Interest Rate").

4.8 Sale or Lease of Collateral: Due on Sale Clause. Except in the ordinary course of business, Mortgagor shall not sell, lease, sublease or otherwise transfer all or any part of the Collateral or any interest in it, without the prior written consent of Mortgagee, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. The sale and harvesting of Timber shall be considered activity in the ordinary course of business as long as Mortgagor maintains compliance with Section 9.02 (d) of the Loan Agreement. All material leases of any part of the Collateral lasting in duration of more than one year, containing a provision of rental income of more than \$20,000 in any one year, or involving property of more than 100 acres of land must be submitted to Mortgagee for approval prior to execution, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. Transfers requiring Mortgagee's prior written consent shall include, without limitation, the following:

a. Involuntary transfers and transfers by operation of law;

b. Liens, encumbrances and assignments as security for obligations, whether voluntary or involuntary; and

c. Any Change of Control of Mortgagor. As used herein, "Change of Control" shall mean a change in the power, directly or indirectly, to (i) vote 50% or more of the voting securities (or membership interests, as applicable) having ordinary voting power for the election of directors or officers (or Persons functioning in substantially similar roles) of Mortgagor or (ii) direct or cause the direction of the management and policies of Mortgagor whether by contract or otherwise. Transfer of the beneficial interests and/or voting rights of the voting securities of the managing general partner of Mortgagee to or for the benefit of lineal descendants of the current beneficial holders shall not be deemed a "Change of Control" for purposes of this Mortgage.

d. No sale, lease or other transfer shall relieve Mortgagor from primary liability for its obligations under the Notes and Loan Documents or relieve any guarantor from any liability under any guaranty. Upon any such transfer to which Mortgagee does not consent, Mortgagee at its option may, without prior notice, declare all Secured Obligations immediately due and payable without presentment, demand, protest or further notice of any kind, and may exercise all rights and remedies provided in this Mortgage or under applicable law.

4.9 Inspections. Mortgagor authorizes Mortgagee and its agents, representatives and employees, upon reasonable notice to Mortgagor, to enter at any time upon any part of the Collateral for the purpose of performing a Subsequent Valuation, inspecting the Collateral, taking soil or groundwater samples and conducting tests to investigate for the presence of hazardous materials, provided such entry shall cause as little disruption to the occupants of the Collateral as possible, and provided Mortgagee restores the Collateral to its pre-inspection condition if Mortgagee's inspection activities cause damage to the Collateral. Mortgagor agrees to pay the costs and expenses of Mortgagee incurred in such inspections and examinations, including without limitation, Mortgagee's attorneys' fees, if such inspection was made necessary because of an Event of Default, whether the services are provided by Mortgagee's employees, agents or independent contractors. Any inspection or review by Mortgagee is solely for Mortgagee's benefit to protect Mortgagee's security and preserve Mortgagee's rights under this Mortgage. Mortgagee owes no duty of care to protect Mortgagor or any other party against, or to inform Mortgagor or any other party of, any adverse condition affecting the Collateral, including any defects in the design or construction of the Improvements or Fixtures. No inspection by Mortgagee shall constitute a waiver of any Event of Default.

4.10 Defense of Actions. Mortgagor shall notify Mortgagee of any action or proceeding purporting to affect (a) the security of this Mortgage, (b) any of the Loan Documents, (c) all or any part of the Collateral or any interest in it, (d) any additional or other security for the Secured Obligations, or (e) the interests, rights, powers or duties of Mortgagee under this Mortgage. Mortgagor, at no cost or expense to Mortgagee, shall appear in and defend the same. If Mortgagee elects to become or is made a party to such action or proceeding, Mortgagor shall indemnify, defend and hold Mortgagee harmless from all related liability, damage, cost and expense reasonably incurred by Mortgagee (including, without limitation, reasonable attorneys' fees and expenses consistent with Section 4.13 of this Mortgage), whether or not such action or proceeding is prosecuted to judgment or decision.

4.11 Protection of Security. If Mortgagor fails to make any payment or to do any act required by this Mortgage or any of the other Loan Documents, Mortgagee may do so. Mortgagee may decide to do so, in its own discretion, without obligation to do so, without further notice or demand, and without releasing Mortgagor in such manner and to such extent as it may reasonably deem necessary to protect the security of this Mortgage. In connection with such actions, Mortgagee has the right, without limitation, but not the obligation: (a) to enter upon and take possession of the Collateral; (b) to make additions, alterations, repairs and improvements to the Land, Improvements or Fixtures which in its judgment may be necessary or proper to keep the Collateral in good condition and repair; (c) to appear and participate in any action or proceeding affecting or which may affect the lien or charge of this Mortgage or the rights or powers of Mortgagee; (d) to pay, purchase, contest or compromise any encumbrance, claim, charge, lien or debt (excepting Permitted Encumbrances) which in its judgment may affect the security of this Mortgage or appear to be prior or superior to this Mortgage; and (e) in exercising such powers, to pay all necessary or appropriate costs and expenses and employ necessary or desirable consultants.

4.12 Mortgagee's Powers. If Mortgagor fails to pay any sum, other than principal and interest on the Secured Obligations, or to perform or comply with any other obligation required by any Loan Document, Mortgagee at its election may pay such sum or comply with such obligation. Without affecting the liability of Mortgagor or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Mortgage, Mortgagee may, from time to time, do any of the following: (a) release any person so liable, (b) extend the maturity or alter any of the terms of any such obligation (provided however, that the consent of Mortgagor shall be required for extension or alteration of any unpaid obligation of Mortgagor to Mortgagee), (c) waive any provision of this Mortgage or grant other indulgences, (d) release or reconvey, or cause to be released or reconveyed, at any time at Mortgagee's option, all or any part of the Collateral, (e) take or release any other or additional security for any Secured Obligation, or (f) make arrangements with debtors in relation to the Secured Obligations. Waiver by Mortgagee of any right or remedy as to any transaction or occurrence shall not be deemed to be a waiver of any future transaction or occurrence. By accepting full or partial payment or performance of any Secured Obligation after due or after the filing of a notice of default and election to sell, Mortgagee shall not have thereby waived its right to (i) require prompt payment and performance in full, when due, of all other Secured Obligations, (ii) declare a default for failure to so pay or perform, or (iii) proceed with the sale under any notice of default and election to sell previously given by Mortgagee, or as to any unpaid balance of the indebtedness secured by this Mortgage.

4.13 Reimbursement of Costs, Fees and Expenses: Secured by Mortgage. Mortgagor shall pay, on demand, to the maximum allowable under applicable law, all reasonable costs, fees, expenses, advances, charges, losses and liabilities paid or incurred by Mortgagee in administering this Mortgage, the collection of the Secured Obligations, and Mortgagee's exercise of any right, power, privilege or remedy under this Mortgage. Such amounts include, without limitation (a) foreclosure fees and expenses, receiver's fees and expenses, (b) costs and fees paid or incurred by Mortgagee and/or any receiver appointed under this Mortgage in connection with the custody, operation, use, maintenance, management, protection, preservation, collection, appraisal, sale or other liquidation of the Collateral, (c) advances made by Mortgagee to complete or partially construct all or part of any Improvements which may have been commenced on the Land, or otherwise to protect the lien or charge of this Mortgage, (d) costs of evidence of title, costs of surveys and costs of appraisals, and costs resulting from Mortgagor's failure to perform any of the provisions of this Mortgage. Fees, costs and expenses of attorneys shall include the reasonable fees and disbursements of Mortgagee's outside and staff counsel and of any experts and agents (including fees of law clerks, paralegals, investigators and others not admitted to the bar but performing services under the supervision of an attorney), and including such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Collateral, in protecting the lien or priority of any Loan Document, or in any litigation or controversy connected with the Secured Obligations, including any bankruptcy, receivership, injunction or other proceeding, or any appeal from or petition for review of any such proceeding. Reasonable counsel fees shall include fees incurred not only in enforcing the Secured Obligations in any bankruptcy or receivership proceeding, but also any fees incurred in participating in the bankruptcy or receivership proceedings generally. Such sums shall be secured by this Mortgage and shall bear interest from the date of expenditure until paid at the Default Interest Rate.

ARTICLE 5
ASSIGNMENT OF RENTS, ISSUES AND PROFITS

5.1 Assignment of Rents, Issues and Profits. Mortgagor absolutely, unconditionally and irrevocably assigns and transfers to Mortgagee all of its right, title and interest in and to all rents, issues, profits, royalties, income and other proceeds and similar benefits derived from the Collateral (collectively the "Rents"), and gives to Mortgagee the right, power and authority to collect such Rents. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in-fact, at the option of Mortgagee, at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and or sue, in its name or in Mortgagor's name, for all Rents, and to apply them to the Secured Obligations. Mortgagee hereby grants to Mortgagor a license to collect and retain Rents (but not more than one month in advance unless the written approval of Mortgagee has first been obtained) so long as an Event of Default shall not have occurred and be continuing. The assignment of the Rents in this Article 5 is intended to be an absolute assignment from Mortgagor to Mortgagee and not merely the passing of a security interest.

5.2 Collection Upon Default. Upon the occurrence of an Event of Default, Mortgagor's license to collect the Rents shall automatically terminate. Upon such termination, Mortgagee may, at any time, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Secured Obligations, do any of the following: (a) enter upon and take possession of all or any part of the Collateral; (b) with or without taking possession of the Collateral in its own name, sue for or otherwise collect Rents (including those past due and unpaid, and all prepaid Rents and all other security or other deposits paid by tenants to Mortgagor); and (c) apply the Rents (less costs and expenses of operation and collection, including, without limitation, attorneys' fees, whether or not suit is brought or prosecuted to judgment) to any Secured Obligation, and in such order as Mortgagee may determine, even if payment or performance of said Secured Obligation may not then be due. Mortgagor agrees that, upon the occurrence of any Event of Default, Mortgagor shall promptly deliver all Rents and security deposits to Mortgagee. The collection of Rents, or the entering and taking possession of the Land, or the application of Rents as provided above, shall not (i) cure or waive any Event of Default or notice of default under this Mortgage or the other Loan Documents, (ii) invalidate any act performed in response to such Event of Default or pursuant to such notice of default, or (iii) cause Mortgagee to be deemed a mortgagee-in-possession of all or any part of the Land.

5.3 Assigned Leases. Mortgagor agrees, with respect to each lease and sublease (collectively the "Assigned Leases") any portion of which has been assigned to Mortgagee under this Mortgage, as follows:

5.3.1 Mortgagor shall promptly perform all of Mortgagor's obligations as landlord under each Assigned Lease and shall immediately notify Mortgagee in writing of any notice of default received by Mortgagor from the tenant. At Mortgagee's request, Mortgagor will have tenant execute estoppel certificates and subordination agreements acceptable to Mortgagee.

5.3.2 Mortgagor shall diligently enforce the performance of all of the obligations of the tenant under each Assigned Lease; shall not waive any default or waive, release or discharge any such tenant of or from any such obligation; and shall not cancel, terminate or modify any Assigned Lease without Mortgagee's prior written consent.

5.3.3 Mortgagor hereby represents and warrants to Mortgagee, with respect to each Assigned Lease that is presently in effect (collectively the "Current Assigned Leases"), (a) that Mortgagor has delivered to Mortgagee a true and complete copy of each Current Assigned Lease, together with all amendments, modifications and supplements thereto; (b) that Mortgagor has not accepted any payment of Rent (or other charge) under any Current Assigned Lease more than one month in advance; and (c) that, to the best of each Mortgagor's knowledge, no material default by Mortgagor or any other person under any Current Assigned Lease remains uncured.

5.4 Further Assignments. Upon Mortgagee's demand from time to time, Mortgagor shall execute and deliver to Mortgagee recordable assignments of Mortgagor's interest in any and all leases, subleases, contracts, rights, licenses and permits now or hereafter affecting all or any part of the Land. Such assignments shall be made by instruments in form and substance satisfactory to Mortgagee; provided however, that no such assignment shall be construed as imposing upon Mortgagee any obligation with respect thereto. Mortgagee may, at its option, exercise its rights under this Mortgage or any such specific assignment and such exercise shall not constitute a waiver of any right under this Mortgage or any such specific assignment.

**ARTICLE 6
REMEDIES UPON DEFAULT**

6.1 Events of Default. The occurrence of any of the following events or conditions shall constitute an event of default (“Event of Default”) under this Mortgage:

6.1.1 Mortgagor fails to pay any amount owing under this Mortgage within three business days after written notice from Mortgagee or Mortgagee’s agent that the same is due; or

6.1.2 Mortgagor fails to pay any taxes, insurance premiums, assessments or rents required under this Mortgage within thirty business days after written notice from Mortgagee or Mortgagee’s agent that the same is due; or

6.1.3 Mortgagor fails to observe or perform any other obligation contained in this Mortgage within thirty business days after written notice from Mortgagee or Mortgagee’s agent that the same is due; or

6.1.4 The occurrence of an Event of Default under the Notes, Loan Agreement or any other Loan Documents; or

6.1.5 All or any portion of the Improvements or Fixtures are destroyed by fire or other casualty and Mortgagor fails to satisfy all of the restoration conditions within the time periods specified in Section 4.3 of this Mortgage; or

6.1.6 All or any material part of the Land or other Collateral is condemned, taken in eminent domain, seized or appropriated by any governmental or quasi-governmental agency or entity.

6.2 Acceleration Upon Default: Additional Remedies. Upon the occurrence of an Event of Default, Mortgagee may, at its option, exercise all of the applicable rights and remedies set forth in the Notes, Loan Agreement or any other Loan Documents and, in addition, declare all Secured Obligations to be immediately due and payable without any presentment, demand, protest or further notice of any kind; and whether or not Mortgagee exercises any said right or remedy, Mortgagee may:

6.2.1 Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its Collateral;

- a. Enter upon and take possession of all or part of the Collateral, in its own name or in the name of Mortgagee;
- b. Conduct environmental assessments and surveys and do any other acts which it deems necessary or desirable to preserve the value, marketability or rentability of all or part of the Collateral or interest in the Collateral or increase the Collateral's income, or protect the lien or charge of this Mortgage;
- c. With or without taking possession of the Collateral, sue for or otherwise collect the Rents, including those past due and unpaid; and
- d. Apply the Rents (less costs and expenses of operation and collection including attorneys' fees) to any Secured Obligations, all in such order as Mortgagee may determine;

The entering and taking possession of the Collateral, the collection of such Rents and their application shall not cure or waive any Event of Default or notice of default or invalidate any act done in response to them. Regardless of whether possession of the Collateral or the collection, receipt and application of any of the Rents is by Mortgagee or a receiver, the Mortgagee shall be entitled to exercise every right provided for in the Loan Agreement and other Loan Document or by law upon occurrence of any Event of Default, including the right to exercise the power of sale;

6.2.2 Commence an action to foreclose this Mortgage, appoint a receiver, or specifically enforce any of the covenants contained in this Mortgage;

6.2.3 Exercise all of the rights and remedies available to a secured party under the applicable Uniform Commercial Code in such order and in such manner as Mortgagee, in its sole discretion, may determine, including without limitation, requiring Mortgagor to assemble the Collateral and make the Collateral available to Mortgagee at a reasonably convenient location. The expenses of retaking, holding, preparing for sale or the like shall include reasonable attorneys' fees and other expenses of Mortgagee and shall be secured by this Mortgage; and/or

6.2.4 Exercise all other rights and remedies provided in this Mortgage, in any other Loan Document or other document or agreement now or hereafter securing all or any portion of the Secured Obligations, or as provided by law or in equity.

6.3 Appointment of Receiver. Upon the occurrence of an Event of Default under this Mortgage, Mortgagee, without notice to Mortgagor or anyone claiming under Mortgagor, and without regard to the then value of the Collateral or the interest of Mortgagor in it, shall have the right to enter the Land in person or to apply to any court having jurisdiction to appoint a receiver or receivers of the Land, Fixtures or Improvements. Mortgagor irrevocably consents to such appointment and waives notice of any such application. The actions that Mortgagee or such receiver may take in connection with such entry may include, but are not limited to (a) modifying, compromising obligations under, terminating and implementing remedies with respect to the Assigned Leases, and (b) entering into, modifying or terminating any contractual arrangements, subject to Mortgagee's right at any time to discontinue any of the same without liability. Mortgagee is further authorized by this provision to request the court to appoint a general receiver and to empower the receiver to (i) sell or lease all or any portion of the Land, Fixtures or Improvements, (ii) collect and apply to the outstanding balances of the Notes all sales or lease proceeds, or hold the proceeds pending a court order approving the receiver's final report and account, and (iii) hold the collections as cash collateral pending such court order or foreclosure sale. Any such receiver(s) shall also have all the usual powers and duties of receivers in similar cases and all the powers and duties of Mortgagee in case of entry as provided in this Mortgage, and shall continue to exercise all such powers until the date of confirmation of sale of the Land, Fixtures or Improvements, unless such receivership is sooner terminated. If Mortgagee elects to enter or take possession of the Land, Fixtures or Improvements, it will not assume any liability to Mortgagor or any other person for operation or maintenance of the Land, Fixtures or Improvements, and Mortgagor expressly waives any such Mortgagee liability.

6.4 Application of Funds After Default. Except as otherwise provided in this Mortgage, upon the occurrence of an Event of Default, Mortgagee may at any time, with notice to Mortgagor if providing such notice will not adversely delay the exercise of Mortgagee's rights or remedies, apply to any Secured Obligation, in such manner and order as Mortgagee may elect, even if such Secured Obligation may not yet be due, any amounts received and held by Mortgagee to pay insurance premium or impositions or as Rents, or as insurance or condemnation proceeds, and all other amounts received by Mortgagee from or on account of Mortgagor or the Collateral, or otherwise. The receipt, use or application of any such amounts shall not affect the maturity of any Secured Obligation, any of the rights or powers of Mortgagee under the terms of any Loan Document, or any of the obligations of Mortgagor or any guarantor under the Loan Agreement or any other Loan document; or cure or waive any Event of Default or notice of default under the Note(s) and Loan Agreement or any other Loan Document; or invalidate any act of Mortgagee.

6.5 Remedies Not Exclusive. Mortgagee shall be entitled to enforce payment and performance of any Secured Obligation and to exercise all rights and powers under this Mortgage or any other Loan Document or other agreement or any law, even if some or all of the Secured Obligations may be otherwise secured, whether by guaranty, deed of trust, mortgage, pledge, lien, assignment or otherwise. Neither the acceptance nor enforcement (whether by court action or pursuant to the power of sale or other powers herein contained) of this Mortgage shall impair Mortgagee's right to realize upon or enforce any other security held by Mortgagee. Mortgagee shall be entitled to enforce this Mortgage and any other security for the Secured Obligations held by Mortgagee in such order and manner as it may in its absolute discretion determine. No remedy conferred upon or reserved to Mortgagee is intended to be exclusive of any other remedy in this Mortgage, and other agreement, or at law, but each shall be cumulative and in addition to every other remedy available to Mortgagee. Every power or remedy given by any of the Loan Documents to the Mortgagee or to which it may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Mortgagee, and it may pursue inconsistent remedies. Mortgagor may be joined in any action brought by Mortgagee to foreclose under or otherwise enforce this Mortgage.

6.6 Request for Notice. Mortgagor requests that a copy of any notice of default and that a copy of any notice of sale under this Mortgage be mailed to it at the address set forth in the first paragraph of this Mortgage.

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

ARTICLE 7
MISCELLANEOUS

7.1 Amendments. This instrument cannot be waived, modified, discharged or terminated except in writing signed by the party against whom enforcement of such changes is sought.

7.2 Waivers. Mortgagor waives, to the extent permitted by law, (a) the benefit of all laws (whenever enacted) providing for any appraisal before sale of any portion of the Collateral, (b) all rights of valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the Secured Obligations and marshaling in the event of foreclosure of this Mortgage, and (c) all rights and remedies which Mortgagor may have under the laws of the State of Washington regarding the rights and remedies of sureties.

7.3 Statements by Mortgagor. Mortgagor shall, within 10 days after notice from Mortgagee, deliver to Mortgagee a written statement setting forth whether Mortgagor has any knowledge that any offset or defense exists against the Secured Obligations.

7.4 Statements by Mortgagee. For any statement or accounting requested by Mortgagor or any other entitled person pursuant to applicable law, or for any other document or instrument furnished to Mortgagor by Mortgagee, Mortgagee may charge: (a) the maximum amount permitted by law at the time of the request, (b) if no such maximum, then the greater of Mortgagee's customary charges or the actual cost to Mortgagee.

7.5 Notices. All notices, demands, approvals and other communications shall be made in writing to the appropriate party at the address set forth in the first paragraph of this Mortgage. All such notices shall be made in accordance with the Loan Agreement.

7.6 Headings. Article and section headings are included in this Mortgage for convenience of reference only and shall not be used in construing this Mortgage.

7.7 Severability. Every provision of this Mortgage is intended to be severable. The illegality, invalidity or unenforceability of any provision of this Mortgage shall not in any way affect or impair the remaining provisions of this Mortgage, which provisions shall remain binding and enforceable.

7.8 Subrogation. To the extent that proceeds of the Note are used, either directly or indirectly, to pay any outstanding lien, charge or prior encumbrance against the Collateral, Mortgagee shall be subrogated to any and all rights and liens held by any owner or holder of such outstanding liens, charges and prior encumbrances, regardless of whether such liens, charges or encumbrances are released.

7.9 No Merger of Lease. Foreclosure of the lien created by this Mortgage on the Land, Fixtures or Improvements shall not destroy or terminate any Assigned Lease or other lease or sublease then existing and affecting all or any portion of the Land, Fixture or Improvement, unless the Mortgagee or any purchaser at such foreclosure sale shall so elect. No act by or on behalf of Mortgagee or any such purchaser shall terminate any Assigned Lease or other lease or sublease unless a Mortgagee or such purchaser shall give written notice of termination to such tenant or subtenant. If both the lessor's and lessee's estate under any lease which constitutes a part of the Land, Fixture or Improvement shall become vested in one owner, this Mortgage and its lien shall not be destroyed or terminated by application of the doctrine of merger unless Mortgagee so elects, as evidenced by recording a written declaration so stating. Until Mortgagee so elects, Mortgagee shall continue to have and enjoy all of the rights, powers and privileges of Mortgagee under this Mortgage as to the separate estates.

7.10 Governing Law. This Mortgage shall be governed by, and construed in accordance with, the substantive laws of the State of Washington except where the location of the Land 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.

7.11 Statute of Limitations. Mortgagor hereby waives, to the fullest extent permitted by law, the right to plead, use or assert any statute of limitations as a plea, defense or bar to any Secured Obligation, or to any complaint or other pleading or proceeding filed, instituted or maintained for the purpose of enforcing this Mortgage or any rights under it.

7.12 Interpretation. In this Mortgage the singular shall include the plural and the masculine shall include the feminine and the neuter and vice versa, if the context so requires; and the word "person" shall include corporation, partnership or other form of association. Any reference in this Mortgage to any document, instrument or agreement creating or evidencing an obligation secured hereby shall include such document, instrument or agreement both as originally executed and as it may from time to time be modified.

7.13 Further Assurances. Mortgagor agrees to do or cause to be done such further acts and things and to execute and deliver or to cause to be executed and delivered such additional assignments, agreements, powers and instruments as Mortgagee may reasonably require to: (a) correct any defect, error or omission in this Mortgage or the execution or acknowledgment of this Mortgage, (b) subject to the lien of this Mortgage any of Mortgagor's properties covered or intended to be covered by this Mortgage, (c) perfect, maintain and keep valid and effective such lien, (d) carry into effect the purposes of this Mortgage, or (e) better assure and confirm to Mortgagee its respective rights, powers and remedies under this Mortgage.

7.14 Successors and Assigns. Subject to Section 4.8 above, this Mortgage applies to, inures to the benefit of and binds all parties to this Mortgage, their heirs, legatees, devisees, administrators, executors, successors and assigns.

7.15 Appraisal and Property Valuation Costs. Mortgagor acknowledges that Mortgagee has a legitimate business need to remain apprised of the current value of the Collateral, and Mortgagee from time to time after recordation of this Mortgage may order a valuation ("Subsequent Valuation") of the Property. Mortgagor shall cooperate in allowing Mortgagee or its agents reasonable access to the Collateral for the purpose of performing any such Subsequent Valuation, whether it is in the form of an appraisal or any other method of valuing the Collateral. Mortgagor shall pay promptly to Mortgagee, on demand, the costs of any such Subsequent Valuation, whether performed by employees, agents, or independent contractors of Mortgagee.

7.16 Waiver of Marshalling Rights. Mortgagor for itself and for all parties claiming through or under Mortgagor, and for all parties who may acquire a lien on or interest in the Land, hereby waives all rights to have the Collateral and/or any other property which is now or later may be security for any Secured Obligation ("Other Collateral") marshaled upon any foreclosure of this Mortgage or on a foreclosure of any other security for any of the Secured Obligations. Mortgagee shall have the right to sell, and any court in which foreclosure proceedings may be brought shall have the right to order a sale of the Collateral and any or all of the Other Collateral, as a whole or in separate parcels, in any order Mortgagee may designate.

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

7.18 Permitted Exceptions. All of the title exceptions set forth on the title commitment or commitments issued in connection with the closing of the Loan secured by this Mortgage are Permitted Exceptions, except for those monetary liens that are to be paid off in connection with the closing of the Loan secured by this Mortgage.

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.

IN WITNESS WHEREOF, Mortgagor has duly executed this Mortgage as of the date first above written.

MORTGAGOR:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
David L. Nunes, President and CEO

STATE OF)
WASHINGTON)ss.
County of KITSAP)

On this ____ day of June 2010, before me personally appeared David L. Nunes, known to me to be the President and CEO of Pope MGP Inc., the managing general partner of the limited partnership that executed the within instrument, and acknowledged that he executed the same as such managing general partner and in the limited partnership name freely and voluntarily.

Notary Public for the State of: Washington
Residing at: Indianola
My commission expires: May 20, 2014
Printed Name: Susan M. Graham-Schuyler

Mortgagee acknowledges that this Mortgage is subject to a security interest in favor of CoBank, ACB ("Bank") and by its acceptance hereto and pursuant to and in confirmation of certain agreements and assignments by and between Mortgagee and Bank, does assign, transfer, and set over the same unto Bank, its successors and assigns, to secure all obligations of Mortgagee to Bank, provided that pursuant to such agreements and assignments Mortgagee has authority to perform all loan servicing and collection actions and activities hereunder, including without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this Mortgage until the Bank, by instrument recorded in the office in which this Mortgage is recorded, revokes such authority.

EXHIBIT A
PROPERTY DESCRIPTION

PARCEL 1

Section 24, Township 7 North, Range 5 East of the Willamette Meridian, Skamania County, Washington. Except the Southeast Quarter of said Section 24.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots O-1 Through O-24.

PARCEL 2

Section 3, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots D-1 Through D-32.

PARCEL 3

Section 4, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots C-1 Through C-32.

PARCEL 4

Section 5, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots B-1 Through B-32.

PARCEL 5

Section 6 Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.
Also as described in Deed recorded in Auditor File No. 2007167218 as Lots A-1 Through A-32.

PARCEL 6

Section 7, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots E-1 Through E-32.

PARCEL 7

All of Section 8, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots F-1 Through F-5, F-7 Through F-28.

Also F-6 together with the South Half of the North Half of the Southeast Quarter of the Northwest Quarter.

EXCEPT that portion lying within Four Peaks Subdivision as recorded in Book B of Plats, Page 60, Skamania County Records.

PARCEL 8

Section 9, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots G-1 Through G-32.

PARCEL 9

Section 10, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots H-1 Through H-32.

PARCEL 10

The West Half of Section 11, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots I-1 Through I-16.

PARCEL 11

The North Half of the Northeast quarter of Section 14, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots N-1 Through N-4.

PARCEL 12

Section 15, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots M-1 Through M-32.

PARCEL 13

Section 16, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots L-1 Through L-32.

PARCEL 14

Section 17, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots K-1 Through K-32.

PARCEL 15

Government Lots 1, 2, 3 and 4, the East half of the West half, the North half of the Northeast quarter, the Southwest quarter of the Southeast quarter and the Southwest quarter of the Northeast quarter of Section 18, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots J-1 Through J-23.

EXCEPT that portion conveyed to Marshall and Melba Moore, by deed recorded in Book 194, Page 10.

PARCEL 16

Section 19, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots P-1 Through P-32.

PARCEL 17

Section 20, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots Q-1 Through Q-32.

PARCEL 18

Section 21, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots R-1 Through R-32.

PARCEL 19

Section 22, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots S-1 Through S-32.

PARCEL 20

The West half, the West half of the Southeast quarter and Government Lots 1 and 2, all in Section 23, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots T-1 Through T-19.

Also Lot T-20 being the South half of the Southwest Quarter of the Southeast Quarter and the South Half of the Southeast Quarter of the Southeast Quarter.

EXCEPT that portion conveyed to Pine Creek Boulder recorded in Auditor File No. 2004155506.

PARCEL 21

Section 27, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots W-1 Through W-31.

EXCEPTING from said Section 27, the following described tracts:

That portion conveyed to Swift Creek Estates by deed recorded under Auditor's File No. 99965, Book 85, Page 66 described as follows:

Beginning at the Southeast corner of said Section 27; thence North $0^{\circ}04'20''$ East 60.96 feet, more or less, along the Easterly line of said Section 27 to the Southerly right of way boundary of Lewis River Road commonly called the N-90 Road; thence South $86^{\circ}17'00''$ West 569.87 feet, more or less, along said Southerly right of way boundary; thence South $3^{\circ}43'00''$ East 25 feet, more or less, to a point on the Southerly line of said Section 27; thence South $89^{\circ}48'15''$ East 566 feet, more or less, along said Southerly line to the point of Beginning.

ALSO EXCEPTING that portion of the East half of the Southeast quarter of Section 27, being that certain Short Plat as recorded in Skamania County on November 3, 1987, in Book 3 of Short Plats, Page 125, recorded under Auditor's File No. 104203.

PARCEL 22

Section 28, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots V-1 Through V-29.

EXCEPTING from said Section 28 the following described tracts:

Beginning at a point on the West line of said Section 28 which is South $0^{\circ}16'55''$ East a distance of 1,674.98 feet from the West quarter section corner thereof and running thence South $25^{\circ}37'$ East 498.22 feet; thence South $47^{\circ}34'30''$ East 595.58 feet; thence North $59^{\circ}33'30''$ East 240.47 feet; thence South $40^{\circ}26'$ East 296.84 feet; thence South $89^{\circ}49'45''$ West 1,050.02 feet to the Southwest corner of said Section 28; and thence North $0^{\circ}16'55''$ West 958.19 feet to the point of beginning.

ALSO EXCEPTING, Beginning at a point on the South line of said Section 28 which is North 89°49'45" East 2,006.72 feet from the Southwest corner thereof; and running thence North 78°19'30" East 237.50 feet; thence North 33°28' East 235.01 feet; thence North 63°23' East 464.47 feet; thence North 21°05'30" East 360.93 feet; thence North 17°30'30" East 212.97 feet; thence North 57°42' East 110.31 feet; thence South 16°09'30" East 375.99 feet; thence South 10°31'30" East 336.26 feet; thence South 31°11' West 416.74 feet to a point on the South line of said Section 28, which is South 89°52'30" West 2,259.98 feet from the Southeast corner thereof; thence South 89°52'30" West 380.01 feet to the South quarter corner of said Section 28; and thence South 89°49'45" West 634.99 feet to the Point of Beginning.

PARCEL 23

Section 29, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots U-1 Through U-17.

EXCEPT that portion conveyed to Pacific Power and Light Co. By deed recorded under Auditor's File No. 55342, Book 46, Page 115, described as lying South and West and below the 1,000 feet.

PARCEL 24

Section 33, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots V-25, V-26 & X-1.

EXCEPT that portion conveyed to Pacific Power and Light Co. By deed recorded under Auditor's File No. 55342, Book 46, Page 115, described as lying South and West and below the 1,000 feet.

Also except all that portion lying Southerly of Swift Reservoir.

Assessor's Property Tax Parcel Numbers: 07-05-00-0-0-2600-0; 07-06-00-0-0-0200-0;
07-06-00-0-0-0300-0; 07-06-00-0-0-0400-0; 07-06-00-0-0-0500-0; 07-06-00-0-0-0600-0;
07-06-00-0-0-0700-0; 07-06-00-0-0-0800-0; 07-06-00-0-0-0900-0; 07-06-00-0-0-1000-0;
07-06-00-0-0-1200-0; 07-06-00-0-0-1300-0; 07-06-00-0-0-1400-0; 07-06-00-0-0-1490-0;
07-06-00-0-0-1480-0; 07-06-00-0-0-1590-0; 07-06-00-0-0-1500-0; 07-06-00-0-0-1600-0;
07-06-00-0-0-1700-0; 07-06-00-0-0-1800-0; 07-06-00-0-0-2600-0; 07-06-00-0-0-2700-0;
07-06-00-0-0-2800-0; 07-06-00-0-0-3000-0; 07-06-00-0-03100-0.

LOAN AGREEMENT

BETWEEN

METROPOLITAN LIFE INSURANCE COMPANY

AND

**ORM TIMBER OPERATING COMPANY II, LLC,
as Borrower**

WITH

**ORM TIMBER FUND II, INC.,
as Guarantor**

**FIRST MORTGAGE LOAN
of US\$11,000,000**

LOAN NO.: 194231

September 1, 2010

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LOAN AGREEMENT

This **LOAN AGREEMENT** (this "**Agreement**") is dated as of September 1, 2010, by and among ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company ("**Borrower**"), with an address at 19245 Tenth Avenue NE, Poulsbo, Washington 98370 and **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation ("**Lender**").

RECITALS

A. WHEREAS, Borrower has entered into a Purchase Agreement dated as of July 27, 2010 (the "**Purchase Agreement**") with Weyerhaeuser Real Estate Development Company, a Washington corporation ("**Seller**"), pursuant to which Borrower shall purchase from Seller a fee simple interest in certain of the Timberlands situated in the State of Oregon and defined herein as the Copper Creek Block (all such Timberlands, appurtenances, related contracts rights and property purchased by or owned by Borrower pursuant to or arising from the transactions contemplated under the Purchase Agreement, the "**Purchased Assets**").

B. WHEREAS, Borrower recently completed the acquisition of certain of the Timberlands situated in the State of Washington and defined herein as the Riffe Lake Block (all such Riffe Lake Block Timberlands, appurtenances, related contracts rights and property purchased by or owned by Borrower pursuant to or arising from the transactions contemplated under the Purchase Agreement, the "**Riffe Lake Assets**") pursuant to the following agreements (collectively, the "**Riffe Lake Purchase Agreement**"): (i) Purchase and Sale Agreement dated July 7, 2010 between Terrapointe LLC, a Delaware limited liability company and Borrower; and (ii) Purchase and Sale Agreement dated July 7, 2010 between Rayonier Forest Resources, L.P., a Delaware limited partnership and Borrower.

C. WHEREAS, Borrower has requested that Lender agree to make a first mortgage loan in the original principal amount of Eleven Million Dollars \$11,000,000, the proceeds of which shall be used by Borrower in purchasing the Purchased Assets and which loan shall be secured by first mortgage and security interests in the Purchased Assets together with the Riffe Lake Assets.

D. WHEREAS, subject to the terms and conditions set forth herein, Lender has agreed to make such loan to Borrower pursuant to that certain Term Sheet/Loan Application dated July 8, 2010 (the "**Application**") in order to fund a portion of the purchase price to be paid by Borrower for the Purchased Assets, which loan shall be secured as provided herein and in the other Loan Documents. The Loan will be guaranteed by ORM TIMBER FUND II, INC., a Delaware corporation (the "**Guarantor**").

E. WHEREAS, all capitalized terms used but not otherwise defined herein shall have the meanings set forth in Article 9 hereof.

NOW THEREFORE, in consideration of the Loan, the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1. LOAN TERMS AND COLLATERAL

1.1 Loan Amount. Subject to the terms and conditions of this Agreement, Lender agrees on the Closing Date to make a senior secured first mortgage loan to Borrower (the "**Loan**") in the original principal amount of **ELEVEN MILLION US DOLLARS (US\$11,000,000)**.

1.2 The Note. The Loan shall be evidenced by one (1) Promissory Note executed and delivered by Borrower to Lender of even date herewith in the amount of Eleven Million Dollars (\$11,000,000) bearing a fixed rate of interest with a term of ten (10) years in the form of Schedule 1.2 attached hereto (as amended, restated, extended, renewed or otherwise modified from time to time, together with any note or notes given in substitution or replacement thereof at the request of Lender, collectively, the "**Note**" or "**Notes**").

1.3 Interest and Payments. The Loan shall bear interest at the rate or rates specified in the Note and principal and interest shall be payable by Borrower in accordance with the terms of the Note. Payments in respect of the Note shall be made by Borrower to Lender in accordance with the payment instructions set forth on Schedule 1.3.

1.4 Collateral Security for the Loan. The indebtedness evidenced by the Note and the other obligations of Borrower with respect to the Loan are and shall continue to be secured by a first and senior mortgage, security interest and lien (subject only to Permitted Encumbrances) encumbering the Timberlands, including, without limitation, all Timber and biomass thereon or derived therefrom, and the other Collateral.

1.5 Collateral Security Documents for Loan. The indebtedness evidenced by the Note and the other obligations of Borrower with respect to the Loan are and shall continue to be secured by, among others, the following documents (collectively, the "**Security Documents**"):

1.5.1 With respect to the Timberlands situated in Marion and Clackamas Counties, in the State of Oregon, a first Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing encumbering the Timberlands, and with respect to the Timberlands situated in Lewis County, in the State of Washington, a first Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing encumbering the Timberlands, subject only to the Permitted Encumbrances (collectively, the "**Deeds of Trust**");

1.5.2 A first perfected security interest (subject only to the Permitted Encumbrances) in and to all of Borrower's Property consisting of personal property, located on, derived from or related to the Timberlands, pursuant to a security agreement supplementing or contained herein and in the Deeds of Trust as well as a separate security agreement from Borrower and any of its Subsidiaries having an interest in any of the Collateral if required by Lender (collectively, as amended, restated or supplemented from time to time, the "**Security Agreement**");

1.5.3 Assignments of, and a first perfected security interest (subject only to the Permitted Encumbrances) in and to, all leases, contracts, licenses and permits relating to the Timberlands, including any listed on Schedules 2.6.4 and 2.7 hereof, together with any consents required for such assignments pursuant to a security agreement supplementing or contained herein and in the Deeds of Trust as well as separate assignments from Borrower and any of its Subsidiaries having an interest in any of the Collateral if required by Lender (collectively, as amended, restated or supplemented from time to time, the "**Assignment of Contracts**"); and

1.5.4 Assignments of, and first perfected security interests (subject only to the Permitted Encumbrances) in and to, all timber sale and stumpage agreements related to the Timberlands, including any listed on Schedule 2.6.3 hereof, and timber agreements, purchase contracts, and guarantees thereof, in respect of the Timberlands, together with any consents required for such assignments pursuant to a security agreement supplementing or contained herein and in the Deeds of Trust as well as separate assignments from Borrower and any of its Subsidiaries having an interest in any of the Collateral if required by Lender (collectively, as amended, restated or supplemented from time to time, the “**Assignment of Timber Contracts**”).

1.6 Other Loan Documents. The Loan is also supported by the following documents which are Loan Documents:

1.6.1 the Environmental Indemnity Agreement executed by the Borrower and Guarantor which is not secured by the Deeds of Trust; and

1.6.2 the Guaranty Agreement executed by the Guarantor.

1.7 Acquisition. Borrower shall furnish to Lender a collateral assignment of the purchaser’s rights, but not the purchaser’s obligations or liabilities, under the Purchase Agreement together with any consent by the seller required under the Purchase Agreement and Borrower shall not permit any amendment of the Purchase Agreement without the prior written consent of Lender. Borrower shall purchase the Purchased Assets simultaneously with, but immediately prior to, the Closing.

ARTICLE 2. REPRESENTATIONS AND WARRANTIES

As an inducement to Lender to enter into this Agreement and to make the Loan and with the understanding that Lender is relying thereon, Borrower represents and warrants to Lender, as of the date hereof and as of the date of Closing as follows:

2.1 Nature of Business. Borrower’s only business is the ownership and operation of the Timberlands and the Unencumbered Timberlands as timberlands. The Timberlands and related assets and the Unencumbered Timberlands and related assets constitute the only assets owned by Borrower.

2.2 Financial Statements; Equity, Debt; Contracts; Material Adverse Change.

2.2.1 Financial Statements. Borrower has delivered to Lender prior to the date of Closing copies of audited annual financial statements and operating statements of the Borrower dated as of December 31, 2009, and unaudited consolidated quarterly financial statements for Guarantor and Borrower dated as of June 30, 2010, which have been accepted by Lender. All of said financial statements (including in each case the related schedules and notes) are true and correct in all material respects and present fairly the financial position of the Borrower and/or Guarantor, as applicable, as of the respective dates specified in such statements (subject, in the case of interim financial statements, to audit and normal year end adjustments) and the results of its operations and its cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (i) for charges required or permitted by GAAP and with which the auditors of Borrower or Guarantor, as applicable, concur, or (ii) where applicable, as set forth in the notes thereto.

2.2.2 Debt. Borrower has no Debt other than the Loan.

2.2.3 Material Adverse Change. Since the date of the most recent financial statements delivered to Lender pursuant to Section 2.2.1 there has been no material adverse change in the business, prospects, profits, property or condition (financial or otherwise) of Borrower or Guarantor or any Affiliate.

2.2.4 Bankruptcy; Compromise. Neither Borrower nor Guarantor or any Affiliate is or has ever been, involved in bankruptcy or adjudicated as bankrupt, and has not entered into an agreement or received the benefit of any settlement or compromise of a Debt, as debtor.

2.3 Ownership of Borrower; Subsidiaries. All of the direct and indirect interests in Borrower are owned by the parties and in the manner set forth in Schedule 2.3, which Schedule also identifies all Subsidiaries of Borrower. Borrower's statutory agent for service of process in each state in which its Property is located is also set forth in Schedule 2.3.

2.4 Pending Litigation.

2.4.1 Pending Litigation. Except as set forth on Schedule 2.4.1 attached hereto and made a part hereof, there are no proceedings, actions or investigations pending or, to the knowledge of Borrower, threatened against or affecting Borrower, Guarantor, any Subsidiaries or any of their respective Property (including without limitation the Collateral) in any court or before any Governmental Authority or arbitration board or tribunal.

2.4.2 No Defaults. None of Borrower, Guarantor, any Subsidiaries nor any of their respective Property is in default with respect to any judgment, order, writ, injunction or decree of any court, Governmental Authority, arbitration board or tribunal.

2.5 Title to Timberlands; Collateral.

2.5.1 Timberlands. The Timberlands consist of (i) approximately 12,759 acres, collectively located in Marion and Clackamas Counties, Oregon and referred to herein as the Copper Creek Block; and (ii) approximately 9,119 acres located in Lewis County, Washington, all as described in Exhibit A, as shown on maps furnished by Borrower to Lender and as described in the Deeds of Trust.

2.5.2 Title to the Timberlands. At Closing, Borrower will have good and marketable fee simple, indefeasible title to all of the Timberlands free of all Liens except the Permitted Encumbrances.

2.5.3 Timber. At Closing, Borrower will have good and marketable unencumbered title to all of the Timber standing, lying, or growing on the Timberlands, (except for timber sold in the ordinary course of business pursuant to the timber sale agreements listed on Schedule 2.6.3).

2.5.4 Timberlands. The Timberlands include all of the Purchased Assets.

2.5.5 Collateral. The Collateral constitutes all Property of the Borrower that relates to, is derived from, is appurtenant to, is located on or is necessary for the operation of the Timberlands as commercial timberland, and Borrower has no other Property which does not constitute Collateral, except for the Unencumbered Timberlands and such Property that exclusively relates to, is derived from or is appurtenant to or is located on the Unencumbered Timberlands.

2.6 Timber, Coal, Oil and Gas

2.6.1 Condition and Volumes of Timber. To the best knowledge of Borrower following diligent inquiry, the standing Timber located on the Timberlands is in good condition and is substantially free from pests, blight, fungus, disease, or infestation and from any other adverse condition. The Merchantable Timber located on the Timberlands is marketable. Borrower certifies to Lender that the information set forth in the timber inventory verification report attached hereto as Schedule 2.6.1 setting forth the species, age, quantity, location and volumes of all standing timber located on the Timberlands is not misleading and is true, correct and complete at a 95% confidence level with a margin of error of +/- 5%, and is the same information that was provided by Borrower or Project Manager to the appraiser and from which was prepared the appraisal referenced in Section 4.5.2 below. Borrower shall deliver to Lender prior to Closing a certificate of Project Manager representing and warranting to Lender the truth and accuracy of the statements in this Section 2.6.1, in the form of Schedule 2.6.1 attached. Both Project Manager and Borrower have certified said Timber volumes to Lender knowing that Lender is relying on such certifications to make this Loan, including, without limitation, Lender's reliance on the appraisal update referenced in Section 4.5.2 below, which is based upon such Timber volumes.

2.6.2 Access to Timberlands. Except as set forth in Schedule 2.6.2, the Timberlands are accessible to vehicles either via direct access from a public road or by valid, enforceable, perpetual easements or irrevocable licenses over third-party lands, and such access is sufficient for timberland management, timber harvesting, transportation of forest products and rock aggregates, and planting operations and other silvicultural practices customary in the industry. Portions of the Timberlands that are contiguous to other portions of the Timberlands which have such access shall be deemed to have such access.

Following the Closing, Borrower shall obtain the consent from the Bureau of Land Management ("BLM") for the assignment to Borrower of the Road Use Agreement referenced in Schedule 2.6.2, and shall provide evidence of Borrower's legally enforceable rights to access the Copper Creek Block under the Road Use Agreement promptly upon receipt but in no event later than September 1, 2011. Borrower shall keep Lender apprised of BLM's consent process and provide Lender with copies of the related documentation.

With regard to the portion of the Riffe Lake Timberlands identified on Schedule 2.6.2, Borrower agrees to obtain legally enforceable access easements appurtenant to and sufficient to use and operate this portion of the Timberlands, in a form or forms reasonably approved by Lender, prior to September 1, 2011. Failure to obtain the foregoing easements for the benefit of all but 640 acres of the portion of the Riffe Lake Timberlands identified on Schedule 2.6.2 by such date shall constitute an Event of Default unless Borrower shall have provided to Lender, by such date, Replacement Timberlands meeting the standards set forth in Section 4.9.

2.6.3 Timber Sale Agreements. There are presently no leases, timber deeds, stumpage agreements, timber cutting agreements or other agreements in effect for the sale or cutting of any timber on the Timberlands, except as set forth on Schedule 2.6.3, which includes all of the documents comprising all of the sale agreements or leases affecting the Timberlands wherein Borrower is the seller or landlord, together with all modifications, amendments and supplements thereto, from which any payments, royalty or any other income is or may be received by Borrower from the sale or harvest of timber from the Timberlands; no party has made a claim or demand adverse to the title of Borrower as set forth in any such agreement or lease; and such agreements and leases are in full force and effect without default by any party thereto and no action under the bankruptcy laws of the United States or any State, whether voluntary or involuntary, are pending against any of the purchasers or tenants or sublessees (including all parties presently owning any interest as purchaser or tenant thereunder) of such agreements or leases; and no consent of any of such purchasers or tenants or sublessees, or any other party, is required for the assignment by the Borrower of said agreements or leases to Lender.

2.6.4 Other Leases. Except as set forth on Schedule 2.6.4, there are presently no leases or other agreements affecting the Timberlands wherein Borrower is the landlord, including, without limitation, pasture leases, cell tower leases, wind turbine leases, commercial leases, mineral leases, surface leases to mineral owners, any other leases from which any royalty or production income may be received by Borrower from, or which permits the tenant thereunder to undertake, the mining of coal, oil, gas or other minerals, and any other leases or use or occupancy agreements affecting the Timberlands.

2.6.5 Mining Permits. Except as set forth on Schedule 2.6.5, Borrower has not held at any time, and does not now hold, nor has Borrower ever permitted the holding for the benefit of or on behalf of Borrower (it being understood and agreed that a mining permit held by a tenant under a bona fide lease from Borrower to such tenant shall not be considered held for the benefit of or on behalf of Borrower), any permit or license issued by any Governmental Authority which permits or allows the exploration, mining, drilling, extraction, production, storage, transportation or processing of coal, oil, gas or any other minerals on or at the Timberlands, and no such permit or license is required to be held by or for the benefit of or on behalf of Borrower for any operations presently carried on at the Timberlands or contemplated by Borrower. For the purpose of this Section 2.6.5, mining for sand, hard rock or gravel by Borrower is not considered mining.

2.7 Recreational and Hunting Leases; Licenses. Attached hereto as Schedule 2.7 is a Rent Roll of all of the licenses and other documents comprising all agreements affecting the Timberlands wherein Borrower has leased or licensed, including all modifications, amendments and supplements thereto, rights for hunting, fishing or other recreational uses, and the term, expiration date and rents or fees payable with respect thereto. Borrower has submitted to Lender its standard form of license agreement and certifies that the licenses listed on the Schedule are generally in the form of such standard form.

2.8 Taxes.

2.8.1 Returns Filed; Taxes Paid. All Federal and other tax returns, if any, required to be filed by Borrower and any other Person with which Borrower files or has filed a consolidated return in any jurisdiction have in fact been filed on a timely basis, and all taxes, assessments, fees and other governmental charges upon Borrower and any such Person, and upon any of their respective Properties, income or franchises, that are due and payable have been paid, including, without limitation, ad valorem taxes imposed on the Timberlands and any conveyance or excise taxes related thereto except for such taxes (i) which are not delinquent or (ii) that are being contested in good faith and by proper proceedings.

2.8.2 Reserves for Taxes.

(i) Borrower has made adequate provision to establish reserves for liability for taxes as of the date hereof (including, without limitation, any payment due pursuant to any tax sharing agreement) as are or may become payable by Borrower (and any other Person with whom Borrower is required by applicable law to file a consolidated tax return) in respect of all tax periods ending on or prior to such dates.

(ii) Borrower knows of no proposed additional material tax assessment against it or any Person with whom Borrower is required by applicable law to file a tax return and all taxes payable in connection with the acquisition of the Purchased Assets have been or shall be paid as and when due.

2.9 Non Foreign Certification. Neither Borrower, Guarantor, nor any Affiliate is a foreign corporation, foreign partnership, foreign trust or foreign estate (as these terms are defined in the Internal Revenue Code and Income Tax Regulations).

2.10 Borrower Organization and Authority.

2.10.1 Borrower:

(i) Is a duly formed, validly existing limited liability company and in good standing under the laws of the State of Delaware;

(ii) Has all requisite power and authority, and the legal right, to own and operate its Property and to conduct the business in which it is currently engaged and as presently proposed to be conducted in each jurisdiction in which it is currently conducting its business or presently proposing to conduct its business;

(iii) Is duly qualified as a foreign limited liability company and in good standing under the laws of Washington, Oregon, and any other jurisdiction where its ownership, lease or operation of Property or the conduct of its business requires such qualification; and

(iv) Has all necessary licenses, permits and certificates to own and operate its Property and to carry on its business as now conducted and as presently proposed to be conducted.

2.10.2 Guarantor:

(i) Is a duly organized, validly existing corporation, and is in good standing under the laws of Delaware;

(ii) Has all requisite power and authority, and the legal right, to own and operate its property and to conduct the business in which it is currently engaged and as presently proposed to be conducted in each jurisdiction in which it is currently conducting its business or presently proposing to conduct its business;

(iii) Is duly qualified as a foreign corporation and in good standing under the laws of any jurisdiction where the conduct of its business requires such qualification; and

(iv) Has all necessary licenses, permits and certificates to carry on its business as now conducted and as presently proposed to be conducted.

2.10.3 Olympic Resource Management LLC, a Washington limited liability company, is the Manager of Borrower (“**Manager**”) and:

(i) Is a duly organized, validly existing limited liability company and in good standing under the laws of the State of Washington;

(ii) Has all requisite power and authority, and the legal right, to own and operate its property and to conduct the business in which it is currently engaged and as presently proposed to be conducted in each jurisdiction in which it is currently conducting its business or presently proposing to conduct its business, and specifically, to act as manager of the Borrower;

(iii) Is duly qualified as a foreign limited liability company and in good standing under the laws of any jurisdiction where the conduct of its business requires such qualification; and

(iv) Has all necessary licenses, permits and certificates to carry on its business as now conducted and as presently proposed to be conducted.

2.10.4 Borrower’s organizational information is as follows:

(i) The exact legal name of the Borrower as that name appears on its Certificate of Formation is as follows: ORM Timber Operating Company II, LLC.

(ii) The following is the principal place of business and mailing address of the Borrower: 19245 Tenth Avenue NE Poulsbo, Washington 98370.

(iii) The following is the Borrower's state issued organizational identification number: 602904078.

(iv) The following is a list of all other names (including trade names or similar appellations) used by the Borrower, or any other business or organization to which the Borrower became the successor by merger, consolidation, acquisition, change in form, nature or jurisdiction of organization or otherwise, now or at any time during the past five years: none.

(v) The following are all other states in the United States of America in which the Borrower is qualified to do business: Oregon, Washington, and Delaware.

2.10.5 Borrower maintains all of its books or records relating to any of the Collateral consisting of accounts, instruments, chattel paper, general intangibles or mobile goods at its place of business set forth above.

2.10.6 The officers of Borrower are as set forth on Schedule 2.3. The Officers of Manager are as set forth on Schedule 2.3.

2.10.7 Borrower's U.S. employer identification number is: 27-0970624.

2.11 Restrictions on Borrower. Borrower is not a party to any contract or agreement, or subject to any restriction in its organizational documents that restricts the right or ability of Borrower to incur Debt, (other than any restrictions in its organizational documents that have been satisfied with respect to the borrowing of the Loan), other than this Agreement, or otherwise perform under the terms of the Loan Documents; and has not agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of the Timberlands, or any interest therein, whether now owned or hereafter acquired, to be subject to a Lien other than a Permitted Lien; and has not agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of the Collateral, or any interest therein, whether now owned or hereinafter acquired, to be subject to a Lien other than Permitted Liens.

2.12 Compliance with Law.

Neither Borrower, Guarantor nor any Affiliate:

2.12.1 Is in violation of any law, ordinance, governmental rule or regulation to which it or its Property is subject, including, without limitation, those relating to zoning and planning, building, subdivision, inland-wetland, wildlife protection, forest practices, hazardous or toxic waste, materials or substances, mining, drilling, extraction, or reclamation, but not including any such laws, ordinances, rules or regulations which are specifically addressed in Subsections 2.12.3 or 2.12.4;

2.12.2 Has failed to obtain any license, certificate, permit, franchise or other governmental authorization necessary to the ownership of its Property or to the conduct of its business, including, without limitation, to the extent required, building, zoning, subdivision, traffic and environmental approvals, forest practices, wildlife protection, certificates of occupancy, mining, drilling, extraction, or reclamation; but not including under this Section any of the same that are addressed in Subsections 2.12.3 or 2.12.4;

2.12.3 Is in violation of any law, ordinance, government rule or regulation with respect to mining, drilling, extraction, sale or management of the coal, oil, gas and other minerals from the Timberlands, and has not failed to obtain any necessary license, certificate, permit, franchise or other governmental authorization;

2.12.4 Is in violation of any law, ordinance, government rule or regulation with respect to cutting, handling, harvesting, selling and the management of Timber from the Timberlands, and has not failed to obtain any necessary license, certificate, permit, franchise or other governmental authorization; and

2.12.5 Has received any written notice of any violation of or with respect to any of the matters set forth above in this Section.

2.13 Pension Plans; ERISA. Borrower does not maintain any pension plan or employee benefit plan. Neither Borrower nor any entity with which Borrower would be aggregated (a “**Commonly Controlled Entity**”) under Section 414(b), (c), (m) or (o) of the IRS Code, is an “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) or “governmental plan” (as defined in Section 3(32) of ERISA), and none of Borrower’s assets constitute “plan assets”, as defined in 29 C.F.R. §2510.3-101 or “assets of a governmental plan” subject to regulation under any of the laws of the United States of America. The transactions under this Agreement do not constitute a non-exempt prohibited transaction under ERISA and will not result in the assessment of a direct or indirect liability to Borrower or Lender under Section 409 or 502 of ERISA or Section 4975 of the Code by reason of the QPAM exemption or otherwise.

2.14 Certain Laws. The incurrence of the Debt evidenced by the Note, and the performance under the Loan Documents by the Borrower and Guarantor:

2.14.1 Is not subject to regulation under the Investment Company Act of 1940, as amended, the Transportation Acts, as amended, or the Federal Power Act, as amended, and

2.14.2 Does not violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to Borrower or Guarantor.

2.15 Environmental Compliance.

2.15.1 **Compliance.** To the best of Borrower’s knowledge following diligent inquiry and except as disclosed in the Phase I Report, Borrower and its Property, including, without limitation, the Timberlands, and the use thereof, are in compliance with all Environmental Protection Laws in effect in any jurisdiction where it currently is doing business or owns Property, including, without limitation, all states where any of the Timberlands are located.

2.15.2 No Releases. To the best of Borrower's knowledge following diligent inquiry and except as disclosed in the Phase I Report, there has not been any Release (as hereinafter defined) or threat of a Release of any Hazardous Substances on, upon, into or emanating from the Timberlands, except those Releases, permitted by applicable Environmental Laws or reported to the appropriate government authorities and resolved to the satisfaction of such authorities, and except for minor oil leaks from logging operations or vehicles used in Timberlands management and the application of pesticides or herbicides used in accordance with applicable regulations in the ordinary course of normal silvicultural activities and possible "over spray" of pesticides or herbicides from agricultural operations on adjacent lands, and there have never been any such Releases on, upon or into any real property adjoining or in the vicinity of the Timberlands which could have had the result that Hazardous Substances have come to be located upon the Timberlands or the water or groundwater thereunder. As used in this Agreement, "Release" means any presence, spill, leak, seepage, discharge, escape, leaching, dumping, or disposing in or into the environment (including the abandonment or discarding of barrels, containers, and other closed receptacles containing any Hazardous Substance or pollutant or contaminant).

2.15.3 To the best of Borrower's knowledge following diligent inquiry and except as disclosed in the Phase I Report, no Hazardous Substances are currently located on or under the Timberlands and no portion of the Timberlands has been used as a land fill or dump to receive garbage, refuse or waste.

2.15.4 No portion of the Timberlands is listed or proposed for listing on the National Priorities List established by the United States Environmental Protection Agency or any other list purporting to identify properties posing the threat or existence of contamination by Hazardous Substances; except as set forth on Schedule 2.15.4, to the best of Borrower's knowledge after diligent inquiry, no "endangered species" or "threatened species", as those terms are defined in the Endangered Species Act of 1973, 16 U.S.C. § 1531 et seq., as amended (the "**Endangered Species Act**"), are present on the Timberlands, and no portion of the Timberlands has been designated as a "critical habitat", as that term is defined in the Endangered Species Act.

2.15.5 Storage Tanks. To the best of Borrower's knowledge following diligent inquiry and except as set forth in the Phase I Report, and except as listed on the attached Schedule 2.15.5, there are no underground storage tanks of any kind or character, whether empty or containing substances of any nature located within the Timberlands, and there are no above-ground storage tanks of any kind or character, whether empty or containing substances of any nature, located within the Timberlands, except as shown on Schedule 2.15.5.

2.15.6 Liability. Borrower is not subject to any liability under any Environmental Protection Law.

2.15.7 Notices. Borrower has not received, nor, to Borrower's best knowledge, have there been issued to any party any:

(i) Written notice from any Governmental Authority by which any of the Collateral, including, without limitation, the Timberlands has been identified in any manner by any Governmental Authority as a Hazardous Substance disposal or removal site, clean-up site or candidate for removal, remediation or closure pursuant to any Environmental Protection Law;

(ii) Notice of any violation of, or Lien arising under or in connection with any Environmental Protection Law with respect to the Timberlands; or

(iii) Communication from any Governmental Authority or other Person concerning any Hazardous Substance on or related to the Timberlands or any action or omission by Borrower in connection with its currently or previously owned or leased Properties, including, without limitation, the Timberlands, concerning the release or presence of any Hazardous Substance or concerning any violation of any Environmental Protection Law.

2.15.8 For the purposes of this Section 2.15:

(i) Any notice shall not include any matter that has been resolved to the written satisfaction of Governmental Authorities; and

(ii) "Timberlands" owned by Borrower shall be deemed to include any Property of any Affiliate of Borrower which would be treated as if it were a part of the Timberlands under any Environmental Protection Law.

2.16 Loan Transaction Legal and Authorized; Obligations are Enforceable.

2.16.1 Loan Transaction Legal and Authorized. The execution and delivery by Borrower of the Note and the other Loan Documents to which it is a party, and compliance by Borrower with all of its obligations under the Loan Documents are within the company powers and authority of Borrower; are legal and do not conflict with, result in any breach of any of the provisions of, constitute a default under, or result in the creation of any Lien other than Permitted Liens upon any Property of Borrower under the provisions of, any agreement or other instrument to which it is a party or by which it or any of its Property may be bound; and do not give rise to a right or option of any other Person under any agreement or other instrument.

2.16.2 Obligations are Enforceable. Each of the Note and the other Loan Documents to which Borrower is a party has been authorized by all necessary company actions on the part of Borrower, has been properly executed and delivered by the duly authorized officer of Borrower, and constitutes a legal, valid and binding obligation of Borrower enforceable in accordance with its terms.

2.16.3 Guaranty Agreement Legal. The execution and delivery by Guarantor of the Guaranty Agreement are legal and do not conflict with, result in any breach of any of the provisions of, constitute a default under, or result in the creation of any Lien on any Property of Guarantor under the provisions of any agreement or other instrument to which Guarantor is a party or by which it or any of its Property may be bound; and do not give rise to a right or option of any other Person under any agreement or other instrument.

2.16.4 Obligations under Guaranty Agreement are Enforceable. The Guaranty Agreement has been properly executed and delivered by Guarantor and constitutes a legal, valid and binding obligation of Guarantor enforceable in accordance with its terms.

2.16.5 Governmental Consent. Neither the nature of Borrower or Guarantor, or of any businesses or Properties of Borrower or Guarantor, nor any relationship between Borrower or Guarantor and any other Person, nor any circumstance in connection with the Loan transaction and the execution and delivery of the Loan Documents, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority on the part of Borrower or Guarantor as a condition to the execution and delivery of any Loan Document or the Loan transaction, including, without limitation, the Hart Scott Rodino Act.

2.17 No Defaults.

2.17.1 The Loan Documents. No event has occurred and no condition exists that, upon consummation of the Loan transaction contemplated hereby and the execution and delivery of the Loan Documents, would constitute a Default or an Event of Default.

2.17.2 Organizational Documents; Other Agreements. Borrower is not in violation in any respect of any term of its certificate of formation, operating agreement or any other constitutive document or instrument. To the best of Borrower's knowledge, neither Borrower nor Guarantor is in violation of any term in any agreement or other instrument to which it is a party or by which it or any of its Property may be bound.

2.18 Use of Proceeds.

2.18.1 Use of Loan Proceeds. Proceeds of the Loan will be used by Borrower to pay a portion of the purchase price of the Purchased Assets, closing costs for the transaction contemplated hereunder and for general working capital needs and for no other purpose. Borrower's uses of the proceeds of the Loan are, and will continue to be, legal and proper uses under Borrower's organizational documents and applicable laws and regulations. Borrower's uses of the proceeds of the Loan are limited to its commercial business activities.

2.18.2 Margin Securities. None of the transactions contemplated by the Loan Documents (including, without limitation, the use of the proceeds from the Loan) violates, will violate or will result in a violation of section 7 of the Exchange Act, or any regulations issued pursuant thereto, including, without limitation, Regulations T, U and X of the Board of Governors of the United States of America Federal Reserve System, 12 C.F.R., Chapter II. Borrower does not intend to use the proceeds from the Loan to own, carry or purchase, or refinance borrowings that were used to own, carry or purchase, any Margin Security, or for any purpose that might constitute this Loan as a purpose credit within the meaning of such Regulation U.

2.19 Validity of Lien. Upon recording the Deeds of Trust in the proper recording offices, the execution and delivery of the Security Documents and the filing of related financing statements in the proper filing offices, the Liens granted to Lender by Borrower and any Subsidiary pursuant to the Loan Documents shall constitute valid perfected first priority Liens under the laws of each State in which any part of the Collateral is located and all other applicable laws, ordinances, rules and regulations, entitled to all the rights, benefits and priorities provided by such law and any and all other such laws, ordinances, rules and regulations, and the Collateral is subject to no other Liens except for Permitted Liens. All action that is necessary or advisable to establish such Liens of Lender, and their priority as described in the preceding sentence, including filing of registrations, financing statements or similar notices in the appropriate offices and the recording of all appropriate documents with appropriate public officials, will be taken on or prior to the Closing Date or provisions satisfactory to the Lender for the taking of such actions have been or will be made, and there will be, upon execution, delivery and filing or recordation of such registrations, financing statements and documents, no necessity for any further action in order to protect, preserve and continue such Liens and such priority other than the filing of continuation statements with respect to such financing statements, which Borrower hereby agrees to undertake or cause to be undertaken as reasonably necessary to protect, preserve and continue such Liens and such priority. Borrower has the full power and lawful authority to assign, transfer, deliver and pledge, or cause to be assigned, transferred, delivered and pledged, the Collateral.

2.20 Solvency. The fair value of the business and assets of Borrower and Guarantor is in excess of the amount that will be required to pay its respective liabilities (including, without limitation, contingent, subordinated, unmatured and unliquidated liabilities on existing debts, as such liabilities may become absolute and matured), in each case both before and after giving effect to the transactions contemplated by the Loan Documents. Neither Borrower nor Guarantor, after giving effect to the transactions contemplated by the Loan Documents, is engaged in any business or transaction, or about to engage in any business or transaction, for which such party has unreasonably small assets or capital (within the meaning of applicable law, including, without limitation, section 548 of the United States Bankruptcy Code), and neither Borrower nor Guarantor has intent to (a) hinder, delay or defraud any entity to which it is, or will become, on or after the Closing Date, indebted, or (b) incur debts that would be beyond its ability to pay as they mature.

2.21 Full Disclosure. The statements and information contained in the Loan Documents and the application, documents, certificates and other written information furnished by or on behalf of Borrower or Guarantor to Lender in connection with the Loan and the closing of the Loan are true and complete (other than projections and forward looking information). There is no fact that Borrower has not disclosed to Lender that has had or, so far as the Borrower can now reasonably foresee, could be expected to have, a materially adverse effect on (i) the business, prospects, profits, Property or condition (financial or otherwise) of Borrower, Guarantor or any Affiliate; (ii) the ability of Borrower to perform its obligations set forth herein and in the Note, (iii) any of the rights or remedies of Lender under any Loan Document or (iv) the enforceability against Borrower or Guarantor of any Loan Document to which Borrower or Guarantor is a party.

2.22 Representations and Warranties Specifically Relating to Certain Agreements.

2.22.1 The Borrower has good title to the Leases and Rents (for the purpose of this Section, as defined in the Deeds of Trust) assigned in the Deeds of Trust and good right to assign the same, and no other person, corporation or entity has any right, title or interest therein.

2.22.2 The Borrower has duly and punctually performed all and singular terms, covenants, conditions and warranties of the Leases on the Borrower's part to be kept, observed and performed.

2.22.3 The Borrower has not previously sold, assigned, transferred, mortgaged or pledged the Leases or the Rents, whether now or hereafter to become due.

2.22.4 Other than annual rents under hunting, recreational and crop leases, and advance payments under lump-sum pay-in-advance cutting agreements, no Rents due for any period subsequent to the month next succeeding the date hereof have been collected, and no payment of any of the Rents has otherwise been anticipated, waived, released, discounted, set-off or otherwise discharged or compromised, except in the ordinary course of the Borrower's business.

2.22.5 To the best of the Borrower's knowledge, none of the parties to any Leases are in default under any of the terms thereof.

2.23 Survival of Representations and Warranties. Borrower covenants, warrants and represents to Lender that all representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true and correct on the date hereof and at Closing and shall survive the execution, delivery and acceptance thereof by Lender and the parties thereto and the Closing of the transactions described therein or related thereto.

ARTICLE 3. GENERAL COVENANTS

Borrower covenants and agrees that on and after the Closing Date and thereafter for so long as any Obligations are outstanding to Lender:

3.1 Payment of Taxes and Claims; Deposits for Taxes and Insurance Premiums.

3.1.1 Subject to Section 3.1.3 hereof, Borrower will pay or cause to be paid prior to delinquency all taxes, assessments, ad valorem taxes and other governmental, municipal or other public dues, charges, fines or impositions imposed or levied on or with respect to its Property, including, without limitation, upon the Timberlands or on the interests created by any Deed of Trust or with respect to the filing of any Deed of Trust, and any tax or excise on rents or other tax, however described, assessed or levied by any state, federal or local taxing authority as a substitute, in whole or in part, for taxes assessed or imposed on the Collateral, including, without limitation, timber, coal or mineral severance taxes, taxes on the value of unmined or unextracted coal, oil, gas or other minerals, or any other taxes related to mining, drilling, extracting, producing, transporting, storing or processing coal, oil, gas or other minerals, or any royalty interest therein, and all excise, privilege or license taxes that may be levied against or upon coal, oil, gas or other minerals located on or produced from the Timberlands, or on the lien and other interests created by any Deed of Trust (collectively, the "**Impositions**"), and Borrower will deliver to Lender on an annual basis, along with the financial statements required to be delivered under Section 5.2.2 below, a certification ("**Tax Certificate**") by Borrower to Lender that all such Impositions for the immediately preceding Fiscal Year have been paid in full (other than those Impositions being contested in accordance with Section 3.1.3 hereof), or at the request of Lender, receipts for such Impositions or other evidence of payment satisfactory to Lender.

3.1.2 Borrower shall file all Federal and other tax returns required to be filed in any jurisdiction (or shall obtain effective extensions for filing) and, subject to Section 3.1.3 hereof, shall pay and discharge all taxes prior to delinquency whether or not shown on such returns, and, in addition to the Impositions, all other taxes, assessments, governmental charges, conveyance taxes or levies imposed upon its Property or activity (the “**Other Taxes**,” and collectively with the Impositions, the “**Taxes**”).

3.1.3 Borrower may, at Borrower’s own expense, in good faith contest any Taxes and, in the event of any such contest, may permit the Taxes so contested to remain unpaid during the period of such contest and any appeal therefrom, provided that (a) no Event of Default shall be in existence during such period; (b) such contest is carried out in good faith and by appropriate proceedings diligently pursued, (c) adequate reserves are established and maintained by Borrower in accordance with GAAP and in amount and manner reasonably acceptable to Lender, and (d) title of Borrower to, or its right to use, any affected Property, is not, and is likely not to be, adversely affected thereby (and in no event is foreclosure or other adverse action under any lien or any other proceeding or governmental right arising from such non-payment or contest is imminent).

3.1.4 If any tax or assessment (other than state and federal income or franchise taxes) is levied, assessed or imposed by any Governmental Authority on Lender as the legal holders of the Notes, any interest in any Deed of Trust or any of the other Loan Documents, then unless all such taxes and assessments are paid by Borrower before they become delinquent (and in the reasonable opinion of counsel for Lender, such payment by Borrower is lawful and does not place Lender in violation of any law, or subject Lender to any penalty), Lender may, if Borrower shall fail to pay any such tax or assessment within thirty (30) days after written notice thereof from Lender, at its option, declare an Event of Default under the applicable Deed of Trust or hereunder.

3.1.5 Lender may, at its option exercisable at any time that Borrower shall fail to provide Lender the Tax Certificate when due or shall fail to provide Lender the receipts or other evidence of payment required under paragraph 3.1.1 above, after ten (10) days written notice from Lender, and at any time that an Event of Default is in existence, either: (i) require Borrower to provide to Lender, at Borrower’s expense, a tax service contract for the term of the Loan issued by a tax reporting agency acceptable to Lender, or (ii) require Borrower to thereafter deposit with Lender on the first (1st) day of each month, in addition to making payments of regular installments of principal and interest, an amount equal to one-twelfth (1/12) of all Impositions, and all ground rents, maintenance charges, other governmental impositions and other governmental charges, with regard to the Collateral, including, without limitation, license fees (collectively, “**Other Charges**”) and/or of the annual premiums for all insurance as estimated by Lender in order to accumulate with Lender sufficient funds to pay such amounts thirty (30) days prior to their due dates. Such deposits shall not be, nor be deemed to be, trust funds, may be held by Lender in commingled accounts and shall not bear interest, but Lender shall, subject to the provisions hereof, make payment of such Impositions and Other Charges to the appropriate authorities, as set forth in bills or other statements therefor furnished to Lender by Borrower. Upon demand by Lender, Borrower shall deliver to Lender such additional monies as are necessary to make up any deficiencies in the amounts necessary to enable Lender to pay such Impositions, Other Charges and premiums when due. At any time following the occurrence and during the continuance of an Event of Default, Lender may apply to the reduction of the sums secured by the Deeds of Trust in such order, priority and proportions as Lender acting reasonably shall determine in its sole and absolute discretion, any amount under this paragraph then being held by Lender on account of such deposits and any return premium received from cancellation of any insurance policy by Lender upon foreclosure of the Deeds of Trust. Upon an assignment of this Agreement by Lender and upon assumption by the assignee thereof of the obligations of Lender as escrow holder, Lender shall pay over the balance of such deposits in its possession to the assignee and provide a written statement of such amount to Borrower. Lender shall thereupon be completely released from all liability with respect to such deposits transferred to the assignee, and Borrower shall look solely to the assignee or transferee with respect thereto, except as otherwise provided by applicable law. This provision shall apply to every transfer of such deposits to a new assignee.

3.2 Documentary Stamps, Other Taxes.

3.2.1 If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note or the Deeds of Trust, or impose any mortgage recording tax, mortgage privilege tax or similar tax or charge on the same. Borrower will pay for the same, with interest and penalties thereon, if any. In the event of the passage, after the date of the Deeds of Trust, of any law deducting from the value of the Property subject thereto, for the purposes of taxation, any Lien thereon or security interest therein, or changing in any way the laws now in force for the taxation of mortgages, deeds of trust and/or security agreements, or the manner of the collection of any such taxes, which has the effect of imposing payment of the whole or any portion of any taxes, assessments or other similar charges against any of such Property upon Lender, the Obligations shall immediately become due and payable at the option of Lender; provided, however, that such election by Lender shall be ineffective if prior to the due date thereof: (1) Borrower is permitted by law (including, without limitation, applicable interest rate laws), and without subjecting Lender to any penalty, to, and actually does, pay such tax or the increased portion thereof (in addition to continuing to pay the Obligations as and when due and payable); and (2) Borrower agrees with Lender in writing to pay or reimburse Lender for the payment of any such tax or increased portion thereof when thereafter levied or assessed against such Property or any portion thereof. Any money paid by Lender with respect to any such taxes or charges referenced in this Section shall be reimbursed to Lender upon demand or at Lender's option, added to the Obligations.

3.3 Pension Plans; ERISA.

3.3.1 Borrower shall not take any action which would cause it to become an "employee benefit plan" as defined in Section 3(3) of ERISA, or a "governmental plan" as defined in Section 3(32) of ERISA, or its assets to become "assets of a governmental plan" subject to regulation under any of the laws of the United States of America. Borrower shall not sell, assign or transfer all or substantially all of its Property, to any transferee which does not execute and deliver to Lender its written assumption of the obligations of this covenant. Borrower shall not cause or permit the loan transaction which is the subject of this Agreement to constitute a non-exempt prohibited transaction under ERISA or to result in the assessment of a direct or indirect liability to Borrower or Lender under Section 409 or 502 of ERISA or Section 4975 of the IRS Code. Borrower further covenants and agrees to protect, defend, indemnify and hold Lender harmless from and against all loss, cost, damage and expense (including without limitation all reasonable attorneys' fees and excise taxes, and costs of correcting any prohibited transaction or obtaining an appropriate exemption) which Lender may incur as a result of Borrower's breach of the foregoing covenants in this Section. This indemnity shall survive repayment of the Note and the extinguishment of the Liens securing the Obligations by foreclosure or action in lieu thereof with respect to events that occur before the repayment of the Note and the extinguishment of the Liens securing the Obligations by foreclosure.

3.3.2 Borrower shall not (i) have any pension plan, employee benefit plan or Employee Welfare Plan; (ii) create or adopt, or become liable with respect to, any employee benefit plan without the prior written consent of Lender; (iii) create or adopt any new Employee Welfare Plan; or (iv) engage, or participate, in any transaction which would reasonably result in the assessment of a direct or indirect liability to Borrower under Section 409 or 502 of ERISA or Section 4975 of the IRS Code.

3.4 **Margin Stock.** Borrower shall not own, purchase or acquire (or enter into any contract to purchase or acquire) any Margin Security unless, prior to any such purchase or acquisition or entering into any such contract, Lender shall have received an opinion of counsel satisfactory to Lender to the effect that such purchase or acquisition will not cause this Agreement or the Note to violate Regulations U or X or any other regulation of the Federal Reserve Board then in effect.

3.5 **Insurance.** Borrower shall, at Borrower's cost and expense, and at no cost or expense to Lender:

3.5.1 **Liability Insurance.** Maintain commercial general liability insurance with respect to its Property and businesses, including broad form contractual liability subject to specific policy conditions, limitations and exclusions, personal injury and third party bodily injury (including death) and property damage coverage, in an amount of not less than \$5,000,000, combined single limit with respect to damages or injuries (including death) arising from use or occupation of its Property and against such other customary risks or hazards as Lender may from time to time reasonably designate with a deductible of not more than \$10,000. Limits can be met with a combination of primary and/or umbrella/excess liability policies. Such policies shall name Lender, its subsidiaries, affiliates, successors and assigns, as additional insureds.

3.5.2 **Property Insurance.** Maintain property insurance with respect to any buildings owned by Borrower in connection with the and any other improvements (but not, for the avoidance of doubt, any Timber) which may in the future be located on the Timberlands, against all risks, for the full replacement value, and in such amounts and covering such risks or hazards as Lender may from time to time reasonably designate. Such policies shall name Lender, its subsidiaries, affiliates, successors and assigns as their interest may appear, as mortgagee under a non-contributory, standard mortgagee clause.

3.5.3 Generally. All insurance required hereunder shall be maintained with financially sound and reputable insurers licensed in each State in which the Collateral is located, accorded a rating by A.M. Best Company of "A-" or better and a size rating of "VIII" or larger (or comparable ratings by any comparable successor rating agency) and otherwise acceptable to Lender in its reasonable discretion. Each insurance policy shall contain such provisions as Lender reasonably deems necessary or desirable to protect its interests, from time to time, as various needs arise. Each insurance policy shall contain, without limitation, a provision for at least thirty (30) days prior written notice to the Lender of cancellation in the risk or coverages insured. At Lender's request, Borrower shall furnish to Lender a copy of each insurance policy as evidence of coverage certified true and correct by an appropriate authority of the issuing insurance company; provided, that, a certified, insurance company issued binder will suffice until a reasonable time has been allowed for such insurance company to issue a certified copy of an insurance policy. Borrower shall furnish to Lender on or before January 1 of each year (or such other date which is the expiration or termination of the then existing coverage), certificates of insurance from or authorized by the carrier verifying continual coverage as required hereunder in form and substance reasonably acceptable to Lender.

3.5.4 Insurance Proceeds. In the event of any insured loss, Borrower shall give immediate written and oral notice thereof to Lender and to the insurer. All of the loss proceeds of any such policies shall be applied, first for the sole purpose of altering, restoring or rebuilding all or any part of the Improvements which may have been damaged or destroyed as a result of any of the insured perils, and any remainder, or the entire amount if Borrower decides not to so repair or rebuild, to the payment of principal of the Loan (whether or not then due and payable), which shall be treated like any other prepayment, interest accrued on the Loan and any other amounts due or to become due hereunder or under the Loan Documents, or shall be paid to Borrower, on such terms as Lender may reasonably specify.

In the event of a foreclosure sale of all or any part of the Timberlands pursuant to the provisions of the Deeds of Trust, Lender shall succeed to all the rights and interest of the Borrower, including any right to unearned premiums in and to all such policies of insurance with respect to such foreclosed Timberlands, or any part thereof.

3.6 Liens.

3.6.1 Negative Pledge. Borrower shall not cause or permit, or agree or consent to cause or permit now or in the future (upon the happening of a contingency or otherwise), any of its Property, including without limitation any of the Collateral, the Unencumbered Timberlands and the Property of any Subsidiary, whether now owned or hereafter acquired, to be subject to a Lien, whether voluntarily or by operation of law, in each case, without the prior written consent of Lender, except the following permitted liens (the "**Permitted Liens**"):

(i) Liens securing taxes, assessments or governmental charges or levies, provided that the payment thereof is not at the time required by Section 3.1 or liens for taxes being contested in good faith by appropriate proceedings in the same manner as permitted in Section 3.1.3;

(ii) Liens in favor of the Lender that secure obligations under any of the Loan Documents;

(iii) As to the Timberlands, Liens created by specifically identified (e.g. by name, date, parties, recording information, etc.) written documents which, or a memorandum of which, are recorded in the land records and listed as exceptions on Schedule B of any title insurance policy for the Timberlands which Lender has accepted and approved, including without limitation the Alta Rock Lease Documents, any inchoate liens for real property taxes listed on such Schedule B and any statutory inchoate liens to the extent covered by such title insurance policy, and as to the Unencumbered Timberlands, encumbrances, easements and restrictions of record as of the date hereof which do not comprise Liens securing Debt, other than any inchoate liens for real property taxes (the "**Permitted Encumbrances**");

(iv) The leases or licenses set forth in Schedule 2.7 and any extensions or renewals of such licenses or leases and other hunting or recreational leases or licenses hereinafter entered into in the ordinary course of business on a form approved by Lender with respect to portions of the Timberlands not exceeding 1,000 acres in any one case or having a term greater than two (2) years granted for recreational purposes, provided such leases do not have an adverse impact on the operation or value of the Timberlands affected;

(v) Timber sale agreements set forth on Schedule 2.6.3 and timber sale agreements entered into in the future which are permitted under Section 4.6 below which are subject and subordinate to the Lien of the Loan Documents, unless a partial release thereof is issued by Lender;

(vi) Liens imposed by law arising in the ordinary course of business such as materialmen's, mechanics', logger's, carriers and other nonconsensual statutory Liens which are not delinquent or which are being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP and acceptable to Lender have been established (and as to which the property subject to any such Lien is not subject to foreclosure, sale or loss on account thereof);

(vii) Easements and rights of way affecting the Unencumbered Timberlands (but not the Timberlands), and easements and rights of way affecting the Timberlands, other than the easements described in Section 2.6.2 which require Lender's prior approval, which (a) do not materially detract from the value or functionality of the Timberlands; (b) do not materially interfere with the ordinary conduct of silvicultural activities on the Timberlands; (c) do not result in the incurrence by Borrower of any Debt; (d) are expressly subordinate by their terms to the Deeds of Trust and any other Security Documents; (e) provide for any benefits thereunder to run with the Timberlands and inure to successive owners thereof; and (f) have been provided to Lender in draft form at least thirty (30) days prior to execution; and

(viii) Judgment or attachment liens resulting from litigation or other legal proceedings (and not otherwise an Event of Default hereunder) in the ordinary course of Borrower's business which (a) are currently being contested in good faith by appropriate proceedings; (b) will not, if determined adversely, result in a loss or forfeiture of any of the Property having a collective value of \$50,000 or more; and (c) are supported by adequate reserves and posted bonds sufficient to satisfy the related lien or, if possible, to remove the lien as an encumbrance against the Timberlands.

3.6.2 Collateral. Nothing in this Section shall be deemed to permit Borrower to cause or permit, or agree or consent to cause or permit now or in the future (upon the happening of a contingency or otherwise), any of the Collateral, whether now owned or hereafter acquired, to be subject to any Lien, or to any Permitted Lien (other than a Permitted Encumbrance) which has priority over any Deed of Trust or any other Loan Document, or otherwise in violation of the terms of this Agreement or the Loan Documents.

3.6.3 Equity Interests in Borrower. Notwithstanding anything to the contrary in this Section, Borrower shall not cause, or agree or consent to cause or permit now or in the future (upon the happening of a contingency or otherwise), any interest in Borrower or any Subsidiary, whether direct or indirect, or through one or more intermediaries, at any time to be subject to a Lien.

3.6.4 Financing Statements and Registrations. Borrower shall not sign, file or authorize the filing of a financing statement under the Uniform Commercial Code of any jurisdiction or similar act that names Borrower as debtor, or sign any security agreement authorizing any secured party thereunder, other than Lender, to file any such financing statement, with respect to the Collateral or any interests in Borrower.

3.7 Maintenance of Properties and Legal Existence

3.7.1 Property. Borrower shall preserve and maintain the Collateral in good condition, ordinary wear and tear and damage by casualties (subject to Sections 4.2.13 and 7.1.11) excepted, and make all necessary repairs, renewals, replacements, additions, betterments and improvements thereto, except for any equipment that is obsolete or worn-out or with respect to which, in Borrower's reasonable business judgment, replacement is unnecessary, and shall not commit or permit any waste to occur with respect thereto.

3.7.2 Compliance with Law. Borrower shall comply at all times with all present and future laws, ordinances governmental rules and regulations, decrees, orders and governmental standards to which it or any of its Property is or may become subject, including, without limitation, any zoning, planning, building, subdivision, inland-wetland, stream management, wildlife protection or forest practices laws, tree severance or growth tax laws, mining, drilling, extraction, reclamation and occupational health and safety laws (but not including under this Section 3.7.2 any Environmental Protection Laws which are addressed in Section 3.16 below), and shall obtain and continuously maintain any and all licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its business.

3.7.3 **Maintenance of Business.** Borrower and Guarantor will continue to be engaged in the business of owning, growing, managing and harvesting timber on the Timberlands, and shall continuously operate such business and maintain such business and franchises in full force and effect, and shall preserve and keep in full force and effect its legal existence as set forth in the certificate of Borrower submitted to Lender by Borrower pursuant to Section 6.1.9.

3.7.4 **Timber Stumpage and Sale Agreements.** Borrower shall fully perform all obligations of Borrower under any Timber stumpage or sale agreement or Timber leases, or any other agreement for the sale of Timber, however denominated, affecting the Timberlands and shall not permit any violation thereof on the part of Borrower, and shall enforce all obligations of the purchaser thereunder in a commercially reasonable manner. Further, Borrower shall enforce the obligations of any guarantor under any guarantee of any such agreements.

3.7.5 **Compliance with Conservation Easements.** Borrower shall comply with all conservation easements and other similar agreements affecting the Timberlands and shall not permit any violation thereof on the part of Borrower, and shall enforce the terms and conditions of such conservation easements and other agreements in a commercially reasonable manner.

3.8 Change in Capital Structure. Borrower shall not (i) create any additional Subsidiaries, (ii) divest itself of all or any part of the Timberlands or any other Property that is collateral security for the Loan, (except in compliance with Sections 4.2, 4.6, 4.7 or 4.8), and including, without limitation, any transfer of any or all of them to any Affiliate of Borrower or Subsidiary, (iii) enter into any partnership, joint venture or similar arrangement, or (iv) make any change in its ownership or capital structure; in each of the above cases, without the prior written consent of Lender.

3.9 Ownership of Timberlands and Borrower. Borrower acknowledges that in agreeing to make the Loan, Lender has examined and relied on the creditworthiness and experience of Borrower and Guarantor and the experience, competence and reputation of Manager, and their respective directors and officers, with respect to the operation of the Timberlands and that Lender will continue to rely on Borrower's ownership of the Collateral, and the Manager continuing to be the manager of Borrower and continuing to have directors, officers and employees of the same experience, competence and capacity as presently exists, as a means of maintaining the value of the Collateral as security for repayment of the Obligations. Borrower further acknowledges that Lender has a valid interest in maintaining the value of the Collateral so as to ensure that, should Borrower default in the repayment of the Obligations, Lender can recover the Obligations by a sale of the Collateral.

3.9.1 Borrower shall not, without the prior written consent of Lender, or in compliance with Section 3.6, 4.2, 4.6, 4.7 or 4.8, sell, convey, alienate, mortgage, encumber, pledge or otherwise transfer the Timberlands or any part thereof or interest therein or possession thereof, or suffer or permit the Timberlands or any part thereof or interest therein or possession thereof to be sold, conveyed, alienated, mortgaged, encumbered, pledged or otherwise transferred, and whether voluntarily, involuntarily or by operation of law.

3.9.2 A sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer within the meaning of this Section shall be deemed to include, without limitation: (i) an installment sales agreement wherein Borrower agrees to sell the Timberlands or any part thereof for a price to be paid in installments, (ii) an agreement by Borrower leasing all or a substantial part of the Timberlands, or a sale or assignment or other transfer of, or the grant of a security interest in, Borrower's right, title and interest in and to any leases or rents related to the Timberlands, (iii) any assignment or transfer, whether voluntary or involuntary, by operation of law or otherwise, of or affecting more than 20% of the ownership or membership interest in Borrower or Manager, whether through one or more intermediaries and whether at one time or in a series of related transactions (iv) the change, removal, resignation or addition of a manager or managing member of Borrower, Manager or any Affiliate, (v) any change in ownership of more than 20% of any ownership and membership interest in Borrower or Manager, or change in control of any such interest in Borrower or Manager, whether through one or more intermediaries and whether at one time or in a series of related transactions, and (vi) any assignment or transfer, whether voluntary or involuntary, by operation of law or otherwise, that would cause Pope Resources, a Delaware limited partnership, to fail to maintain at least a 19.2% ownership interest in Guarantor and at least a 100% direct or indirect ownership interest in Manager. Borrower shall notify Lender promptly upon any other change in the identity or percentage interest held by shareholders in Guarantor such that Lender shall at all times be advised of the current ownership of interests in Guarantor.

3.9.3 Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to establish the existence of an Event of Default in any violation of any of the terms and conditions of this Section. This provision shall apply to every sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer in violation of this Section, regardless of whether voluntary, involuntary or by operation of law, or whether or not Lender has consented to any previous sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Timberlands. Any sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral made in contravention of this Section shall constitute an Event of Default and at the option of Lender, shall be null and void and of no force and effect.

3.9.4 Lender's consent to a sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Timberlands or any other action described in this Section shall not be deemed to be a waiver of Lender's right to require such consent to any future occurrence of same. Any sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Timberlands or other action made in contravention of this Section shall be null and void and of no force and effect.

3.9.5 Borrower agrees to bear and shall pay or reimburse Lender on demand for all reasonable expenses (including, without limitation, reasonable attorneys' fees and disbursements, title search costs and title insurance endorsement premiums) incurred by Lender in connection with the review, approval and documentation of any such sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer.

3.9.6 Except for changes in officers for which Borrower shall submit to Lender a revised Schedule 2.3 within thirty (30) days after such change, and except for changes permitted under this Section 3.9 and changes in identity or address of agents for service of process, for which Borrower shall submit to Lender a revised Schedule 2.3 at least fifteen (15) days prior to such change, the information set forth on Schedule 2.3 shall remain true and correct and unchanged in all respects at all times. Further, the certificate of formation, operating agreement and all other organizational documents of Borrower, Guarantor and Manager shall at all times be acceptable in form and substance to Lender and shall not be modified or amended in any manner whatsoever, whether directly or indirectly, through one or more agreements or intermediaries, and no agreements among members, officers, managers or directors with respect to voting, operations or any other matters addressed in the organizational documents of such entity or customarily addressed in the organizational documents of similar entities shall be permitted to exist, whether verbal or in writing, without the prior written consent of the Lender, such consent not to be unreasonably withheld. Each of Borrower, Guarantor and Manager shall at all times comply with such organizational documents. Borrower shall, at the request of the Lender from time to time, verify and certify the status of the information on Schedule 2.3, and the ownership and organizational documents of Borrower, Guarantor and Manager and their respective direct and indirect owners, and other relevant information to establish compliance under this Section 3.9.

3.10 Merger; Acquisition. Borrower shall not merge with or into, consolidate with, or sell, lease as lessor, transfer or otherwise dispose of all or substantially all of its Property to, any other Person or permit any other Person to merge with or into or consolidate with it, without the prior written consent of Lender.

3.11 Separateness; Operating Procedures. Borrower represents, warrants and covenants to Lender as follows:

3.11.1 Borrower's purpose for which Borrower is organized and existing shall be and remain limited solely to (A) acquiring, owning and holding the Timberlands, harvesting and selling Timber and/or portions of the Timberlands to third parties, and operating and managing the Timberlands as industrial timberlands, (but shall not include any mining or mineral extraction or processing activity that requires any permit or may cause Borrower to be liable under SMCRA or any other law relating to mining or minerals other than the activities conducted under the Alta Rock Lease Documents), (B) acquiring, owning and holding the Unencumbered Timberlands, harvesting and selling timber located on the Unencumbered Timberlands and/or portions of the Unencumbered Timberlands to third parties, and operating and managing the Unencumbered Timberlands as an industrial timberlands, (but shall not include any mining or mineral extraction or processing activity that requires any permit or may cause Borrower to be liable under SMCRA or any other law relating to mining or minerals), (C) entering into the Loan and (D) transacting any and all lawful business that is incident, necessary and appropriate to accomplish the foregoing, and Borrower will not engage in any other business without the prior written consent of Lender.

3.11.2 Borrower does not own and will not own any asset or property other than the Collateral and the Unencumbered Timberlands and subsequently acquired timberlands permitted under the terms of Borrower's organizational documents.

3.11.3 Borrower will not enter into any transaction, including, without limitation, the purchase, sale or exchange of Property or the engagement or rendering of any service, with any Affiliate of Borrower, any direct or indirect constituent party of Borrower, any owner of Borrower, the Manager of Borrower, the Project Manager, any Affiliate of any such party, or any officer of any such party, except in the ordinary course of business and pursuant to the requirements of Borrower's business and upon terms and conditions that are intrinsically fair, commercially reasonable and upon fair and reasonable terms no less favorable to Borrower than would exist in a comparable arm's-length transaction with a Person not an Affiliate, constituent party, owner or officer. Borrower has not entered into any agreement, whether written or oral, with Project Manager except the Management Agreement.

3.11.4 Borrower has not made and will not make any loans or advances to any entity or person (including any Affiliate or constituent party or owner of Borrower), and shall not acquire obligations or securities of its Affiliates or any constituent party (other than the ownership interests of any currently existing Subsidiaries).

3.11.5 Borrower is and will remain solvent and Borrower will pay its debts and liabilities (including, as applicable, shared personnel and overhead expenses) from its assets as the same shall become due.

3.11.6 Borrower will maintain all of its books, records, financial statements and bank accounts separate from those of its Affiliates, any constituent party and any other Person. Subject to the exception set forth in the next sentence, Borrower's assets will not be listed as assets on the financial statement, of any other entity. Borrower shall have its own separate financial statement, provided, however, that Borrower's assets may be included in a consolidated financial statement of its parent companies if inclusion on such a consolidated statement is required to comply with the requirements of GAAP, provided that such consolidated financial statement shall contain a footnote to the effect that Borrower's assets are owned by Borrower and that they are being included on the financial statement of its parent solely to comply with the requirements of GAAP, and further provided that such assets shall be listed on Borrower's own separate balance sheet. For Federal income tax purposes, Borrower has elected to be taxed as a partnership under the Internal Revenue Code, and will notify Lender in writing if such election is changed. Borrower will file its own tax returns and will not file a consolidated Federal income tax return with any other entity, unless required to do so by applicable law or regulation.

3.11.7 Borrower will be, and at all times will hold itself out to the public as, a legal entity separate and distinct from any other Person (including any Affiliate of Borrower or any constituent party of Borrower), shall correct any known misunderstanding regarding its status as a separate entity, shall conduct business in its own name, shall not identify itself or any of its Affiliates as a division or part of any other Person and shall maintain and utilize separate checks and invoices. The collective reference to Borrower and Guarantor in public reports and filings as "Fund II" shall not constitute a violation of the foregoing covenant.

3.11.8 Borrower will maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations.

3.11.9 Borrower shall maintain its bank accounts separate from any other person or entity and will not commingle the funds and other assets of Borrower with those of any Affiliate, constituent party or owner of Borrower, or any other Person, and will not participate in a cash management system with any party other than its Affiliates.

3.11.10 Borrower will not guarantee or become obligated for the debts of any other entity or Person or pledge its assets for the benefit of any such entity or Person and does not and will not hold itself out as being responsible for the debts or obligations of any other Person, or hold out its credit as available to satisfy the obligations of any other person or entity.

3.11.11 Borrower shall allocate fairly and reasonably any overhead expenses that are shared with an Affiliate or any other Person, including paying for office space and services performed by any employee of an Affiliate or any other Person.

3.11.12 Borrower shall hold regular meetings, as appropriate, to conduct the business of the Borrower, and Borrower has done or caused to be done and will do all things necessary to observe all customary organizational and operational formalities and to preserve its existence.

3.11.13 Borrower shall pay its own liabilities and expenses out of its own funds drawn on its own bank account.

3.11.14 Borrower shall not buy or hold evidence of indebtedness, obligations or securities issued by its direct or indirect owners or Affiliates or any other Person or entity (other than cash and investment-grade securities).

3.11.15 Borrower shall maintain all required qualifications to do business in each state in which the Timberlands is located.

3.11.16 Neither Borrower nor any constituent party will seek the dissolution, winding up, liquidation, consolidation or merger in whole or in part, or the sale of substantially all of the assets of Borrower.

3.11.17 Borrower has maintained and will maintain its assets in such a manner that is not costly or difficult to segregate, ascertain or identify its individual assets from those of any Affiliate, or any other Person.

3.12 Compliance With Financial Control Laws.

3.12.1 Borrower and Guarantor is each, and shall remain at all times, in compliance with all applicable laws and regulations of the United States of America that prohibit, regulate or restrict financial transactions, and any amendments or successors thereto and any applicable regulations promulgated thereunder (collectively, the "**Financial Control Laws**"), including but not limited to those related to money laundering offenses and related compliance and reporting requirements (including any money laundering offenses prohibited under the Money Laundering Control Act, 18 U.S.C. Sections 1956, 1957 and the Bank Secrecy Act, 31 U.S.C. Sections 5311 et seq.), the Trading with the Enemy Act and the Foreign Assets Control Regulations, 31 C.F.R. Section 500 et seq.; each as amended.

3.12.2 Borrower represents and warrants that: (i) no Borrower or Affiliate is a Barred Person (hereinafter defined); (ii) no Borrower or Affiliate is owned or controlled, directly or indirectly, by any Barred Person; and (iii) no Borrower or Affiliate is acting, directly or indirectly, for or on behalf of any Barred Person; and Borrower covenants and agrees that Borrower shall not now or at any time in the future permit or suffer the assignment or ownership of any membership or shareholder interest in Borrower to or by any Barred Person.

3.12.3 Borrower represents and warrants that it understands and has been advised by legal counsel on the requirements of the Financial Control Laws.

3.12.4 Under any provision of this Loan Agreement or any of the other Loan Documents where the Lender shall have the right to approve or consent to any particular action, including without limitation any (i) sale, transfer, assignment of the Timberlands or of any direct or indirect ownership interest in Borrower, (ii) leasing of the Timberlands, or any portion thereof, or (iii) incurring of additional financing secured by Timberlands, or any portion thereof or by any direct or indirect ownership interest in any Borrower, Lender shall have the right to withhold such approval or consent, in its sole discretion, if the granting of such approval or consent could be construed as a violation of any of the Financial Control Laws.

3.12.5 Borrower covenants and agrees that it will upon request provide Lender with (or cooperate with Lender in obtaining) information required by Lender for purposes of complying with any Financial Control Laws.

3.12.6 As used in this Loan Agreement or any of the other Loan Documents, the term “**Barred Person**” shall mean (i) any person, group or entity named as a “**Specially Designated National and Blocked Person**” or as a person who commits, threatens to commit, supports, or is associated with terrorism as designated by the United States Department of the Treasury’s Office of Foreign Assets Control (“**OFAC**”), (ii) any person, group or entity named in the lists maintained by the United States Department of Commerce (Denied Persons and Entities), (iii) any government or citizen of any country that is subject to a United States Embargo identified in regulations promulgated by OFAC and (iv) any person, group or entity named as a denied or blocked person or terrorist in any other list maintained by any agency of the United States government.

3.13 Perfection of Liens. At the request of Lender, Borrower, at its sole expense, will promptly take all steps necessary to cause the authorization, execution, filing and recording, or the re-execution, re-filing and re-recording of any documents pertaining to the Loan as may be reasonably specified by Lender. Borrower shall take such other actions as Lender may reasonably request in order to perfect and protect the Liens or security interests of Lender in the Property in which a Lien is granted pursuant to the Loan Documents, together with all other Property in which Borrower now or will hereafter pursuant to this Agreement grant a Lien in favor of Lender. Upon any failure by Borrower to do so (within ten (10) Business Days following the written request of Lender unless any Event of Default shall have occurred and be continuing), Lender may make, execute and record any and all such instruments, certificates and documents for and in the name of Borrower, and at the sole expense of Borrower, and Borrower hereby irrevocably appoints Lender the agent and attorney in fact of Borrower to do so, this appointment being coupled with an interest. Lender shall promptly provide Borrower a copy of any instrument, certificate, or document executed by Lender on behalf of Borrower.

3.14 Security Agreement. Borrower hereby grants to Lender a security interest in all of the types and categories of personal property included within the Collateral or as described in the Deeds of Trust or any of the other Loan Documents set forth in Sections 1.5 or 1.6 above. Borrower hereby irrevocably authorizes Lender at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the UCC or Code Collateral (as defined in the Deeds of Trust) regardless of whether any particular asset included in such Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction, and (b) contain any information required by part 5 of Article 9 of the Uniform Commercial Code of the applicable state for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the debtor is an organization, the type of organization and any organization identification number issued to the debtor and, (ii) in the case of a financing statement filed as a fixture filing or indicating collateral that is as-extracted collateral or timber to be cut, a sufficient description of real property to which the collateral relates and, if the debtor does not have an interest of record in the real property, provide the name of the record owner. Further, Borrower, to the extent permitted by law, does hereby authorize Lender to file any financing statement in respect of any Lien created pursuant to the Loan Documents which may at any time be required or which, in the reasonable opinion of Lender, may at any time be desirable. If signing such financing statement is required, Borrower agrees to sign the same within five (5) days after written request by Lender, or, at Lender's election, Lender may and is hereby authorized by Borrower, to sign such financing statement on behalf of Borrower and file the same. Lender may, at its option, advance the expenses incurred in making, executing and recording any and all such instruments, certificates and documents, and such sums advanced, with interest, will be repaid to Lender by the Borrower upon request. This Agreement shall constitute a security agreement for the purpose of the Uniform Commercial Code.

3.15 Required Notices. In addition to any and all notices required to be made by Borrower hereunder, Borrower shall notify Lender in writing of:

3.15.1 Promptly upon Borrower becoming aware thereof, any litigation or administrative proceeding, or written threat thereof, against Borrower, any Affiliate of Borrower, Guarantor or Project Manager, or relating to the Collateral, or which, if not seeking money damages or such performance, could have an adverse effect on the business, finances or prospects of Borrower or Guarantor, whether or not the claim is considered by Borrower to be covered by insurance;

3.15.2 Promptly upon Borrower becoming aware thereof, (a) any Default hereunder or under any of the Loan Documents, (b) any payment default or any material non-payment default under any note, indenture, loan agreement, lease, deed or other similar agreement relating to any indebtedness, obligation or Property of Borrower, or (c) any (i) default by Borrower under any timber sale agreement, timber deed, timber mortgage, timber lease or any agreement however denominated whereby any Timber or any interest in Timber from the Timberlands is being sold or transferred in any manner, or (ii) obligation of Borrower under any such agreement to furnish more Timber, reduce the payment required, refund any payments or take any other action due to a shortage of Timber on the portion of the Timberlands which was originally subject to such an agreement;

3.15.3 Within ten (10) days after the occurrence thereof, any default continuing beyond any applicable notice or grace periods by any obligor under any note or other evidence of debt payable to Borrower which is material to the financial condition of Borrower or Guarantor;

3.15.4 At least ten (10) days prior thereto, Borrower's intention to relocate any Collateral from any location at which Lender has a valid, perfected security interest with respect to such Collateral to any location with respect to which Lender has not filed registrations, financing statements or similar notices necessary for the perfection of the Lender's security interest in such Collateral, provided that no notice shall be required in connection with ordinary course sale of Timber, stumpage or personal property, or any Mineral Activity, or other sale or disposition that is otherwise permitted hereunder or under the Loan Documents;

3.15.5 Promptly following receipt of any written notice thereof, any violation or asserted violation of any law, regulation, governmental standard or code with respect to the Timberlands, or Borrower, any Subsidiary or Guarantor;

3.15.6 Not less than thirty (30) days prior thereto, any change in the location of its principal place of business, or any other places of business or of the establishment of any new place of business, or the discontinuance of any existing place of business, or the change in Borrower's place of organization; and

3.15.7 Promptly upon Borrower becoming aware thereof, any catastrophic damage to Timber from fire, insects, disease and storms. As used herein, "**Catastrophic Damage**" shall mean any natural disaster affecting more than 500 acres of the Timberlands.

3.15.8 As early as possible prior to (and in any event at least two (2) business days prior to, except in the case of an emergency), any proposed press release (with a full copy thereof) to be issued by Borrower, Guarantor, Manager, any Affiliate or Project Manager.

3.15.9 Promptly upon Borrower becoming aware of the exercise of any option rights under the Alta Rock Lease Documents or the execution of any lease pursuant thereto.

3.16 Environmental Covenants. With respect to Hazardous Substances, Borrower represents, warrants, covenants and agrees as follows, and such representations, warranties, covenants and agreements shall survive the foreclosure of the Deeds of Trust:

3.16.1 In the event that any underground storage tank is discovered on the Timberlands, Borrower shall within sixty (60) days after discovery remove or "abandon" in place (that is, fill with sand and disable the tank) in accordance with all applicable laws and regulations.

3.16.2 If Borrower receives any notice of (i) the happening of any event involving the use, presence, spill, discharge or cleanup of any Hazardous Substances (a "**Hazardous Discharge**") affecting Borrower or the Collateral or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, noise emissions or any other environmental matter affecting Borrower or the Collateral (an "**Environmental Complaint**") from any person or entity, including, without limitation, the United States Environmental Protection Agency ("**EPA**"), then Borrower will give, within seven (7) Business Days, written notice of same to the Lender.

3.16.3 Upon the reasonable request of Lender and no more often than once per year, Borrower agrees to provide Lender with copies of all emergency and hazardous chemical inventory forms (hereinafter “**Notices**”) given by Borrower to any Governmental Authority as required pursuant to the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C., Section 11001 et seq.

3.16.4 Borrower agrees, during the term of the Loan, to promptly furnish to Lender a complete copy of any written environmental report, assessment or similar information prepared by an environmental professional or environment company relating to the Timberlands which is at any time in the possession or control of Borrower and, at the request of Lender, shall cause Lender to be a named “user” under such reports or provide reliance letters in favor of Lender from the preparers of such reports.

3.16.5 Borrower, promptly upon any request of Lender, given from time to time during the existence of an Event of Default or upon a Hazardous Discharge or Environmental Complaint or upon the reasonable determination of Lender that Hazardous Substances are present on the Collateral, shall cause to be performed by an environmental professional reasonably acceptable to Lender, tests, including without limitation, subsurface testing, soil and ground water testing, and other tests which may physically invade the Timberlands pursuant to a scope of work proposed by Borrower and approved by Lender (the “**Tests**”), as Lender, in its reasonable discretion, determines are necessary to (i) investigate the condition of the Timberlands, (ii) protect the security interest created under the Deeds of Trust and (iii) determine compliance in all material respects with all Environmental Protection Laws, the provisions of the Loan Documents and other matters relating thereto. Upon completion of such Tests, Borrower shall provide Lender environmental site assessment or environmental audit report, or an update of such an assessment or report, including the results of any additional testing recommended by an environmental professional or determined to be necessary by Lender based upon such audits or reports, all in scope, form, content, and prepared and certified by an environmental professional satisfactory to Lender at Borrower’s expense. In the event Borrower shall fail to so provide any such assessment, audit or update or shall fail to remove or remediate any Hazardous Substances required to be removed or remediated by Borrower under any Environmental Protection Law or if Lender is not reasonably satisfied with the results of any of the Tests or of any environmental site assessment, audit or report, Borrower grants Lender and its employees and agents an irrevocable and non-exclusive license, subject to the rights of tenants, to enter the Collateral to conduct testing and to remove or remediate such Hazardous Substances, and the reasonable out of pockets costs of such testing and removal shall immediately be due and payable by the Borrower upon demand by Lender together with interest at the Default Rate and shall be secured by the Deeds of Trust, provided Lender shall not exercise such rights unless Borrower’s failure continues for more than thirty (30) days after such request by Lender, except in the case of an emergency where failure to do so would reasonably be expected to imminently and adversely affect human health or the environment, or where failure to quickly act would reasonably be expected to make it impossible or materially more difficult to remedy or control the potential contamination.

3.16.6 Borrower covenants and agrees that it shall comply with all Environmental Protection Laws which are now or in the future applicable to the Collateral, including, without limitation, removal and remediation of any Hazardous Substances as required by such applicable law, and shall maintain the Timberlands in accordance with all Environmental Protection Laws.

3.16.7 Borrower shall not cause, or permit and shall, using commercially reasonable due diligence, prevent, any part of the Timberlands to be used for or to contain, (a) other than in connection with the lawful exercise of mineral rights which are not owned by Borrower or any Affiliate of Borrower, a mine, drilling site or underground storage for gas or other minerals, (b) a landfill, a dump, or other disposal facility, (c) any underground storage tanks of any kind or character, whether empty or containing substances of any nature to be located on the Collateral, (d) the location, production, treatment, transportation, incorporation, discharge, emission, release, deposit or disposal of any Hazardous Substances in violation of any Environmental Protection Law in, upon, under, over or from the Collateral, or (e) any Hazardous Substances except for the routine use and storage, all in accordance with applicable laws, regulations and codes, of petroleum and other commercial products used in the ordinary course of Borrower's business, such as minor oil leaks from logging operations or vehicles used in Timberlands management and the application of pesticides or herbicides used in accordance with applicable laws and regulations and in the ordinary course of normal silvicultural activities.

3.16.8 Borrower has not been, is not and will not hold or cause or permit to be held for its benefit, any permit or license with respect to exploration, mining, extraction, storage, transportation or processing or sale of coal, oil, gas or any other minerals (except for any permits required for Borrower to extract hard rock, sand, and gravel for its own use and which does not subject Borrower or the Timberlands to SMCRA), or become involved in operations at the Timberlands or any other property currently or subsequently owned or operated by Borrower which could lead to imposition on Borrower of liability under any Environmental Protection Law or any law relating to exploration, mining, extraction, or processing of coal, oil, gas or other minerals, including, without limitation, laws relating to reclamation of land affected thereby. Borrower expressly warrants, represents and covenants that Borrower shall comply or cause compliance with all material requirements of Environmental Protection Laws and other laws relating to exploration, mining, extraction or processing of coal, oil, gas or other minerals, and shall immediately notify Lender of any releases of Hazardous Substances at, upon, under or within the Timberlands.

3.17 Compliance with Anti-Forfeiture Laws. Borrower will not commit, permit or suffer to exist any act or omission affording the federal government or any state or local government the right of forfeiture as against the Collateral or any part thereof or any money paid in performance of Borrower's obligations under the Notes or under any of the other Loan Documents. Without limiting the generality of the foregoing, the filing of formal charges or the commencement of proceedings against any Borrower, or against all or any part of the Collateral under any federal or state law for which forfeiture of the Collateral or any part thereof or of any monies paid in the performance of Borrower's obligations under the Loan Documents is a potential result shall, at the election of the Lender, constitute an Event of Default hereunder without notice or opportunity to cure.

ARTICLE 4. TIMBER COVENANTS

Borrower covenants and agrees that on and after the Closing Date and thereafter for so long as any Obligations are outstanding to Lender:

4.1 Annual Operating Plan. On or before the date of Closing, for the remaining portion of the 2010 Fiscal Year (September 1, 2010 through December 31, 2010) and on or before December 1 of each year thereafter for the following Fiscal Year, Borrower will submit to Lender for approval an annual plan of operations for forest management and Timber harvesting (the "**Plan**") for the Timberlands, which shall be in form and substance satisfactory to Lender in Lender's reasonable discretion. The Plan shall (a) specify the total Timber volume to be harvested from the Timberlands, by species, product class and location, the planned forest management and silvicultural programs during that year, (b) not create an Event of Default hereunder, (c) contain a certification by Borrower and Project Manager to Lender that such plan or modification will not create a Default and complies with the terms of this Agreement, including, without limitation, the long term sustainability of the Timberlands and SFI (as set forth in Section 4.2 below), (d) upon request, contain maps to identify proposed harvest sites, projected cash flow budgets and cruise and inventory plans, and (e) such other information as may be reasonably requested by Lender.

4.2 Timber Harvesting and Forest Management Operations. Borrower covenants and agrees to comply with all of the following requirements; and provided that no Event of Default exists hereunder and that Borrower is not in default in any of the terms and conditions contained herein and in the other Loan Documents, then Borrower shall have the privilege to sell Timber on the stump, cut or remove any volume of Timber from the Timberlands in any one Fiscal Year without principal reduction, provided that such volume shall in no event exceed the amounts which comply with and would be permitted under the following requirements and conditions:

4.2.1 That all Timber sales, cutting, or removal of Timber, shall be (a) in accordance with generally accepted forestry industry practices and standards, (b) in compliance with all then current federal, state and local laws, regulations and ordinances concerning the harvesting of timber and operation of a tree farm with respect to the Timberlands, as well as applicable forest management rules promulgated by the Oregon Department of Forestry and the Washington Department of Natural Resources and any other applicable governmental authority, (c) in measure and manner consistent with a long-term Timberlands investment approach that promotes a sustained availability of commercially merchantable timber volume, (d) in a manner which shall maintain the value of the Timberlands and (e) shall be in compliance with this Loan Agreement (including, without limitation, Section 5.4 below) and the Loan Documents.

4.2.2 That no Timber sales, cutting or removal of Timber shall be permitted at any time that there is an Event of Default or at any time a Default exists due to the LTV not being in compliance under Section 5.4.1 and no Timber sales, cutting or removal of Timber shall be permitted which may cause such a Default due to the LTV not being in compliance. Lender may determine the LTV at any time and from time to time in its sole discretion for the purpose of confirming compliance with this Section.

4.2.3 That all cutting, logging and removal shall be conducted in a manner which shall maintain the value of the Timberlands, and compliance with this Agreement and the Loan Documents. Further, Borrower represents and warrants to Lender that all forest management, cutting, logging and removal of Timber with respect to the Timberlands shall be in accordance with sustainable forestry practices and shall comply with the requirements of the Sustainable Forestry Initiative (“SFI®”), whether or not certified, but as if certified to the standard which would be applicable to maintain the designation under the SFI® 2005-09 Standard and, not later than January 2011, under the SFI® 2010-2014 Standard, and to comply with all future modifications of SFI® as reasonably agreed by Lender and Borrower. Borrower shall furnish to Lender evidence of SFI certification for all of the Timberlands prior to September 1, 2011. Once obtained, Borrower shall promptly furnish to Lender evidence of the status of the SFI certification designations of the Timberlands, at least annually thereafter.

4.2.4 Until and unless subsequently revised from time to time by Lender, and subject to the other conditions herein, Borrower shall have the privilege of cutting from the Timberlands in any one Fiscal Year, without mandatory prepayment of the Loan, the volume of Merchantable Timber generally representing the volume of the anticipated annual growth of Timber on the Timberlands (the “**Annual Allowable Cut**” or “**AAC**”). Volume references in the Loan Documents and associated reports shall be reported as net merchantable volume in thousands of board feet (“**MBF**”) or millions of board feet (“**MMBF**”). Until modified in accordance with this Agreement, the AAC shall be 12,000 MBF. The AAC may be adjusted by Lender, in Lender’s reasonable discretion, either up or down, based on updated cruise and inventory information from a Lender approved third party consultant, provided, however, that Lender shall not make any such adjustments more frequently than once every five (5) years, except as such adjustments as may be made by Lender to reflect any land released from Lender’s security during the previous cutting period or such other adjustments as are otherwise specifically provided for herein.

4.2.5 For any Fiscal Year in which less than the AAC permitted for such year is harvested, the difference between the AAC and the actual volume severed (the “**Annual Harvest Remainder**”) for such period will be carried forward to subsequent Fiscal Years, subject to the limitations in this Section 4.2.5. For any Fiscal Year, the AAC for that year plus the sum of any unapplied Annual Harvest Remainders from previous years is referred to as the “**Cumulative Allowable Harvest**” or “**CAH**,” provided, however that (i) the unapplied Annual Harvest Remainders from previous Fiscal Years that may be carried over to the next Fiscal Year is limited for any year to an amount equal to the then AAC, and (ii) any Annual Harvest Remainder in excess of the AAC must be deferred to a subsequent Fiscal Year, and (iii) an Annual Harvest Remainder arising during any given Fiscal Year may only be carried forward to a subsequent Fiscal Year for a period of five (5) successive Fiscal Years. In no event shall the CAH for any Fiscal Year exceed twice the AAC unless Excess Cutting Payments are made for such Excess Cuts in accordance with Section 4.2.6. In any Fiscal Year that a CAH shall exist, the CAH shall be applicable under Sections 4.2.6 and 4.2.7 instead of the AAC in determining the Timber that may be cut and the Excess Cut.

4.2.6 For any cutting period in which the volume of Timber harvested is more than the AAC or CAH, as applicable (an “**Excess Cut**”), Borrower shall pay to Lender an amount equal to Seventy-five Percent (75%) of: (a) the volumes, species and products of the Timber comprising the Excess Cut (that is, the volumes, species and products of Timber which caused the harvest for such year to exceed the applicable AAC or CAH), multiplied by (b) the Administrative Values of such Timber comprising the Excess Cut (an “**Excess Cutting Payment**”). The Administrative Values determined by Lender as of the date of Closing are established on Schedule 4.2.6 hereto, and may be adjusted from time to time, at Lender’s option because of changes in the inventory or volume projections indicated by cruise results, estimated growth rates, casualties, disease, regulatory changes or other similar reasons as determined by Lender in its reasonable discretion. Any Excess Cutting Payment for Excess Cuts performed during any fiscal quarter shall be paid by Borrower to Lender on the next Payment Date (as defined in the Note) following the close of that fiscal quarter. Any such prepayment of principal shall be treated in accordance with the terms and manner provided in the Note and this Agreement in the same manner as any other prepayment and shall be subject to any prepayment premium, if any, as set forth in the Note. Borrower’s Excess Cut in any cutting period shall be an allowable harvest of Timber and shall not result in a breach of this Agreement or any Deed of Trust so long as Borrower timely pays any Excess Cutting Payment, if any, as required to be paid under this Agreement for such Excess Cut.

4.2.7 Notwithstanding anything else contained herein, Borrower may harvest and shall not be obligated to pay any Excess Cutting Payment for any cutting periods during the term of the Loan in which the volume of Timber severed exceeds the CAH for such cutting period by not more than ten percent (10%) of the AAC and Borrower may harvest the related volume of Timber; provided, however, that in no event shall the volume harvested over a period of any five (5) successive calendar years exceed 100% of the sum of each AAC for such 5-year period. Any excess over said 100% volume for such 5-year period shall constitute an Excess Cut for which an Excess Cutting Payment shall be due.

4.2.8 The volume of Timber harvested in any cutting period shall be consistent with, and shall not exceed the volumes set forth in the Plan for such Fiscal Year, unless changes to such Plan are agreed by Lender in advance in writing.

4.2.9 On any harvest units operated on as part of the Annual Plan, no significant pockets of Merchantable Timber identified for harvest in such Plan shall be left uncut due to difficult logging conditions. If pockets of Merchantable Timber are left, Lender can require that these pockets be removed from the Timber inventory as reflected in Quarterly or Annual Collateral Reports if previously included. All timber products removed shall be reported according to its highest applicable product classification.

4.2.10 The words “year(s)” and “cutting period(s)” as used in this Agreement shall mean the period of any Fiscal Year, and the Fiscal Year shall be each twelve-month period from January 1 to December 31. The period from the date of Closing to December 31, 2010 will be considered as the first cutting period, for which the prorated AAC under Section 4.2.3 shall be 4,000 MBF. For any subsequent cutting period which is less than twelve (12) full months, the amount of the AAC shall be prorated.

4.2.11 All timber harvest and removal made from the Timberlands from and after the Closing are subject to the terms of this Agreement.

4.2.12 If during any cutting period there is material damage to the timber on the Timberlands by mining, drilling, right-of-way clearing, fire, disease, insects, storm or other hazards, Borrower shall promptly cut timber or take such other reasonable and prompt measures as may be necessary to protect timber from further damage in accordance with good forestry practices and this Agreement. Any timber cut under such circumstances may thereafter be removed from the Timberlands by Borrower, provided Borrower furnishes to Lender a periodic accounting of the amount of such timber cut and removed. Further, any Timber damaged, lost or destroyed, and any Timber cut under such circumstances, or in the event of the removal of Timber under the Alta Rock Lease Documents, shall be treated in the same manner as any other Timber cut under this Agreement, including, without limitation, application of the AAC or CAH, as the case may be, and any requirement for an Excess Cutting Payment, which shall be subject to prepayment premium, if any, in the same manner as any other prepayment.

4.2.13 Borrower shall notify Lender promptly in the event any trees are severed or removed from the Timberlands by Borrower, its customers, agents, employees, permittees, contractors or assigns, other than in accordance with this Section, as the same may be amended from time to time. Borrower shall then have the period of time afforded under Section 7.1.6 for the cure of any related Default.

4.2.14 That Borrower shall comply with, and such volume shall be permitted under, all then current federal, state and local laws, regulations and ordinances concerning the harvesting of timber and operation of a tree farm with respect to the Timberlands, including without limitation the Washington Forest Practices Act (RCW Chapter 76.09) and the Oregon Forest Practices Act (ORS Chapter 527) and related regulations as well as the Best Management Practices in Forestry as promulgated by the Department of Natural Resources, Forest Practices Board and Department of Forestry or the equivalent in each State with respect to the portion of the Timberlands located in such State from time to time.

4.3 Reporting. Borrower shall keep and maintain in Borrower's offices adequate and accurate books and records of all timber cut and removed from the Timberlands and the payments received therefrom. Such books and records (including financial records) shall be available for inspection by any authorized representative of Lender at any reasonable time and any representative may inspect, examine and be furnished by Borrower with copies thereof. Borrower shall furnish to Lender a record of harvesting and receipts as set forth below (except that during any period that a Default or Event of Default shall exist, Lender may require reports more frequently and may require additional information in such reports) and all such records and reports shall be in form and substance satisfactory to Lender:

4.3.1 A quarterly report (“**Quarterly Collateral Report**”) shall be due within sixty (60) days after the end of each Fiscal Year quarter, with the first such Quarterly Collateral Report due no later than June 1, 2011. Each Quarterly Collateral Report shall summarize the Timberland inventory as of the end of the current Fiscal Year quarter, and shall be calculated starting with the Timberland inventory as stated in the prior Quarterly Collateral Report adjusted for the depletion of the forest inventory volume associated with the acres harvested, as opposed to logs scaled, during the current Fiscal Year quarter (“**Quarterly Depletion**”), and further adjusted for re-inventory cruises undertaken during such fiscal quarter (“**Quarterly Cruises**”) and shall include re-inventory and cruise data sufficient to reflect satisfaction of the requirements in Section 4.5.5. Each Quarterly Collateral Report shall include a certification by Borrower and Project Manager (subject to Section 4.5.5(d) below) of the total volume of timber harvested and logs scaled by species for each product type with a comparison of the respective period’s volumes as set forth in the Plan for such period, and year to date, and shall demonstrate and certify compliance with all conditions and restrictions on harvesting hereunder. The Quarterly Collateral Report shall also include the results of any timber cruise or inventory analysis relating to all or any portion of the Timberlands performed by or on behalf of Borrower or become available to Borrower from any source.

4.3.2 Within sixty (60) days after each Fiscal Year end, Borrower shall deliver an annual collateral report (“**Annual Collateral Report**”), which shall be a certification by Borrower and the Project Manager to Lender as to the then-standing timber inventory volumes on the Timberlands. The methodology to prepare the Annual Collateral Report shall be identical to the Quarterly Collateral Report, with the addition of an adjustment for biological growth as discussed below. The Annual Collateral Report shall incorporate for the Fiscal Year all Quarterly Depletions (including any Timber otherwise removed or destroyed pursuant to the records and/or knowledge of Borrower and Project Manager), volume adjustments as a result of Quarterly Cruises, plus the then applicable added biological growth of the timber volumes since the date of the last Annual Collateral Report, such annual growth percentage to be acceptable to Lender (the “**Annual Growth**”). The Annual Collateral Report will contain a reconciliation explaining any variances in year-end Timber inventory volumes between it and the data used by the appraiser to develop his year-end value as described in Section 4.5.4 below and shall include a certification that the re-inventory cruises required under Section 4.5.5 have been completed. The first Annual Collateral Report shall cover the period from the Closing Date through December 31, 2010. To the extent Borrower or Project Manager has any suspicion or belief that the existing Timber inventory volumes are inaccurate or misleading, the certification required hereunder shall include and explain such suspicion or belief and provide alternate calculations therefore. The Annual Collateral Report shall also include the results of any appraisal, Timber cruise or inventory analysis relating to all or any portion of the Timberlands that may have been performed by or on behalf of Borrower or become available to Borrower from any source.

4.3.3 Borrower agrees that Lender, and its agents, contractors, and consulting forester shall have the right, but not the obligation, to inspect the Timberlands and any activities carried out thereon, scaling practices, scaling slips, and log scale summaries, at any reasonable time, upon prior notice and during normal business hours. During the continuance of an Event of Default, property inspections by Lender and/or its agents may occur at such times and frequency as Lender may deem necessary, at Borrower’s expense.

4.3.4 Borrower shall provide to Lender, together with the Annual Collateral Report, but no more frequently than annually, current GIS shape file layer data with respect to the Timberlands in form and manner reasonably satisfactory to Lender.

4.4 **Lender Consulting Forester.** Lender may, at its option and at Borrower's expense (payable thirty (30) days after receipt of invoice) appoint an independent third-party consulting forester(s) of the Lender's choice to perform loan monitoring services, make such inspections and to perform other services as set forth in the Loan Documents or as deemed necessary by Lender, including, without limitation, property inspections, evaluation of release requests, monitoring of timber management and harvesting, audit of Borrower's cruise data, timber inventory and inventory systems, confirmation of timber volumes, review of timber management plans, appraisals, valuations and confirmation of any term of this Agreement or the other Loan Documents.

4.5 **Appraisals; Timber Cruises.**

4.5.1 Borrower has provided to Lender, prior to the date hereof, evidence of the volume of Timber on the Timberlands as of a current date, in the form of a timber inventory report and verification report prepared and certified to Lender by Borrower and Project Manager (subject to the terms of Section 4.5.5(d) below) pursuant to Section 2.6.1 above.

4.5.2 Borrower has, prior to the date hereof, furnished to Lender a comprehensive appraisal of the Copper Creek Block portion of the Timberlands as of July 19, 2010, prepared by The Healy Company. Said appraisal has been accepted by Lender. Lender has established, in its sole discretion, the final opinion of value for all purposes under this Agreement. Borrower shall furnish to Lender a comprehensive appraisal (which appraisal may be an abbreviated format acceptable to Lender) of the Riffe Lake Block portion of the Timberlands as of December 31, 2011, to be delivered no later than February 15, 2012.

4.5.3 Borrower shall cause to be prepared and delivered to Lender at Borrower's expense a comprehensive appraisal of the entire Timberlands addressed to and for the benefit of Lender and Borrower, (i) as of December 31, 2013 and every third (3rd) year thereafter (as of December 31), to be delivered no later than 45 days after the valuation date; and (ii) at the request of Lender at any other time that an Event of Default shall exist, as of a date determined by Lender. Each such appraisal shall be done by a third party professional acceptable to Lender and in accordance with USPAP standards, and the appraisal, as well as the methods and assumptions included therein, must be approved by, and acceptable in all respects to Lender. Borrower shall obtain Lender's prior written consent as to the appraiser, which consent may be withheld in Lender's sole discretion, and Borrower shall also obtain Lender's prior written consent as to the scope of work planned, and the volumes, methods, assumptions, form and substance of the appraisal. The appraisal shall incorporate all data from the cruises under Section 4.5.5 below, updated for growth, harvest and then current market conditions as necessary in a manner acceptable to Lender and any other information known to Borrower and Project Manager from any source, including, without limitation, any information required to be furnished under Section 4.5.5(d) below.

4.5.4 Not later than February 15, 2012 and not later than each subsequent February 15th (other than any year for which a comprehensive appraisal is being prepared as of December 31 of the previous year pursuant to Section 4.5.3), Borrower shall cause to be prepared and addressed to and for the benefit of Lender and Borrower at Borrower's expense, an update of the last comprehensive appraisal as of the end of the prior Fiscal Year taking into account the Quarterly Cruises, Quarterly Depletions, Annual Growth as described in Sections 4.3.2 and 4.5.5 and then current market conditions in a manner reasonably acceptable to Lender. Borrower anticipates providing the appraiser with necessary timber inventory data early in the fourth quarter of each Fiscal Year and will concurrently provide the same data to Lender. The updated appraisals shall be completed by the same third party professionals that did the most recent comprehensive appraisal, shall be in accordance with USPAP standards, shall be prepared in form and manner and with methodology and assumptions acceptable in all respects to Lender and shall be subject to approval by Lender.

4.5.5 Timber Re-Inventory Requirements.

(a) Borrower shall meet certain timber re-inventory requirements in part by completing re-inventory cruises in order to maintain an up-to-date forest inventory of the Timberlands. Borrower shall provide Lender with copies of all forest inventories maintained with respect to the Timberlands and any supporting data within ten (10) days of Lender's request. The forest inventory will be used to (among other purposes) manage the Timberlands and provide information for the Quarterly Collateral Reports, the Annual Collateral Reports, and the appraisal. The Borrower shall complete re-inventory cruises which represent on an annual rotational basis, a minimum of fifteen percent (15%) of the Timberlands acreage which is considered by both Borrower and Lender to contain Merchantable Timber. If the Borrower completes the re-inventory of all merchantable acres on an accelerated schedule, the annual cruising requirement shall then be modified and consist of re-inventory of all merchantable stands having cruise ages greater than seven (7) years, the effect being no merchantable stand shall have a cruise age greater than seven years.

(b) The re-inventory timber cruises under clause (a) shall be stand level cruises completed by ORM or other a third party professional reasonably acceptable to Lender. The re-inventory cruises shall each be completed to acceptable cruising standards established in advance by Lender and Borrower as to methodology, assumptions, form and substance. References to a "re-inventory timber cruise", "timber inventory cruise", "timber cruise" or "cruise" shall all have the same meaning hereunder. The updated inventory information shall be furnished to the appraiser for incorporation into the appraisal or appraisal update, as the case may be. The appraiser shall be provided the updated inventory information in a timely fashion in order to facilitate delivery of the appraisals as described in Sections 4.5.3 and 4.5.4. The forest inventory data provided to the appraiser shall reflect all forest inventory updates occurring in the first three quarters of the Fiscal Year, including an estimate of Annual Growth and the Quarterly Depletion for the final Fiscal Quarter of the year. All variances to the estimates of growth and harvests shall be reconciled in the Annual Collateral Report for the Fiscal Year.

(c) Notwithstanding anything herein to the contrary and for the avoidance of doubt, Borrower and Project Manager hereby covenant and agree with Lender that at any time that either Borrower or Project Manager have any reason to suspect or believe that the then current Timber inventory, any cruise data, or any other data or information regarding Timber volumes, species, product types, ages, quality or any other criteria with respect to the Timberlands and the Collateral, which is directly or indirectly reflected in any reports, financial data, certificates, projections, statements or other information furnished to Lender or any appraiser (who is to prepare an appraisal hereunder) by Borrower or Project Manager, or upon which any information furnished to Lender may be based in whole or in part, is misleading or is not true, complete or accurate, including, without limitation any statement or certification which is prepared or given in accordance with the specific terms of this Agreement or industry standards, but is nevertheless suspected or believed to be misleading, inaccurate, untrue or incomplete with respect to the actual amount of Timber then in existence on the Timberlands, as to volume, species, product types, ages, quality or any other criteria, Borrower and Project Manager shall each have an independent and overriding obligation and duty to Lender to promptly provide information concerning such suspicion or belief to Lender, and any certification as to Timber inventory volumes shall also be determined or re-determined in a manner consistent with such suspicion or belief, without regard to the volumes set forth in any then outstanding appraisal, cruise or Timber inventory of Borrower and Project Manager. The Borrower and Project Manager make this agreement knowing that Lender shall rely on their faithful performance in fulfilling their obligations and duties under this Section. Borrower shall cause Project Manager to execute and deliver to Lender as a condition to Closing a document in form and substance acceptable to Lender whereby Project Manager agrees to the terms and conditions of this Section.

4.5.6 At any time that an Event of Default shall exist, or Borrower shall be in Default for failing to comply with the LTV required under Section 5.4.2, or Lender has reasonable cause to believe that the re-inventory cruise reports or certifications of inventory volumes are inaccurate, Borrower shall cause to be prepared and delivered to Lender, at Lender's request and at Borrower's expense, a complete stand-level timber cruise of the Timberlands and a complete appraisal of the Timberlands, each on and as of a date reasonably designated by Lender. The timber cruise and appraisal shall each be done by a third party professional acceptable to Lender, and the timber cruise and the appraisal, as well as the methods and assumptions included therein, must be acceptable in form and substance to Lender, including, without limitation, the applicable methodology and assumptions.

4.5.7 At any time that Borrower requests a Material Partial Release (as defined in Section 4.8.7 below) of Timberlands hereunder, Lender may require as a condition to considering whether to approve such request or in determining the amount of prepayment of the Loan that may be required, that Borrower furnish to Lender at Borrower's expense a stand-level timber cruise and/or appraisal of the portion of the Timberlands proposed to be partially released as well as the balance of the Timberlands, all to be in form and substance, prepared by a third party professional, and with methods and assumptions, acceptable to Lender.

4.5.8 Borrower shall provide to Lender a copy of any appraisal, timber cruise or inventory analysis of the Timberlands, or any audit thereof at any time commissioned by, obtained by, or made available to, Borrower within ten (10) days after receipt thereof by Borrower.

4.5.9 Other than appraisals or cruises as required above, Lender may have the Timberlands appraised or cruised at any time at its own expense.

4.6 Timber Sale, Harvesting and Stumpage Agreements. Without the prior written approval of Lender, provided that Borrower furnishes to Lender all necessary documentation and information required by Lender and its agent with respect to such request, Borrower shall not enter into, and the Timberlands shall not be subject to, any individual contract or agreement, or any series of contracts or agreements that may reasonably be construed as one contract or agreement (whether written or oral) for the sale or disposition of timber, whether harvested by or on behalf of Borrower or by third parties which are granted the privilege of entry upon the Timberlands for cutting and removal of timber, which: (a) has a term of more than two (2) years (including any renewal options and any extensions for weather or any other reason), (b) affect five percent (5%) or more of the total then existing merchantable Timber inventory on the Timberlands, or (c) has terms and conditions inconsistent with the then current approved Plan or this Agreement (each, a “**Material Contract**”). As long as no Event of Default shall exist and unless otherwise not permitted under this Agreement, Borrower may enter into contracts or agreements to sell timber that are not Material Contracts, without the prior written consent of Lender.

4.7 Timber Sale and Release. Provided that no Default shall then exist, or be caused thereby, permission is hereby granted by Lender to Borrower to cut, or allow others to cut, Timber from the Timberlands in accordance with the current Plan previously approved by Lender and on the terms and conditions set forth in this Agreement. Subject to Section 4.2 and the payment of any amounts due thereunder and provided that no Default shall have occurred and be continuing: (A) the lien of the Deeds of Trust (and the related security interests under the Code) against any such cut or severed Timber (but not the proceeds thereof, it being the intent hereof that Lender’s Lien and security interest continues in proceeds) shall be released, without any action by Borrower or Lender, from any such Timber cut or severed in the ordinary course of business upon the sooner of: (a) receipt by Borrower of full payment therefor, or (b) removal of such Timber from the Timberlands and after weight or volume is established and payment therefore assured in a manner reasonably acceptable to Lender and which creates a receivable owned by Borrower under the applicable UCC, or (B) Lender shall furnish to Borrower, upon request, a partial release with respect to any Timber sold as permitted pursuant to the Plan or a Material Contract approved by Lender, provided that (i) Borrower shall pay to Lender within thirty (30) days after written request all reasonable fees, costs and expenses incurred by Lender to third parties in connection with any such partial releases including, without limitation, legal, appraisal and accounting fees incurred by Lender and all other expense, and recording and title insurance and title expenses, but without any administrative fee charged by Lender, (ii) Borrower furnishes to Lender all necessary documentation and other information to process such request, and (iii) Lender, upon its request therefor, shall have received satisfactory evidence of Borrower’s compliance with the covenants contained in this Loan Agreement.

4.8 Partial Release Provisions. Lender agrees to provide Borrower with partial releases of the liens of the Deeds of Trust with respect to certain portions of the land and timber encumbered thereby comprising certain portions of the Timberlands (the “**Release Parcel**”), upon written request therefore, subject to the following terms and conditions:

4.8.1 No Release Parcel shall be released except in connection with an arms-length bona fide sale of such Release Parcel to a third party in the ordinary course of Borrower’s business in operating the Timberlands, as determined by Lender in its sole judgment.

4.8.2 No Default shall then exist (including, without limitation, any non-compliance with the LTV as required under Section 5.4) and the partial release shall not create a Default.

4.8.3 Lender will, in its sole and absolute discretion, calculate a reasonable payment (the “**Release Price**”) for such partial release and communicate same to Borrower. The Release Price shall be paid by Borrower to Lender for application to prepayment of principal of the Note. Any such prepayment shall be treated in the same manner as any other prepayment and shall be subject to prepayment premium in the same manner as any other prepayment. Notwithstanding the foregoing, so long as the partial release of the Release Parcel does not cause the LTV to exceed 40% (as determined pursuant to Section 5.4 below), and otherwise complies with all of the provisions of this Section 4.8, no Release Price shall be required, although Borrower shall be responsible for all costs and expenses incurred by Lender in reviewing and processing such partial release as set forth in Section 4.8.9.

4.8.4 Any request by Borrower shall be accompanied by an LTV calculation by Borrower in accordance with Section 5.4 on a pro forma basis as if the partial release requested had been granted, and any partial release shall be subject to verification by Lender of such pro forma LTV in accordance with Section 5.4 and shall be otherwise acceptable to Lender. No partial release will be permitted which may cause any non-compliance with Section 5.4 below as determined with respect to such pro forma LTV by Lender in the exercise of its sole judgment based upon the most recent appraisal or appraisal update approved by Lender, adjusted for any previous releases, removals, growth, any other matters since such date and the best information then available to Lender. However, any request for a partial release which meets all of the requirements in this Section except this Subsection 4.8.4 shall nevertheless be approved by Lender, provided that Borrower shall pay to Lender, on or before the delivery of any such partial release, for application to prepayment of principal of the Note, an amount determined by Lender which shall, at the least, be sufficient to cause compliance with this Subsection. Any such prepayment shall be treated in accordance with the terms of this Agreement and the Note in the same manner as any other prepayment and shall be subject to prepayment premium, if any, as set forth in the Note.

4.8.5 No partial release will be provided which may have a negative effect on access to, value of, income producing ability or operations of, the remaining Collateral, as certified by Borrower and as determined by Lender in the exercise of its reasonable judgment.

4.8.6 At Lender’s request, Borrower shall cause the title insurance company which issued Lender’s Title Policy in connection with the Deeds of Trust to issue an endorsement to such Title Policy with respect to any partial release, which endorsement shall be in form and substance satisfactory to Lender and at Borrower’s expense.

4.8.7 Lender may require a timber cruise and appraisal to be made by Borrower under Section 4.5.7 above in the case of a request for a “Material Partial Release”, which shall mean: (a) any partial release request where the timber proposed to be released exceeds fifteen percent (15.00%) of either the total (i) value or (ii) volume of all merchantable Timber included in the Timberlands at such time, or (b) any partial release request where the land proposed to be released exceeds fifteen percent (15.00%) of either the total (i) value or (ii) acreage of the land included in the Timberlands at such time.

4.8.8 Borrower shall furnish to Lender all necessary documentation and information to process said partial release request.

4.8.9 All reasonable third-party fees, costs and expenses incurred by Lender in connection with the consideration of any request for a partial release under this Section, and in connection with the execution and delivery of any such partial release, including without limitation, legal, appraisal and accounting fees and expenses, and all recording, title insurance premiums and title expenses, shall be borne solely by Borrower. Borrower agrees to pay all such fees, costs and expenses promptly upon presentation of an invoice therefor or upon demand by Lender. In addition, in connection with each request for a partial release under this Section, Lender shall be entitled to receive payment of a reasonable administration fee for each parcel released. To the extent possible, the forms of partial releases attached hereto as Exhibit B shall be utilized for all partial releases hereunder. All closing deliveries may be made by Lender under escrow conditions or otherwise in a manner satisfactory to Lender and its counsel. Lender, upon its request therefore, shall have received satisfactory evidence of Borrower's compliance with the covenants contained in the Loan Agreement.

4.8.10 Timber volume attributable to any released parcel will be removed from the Timberlands' inventory.

4.9 Substitution of Timberlands. Provided that no Default or Event of Default shall have occurred and be continuing, Borrower may request Lender's approval to receive a partial release of any portion of the Timberlands in return for the simultaneous mortgage and pledge of additional Property that would constitute replacement Timberlands (the "Replacement Timberlands") including in connection with a like-kind exchange through an exchange facilitator (including so-called "forward" or "reverse" exchanges, in which case, Lender agrees to cooperate with Borrower in effecting such an exchange other than on a simultaneous basis, provided, however, that any prepayment required by any partial release cannot be postponed, deferred or avoided on account of any such non-simultaneous exchange) as long as Lender shall have no liability or expense in regard to such exchange (it being understood that a forward or reverse exchange may cause more expense than others) and provided that Borrower shall indemnify and hold harmless Lender from any loss, cost or expense arising from any such exchange, subject, however, to the following conditions:

4.9.1 The Replacement Timberlands shall be of equal or greater value and have the same or greater volume of Timber thereon, as compared with the portion of the Timberlands released, shall be comparable Timberlands with stands of similar size, age, quality and product type in a comparable market, have satisfactory access, be capable of producing comparable income and be environmentally acceptable, all in Lender's sole discretion, and shall otherwise be satisfactory in every way to Lender and in conformity with Lender's then underwriting criterion, in Lender's sole discretion, including, without limitation, the location, access, soils, timber type, quality and quantity, marketability, title condition, title insurance coverage availability and all other aspects of the Replacement Timberlands.

4.9.2 No substitution will be approved by Lender unless the LTV after the substitution shall be in compliance with Section 5.4 and shall be equal to or less than the LTV which existed immediately prior thereto, as determined by Lender on a pro forma basis.

4.9.3 Borrower shall furnish to the Lender, at Borrower's expense, all information reasonably required by the Lender to analyze such substitution, including, without limitation, all documentation required by Lender to establish the value of the released portion of the Timberlands and of the Replacement Timberlands. In connection with the evaluation of the requested substitution, appraisals and/or timber inventory cruises may be required in Lender's sole discretion, and Lender may also require inventory data, pro forma calculations of LTV, analyses and such other reports, information, data and projections as Lender may reasonably request, with respect to the Timberlands to be released as well as the Replacement Timberlands, all of which materials must be in form and substance satisfactory to the Lender in its sole discretion. Any such appraisals or cruises shall be done by a third party professional acceptable to Lender and the methods and assumptions thereof must be in a form and manner acceptable to Lender.

4.9.4 In connection with any such substitution, Borrower shall furnish to Lender, at Borrower's expense, all documentation, amendments to the Loan Documents, instruments, title insurance, consents, opinions and such other information and agreements as the Lender may determine or require in its reasonable discretion.

4.9.5 All decisions with respect to the release of any portion of the Timberlands and the substitution of Replacement Timberlands therefor shall be in the sole discretion of the Lender. Borrower shall be responsible for payment of all reasonable fees and expenses associated with such request (whether or not granted) and the consideration and documentation thereof, including, without limitation, the fees and expenses of third-party advisors and attorneys of the Lender, a reasonable administrative fee and processing fees charged by the Lender, the cost of any title insurance policies or endorsements required by the Lender and all fees and expenses relating to the preparation of the materials relating to such request.

4.10 Coal, Oil, Gas and Other Minerals

4.10.1 Borrower shall not at any time (a) undertake or hold any permit or license which allows, or (b) cause or permit any other party to undertake or hold any permit or license which allows, as Borrower's agent or for the benefit of Borrower (other than through a lease as set forth in Section 4.10.2 below); whether directly or indirectly, the exploration, extraction, mining, processing, production, storage, transportation or handling of any coal, oil, gas or any other minerals owned by the Borrower (collectively, "Mineral Activity").

4.10.2 Borrower may, however, enter into bona fide leases to third parties permitting such third parties to undertake Mineral Activity on the Timberlands for their own account, including, without limitation, the Alta Rock Lease Documents ("Mineral Leases"), which Mineral Leases shall be reasonably satisfactory to Lender. Lender approves the making of any lease pursuant to the Alta Rock Lease Documents; provided that (i) Borrower shall provide Lender with notice of the exercise of any option under the Alta Rock Lease Documents together with an executed copy of the related lease within five (5) days of exercise and delivery; (ii) any of the rights of Borrower arising under the "Table Rock – Bagby Butte Agreement" dated as of September 1, 2010 (the "Alta Rock Three Party Agreement") among Borrower, Alta Rock Energy, Inc. and Weyerhaeuser Real Estate Development Company and any leases executed pursuant to the Alta Rock Lease Documents and compensation paid thereunder are hereby assigned to Lender for security purposes as additional Collateral under the Loan Documents and Borrower shall execute all such additional documents as may be required by Lender to confirm such assignment; (iii) Borrower shall not modify, assign or extend the Alta Rock Lease Documents absent Lender's prior written consent except to the extent Borrower is otherwise obligated under the Alta Rock Three Party Agreement and in such event Borrower shall provide written notice to Lender; and (iv) Borrower shall provide to Lender, within ten (10) days of receipt, copies of all exploration plans, requests, notices and other information provided to Borrower under the terms of the Alta Rock Lease Documents.

4.10.3 Any Mineral Activity on the Timberlands permitted hereunder shall not be undertaken or permitted by Borrower, except in such manner that Borrower and Lender shall not be liable under applicable law with respect to the existence of any Hazardous Substances, non-hazardous wastes, claims of surface owners, existence or generation of pollution or contamination, discoloration or degradation of any water or streams, interference with the bed of any stream or the natural flow thereof, old mine works, reclamation or revegetation or violation or non-compliance with any Environmental Protection Laws or any other applicable laws which may arise directly or indirectly from such Mineral Activity. Borrower shall assure or use commercially reasonable efforts to assure that all reclamation and revegetation is timely completed in accordance with applicable laws, Environmental Protection Laws and applicable Best Management Practices (as referenced above).

4.10.4 If any Mineral Activity shall cause there to be any Hazardous Substances in or upon the Timberlands, Borrower at its sole cost and expense, to the extent required by applicable Environmental Protection Laws, shall immediately remove, or cause to be removed, such Hazardous Substances in compliance with all applicable laws, keeping Lender fully informed and shall provide to Lender full information with respect to proposed plans and comply with Lender's reasonable requirements with respect to such plans.

4.10.5 Borrower shall furnish any documentation requested by Lender necessary for Lender to obtain a perfected security interest in any minerals, royalties or rights of Borrower to minerals related to the Timberlands.

4.10.6 Borrower shall indemnify and hold harmless Lender and its officers, directors and employees and their respective successors, from and against all fines, penalties, actions, suits, legal proceedings and all costs and expenses associated therewith (including legal fees) arising out of or in any way connected with any failure of Borrower to perform its obligations under this section or with any deposit, spill, discharge or other release of any Hazardous Substances or non-hazardous waste materials that occurs during the term of this Agreement upon or from the Timberlands and which constitutes a violation of, or requires remediation under, applicable Environmental Protection Laws, or is harmful to human health or the environment, or any storage or disposal of any Hazardous Substances or non-hazardous waste materials in, or upon the Timberlands, or the transportation of Hazardous Substances or non-hazardous waste materials from the Timberlands, or from Borrower's failure to provide all information, make all submissions and take all actions required by the Environmental Protection Laws or any other applicable laws or any Governmental Authority which is in any way related to any mineral activity, except that this indemnity shall not be applicable to the extent that any fines, penalties, actions, suits, legal proceedings and costs and expenses associated therewith are attributable to actions or omissions by any indemnified person constituting gross negligence or willful misconduct. The obligations of Borrower under this clause shall survive the termination or expiration of this agreement.

4.11 Agreements and Leases. Borrower shall perform all obligations of the Landlord under all Agreements (as defined in the Deeds of Trust), leases and licenses by which Borrower is bound or affecting the Timberlands, including without limitation, the Mineral Leases. Borrower shall enforce such Agreements, leases and licenses in a diligent, commercially reasonable and professional manner. Borrower shall furnish to Lender annually, along with Borrower's annual financial statement under Section 5.2.2 or at such other time mutually acceptable to Lender and Borrower, and upon request of Lender at any other time, a listing or rent roll certified by Borrower and Project Manager to Lender which lists all such Agreements, leases and licenses, the expiration date, the payments or rental and when paid through, whether any default exists and any other information reasonably requested by Lender.

4.12 Estoppel Certificates.

4.12.1 Borrower, within ten (10) Business Days after request by Lender, shall furnish Lender from time to time with a statement, duly acknowledged and certified, setting forth (i) the amount of the original principal amount of the Note, (ii) the unpaid principal amount of the Note, (iii) the rate of interest on the Note, (iv) the date through which all installments of interest, commitment fees and/or principal have been paid, (v) any offsets or defenses to the payment of the Obligations, if any, (vi) that the Note and this Agreement have not been modified or if modified, giving particulars of such modification and (vii) such other information as shall be reasonably requested by Lender.

4.12.2 Borrower, upon request by Lender, will use commercially reasonable efforts to obtain and furnish (within the time periods, if any, provided in the applicable timber sale agreements, or if no time period is so specified, within thirty (30) days after request) Lender with statements from purchasers or tenants under then existing timber sale agreements, coal leases, and oil and gas leases, as to the amount of timber purchased or coal, oil or gas extracted, as the case may be, and the amounts paid to or for the benefit of Borrower during the preceding twelve months.

4.13 Timberlands Management. Borrower shall at all times during the term hereof have professional management of the Timberlands and the operation of the Timberlands with a manager (the "**Project Manager**"), which shall have the experience, competence, capacity and professional reputation to manage the Timberlands and shall be subject to Lender's prior written approval, under a management agreement (as amended, restated or supplemented from time to time, the "**Management Agreement**"), which shall be subject to Lender's prior written approval as to form and substance, including any amendments, restatements or supplements. Borrower shall not cause or permit any modification of the Management Agreement without the written consent of Lender. Upon any termination of the Management Agreement, Borrower shall, on or before if possible, but in any event within thirty (30) days after, the date of any such termination, replace the Project Manager with a party reasonably acceptable to the Lender under a new management agreement reasonably acceptable to the Lender and otherwise in accordance with this Section. Any change in the officers, personnel or ownership of the Project Manager which could reasonably be expected to adversely affect the performance of Project Manager shall be deemed to be the appointment of a new Project Manager which shall be subject to Lender's approval. Borrower shall cause each Project Manager to deliver a manager's subordination and agreement to Lender substantially in the form delivered to Lender at Closing by Project Manager, subject to the terms of the Management Agreement involved and in form and substance acceptable to Lender. Such agreement shall provide, among other things, that (i) such management agreement or arrangement shall not affect or be a lien upon the Timberlands and shall be subordinate to the lien of the Deeds of Trust, and (ii) upon and during the continuance of any Event of Default, any such management agreement or arrangement with any such Project Manager shall be subject to termination by Lender in Lender's sole discretion.

Lender has approved Olympic Resource Management LLC, a Washington limited liability company ("**Olympic**") as the Project Manager, and Lender has approved that certain Management Agreement dated as of June 1, 2010, between Olympic and Borrower as the Management Agreement. To the extent that such Management Agreement, or any other Management Agreement, conflicts with the provisions of this Agreement, the provisions of this Agreement shall control.

4.14 Purchase Agreement. Borrower shall not cause or permit any modification, amendment or supplement of the Purchase Agreement, whether in writing, orally or by course of dealing, without in each case the prior written consent of Lender. Borrower shall promptly furnish to Lender copies of any notices given or received by Borrower with respect to the Purchase Agreement. Borrower shall exercise and enforce all rights and indemnities inuring to the benefit of Borrower under the Purchase Agreement, provided, however, that Borrower shall not fail to promptly enforce a material right or indemnity under the Purchase Agreement without the prior written consent of Lender. Borrower shall, upon the request of the Lender, report the status of any claim, action or proceeding with respect to the Purchase Agreement.

ARTICLE 5. FINANCIAL COVENANTS

All financial covenants herein refer and apply to the Borrower and Guarantor, as applicable, and shall be interpreted in accordance with GAAP.

5.1 Financial Records. Borrower and Guarantor shall each maintain sound accounting policies and an adequate and effective system of accounts and internal accounting controls that will safeguard assets, properly record income, expenses and liabilities and assure the production of proper financial statements in accordance with GAAP, consistently applied. Borrower has adopted the Fiscal Year as its fiscal year for all purposes, including federal income tax purposes, and shall not change its fiscal year from the Fiscal Year.

5.2 Financial and Business Information. Borrower shall deliver or cause to be delivered to Lender, in addition to any other reports required to be delivered hereunder or under the Guaranty, the following:

5.2.1 Within sixty (60) days after the end of each quarterly period in each Fiscal Year of Borrower (other than the last quarterly period of each such Fiscal Year), copies of: (i) Borrower's and Guarantor's unaudited balance sheet, as at the end of such quarter, and (ii) Borrower's and Guarantor's statements of income and cash flows, for such quarter and for the portion of the Fiscal Year ending with such quarter, setting forth in each case in comparative form the figures for the corresponding periods in the previous Fiscal Year, all in reasonable detail, and prepared in accordance with GAAP, consistently applied, applicable to quarterly financial statements generally, and certified as complete and correct, subject to changes resulting from year-end adjustments, by an officer of Borrower and Guarantor, as appropriate, and accompanied by a certificate of an officer of Borrower and Guarantor, as appropriate, that such statements are true, complete and correct and demonstrating compliance with the financial covenants contained in this Agreement (including without limitation the covenant regarding cash on hand set forth in Section 5.5) and certifying, based upon such officer's knowledge, that no Event of Default exists, or, if such officer is aware of such Event of Default, the nature thereof;

5.2.2 Within ninety (90) days of each Fiscal Year of Borrower and as of the last day of such Fiscal Year, annual audited financial statements (including, but not limited to, a balance sheet as of the end of such year, statements of income and expenses, retained earnings and statement of cash flows) of Borrower for such year, prepared, audited and certified, at Borrower's expense, by an independent certified public accountant reasonably acceptable to Lender on a GAAP basis consistently applied, and accompanied by a certificate of an officer of Borrower that such statements are true, complete and correct.

5.2.3 Concurrently with the delivery of the financial statements described in subsection 5.2.2 above, a certificate of an officer of Borrower in form and manner acceptable to Lender certifying to Lender that such person is familiar with the financial provisions of this Loan Agreement and that based upon such Person's examination and knowledge of the affairs of such Borrower obtained in connection with preparation of said financial statements and such officer's examination and analysis of the financial provisions of this Agreement and the Loan, no Event of Default has occurred or is in existence, or, if an Event of Default does exist, the nature thereof, and the period it has been in existence and such certificate shall contain a certification and demonstration of compliance with the financial covenants and other provisions of this Loan Agreement and the other Loan Documents; and

5.2.4 Such other data and information (financial and otherwise) as Lender, from time to time, may reasonably request, bearing upon or related to any Borrower's or Affiliate's financial condition and results of operations or Property.

5.3 **Restrictions on Incurrence of Debt.** Borrower shall not at any time have any Debt, other than the Loan. No Debt or indebtedness of Borrower (other than the Loan) may be secured in any manner whatsoever (and including, without limitation, secured in a manner so as to be subordinate or pari passu to the Loan) by Property of Borrower.

5.4 **Loan to Value Ratio.**

5.4.1 The initial "**Loan to Value Ratio**" or "**LTV**," defined below, as determined by Lender in its sole discretion, shall be the ratio of the outstanding principal balance of the Loan to the value of the Copper Creek Block of the Timberlands as established pursuant to a third party certified appraisal delivered prior to Closing, meeting the standards as set forth in Section 4.5.3. As of December 31, 2011, and thereafter, the "**Loan to Value Ratio**" or "**LTV**" as determined by Lender in its sole discretion, shall mean the ratio of the outstanding principal balance of the Loan to the value of the Timberlands (inclusive of the Copper Creek Block and any additional Timberlands for which certified comprehensive appraisals have been received and updated in accordance with Section 4.5).

5.4.2 Borrower shall not at any time cause or permit the Loan to Value Ratio to exceed Forty Percent (40%), and any such non-compliance shall be a Default hereunder, and any such Default which is not restored to compliance by a prepayment of principal made as required under the terms of Section 5.4.4 below, shall constitute an Event of Default hereunder. For the avoidance of doubt, the "value of the Timberlands" shall in no event include any money or Property, other than the Timberlands.

5.4.3 The Loan to Value Ratio shall be calculated by Borrower for submission to Lender under Section 5.4.2 on or before March 1, 2011, and thereafter on or before March 1 of each year, as of the prior Fiscal Year end, and with respect to any partial release pursuant to Section 4.8.3 and at any other time as required by Lender, each as of an effective date selected by Lender. The LTV shall be based upon the outstanding balance of the Loan taking into consideration any payments made and received by Lender on or before the applicable effective date. For instance, the LTV as calculated annually on March 1, 2011 as of the prior December 31, 2010, shall be based on the outstanding balance of the Loan taking into consideration any payment made on or before said prior December 31, 2010. The value of the Timberlands used for such scheduled annual calculation shall be as determined by the last comprehensive appraisal or updated appraisal, as applicable, required under Section 4.5.3 or Section 4.5.4, respectively as of such immediately prior Fiscal Year end which has been approved by Lender.

5.4.4 Lender shall review each submission made by Borrower under Section 5.4.2, and all assumptions, information and calculations made by Borrower in connection with such calculation shall be subject to verification and approval by Lender, it being agreed that the LTV shall in each case under this Section 5.4 and this Agreement, be determined by Lender in its sole discretion. At any time that Lender shall decide to determine the LTV, except as set forth in the preceding sentence, Lender may, in its sole discretion, consider any information available to Lender in determining value, including, without limitation, evidence of actual volumes of timber, timber removals and growth rates, all from any source, the most recent timber cruise and appraisal reports received and approved by Lender, and any updates thereof or as otherwise determined by Lender, provided, however, that, except as set forth in the preceding sentence, Lender may require that an appraisal be done at any time for the purpose of applying the Loan to Value test. Further, Lender may determine the Loan to Value Ratio at any time and from time to time at its sole discretion.

5.4.5 If at any time Lender shall give notice to Borrower that Borrower is not in compliance with subsection 5.4.2 above, Borrower shall make a prepayment of the Loan in an amount sufficient to cause Borrower to be in compliance with subsection 5.4.2, and such prepayment shall be made within ten (10) days after the date said notice of non-compliance is given by Lender to Borrower. Any such prepayment shall be treated in the same manner as any other prepayment, including, without limitation, any requirement for a prepayment premium.

5.5 **Restrictions on Distributions.** From the period from Closing until the first anniversary of Closing, Borrower shall at all times maintain a minimum cash balance equal to one full year of interest payments to be due under the Loan. Borrower shall not make any Distributions provided, however, that Distributions shall be permitted as long as (1) there is no Event of Default or Default, (2) all financial covenants herein are in compliance, (3) the Loan-to-Value Ratio shall be in compliance, (4) prior to and after such Distribution the Borrower's minimum cash balance shall be equal to one full year of interest payments prospectively due on the Loan, and (5) such Distribution will not cause any such Default or Event of Default, non-compliance or shortfall and shall otherwise be in accordance with the terms of this Agreement, but, in any event, Borrower shall not declare or make or incur any liability to declare or make any Distribution, or redeem, retire, purchase or otherwise acquire ownership interests in the Borrower during the continuance of a Default or Event of Default, or which would or may reasonably be expected to give rise to a Default or Event of Default.

ARTICLE 6. CLOSING

The closing of the Loan (the "**Closing**") is scheduled to be held in a manner acceptable to Lender on or before September 1, 2010 (herein referred to as the "**Closing Date**"). Notwithstanding any other provision of this Agreement or any other Loan Documents, and without affecting in any manner the rights of Lender under the other sections of this Agreement, it is understood and agreed that Lender's obligation to fund the Loan is subject to fulfillment of the terms and conditions of the Application, Lender's closing checklist and other terms and conditions established by Lender, and that Lender shall have no obligation to fund the Loan if any Default or Event of Default shall exist at such time and unless and until the following conditions have been satisfied, all in form and substance satisfactory to Lender and their special counsel:

6.1 **Documentation.** Lender shall have received the following documents, each to be in form and substance satisfactory to Lender:

6.1.1 The original Note, duly executed by Borrower, and the original Guaranty Agreement duly executed by the Guarantor;

6.1.2 Multiple original counterparts of each of the Security Documents, including, without limitation, the Security Documents listed in Section 1.5, with evidence that the Security Documents intended to be recorded have been duly recorded, or that arrangements satisfactory to Lender have been made for such recordation, in each Office where such recordation, in each office where such recordation is necessary;

6.1.3 Multiple original counterparts of the Environmental Indemnity Agreement executed by Borrower and Guarantor (the "**Environmental Indemnity Agreement**");

6.1.4 A solvency certificate of Borrower and Guarantor;

6.1.5 Such UCC-1 financing statements as may be required by the Lender;

6.1.6 Original written opinions of counsel covering the State of Delaware and each State in which any part of the Timberlands is located in form and substance satisfactory to the Lender with respect to the transactions contemplated by this Agreement, including, without limitation, the enforceability of the Loan Documents executed by the Borrower and Guarantor.

6.1.7 Certificates of Liability Insurance evidencing liability insurance in the amount of \$5,000,000 in form and substance acceptable to Lender for all insurance required hereunder or otherwise carried by Borrower, and, upon the request of Lender certified copies of Borrower's insurance policies, together with an endorsement naming the Lender as additional insured, as its interests may appear, under the liability policy, and a mortgagee loss payee endorsement under the property policy, and such other endorsements as the Lender may reasonably require, which endorsements shall be in form and substance reasonably satisfactory to the Lender;

6.1.8 Copies of all filing receipts or acknowledgments issued by any Governmental Authority to evidence any filing or recordation necessary to perfect the Liens of the Lender in the Collateral and evidence in a form acceptable to the Lender that such Liens constitute valid and perfected first priority Liens, provided that, to the extent that gap coverage has been provided pursuant to Lender's Title Policy with respect to any such filing or recordation or such filing consists of a Uniform Commercial Code Financing Statement, such filing receipts or acknowledgments may be delivered within a reasonable time after the Closing;

6.1.9 Certificates of a duly authorized officer or Manager of each Borrower and Guarantor certifying (i) that attached thereto is a true and complete copy of the Certificate of Formation and Operating Agreement, or Articles of Incorporation and Bylaws, as applicable, and all other organizational documents of such entity, as amended to the date of such certification, (ii) that attached thereto are true and complete copies of consents executed and delivered by the officers and Manager of each Borrower and Guarantor authorizing the execution, delivery and performance of this Agreement and the other Loan Documents to which such entity is a party, (iii) that attached thereto is a true and complete copy of the organizational documents of Manager, as amended to the date of such certification, and (iv) as to the incumbency, authority and genuineness of the signature of each officer of Borrower executing this Agreement or any of the other Loan Documents to which Borrower or Guarantor is a party, and such other authority documents as may be requested by Lender;

6.1.10 Good standing certificates (or the equivalent) for Borrower, Guarantor and the Manager of Borrower, issued by the appropriate official of each jurisdiction where the conduct of Borrower's and Guarantor's business activities or the ownership of its Properties necessitates qualification;

6.1.11 The Title Policy, in form and substance satisfactory to the Lender, with such endorsements as the Lender may require, insuring the validity and first priority of the lien and effect of the each of the Deeds of Trust, subject only to such exceptions to and exclusions from coverage as may be acceptable to the Lender. In addition, the Lender shall have received copies of all instruments and other matters affecting title to the Property encumbered by the Deeds of Trust to the extent shown as exceptions to coverage under the Title Policy. Ingress and egress to the Timberlands shall be by public road or deeded right of way easement included as part of the mortgaged property and insured under the Title Policy, except as disclosed on Schedule 2.6.3 attached hereto. All premiums, charges, fees, costs and expenses of the title insurer or related to the Title Policy shall be paid in full by Borrower;

6.1.12 Multiple original counterparts of this Agreement, duly executed by all parties;

6.1.13 Rent Roll (as required in Schedule 2.7) and all other Schedules and Exhibits to this Agreement;

6.1.14 Environmental Questionnaire;

6.1.15 Such other documents, instruments and agreements as are required by the Application or as the Lender shall reasonably request in connection with the foregoing matters, including without limitation, updates, revisions or supplements to previously delivered information or documents where necessary to make such previously delivered information or documents true, complete and accurate; and

6.1.16 A certificate signed by a duly authorized officer of Borrower dated as of the Closing Date, stating the Borrower and any Affiliate of Borrower is in compliance with all of the terms and provisions set forth in this Agreement; and

6.1.17 A consent and subordination agreement duly executed by the Project Manager with respect to the Management Agreement of the Timberlands.

6.2 **Other Conditions.** The following conditions shall have been and at the time of Closing shall continue to be satisfied, to the satisfaction of Lender:

6.2.1 Lender shall have received a satisfactory independent appraisal confirming a value of the Copper Creek Block of the Timberlands of \$34,000,000. Such appraisal shall include a map or maps of the Copper Creek Block and shall be in form and substance reasonably satisfactory to Lender;

6.2.2 Borrower agrees that Borrower shall have furnished to Lender on or before the date of Closing, copies of any appraisals, valuations, timber inventory cruises or the like, and all environmental reports, in each case available to the Borrower;

6.2.3 The ratio of the principal amount of the Loan to the value of the Copper Creek Block and Timber thereon pursuant to the appraisal approved by Lender shall not exceed thirty-five percent (35%).

6.2.4 No action, proceeding, investigation, regulation or legislation shall have been instituted, proposed or, to the knowledge of Borrower, threatened in writing before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby, or which is related to or arises out of this Agreement or the consummation of the transactions contemplated hereby, and which, in Lender's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Agreement;

6.2.5 The Note shall on the Closing Date qualify as a legal investment for Lender under applicable insurance law including, without limitation, Section 1045 of the New York Insurance Law (without regard to any “basket” or “leeway” provisions), and such acquisition shall not subject Lender to any penalty or other onerous condition in or pursuant to any such law or regulation, and Lender shall have received such evidence as Lender may request to establish compliance with this condition;

6.2.6 Borrower shall have good and marketable fee simple title to the Timberlands, subject to no Liens except the Permitted Encumbrances, and Borrower shall have full power and authority to assign, lease, transfer, pledge and mortgage the Collateral;

6.2.7 The warranties and representations of each of Borrower, Guarantor and Project Manager contained herein and in the other Loan Documents shall be true and correct;

6.2.8 The organizational documents of Borrower and Guarantor shall be acceptable in form and substance to Lender;

6.2.9 All proceedings taken in connection with the Loan and the other transactions contemplated hereby and by the other Loan Documents and all documents and papers relating thereto shall be satisfactory to Lender and its special counsel. Lender and its special counsel shall have received copies of such documents and papers as they may reasonably request in connection therewith, all in form and substance satisfactory to Lender and its special counsel.

ARTICLE 7. EVENTS OF DEFAULT; RIGHTS AND REMEDIES ON DEFAULT

7.1 Events of Default. The occurrence of any one or more of the following events shall constitute an “Event of Default”:

7.1.1 (i) Failure to make payment of any scheduled installment of interest or principal under the Note on or before the date which is four (4) days after the due date, or (ii) failure to make payment of any partial prepayment of principal under the Note, including without limitation any Excess Cutting Payment, and any premiums thereon on or before the date due, or (iii) failure to make payment of the entire indebtedness under the Note and any premium thereon on or before the applicable maturity or due date;

7.1.2 Borrower shall fail to make payment on or before the due date of any amount other than an amount referenced in Section 7.1.1 payable to Lender hereunder or under the Note, the Deeds of Trust or any other Loan Document (after any applicable grace or notice period) or if no grace or notice period is specified, within ten (10) days of written notice thereof, or Borrower shall be in default of payment in respect of any Taxes or Other Charges (except to the extent contested in accordance with Section 3) or with respect to any insurance premiums or payments;

7.1.3 Any warranty, representation, certificate, schedule or other statement or written information made or furnished to Lender in writing by or on behalf of Borrower or Guarantor herein or in any instrument delivered in connection with the Loan was false or misleading when made or furnished;

7.1.4 Borrower defaults in the performance of or compliance with any covenant or agreement contained in Sections 3.3, 3.4, 3.6, 3.8, 3.9 (other than 3.9.6), 3.10, 3.11 (other than 3.11.11 and 3.11.12), 3.12, 3.15, 4.6 or in Article 5 (but not including Section 5.2);

7.1.5 Borrower defaults in the performance of any of the obligations or covenants set forth in Section 4.5 and the same is not cured to Lender's satisfaction within ten (10) days after written notice thereof by Lender;

7.1.6 Borrower fails or neglects to perform, keep or observe any other term, provision, condition or covenant contained in this Agreement which is required to be performed, kept or observed by Borrower (other than those referred to in any of the other paragraphs of this Section) and the same is not cured to Lender's satisfaction within thirty (30) days after written notice thereof by Lender; provided that with regard to Defaults other than in respect of reporting obligations, if (i) such failure cannot be cured within such thirty (30) day period, (ii) such failure is susceptible of cure, (iii) Borrower is proceeding with diligence and in good faith to cure such failure, and (iv) the Lender shall receive an officer's certificate of Borrower to the effect of clauses (i), (ii) and (iii) above and specifying the action Borrower is taking to cure such failure, then such thirty (30) day cure period shall be extended by an additional period of time necessary to effect the cure not to exceed ninety (90) days.

7.1.7 There shall occur a default (after the expiration of any applicable notice or cure periods thereunder, or if no grace or notice period is specified, within ten (10) days of written notice thereof) or event of default (however defined), under any other Loan Document, including, without limitation, under the Environmental Indemnity Agreement or the Guaranty.

7.1.8 The occurrence of any default (after the expiration of any applicable notice or cure periods thereunder) or event of default (however defined) on the part of Borrower under any other agreement, document or instrument to which Borrower is a party or by which Borrower is bound creating, evidencing or related to any debt, liability or obligation of Borrower (other than Material Contracts subject to Section 7.1.18) in excess of \$50,000;

7.1.9 Any statement, report, financial statement or certificate made or delivered by Borrower or Guarantor, or any of their officers, employees or agents, furnished to Lender in connection with the Closing or pursuant to any term or condition herein, or in any other Loan Document, to Lender proves to have been false or incorrect in any material respect on the date as of which made;

7.1.10 Borrower, Guarantor or any Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of the Bankruptcy Code or any other bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes action for the purpose of any of the foregoing;

7.1.11 A court or governmental authority of competent jurisdiction enters an order appointing, without consent by Borrower, Guarantor or any Subsidiary, a custodian, receiver, trustee or other officer with similar powers with respect to such Borrower, Guarantor or any Subsidiary or with respect to any substantial part of the property of such Borrower, Guarantor or any Subsidiary, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Borrower, Guarantor or any Subsidiary, or any such petition shall be filed against Borrower, Guarantor or any Subsidiary and such petition shall not be dismissed within sixty (60) days;

7.1.12 There shall occur any loss or casualty to, or condemnation or government expropriation of, all or any material portion of the Collateral, and the amount of the prepayment of the Loan made by Borrower is insufficient to achieve compliance under Section 5.4 or is otherwise insufficient in the reasonable judgment of Lender, notwithstanding that such prepayment shall include the entire insurance proceeds or condemnation award, as the case may be, received by Borrower;

7.1.13 A notice of Lien, levy or assessment is filed of record with respect to all or any of Borrower's, Guarantor's or any Subsidiary's assets by any Governmental Authority, including, without limitation, the Pension Benefit Guaranty Corporation or if any taxes or debts owing at any time or times hereafter to any Governmental Authority becomes a lien or encumbrance upon the Collateral or any other of Borrower's or such Subsidiary's assets, and the same is not released within thirty (30) days after the same becomes a Lien or encumbrance or, in the case of ad valorem taxes, prior to the last date when payment may be made without penalty, provided, that Borrower may contest any such notice of Lien, levy or assessment or any such lien in accordance herewith and the Deeds of Trust, and, with respect to any such Lien, levy, assessment or taxes in any amount, as long as no foreclosure proceeding has been filed with respect to such Lien, levy or assessment, regardless of the amount thereof;

7.1.14 A garnishment, summons or a writ of attachment is issued against or served upon Lender for the attachment of any Property of Borrower, whether or not in Lender's possession and such garnishment, summons or writ of attachment is not discharged by bond or otherwise within thirty (30) days after the issuance of service thereof, provided, however, that no foreclosure or similar proceeding shall have been filed with respect thereto, regardless of the amount thereof;

7.1.15 If Borrower, whether voluntarily or involuntarily, sells, conveys, mortgages, pledges, leases or otherwise transfers the Collateral, or any portion thereof, other than as permitted hereunder, without the prior written consent of the Lender;

7.1.16 Borrower, Manager or Guarantor shall dissolve or cease to exist;

7.1.17 This Agreement, the Note, the Assignment of Timber Contracts, the Manager's Consent and Subordination of Management Agreement, any of the Deeds of Trust, the Environmental Indemnity Agreement, the Guaranty Agreement or any other Loan Document shall cease to be in full force and effect (other than with the consent of Lender);

7.1.18 Any material default by Borrower under any Material Contract or any conservation easement, lease or other encumbrance on the Timberlands.

7.2 **Acceleration of the Obligations.** Upon the occurrence and during the continuance of an Event of Default described in subparagraph 7.1.10 or 7.1.11 of Section 7.1 above, all of the Obligations shall automatically become due and payable without notice or demand by Lender, and Borrower will forthwith pay to Lender, in addition to any and all other Obligations due or to become due, the entire principal of and interest and premium due on the Note. If any other Event of Default shall have occurred and be then in existence, the Lender may declare, in a notice provided to Borrower pursuant to Section 8.9, the Obligations to be immediately due and payable, and, in such event, Borrower will forthwith pay to Lender, without notice or demand by Lender, the Obligations, including the entire principal of and interest and premium due on the Note.

7.3 **Remedies.** Upon the occurrence of an Event of Default, Lender shall have all of the rights and remedies available hereunder and under the other Loan Documents, at law and in equity.

7.4 **Remedies Cumulative.** All covenants, conditions, provisions, warranties, guaranties, indemnities and other undertakings of Borrower contained in this Agreement, any of the other Loan Documents or in any documents referred to herein or contained in any agreement supplementary hereto, or in any schedule given to Lender or contained in any other agreement between Lender and Borrower, heretofore, concurrently or hereafter entered into, shall be deemed cumulative to and not in derogation or substitution of any of the terms, covenants, conditions or agreements of Borrower herein contained, and all remedies of Lender thereunder shall be cumulative and concurrent, and may be pursued singularly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefor shall arise. No act of omission or commission of Lender, including without limitation, any failure or delay of Lender to exercise or enforce any rights, Liens, powers or remedies hereunder or under any of the aforesaid agreements or other documents or security or collateral for the Loan, or to exercise its option to accelerate the Scheduled Maturity Date of the Note, for a period of time or on more than one occasion, shall be deemed to be, or shall operate as a waiver or release of such Liens, rights, powers, remedies, and options but all such Liens, rights, powers, remedies and options shall continue in full force and effect until all of the Obligations owing or to become owing from Borrower to Lender shall have been fully satisfied, and all Liens, rights, powers, remedies and options herein provided for are cumulative and none is exclusive. Further, once Lender has exercised any of its rights or remedies hereunder, or under the Loan Documents, during the existence of an Event of Default, all actions theretofore or thereafter taken by Lender in pursuit of such rights and remedies shall not be affected by any cure of such Event of Default, unless Lender shall accept the cure and terminate pursuit of any such right or remedy, in which case, the parties shall be restored to their position which existed prior to Lender's exercise of its rights or remedies.

7.5 **Indemnification.** Borrower hereby covenants and agrees unconditionally and absolutely to indemnify, defend and save harmless Lender, its officers, directors, shareholders, employees, agents and attorneys against all damages, losses, liabilities, obligation, claims, litigation, demands or defenses, judgments, suits, proceedings, fines, penalties, costs, disbursements and expenses of any kind or nature whatsoever (including without limitation attorneys' fees reasonably incurred), which may at any time be imposed upon, incurred by or asserted or awarded against Lender and arising from any failure of Borrower to comply with and perform its Obligations hereunder and under the other Loan Documents, any representation of Borrower herein or in the other Loan Documents being false or misleading in any material respect when made, except that this indemnity shall not be applicable to the extent that any damages, losses, liabilities or other matters or amounts are attributable to actions or omissions by any indemnified person constituting gross negligence or willful misconduct. This indemnity shall survive any foreclosure of the Deeds of Trust, the taking of a deed in lieu thereof, or any other discharge of the obligations of the Borrower hereunder or under the Loan Documents, even if the indebtedness secured hereby is satisfied in full. Borrower agrees that the indemnification granted herein may be enforced by Lender without resorting to or exhausting any other security or collateral or without first having recourse to the Note or the Collateral through foreclosure proceedings or otherwise; provided, however, that nothing herein contained shall prevent Lender from suing on the Note or foreclosing the Deeds of Trust or from exercising any other rights under the Loan Documents.

ARTICLE 8. MISCELLANEOUS

8.1 **Audit and Appraisal Rights.** Borrower will permit Lender, after prior notice to Borrower, to visit and inspect any of the Timberlands, and Lender and its representatives shall have the right during normal business hours at the office of the Borrower set forth in Section 2.10.3 to examine and audit all of Borrower's and Guarantor's books of account, financial statements, records, reports and other papers, to make copies and extracts therefrom, to cause such books to be audited by independent certified public accountants selected by Lender, and to discuss the Borrower's affairs, finances and accounts with any Borrower, Guarantor and its officers, employees and independent public accountants (and by this provision the Borrower authorize said accountants to discuss the finances and affairs of Borrower and Guarantor with Lender or its representatives) all at such reasonable times and as often as may be reasonably requested. Without limiting any of the other inspection, audit, appraisal or similar obligations of Borrower hereunder, or such rights granted to Lender herein, Lender may have the Collateral reappraised from time to time if it deems such reappraisal to be prudent in its reasonable judgment. Borrower shall promptly reimburse Lender for the costs of conducting any such inspection, audit, examination or reappraisal permitted by this Section if an Event of Default exists or if such audit, examination or reappraisal discloses a difference of income or value in an amount greater than five percent (5%) of the amount originally reported to Lender.

8.2 **Fees and Expenses Incurred by Lender.** Borrower shall pay all reasonable costs and expenses of Lender associated with the administration of the Loan, and, after a Default, shall also pay all costs and expenses actually incurred by Lender associated with the enforcement of the Loan, including, in each case, without limitation, outside attorneys' fees; consulting fees (including environmental); appraisal fees; accountants' fees, costs and expenses; court costs and expenses; photocopying and duplicating expenses; corporate search fees; title commitment and insurance fees; filing and recording fees and taxes; air express charges; and all expenses relating to telecommunications, facsimile transmissions, overnight mail and the like. Borrower shall also pay all reasonable costs and expenses of Lender incurred in connection with any amendment, modification or waiver of this Agreement or any of the Loan Documents. All such expenses, costs, charges and other fees shall be payable thirty (30) days after written request to Borrower therefor by Lender (unless otherwise specifically provided herein) and shall be additional Obligations hereunder.

In addition, if any taxes (excluding income taxes levied against Lender) shall be payable on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Loan Documents, or the creation of any of the Obligations hereunder, by reason of any existing or hereafter enacted federal or state statute, Borrower will pay all such taxes, including, but not limited to, any interest or penalty thereon, and will indemnify, defend and hold Lender harmless from and against liability in connection therewith.

8.3 Waiver by the Lender. Lender's failure, at any time or times hereafter, to require strict performance by Borrower of any provision of this Agreement shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by Lender of an Event of Default by Borrower under this Agreement or the other Loan Documents shall not suspend, waive or affect any other Event of Default by Borrower under this Agreement or the other Loan Documents, whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of Borrower contained in this Agreement or the other Loan Documents and no Event of Default by Borrower under this Agreement or the other Loan Documents shall be deemed to have been suspended, released or waived by Lender, unless such suspension, release or waiver is by an instrument in writing, and only to the extent specifically recited therein, and such writing is signed by a duly authorized representative of Lender and directed and delivered to Borrower. Any such written waiver or release in connection with one event shall not be construed as a waiver or release of any subsequent event or as a bar to any subsequent exercise of Lender's rights or remedies hereunder.

8.4 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by, unenforceable or invalid under applicable law, then it is the intent of Borrowers and Lender that there shall be added in lieu thereof a provision as similar in terms to such provision as is possible which is legal, valid and enforceable, without invalidating the remaining provisions of this Agreement.

8.5 Modification of Agreement. This Agreement and the other Loan Documents may not be modified, altered or amended, except by an agreement in writing duly executed by Borrowers and Lender, and any other party thereto.

8.6 Authorization to Disseminate Information. Upon the occurrence and during the continuance of any Event of Default, Lender may distribute to any Person (other than distribution or release to the public news media, except if required by law or regulation) such information as Lender may have concerning the business affairs, financial condition or any other information Lender reasonably deems relevant for the purpose of assisting Lender in the enforcement of its rights and remedies in respect of such Event of Default (including, but not limited to, discussing with such Person a possible foreclosure by private sale of all or any part of the Collateral or a sale of Lender's interest in the Loan), and Lender shall have no liability for any loss or damages suffered or incurred by Borrower as a result of such distribution.

8.7 Waivers by Borrower. Except as otherwise provided for in this Agreement, Borrower waives under the Note, this Agreement and the other Loan Documents that Borrower is a party to (i) presentment, demand and protest and notice of presentment, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Lender on which Borrower may in any way be liable and hereby ratifies and confirms whatever Lender may do in this regard; (ii) notice prior to taking possession or control of the Collateral or any bond or security which might be required by any court prior to allowing Lender to exercise any of the Lender's remedies; (iii) the benefit of all valuation, appraisal and exemption laws; and (iv) notice that any amounts that are due have not been paid.

8.8 Authorized Signature. The signature upon this Agreement or upon any of the other Loan Documents of a duly authorized officer of Borrower to which they are a party shall bind Borrower, and be deemed to be the act of such Borrower, affixed pursuant to and in accordance with the provisions of Borrower's certificate of formation and operating agreement or articles of incorporation and bylaws, as the case may be.

8.9 Notices. The addresses for notices to Borrower and Lender are as follows:

If to Lender, at:

Metropolitan Life Insurance Company
6750 Poplar Avenue, Suite 109
Memphis, Tennessee 38138
Attention: Loan No. 194231

with a copy to:

Metropolitan Life Insurance Company
8717 West 110th Street, Suite 700
Overland Park, Kansas 66210
Attention: Agricultural Investments
Loan No. 194231

and to:

Metropolitan Life Insurance Company
Agricultural Investments – Legal
10 Park Avenue
Morristown, New Jersey 07962
Attention: Loan No. 194231

If to Borrower, at:

c/o Olympic Resource Management LLC
19245 Tenth Avenue NE
Poulsbo, Washington 98370
Attention: Thomas M. Ringo
Email: tringo@orminc.com

with a copy to:

Davis Wright Tremaine LLP
1201 Third Avenue, Suite 2200
Seattle, Washington 98101-1688
Attention: Greg Adams
Email: gregadams@dwt.com

or to such other address as each party may designate for itself by like notice given in accordance with this Section.

Except for any notices, demands, requests or other communications required under applicable law to be given in another manner, whenever Borrower or Lender gives or serves any notices, demands, requests or other communications with respect to this Agreement or the Note, each such notice, demand, request or other communication shall be in writing and shall be delivered personally, mailed by United States Postal Service certified or registered mail or sent by a nationally recognized courier service such as Federal Express and properly addressed in accordance with this Section and shall be deemed given upon receipt or refusal to accept. Any party may at any time change its address for such notices by delivering or mailing to the other party hereto, as aforesaid, a notice of such change.

Notwithstanding anything to the contrary set forth herein or in the other Loan Documents, the delivery of the annual Plan, Quarterly Collateral Reports, Annual Collateral Reports and other reports submitted pursuant to Section 4, notices required under Section 3.15, the Tax Certificate and the financial information required under Section 5.2 by electronic mail delivery, addressed to Paulette Oxner (poxner@metlife.com) and Scott Marshall (smarshall@metlife.com) or such other electronic address as Lender may designate from time to time, and such items shall be deemed delivered upon Borrower's receipt of electronic confirmation of receipt from Lender.

8.10 Assignment.

8.10.1 Borrower may not sell, assign or transfer this Agreement, or the other Loan Documents or any portion thereof, including, without limitation, any one or more of Borrower's rights, title, interests, remedies, powers and/or duties hereunder or thereunder.

8.10.2 Lender shall have the right to, and Borrower hereby consents to, any participation or sale, assignment, transfer or other disposition of all or any interest in the Loan. Any such participation or disposition by Lender of this Agreement or the other Loan Documents, or of any portion hereof or thereof, may include, without limitation, Lender's rights, title, interests, remedies, powers and duties hereunder or thereunder. Lender shall give Borrower reasonable notice of any such participation, sale, assignment, transfer or other disposition. Lender may forward to each assignee or participant, and each prospective assignee or participant, all documents and information which Lender now has or may hereafter acquire relating to the Loan, the Collateral, the Borrower or anything else relating hereto. Upon an assignment of the Note or a portion thereof together with Lender's rights under the Loan Documents related thereto to a Person as permitted in accordance with the provisions hereof, Lender shall have no further obligation to Borrower under the Loan Documents in respect of the interest so assigned except to the extent arising out of events or conditions existing on or prior to the date of such transfer.

8.11 Actions by Lender. Without affecting the personal liability of any Person, including Borrower or Guarantor, for the payment of the Obligations, and without affecting the lien of the Deeds of Trust for the full amount of the Secured Obligations (as defined therein) remaining unpaid upon any property conveyed pursuant hereto, Lender is authorized and empowered at any time and from time to time, either before or after the maturity of the Note, and without notice, to: (a) release any Person liable for the payment of any of the Obligations, (b) make any agreement extending the time or otherwise modifying the terms of payment of any of the Obligations, (c) accept additional security therefor of any kind or (d) release any property, real or personal, securing the Obligations.

8.12 Performance by Lender. If Borrower fails to make any payment required under this Agreement or any of the other Loan Documents, whether for real estate taxes, insurance premiums, attorneys' fees or otherwise, or fails to do any act as may be required hereunder or thereunder, Lender may, at the discretion of Lender, without obligation to do so and without releasing Borrower from any obligation, make any such payment or do any such act in such manner and such order as Lender shall deem reasonably necessary to protect the Collateral. Lender may at any time bill Borrower for such payments and expenses, which, subject to the following sentence, shall be paid promptly by Borrower. At the option of Lender, upon notice to Borrower, such payments and expenses shall be added to the principal of the Loan and accrue interest at the Default Rate until paid, whether at the maturity of the Loan or otherwise.

8.13 Entire Agreement. This Agreement, together with the other Loan Documents and all documents evidencing or securing the Loan referred therein, constitutes and sets forth the entire understanding and agreement between the parties with respect to the Loan, and no party hereto has relied upon any representations, agreements or understandings, verbal or written, not set forth herein, or in such other Loan Documents, whether made by any party hereto or by any agent, employee or representative of any party hereto.

8.14 Partial Payment. Acceptance by Lender of any sum in payment or part payment of any portion of the Obligations after the same is due shall not constitute a waiver of Lender's right to require prompt payment when due of the remainder of the Obligations, nor shall such acceptance cure or waive any remaining default or waive any subsequent default or prejudice any of the rights of Lender under this Agreement or the other Loan Documents.

8.15 Time of the Essence. Time is, and shall be, of the essence in the performance of each and every obligation of Borrower under the Note, this Agreement and the other Loan Documents.

8.16 Default Rate. Any amounts owed to Lender by Borrower under this Agreement or any other Loan Document which are not paid when due shall thereafter bear interest at the Default Rate, as defined in the Note (this Section shall not apply to amounts specifically due under the Note, which amounts shall be governed by said Note).

8.17 Brokerage Commission. Lender represents to Borrower that it has dealt with no broker in connection with the Loan. Lender shall not be obligated to pay any commission or brokerage fee in connection with the Loan, the Application or the consummation of the Loan. Borrower shall pay any and all such commissions and fees and hereby agrees to indemnify, defend and hold Lender harmless from any claim for such commissions or fees.

8.18 Further Assurances. Borrower will from time to time execute such further instruments and do such further acts and things as Lender may reasonably require by way of further assurance to Lender of the matters and things in this Agreement provided for or intended so to be.

ARTICLE 9. INTERPRETATION OF THIS AGREEMENT

9.1 Defined Terms. When used herein, the following terms shall have the following meanings:

“**Affiliate**” – means Olympic Resource Management LLC, a Washington limited liability company (also referred to from time to time in this Agreement as “Manager” and as “Olympic”), and any Subsidiaries of Borrower or Guarantor.

A. The term “**Control**” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting Securities, by contract or otherwise.

“**Agreement**” – this Loan Agreement, as it may be amended from time to time.

“**Alta Rock Lease Documents**” – means that certain unrecorded Geothermal Lease Option Agreement dated December 15, 2008, by and between Weyerhaeuser Company as Grantor and Alta Rock Energy, Inc. as Grantee, as amended by a First Amendment dated March 1, 2010, and as supplemented by that certain Table Rock – Bagby Baty Butte Agreement dated September 1, 2010, among Weyerhaeuser Real Estate Development Company, Alta Rock Energy, Inc. and Borrower, a memorandum of which will be recorded at the Closing Date.

“**Bankruptcy Code**” - shall mean any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect.

“**Borrower**” – as defined in the introductory paragraph of this Agreement.

“Business Day” –means any day on which the New York, New York office of Lender and the New York Stock Exchange are open for the general transaction of business.

“Closing” – as defined in Article 6 of this Agreement.

“Closing Date” – as defined in Article 6 of this Agreement.

“Collateral” – means, at any time, all Property of Borrower which is security for the Loan pursuant to the provisions of the Deeds of Trust and the other Loan Documents, including, without limitation, the Timberlands and the Timber thereon or derived therefrom. The Collateral includes all Property set forth in Section 1.4, the Deeds of Trust, any Security Agreement given by any Subsidiary and in any other Loan Document.

“Commonly Controlled Entity” – shall have the meaning specified in Section 2.13 of this Agreement.

“Copper Creek Block” – means the portion of the Timberlands in Marion and Clackamas Counties, Oregon as more fully identified in Exhibit A attached hereto.

“Debt” – means, at any time, with respect to any Person, without duplication:

- (a) All obligations of such Person for borrowed money (including, without limitation, all obligations of such Person evidenced by any debenture, bond, note, commercial paper or Security, but also including all such obligations for borrowed money not so evidenced);
- (b) All obligations of such Person, to pay the deferred purchase price of Property or services, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreements;
- (c) All capital lease obligations of such Person;
- (d) All obligations for borrowed money secured by any Lien existing on Property owned by such Person (whether or not such obligations have been assumed by such Person or recourse in respect thereof is available against such Person);
- (e) Any Guaranty or endorsement of such Person of any obligation or liability of another Person;
- (f) All its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money).; and
- (g) All obligations of such person pursuant to any judgment or order issued by a court or any agreement of settlement of any litigation.

Debt of a Person shall include all obligations of such Person of the character described in clause (a) through clause (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“Deeds of Trust” – as defined in Section 1.5.1. of this Agreement.

“Default” – an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“Distribution” – in respect of any Person means:

- and
- (a) The payment of any dividends or other distributions on capital stock or equity interests of such Person (including distributions in such stock);
 - (b) The redemption or acquisition of any Securities of such Person.

“Employee Welfare Plan” – shall mean an employee welfare benefit plan, as defined in Section 3(1) of ERISA.

“Environmental Indemnity Agreement” – that certain Environmental Indemnity Agreement dated as of even date herewith by Borrower in favor of Lender, as the same may be amended, restated or supplemented from time to time.

“Environmental Protection Laws” – means all federal, state, (specifically including any state where any part of the Timberlands are located) municipal and local laws, statutes, ordinances, rules, regulations, policies, guidelines, directives and decisions of all governmental or quasi-governmental authorities, agencies, regulatory or rule-making bodies, commissions, departments, boards or courts or other tribunals, as the same may be amended, supplemented or reissued from time to time, with respect to or related to any materials or substances dangerous to human health or the environment or Hazardous Substances, pertaining to environmental regulations, contamination, clean-up or disclosures, superliens, health, safety or protection of the environment or applicable to exploration, mining, drilling, extraction, transportation, storage and processing (including, without limitation, reclamation of land affected thereby) of coal, oil, gas and any other minerals, and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. section 9601 et seq. (“**CERCLA**”); the Federal Resource Conservation and Recovery Act, 42 U.S.C. section 6901 et seq. (“**RCRA**”); Superfund Amendments and Reauthorization Act of 1986, Public Law No. 99-499 (“**SARA**”); Toxic Substances Control Act, 15 U.S.C. section 2601 et seq. (“**TSCA**”); the Hazardous Materials Transportation Act, 49 U.S.C. section 1801 et seq.; the Clean Air Act; the Clean Water Act; and the Surface Mining Control and Reclamation Act of 1977 (“**SMCRA**”).

“ERISA” – the Employee Retirement Income Security Act of 1974, as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

“Event of Default” – as defined in Section 7.1 of this Agreement.

“**Exchange Act**” – means the Securities Exchange Act of 1934, as amended from time to time.

“**Fiscal Year**” – means each twelve-month period from January 1 through December 31.

“**GAAP**” – means accounting principles generally accepted in the United States of America from time to time in effect and consistently applied.

“**Governmental Authority**” – means:

- (a) The government of
 - (i) The United States of America and any state or other political subdivision thereof, or
 - (ii) Any other jurisdiction (x) in which Borrower or any Subsidiary or Affiliate conducts all or any part of its business or (y) that asserts jurisdiction over the conduct of the affairs or Properties of any of such Persons; and
- (b) Any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“**Guarantor**” – means ORM TIMBER FUND II, INC., a Delaware corporation.

“**Guaranty**” – with respect to any Person means an obligation other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection of such Person which guarantees or in effect guarantees, or assures the payment of, or performance with respect to, any indebtedness, dividend or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, including, but not limited to, obligations incurred by such Person through an agreement, contingent or otherwise:

- (a) To purchase such indebtedness or obligation or any Property or assets constituting security therefor;
- (b) To advance or supply funds
 - (i) For the purchase or payment of such indebtedness or obligation, or
 - (ii) To maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligations;
 - (iii) To lease Property or to purchase any Security or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of such indebtedness or obligations (but excluding any agreement to purchase goods or services in the ordinary course of business); or

(iv) Otherwise to assure the owner of such indebtedness or obligation of the primary obligor against loss in respect thereof.

“Guaranty Agreement” means that certain Guaranty Agreement executed by Guarantor at and as a condition to Closing in form and substance acceptable to Lender.

“Hazardous Substances” – means pollutants, contaminants, hazardous or toxic substances, wastes or substances, any substances which because of their quantitative concentration, chemical, radioactive, flammable, explosive, infectious or other characteristics, constitute or may reasonably be expected to constitute or contribute to a danger or hazard to public health, safety or welfare or to the environment, including, without limitation, any asbestos (whether or not friable) and any asbestos-containing materials, waste oils, solvents and chlorinated oils, polychlorinated biphenyls (PCBs), toxic metals, etchants, pickling and plating wastes, explosives, reactive metals and compounds, pesticides, herbicides, radon gas, urea formaldehyde foam insulation and chemical, biological and radioactive wastes, or any other similar materials or any hazardous or toxic wastes or substances which are included under or regulated by any federal, state or local law, rule or regulation (whether now existing or hereafter enacted or promulgated, as they may be amended from time to time) pertaining to environmental regulations, contamination, clean-up or disclosures, and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments including, without limitation, any contaminant, dangerous goods and wastes, chemicals, wastes (including, without limitation, subject wastes, liquid industrial wastes, other industrial wastes, toxic wastes, hazardous wastes, solid wastes, special wastes, medical wastes and waste oil), hazardous materials, hazardous substances or radioactive materials or coal in any form, natural gas in any form, petroleum (including, without limitation, crude oil or any fraction thereof, or synthetic gas).

“Lender” – as defined in the introductory paragraph of this Agreement.

“Lien” – any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including but not limited to the security interest, security title or lien arising from a mortgage, deed of trust, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term “Lien” shall include reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting Property.

“Loan” – as defined in Section 1.1 of this Agreement.

“Loan Documents” – this Agreement, the Note, the Deeds of Trust, the Assignment of Timber Contracts, the Environmental Indemnity Agreement, the Guaranty Agreement, the documents listed under Sections 1.5 and 6.1 above, and any and all other agreements, instruments and documents, including, without limitation, mortgages, security agreements, assignments, pledges, powers of attorney, consents, and all other written agreements heretofore, now or hereafter executed by Borrower in favor of Lender or the Lender or in respect to the transactions contemplated by this Agreement, in each case as may be amended from time to time.

“**LTV**” – as defined in Section 5.4 of this Agreement.

“**Manager**” – as defined in Section 2.10.2 of this Agreement.

“**Mandatory Prepayment**” – any prepayment required to be made under the terms of the Loan Documents, including, without limitation, any prepayments required under Sections 4.2.2, 4.2.6, 4.8.3 and 5.4 herein.

“**Margin Security**” – means “margin stock” within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States of America, 12 C.F.R., Chapter II, as amended from time to time.

“**Material Contracts**” – as defined in Section 4.6 of this Agreement.

“**Merchantable Timber**” – means that portion of the Timber greater than 35 years in age located on acres classified as “Available” in Borrower Forest Inventory Reporting System measured in Scribner long log scale.

“**Multiemployer Plan**” – shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“**Note**” and “**Notes**” – as defined in Section 1.2 of this Agreement.

“**Obligations**” – any and all obligations to repay sums at any time loaned or advanced by Lender to or on behalf of Borrower, including, but not limited to, the principal of, and interest and premium, if any, due on, the Notes and other sums loaned or advanced pursuant to the terms of this Agreement (including accrued interest) the full, prompt and complete performance of all obligations at any time owed by Borrower to Lender, including, without limitation, any and all amounts owed to or advanced by Lender pursuant to any of the Loan Documents; all obligations of Borrower to indemnify, defend and hold Lender harmless as set forth in this Loan Agreement or any other Loan Document, and all other obligations or liabilities of any and every kind at any time owed by Borrower to Lender, including, but not limited to, the Loan, howsoever created, evidenced or acquired and whether direct, indirect, primary, secondary, fixed, or contingent.

“**Other Charges**” – as defined in Section 3.1.5 of this Agreement.

“**Permitted Encumbrances**” – as defined in Section 3.6.1 of this Agreement.

“**Permitted Liens**” – as defined in Section 3.6.1 of this Agreement.

“**Person**” – an individual, partnership, corporation, limited liability company, trust or unincorporated organization, or a government or agency or political subdivision thereof or other legal entity.

“**Phase I Report**” - means the URS Phase I Environmental Site Assessment Rayonier Lewis County Timberlands, Lewis County, Washington dated August 16, 2010, and URS Phase I Environmental Site Assessment Copper Creek Timberlands, Clackamas and Marion Counties, Oregon dated August 16, 2010.

“Project Manager” – as defined in Section 4.13 of this Agreement.

“Property” – all property or assets of any kind whatsoever, whether real, personal or mixed, or tangible or intangible.

“Release” – as defined in Section 2.15.2 of this Agreement.

“Riffe Lake Block” – means the portion of the Timberlands in Lewis County, Washington as more fully identified in Exhibit A attached hereto.

“Scheduled Maturity Date” – shall mean September 1, 2020.

“Security” – shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

“Security Documents” – as defined in Section 1.5 of this Agreement.

“Subsidiary” – means, as to any Person, any corporation, association or other business entity in which such Person directly or indirectly owns an equity interest, and any partnership or joint venture in which an interest in the profits or capital thereof is directly or indirectly owned by such Person. Unless the context otherwise clearly requires, any reference to a “Subsidiary” is a reference to a Subsidiary of the Borrower.

“Timber” – means any trees of any age, species or condition, whether standing, lying, growing or to be grown, alive or dead, all biomass and any other organic products growing or to be grown, all now or hereafter at any time located on the Timberlands.

“Timberlands” – means the fee simple interest in and to that certain land and real estate interests located in Marion and Clackamas Counties, Oregon and in Lewis County, Washington all as described in Section 2.5, as set forth in Exhibit A hereof and more particularly described in the Deeds of Trust and including, without limitation, (a) all easements, rights and appurtenances thereto, (b) all Timber, thereon from time to time, (c) all fixtures, buildings, structures and improvements thereon from time to time, (d) all coal, oil, gas and other minerals thereon owned at any time by Borrower, and (e) all rights of Borrower to royalties, profits, proceeds, products and income therefrom, (f) all right, title and interest in and to any credits, claims, rights or benefits arising from or related to the absorption of carbon dioxide by the trees and other organic plants growing on the Timberlands, carbon sequestration, carbon credits, carbon financial instruments or any other benefit by any other name or description, financial or otherwise related to the control or reduction of greenhouse gases, carbon dioxide or any other form of air or atmospheric quality incentives, whether created or sponsored through legislation of any government, industry arrangements, barter, private market or otherwise, and all proceeds, accounts and general intangibles resulting from the sale of such agricultural products or the sale, issuance, trade, barter or other transactions with any such credits, claims, rights or benefits, and (g) all other Real Estate as defined in the Deeds of Trust. The Timberlands includes the Copper Creek Block and a portion of the Riffe Lake Block but does not include the Unencumbered Timberlands.

"Title Policy" – shall mean those certain lenders policies of title insurance and all endorsements thereto covering the Timberlands issued to Lender in Washington and Oregon by Chicago Title Insurance Company in the aggregate amount of \$11,000,000 which shall be in form and substance satisfactory to and accepted by Lender.

"Unencumbered Timberlands" – means certain land and real estate interests together with all Property of the Borrower located thereon or related exclusively thereto, which timberlands and related Property shall not be encumbered by the Deeds of Trust or the other Security Documents. These timberlands are generally described below:

Willamina Tree Farm	5,297 acres	Tillamook, Yamhill Counties, Oregon
Rockaway Tree Farm	6,378 acres	Tillamook County, Oregon
Riffe Lake Tree Farm (Portions)	3,640 acres	Lewis County, Washington not described in the Deeds of Trust.

9.2 Accounting Terms; Interpretation of Financial Covenants. Any accounting terms used in this Agreement which are not specifically defined shall have the meanings customarily given them in accordance with GAAP at the time in effect. The financial covenants and terms contained herein shall be applied to Borrower and its permitted Subsidiaries, if any, on a consolidated basis.

9.3 Directly or Indirectly. Where any provision herein refers to action to be taken by any Person, or that such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, including actions taken by or on behalf of any limited liability company or partnership in which such Person is a member or general partner, respectively.

9.4 Section Headings and Table of Contents, etc. The titles of the Sections of the Note, this Agreement, the other Loan Documents and the Table of Contents appear as a matter of convenience only, do not constitute a part hereof and shall not affect the construction hereof. The words "herein," "hereof," "hereunder" and "hereto" refer to this Agreement as a whole and not to any particular Section or other subdivision. All references in this Agreement to Schedules, Exhibits, Annexes or other addenda shall be deemed to mean the Schedules, Exhibits, Annexes or other addenda to this Agreement, each of which is hereby incorporated herein as though fully set forth herein. Each reference in this Agreement to any gender shall be deemed also to refer to any other gender. The use in this Agreement of the singular shall be deemed also to include the plural and vice versa, unless the context requires otherwise.

9.5 Construction. Each covenant contained herein shall be construed (absent an express contrary provision herein) as being independent of each other covenant contained herein, and compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with one or more other covenants. The Recitals are hereby incorporated into this Agreement.

9.6 Governing Law. This Agreement, the Note and the other Loan Documents shall be governed by, and construed and enforced in accordance with, the law of the State of Washington and the Federal laws of the United States of America in force therein, excluding choice-of-law principles of the law of such state that would require the application of the laws of a jurisdiction other than such jurisdiction; except that the Deeds of Trust and the other Loan Documents recorded or which may be recorded or which so state, and the creation, perfection and enforcement of the Deeds of Trust and the liens and security interests under the Deeds of Trust and the other Loan Documents recorded or which may be recorded or which so state, shall be governed by and construed and enforced in accordance with the law of the state in which any Deed of Trust is recorded or such other Loan Document may be recorded or as so stated therein. Borrower and Lender stipulate and agree that the State of Washington has a substantial relationship to Lender, the Loan Documents, the Obligations and this transaction, and in all respects, including, without limiting the generality of the foregoing, matters of construction, validity, and performance of the Loan Documents, it being understood and agreed that the law of the State of Washington, except as specifically provided otherwise in this Section, shall govern the validity and enforceability of this Agreement and the other Loan Documents.

9.7 Jurisdiction. Borrower hereby irrevocably agrees and submits to the exclusive jurisdiction of any state or federal court located within Washington or Oregon or, at the option of Lender in its sole discretion, and to the extent permitted by law, of any state or federal court(s) located within any other county, state or jurisdiction in which any of the Timberlands is located, and to the extent permitted by law, Borrower waives any objection based on forum non conveniens and any objection to venue of any such action or proceedings. To the extent permitted by law, if such litigation is commenced, Borrower agrees that service of process may be made by serving a copy of the summons and complaint upon Borrower, through any lawful means, including upon its registered agent within said state, whom Borrower hereby appoints as their agent for these purposes. Nothing contained herein shall prevent Lender from bringing any action or exercising any rights against Borrower personally or against any property of Borrower within any other county, state or country. The means of obtaining personal jurisdiction and perfecting service of process set forth above are not intended to be exclusive but are in addition to all other means of obtaining personal jurisdiction and perfecting service of process now or hereafter provided by applicable law.

9.8 Waiver of Trial by Jury. TO THE EXTENT PERMITTED BY APPLICABLE LAW, BORROWER WAIVES TRIAL BY JURY IN ANY PROCEEDING RELATING TO THIS LOAN AGREEMENT OR ANY OF THE OTHER DOCUMENTS RELATING TO THE LOAN AND AGREES THAT NO SUCH ACTION WITH RESPECT TO WHICH A JURY TRIAL HAS BEEN WAIVED SHALL BE SOUGHT TO BE CONSOLIDATED WITH ANY OTHER ACTION WITH RESPECT TO WHICH A JURY TRIAL CANNOT OR HAS NOT BEEN WAIVED.

9.9 Counterparts. This Agreement may be executed in any number of identical counterparts, each of which shall be deemed to be an original, and all of which shall collectively constitute a single agreement, fully binding upon and enforceable against the parties hereto.

9.10 Joint and Several Liability. If more than one person or entity is included in the definition of Borrower, the obligations and liabilities of each such person or entity shall be joint and several.

9.11 Successors and Assigns. Borrower agrees that all the rights, benefits and privileges herein and hereby conferred upon Lender shall vest in, and be enforceable by Lender and their respective successors and assigns. Borrower agrees that this Agreement shall bind Borrower's heirs, executors, administrators, personal representatives, successors and assigns.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year specified at the beginning hereof.

BORROWER:

ORM TIMBER OPERATING COMPANY II, LLC
a Delaware limited liability company

By: Olympic Resource Management LLC, a
Washington limited liability company
Its Manager

By: _____

Printed Name: _____

Title: _____

LENDER:

METROPOLITAN LIFE INSURANCE COMPANY,
a New York corporation

By: _____

Name: C. Ray Smith

Title: Director

[Signature Page to Loan Agreement]

STATE OF WASHINGTON)
) ss.
COUNTY OF)

On this ____ day of _____, 2010, before me personally appeared _____, to me known to be the _____ of Olympic Resource Management LLC, a Washington limited liability company, the Manager of ORM TIMBER OPERATING COMPANY II, LLC, the Delaware limited liability company that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said company, for the uses and purposes therein mentioned, and on oath stated that ____ was authorized to execute said instrument on behalf of said company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Signature: _____

Name (Print): _____

NOTARY PUBLIC in and for the State
of Washington, residing at _____

My appointment expires: _____

[Acknowledgement Page to Loan Agreement]

**STATE OF TENNESSEE
COUNTY OF SHELBY**

Before me, the undersigned Notary Public in and for the State and County aforesaid, personally appeared C. Ray Smith, with whom I am personally acquainted, and who, acknowledged himself to be the Director of Metropolitan Life Insurance Company, a New York corporation, and that he, on behalf of such corporation, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of Metropolitan Life Insurance Company, a New York corporation, by himself as Director of such corporation as his free act and deed and the free act and deed of said corporation.

Witness my hand and seal at office this ____ day of _____, 2010.

Print Name:
Notary Public
My Commission Expires:

SCHEDULE 1.2

PROMISSORY NOTE

Loan No. 194231

\$11,000,000

September 1, 2010

FOR VALUE RECEIVED, the undersigned, **ORM TIMBER OPERATING COMPANY II, LLC**, a Delaware limited liability company with an address at 19245 Tenth Avenue NE, Poulsbo, Washington 98370 (hereinafter referred to as "**Maker**"), promises to pay to the order of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation, together with any subsequent holder of this Note ("**Holder**"), at the location and in the manner provided in Section 1.3 of the Loan Agreement between Maker and the Lender (as defined therein) (as amended, restated or supplemented from time to time, the "**Loan Agreement**"), or at such other location and manner as Holder may designate in writing from time to time, the principal sum of **ELEVEN MILLION AND NO/100 DOLLARS (US\$11,000,000.00)** in lawful money of the United States of America (the "**Loan**") together with interest thereon at the rates and times specified below. Capitalized terms used but not otherwise defined herein shall have the respective meanings assigned thereto in the Loan Agreement.

ARTICLE INTEREST RATE

1.

1.1 Interest. Maker promises to pay interest on the unpaid principal balance from the date of funding by Holder until payment in full at the rate of four and 85/100 percent (4.85%) per annum (the "**Loan Rate**"). Interest at the Loan Rate shall be calculated on the basis of a three hundred sixty day (360) calendar year containing twelve (12) months of thirty days (30) each; provided that for partial payment periods, interest shall be calculated on the basis of the actual number of days elapsed over a three hundred sixty-five (365) day calendar year. The date of funding hereunder shall be considered the date that the Loan funds are wired or delivered by Holder to Maker or if the Loan is being closed through an escrow, to the escrow agent responsible for closing the Loan, regardless of the date that the escrow agent releases such funds to Maker.

1.2 Default Interest. Upon the occurrence of (i) an Event of Default and/or (ii) maturity of this Note (whether maturity occurs by demand, acceleration, lapse of time or otherwise), at the option of Holder, the unpaid principal balance of the Loan and accrued but unpaid interest due on this Note and all other sums owed by Maker to Holder shall bear interest until paid at a default rate of interest of four percent (4.00%) per annum above the Loan Rate but not in excess of the maximum interest rate permitted by law (the "**Default Rate**"). Any interest due at the Default Rate shall be added to the amount due hereunder, and shall be deemed to be secured by the Deeds of Trust. The fact that any such interest shall become due hereunder shall not be construed as an agreement or privilege to extend the date of the payment of any amount due hereunder, nor as a waiver of any other right or remedy available to Holder by reason of the occurrence of any Event of Default, nor to prevent Holder from collecting the late fee rate set forth in Section 2.3 below.

ARTICLE PAYMENTS; MATURITY DATE

2.

2.1 **Payments.** Maker promises to pay the principal and interest under this Note to Holder as follows:

2.1.1 Accrued interest only at the Loan Rate shall be due and payable quarterly, commencing on October 1, 2010 and continuing on the first day of each succeeding January, April, July and October thereafter (each such day, a “**Payment Date**”) until the Maturity Date.

2.1.2 The outstanding principal balance and all accrued and unpaid interest thereon and all other sums and fees due under this Note, the Loan Agreement and the other Loan Documents shall be due and payable on September 1, 2020 (the “**Maturity Date**”).

2.2 **Payment on Non-Business Days.** If a payment of principal or interest on this Note is due on a day other than a Business Day, such payment shall be due on the next succeeding Business Day. A “**Business Day**” shall mean any day that is not a Saturday, Sunday or holiday and on which the New York, New York office of Holder and the New York Stock Exchange are open for business.

2.3 **Late Fee.** In the event Maker fails to make any required payment by the end of the fourth (4th) calendar day following the due date of any such payment (the “**Grace Period**”), Holder shall be entitled to collect, and Maker agrees to pay, in addition to the amount of the scheduled payment, a late charge equal to five percent (5%) of the overdue amount, as liquidated damages for the costs and risk incurred by Holder as a result of the delinquent payment (the “**Late Charge**”). The Late Charge is intended to reimburse Holder for a portion of the administrative cost and additional loan risk associated with said late payment and shall be in addition to, and not in lieu of, any other remedy Holder may have (e.g., to collect Default Rate interest) and is in addition to Holder’s right to collect reasonable fees and charges of any agents or attorneys which Holder employs in connection with any Event of Default, whether or not litigation is commenced. Such late charges if not previously paid shall become part of the indebtedness evidenced hereby and shall, at the option of Holder, be added to any succeeding monthly payment due hereunder. Failure to pay such late charges with such succeeding monthly payment shall constitute an Event of Default and such late charges shall bear interest at the Default Rate from the date due. Notwithstanding the foregoing, in no event shall Maker be entitled to the benefit of the Grace Period for payments due on the Maturity Date.

ARTICLE 3. APPLICATION OF PAYMENTS

Provided no Event of Default has occurred, each payment received with respect to the Loan may be applied by Holder as follows: first, to recovery, with interest thereon at the Default Rate, of any expenses, costs, or fees, including attorneys' fees, funds paid or advanced by Holder or any similar charges pursuant to any of the Loan Documents; second, to any scheduled escrow for tax, insurance or similar items; third, to any late charge or interest calculated at the Default Rate then due; fourth, to the payment of accrued interest at the Loan Rate from time to time remaining unpaid; fifth, to any prepayment premium due with respect to the current payment and any other prepayment premium that may remain unpaid; and sixth, subject to the prepayment provisions of this Note, to reduce the principal hereunder, whether or not due and payable. If any partial payment is accepted on this Note at a time when an amount in excess of such partial payment is then due and payable, such partial payment shall be applied to the oldest outstanding amount in arrears in the order of the arrearage unless Holder elects to apply such payment in some other order. Notwithstanding any other provision of this Note or of any of the other Loan Documents, from and after the occurrence of an Event of Default, all payments and other amounts received by Holder may be applied by Holder in such manner and to such indebtedness (whether to payment of advances made by Holder pursuant to any provision of any of the Loan Documents, interest, principal, Late Charges, interest at the Default Rate, prepayment premium, fees and expenses or otherwise) and in such amounts and order of priority as Holder may determine in the exercise of its sole and absolute discretion.

ARTICLE 4. PREPAYMENTS

4.

4.1 Prepayment. Subject to the provisions of this Section 4, upon not less than thirty (30) days prior written notice to Holder, which notice must identify the amount being prepaid and the date of prepayment (a "**Prepayment Notice**"), Maker shall have the right to prepay this Note in full or in part, subject to the conditions provided below, on any Payment Date by paying, in addition to the amount of the principal prepayment, all accrued and unpaid interest hereunder and all additional sums and charges due under this Note and/or the other Loan Documents, together with a prepayment premium equal to the greater of:

(a) an amount determined by calculating one percent (1%) of the outstanding principal balance;

OR

(b) an amount determined by:

(i) calculating the sum of the present values of all unpaid principal and interest payments required under the Loan Documents through and including the scheduled Maturity Date and including the present value of the outstanding principal balance as of such date (prior to the application of the principal being prepaid), by discounting such payments from their scheduled payment dates back to the date prepayment will be made utilizing a discount rate equal to the Converted Treasury Yield (as defined below); and

(ii) subtracting from such sum the outstanding principal balance (prior to application of the principal being prepaid) as of the date prepayment will be made; and

(iii) multiplying such remainder by the quotient of (A) the principal being prepaid, *divided by* (B) the outstanding principal balance as of the date of prepayment (prior to application of the principal being prepaid).

The “**Converted Treasury Yield**” means 50 basis points plus the yield available, or if there is more than one yield available, the average yields of United States Treasury non-callable bonds and notes having a maturity date closest to (before, on, or after) the scheduled Maturity Date as reported in *The Wall Street Journal* or similar publication on the fifth (5th) Business Day preceding the date prepayment will be made (as calculated by Holder in the exercise of its reasonable judgment), converted to a quarterly equivalent yield. As used herein, the terms “Converted Treasury Yield” and quarterly equivalent yield are annualized rates which reflect the frequency of the interest payments made during a calendar year.

Notwithstanding the foregoing, no prepayment premium shall be payable if Maker voluntarily prepays the Loan in full or in part, within the fifteen (15) day period immediately preceding the scheduled Maturity Date, and on the date such prepayment is made Holder has not exercised and is not entitled to exercise its right to accelerate the scheduled Maturity Date.

4.2 Prepayment Rights. Maker acknowledges that it possesses no right to prepay the Loan, except as expressly provided herein. Maker further acknowledges and agrees that, except as expressly provided herein, if the Loan is prepaid prior to the scheduled Maturity Date, for any reason, including, but not limited to, acceleration of the Maturity Date by reason of an Event of Default, any subsequent tender of payment of the Loan made by Maker or by anyone on behalf of Maker or otherwise, including any tender of payment at any time prior to or at foreclosure sale or proceedings or during any redemption period following foreclosure, or during any federal or state bankruptcy or insolvency proceedings, shall constitute an evasion of the restrictions on prepayment set forth herein, and shall be deemed a voluntary prepayment prior to the scheduled Maturity Date requiring payment of the prepayment premium provided for, if any, and Holder shall not be required to accept such prepayment if it does not include payment of the prepayment premium provided for, if any. Further, Holder’s acceptance of such prepayment without the requisite prepayment premium shall not constitute or be deemed to constitute a waiver by Holder of its right to seek payment of the required prepayment premium in accordance with the terms hereof or any rights and remedies Holder may have under this Note, the other Loan Documents, at law or in equity on account of Maker’s failure to timely pay such prepayment premium as and when required hereunder. To the extent permitted by law, Holder may bid at any foreclosure sale, as part of the indebtedness evidenced by the Loan Documents, the amount of the prepayment premium, if any, which is payable hereunder calculated as if prepayment of the Loan occurs on the date of such foreclosure sale. To the extent the amount of the indebtedness evidenced by this Note must be determined as of a date certain pursuant to a judicial foreclosure, the Loan will be deemed prepaid as of the date judgment enters and the prepayment premium due and payable hereunder (if any) will be calculated as if prepayment of the Loan occurred on the date of said judgment.

4.3 Negotiation of Prepayment Premium. Maker and Holder have negotiated the Loan upon the understanding that if the Loan is paid or prepaid prior to the scheduled Maturity Date, for any reason, except as expressly provided herein, Holder shall receive the prepayment premium provided for as partial compensation for: (i) the cost of reinvesting the prepayment proceeds and/or the loss of the contracted rate of return on the Loan; and (ii) the privilege of early payment of the Loan, which Maker has expressly bargained for and which privilege Holder would not have granted to Maker without a prepayment premium. Maker agrees that the prepayment premium provided for herein is reasonable. Maker agrees that Holder shall not be obligated, as a condition subsequent to its receipt of the prepayment premium provided for, to actually reinvest all or any part of the amount prepaid in any United States Treasury instruments or obligations or otherwise.

4.4 Application of Prepayments. Any partial prepayments of the principal of this Note shall be applied to installments of principal coming due hereunder in the inverse order of maturity, and shall not reduce the scheduled installments of principal payable hereunder, if any. If the amounts necessary to prepay this Note in accordance with the terms and provisions hereof are received by Holder after 2:00 p.m. (Eastern Time), such prepayment shall be deemed to have been made on the next occurring Business Day and Holder shall be entitled to receive interest on the outstanding principal balance of the Loan, calculated at the Loan Rate or the Default Rate, as applicable, and a re-calculated prepayment premium to the effective date of such prepayment.

4.5 Prepayment in Connection with Casualty, Condemnation or Excess Interest. Notwithstanding anything to the contrary set forth in this Note or the other Loan Documents, Holder agrees that provided no Event of Default has occurred, no prepayment premium shall be due and payable in connection with the reduction of the outstanding principal balance of the Loan pursuant to (i) the application of insurance or condemnation proceeds received by Holder pursuant to the Deed of Trust, or (ii) the application of Excess Interest (as defined in the this Note).

4.6 Prepayment Permitted Without Premium. Subject to the provisions of this Section 4, but notwithstanding Section 4.1, Maker may prepay principal in an amount of not more than ten percent (10%) of the original principal amount of the Loan during any calendar year or portion thereof without prepayment premium, provided that no Event of Default exists.

4.7 Notice of Prepayments. Any prepayment otherwise permitted under Sections 4.1 4.5 and 4.6, shall not be permitted unless Holder shall have received written notice from Maker of the amount of such prepayment and the date such prepayment will be paid at least thirty (30) days prior to such date of prepayment.

4.8 Prepayment Not Permitted. Except as hereinabove set forth, no full or partial prepayments of principal shall be allowed.

MAKER'S INITIALS _____

INITIALS _____

INITIALS _____

ARTICLE ISSUANCE PURSUANT TO LOAN AGREEMENT

5.

This Note has been issued by the Maker pursuant to the terms of the Loan Agreement, and Maker and Holder are entitled to the benefits and subject to the obligations thereof. This Note is secured by, among other things, the Deeds of Trust. Reference is hereby made to the

Loan Agreement for a full statement of the rights of the holder of, and the nature and extent of the security for, this Note. All covenants, conditions and agreements contained in the Loan Agreement, the Deeds of Trust and any other document securing this Note, are hereby made a part of this Note. In the event of any conflict between the terms of the Note and the terms of the Loan Agreement, the Deeds of Trust and other security instruments, the terms of this Note shall govern. Maker acknowledges and agrees that the Loan and the other obligations evidenced and secured by the Loan Documents are fully recourse and that, subject to the provisions of this Note, the Loan Agreement, the Loan Documents and the Deeds of Trust and applicable law, Holder's remedies upon default by Maker are not limited to foreclosure of the Deeds of Trust.

ARTICLE EVENTS OF DEFAULT AND REMEDIES

6.

The entire unpaid principal balance and accrued interest under this Note, and any and all other notes of Maker to Holder or other sums owed from Maker to Holder, shall, as set forth in the Loan Agreement, either automatically or as declared at the option of Holder, be immediately due and payable upon the occurrence of an Event of Default with respect to any automatic acceleration and upon the occurrence and during the continuance of one or more Events of Default, with respect to any optional acceleration. Upon the occurrence and during the continuance of one or more Events of Default, Holder shall also have the right to (i) demand additional security in lieu of asserting any other remedy; (ii) use any remedy Holder has under any federal, state, or local law of the United States; and (iii) use any remedy given to Holder in the Loan Agreement or in any of the Loan Documents.

ARTICLE ACTIONS BY HOLDER

7.

Any forbearance by Holder in exercising any right or remedy under this Note, the Deeds of Trust, the Loan Agreement, or any other Loan Document or otherwise afforded by applicable law shall not be a waiver of or preclude the exercise of that or any other right or remedy. The acceptance by Holder of any payment after the due date of such payment or in an amount which is less than the required payment shall not be a waiver of Holder's right to require prompt payment when due of all other payments or to exercise any right or remedy with respect to any failure to make prompt payment. Enforcement by Holder of any security for Maker's obligations under this Note shall not constitute any election by Holder of remedies so as to preclude the exercise of any other right or remedy available to Holder.

ARTICLE ATTORNEYS' FEES

8.

If Holder shall employ the services of legal counsel in connection with (i) any request made by Maker to Holder for a modification, amendment, waiver, or consent in connection with the Loan Documents, (ii) defending or protecting Holder's interests in any Loan Document or any property securing the Loan from and against any claim or assertion made by any third party, (iii) rendering advice to Holder, enforcing Holder's legal rights, or performing other legal services for Holder upon the occurrence of an Event of Default, including, without limitation, any services relating to any so-called "work-out" or other negotiations following or anticipating the occurrence of any Event of Default, (iv) representing the interests of Holder in any lawsuit arising out of or in connection with the Loan Documents or Holder's position as secured party or beneficiary under any Loan Document, or (v) any other judicial or nonjudicial action, suit or proceeding instituted by Holder or any other person connected with or related to or with reference to the Loan or to reclaim, seek relief from a judicial or statutory stay, sequester, protect, preserve or enforce Holder's interest in this Note or the Deeds of Trusts or any other Loan Document (including proceedings under state or federal bankruptcy or insolvency law, in eminent domain, under probate proceedings, or in connection with any state or federal tax lien), then in such event Maker promises to pay or reimburse Holder, within fifteen (15) days following demand, for all reasonable attorneys' fees and reasonable costs and expenses and any other professional's fees incurred by Holder and/or its attorney in connection with the above-mentioned events.

ARTICLE MAXIMUM INTEREST RATE/CHARGES

9.

It being the intention of Holder and Maker to comply with the laws of the State of New York with regard to the rate of interest charged hereunder, it is agreed that, notwithstanding any provision to the contrary in this Note or any of the other Loan Documents, no such provision shall require the payment or permit the collection of any amount (“**Excess Interest**”) in excess of the maximum amount of interest permitted by law to be charged for the use or detention, or the forbearance in the collection, of all or any portion of the indebtedness evidenced by this Note. If any Excess Interest is provided for, or is adjudicated to be provided for, in this Note or any of the other Loan Documents, then in such event:

- (a) The provisions of this paragraph shall govern and control;
- (b) Maker shall not be obligated to pay any Excess Interest;
- (c) Any Excess Interest that Holder may have received hereunder shall, at the option of Holder, be (i) applied as a credit against the then-outstanding principal balance due under this Note, accrued and unpaid interest thereon not to exceed the maximum amount permitted by law, or both, (ii) refunded to the payor thereof, or (iii) any combination of the foregoing;
- (d) The applicable interest rate or rates shall be automatically subject to reduction to the maximum lawful rate allowed to be contracted for in writing under the applicable usury laws of the aforesaid State, and this Note, the Loan Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in such interest rate or rates; and
- (e) Maker shall not have any action or remedy against Holder for any damages whatsoever or any defense to enforcement of the Note, Loan Agreement or any of the other Loan Documents arising out of the payment or collection of the Excess Interest.

ARTICLE GOVERNING LAW AND OTHER AGREEMENTS

10.

Maker agrees that: (i) this Note and the rights and obligations of the parties hereunder shall be governed by the laws of the State of Washington without reference to the conflict of law principles of such state; (ii) the obligation evidenced by this Note is an exempted transaction under the Truth In Lending Act, 15 U.S.C. Section 1601, et seq.; and (iii) said obligation constitutes a business loan and is not intended by Maker for use for personal, family, or household purposes.

ARTICLE 11. WAIVERS

Maker and any and all others who may become liable for all or part of the obligations of Maker under this Note (collectively the “**Obligors**”) agree to be jointly and severally bound hereby and jointly and severally, to the extent permitted by law: (i) waive and renounce any and all redemption and exemption rights and the benefit of all valuation and appraisal privileges against the indebtedness evidenced by this Note or by any extension or renewal hereof; (ii) waive presentment and demand for payment, notices of nonpayment and of dishonor, protest of dishonor, and notice of protest; (iii) waive all notices in connection with the delivery and acceptance hereof and all other notices in connection with the performance, default, or enforcement of the payment hereof or hereunder, except as otherwise specifically provided in the Loan Documents; (iv) waive any and all lack of diligence and delays in the enforcement of the payment hereof; (v) agree that the liability of each Obligor shall be unconditional and without regard to the liability of any other person or entity for the payment hereof, and shall not in any manner be affected by any indulgence or forbearance granted or consented to by Holder to any Obligor or any such other person or entity; (vi) consent to any and all extensions of time, renewals, waivers, or modifications that may be granted by Holder with respect to the payment or other provisions hereof, and to the release of any security at any time given for the payment hereof, or any part thereof, with or without substitution, and to the release of any person or entity liable for the payment hereof; and (vii) consent to the addition of any and all other makers, endorsers, guarantors, and other obligors for the payment hereof, and to the acceptance of any and all other security for the payment hereof, and agree that the addition of any such obligors or security shall not affect the liability of any of Obligors for the payment hereof.

ARTICLE 12. ENTIRE AGREEMENT

This instrument, together with the other Loan Documents as defined above, constitutes and sets forth the entire understanding and agreement between the parties, and no party hereto has relied upon any representations, agreements or understandings, verbal or written, not set forth herein, or in such other Loan Documents, whether made by any party hereto or by any agent, employee or representative of any party hereto. Specifically, without limiting the generality of the foregoing, the parties agree that Holder has made no agreement to extend or renew this Note in any way, and no such agreement will be binding upon Holder unless made in writing, subsequent to the date hereof, and executed by a duly authorized representative of Holder.

ARTICLE HEADINGS AND INTERPRETATION

13.

Headings are for convenience only and are not intended as a limitation on the content of the paragraph following, nor as an aid to the construction thereof. The parties hereto intend and believe that each provision in this Note comports with all applicable law. However, if any provision in this Note is found by a court of law to be in violation of any applicable law, and if such court should declare such provision of this Note to be unlawful, void or unenforceable as written, then it is the intent of Maker and Holder that there shall be added in lieu thereof a provision as similar in terms to such provision as is possible which is legal, valid and enforceable, provided, however, that if any provision of this Note which is found to be in violation of any applicable law concerns the imposition of interest hereunder, the rights, obligations and interests of Maker and Holder with respect to the imposition of interest hereunder shall be governed and controlled by the provisions of this Note. **TIME IS OF THE ESSENCE OF THIS NOTE.** Use of the word “including” shall not be construed as a limitation and the word “including” shall be deemed to mean “including, but not limited to.”

ARTICLE MISCELLANEOUS

14.

14.1 Changes to Note. This Note may not be modified, amended, waived, extended, changed, discharged, or terminated orally or by any act or failure to act on the part of Maker or Holder, but only by an agreement in writing signed by both Maker and Holder. Holder may change any terms of payment of this Note, including extensions of time and renewals, and release any security for, or any party to, this Note, without notifying or releasing any accommodation maker, endorser or guarantor from liability on this Note.

14.2 Loss, Theft or Destruction of Note. In the event of the loss, theft or destruction of this Note, upon Maker's receipt of a reasonably satisfactory indemnification agreement executed in favor of Maker by Holder or in the event of the mutilation of this Note, upon the surrender of the mutilated Note by Holder to Maker, Maker shall execute and deliver to Holder a new note in form and content identical to this Note in lieu of the lost, stolen, destroyed or mutilated Note.

14.3 Meaning of Particular Terms. Wherever used, the singular member shall include the plural, the plural the singular, and the words "Holder" and "Maker" shall include their respective successors, assigns, heirs, executors and administrators. Upon any endorsement, assignment, or other transfer of this Note by Holder or by operation of law, the term "Holder," as used herein, shall mean such endorsee, assignee, or other transferee or successor to Holder then becoming the holder of this Note. This Note shall inure to the benefit of Holder and its successors and assigns and shall be binding upon the undersigned Maker and its successors and assigns. Maker agrees that Holder and any future Holders or participants may grant or sell participation interests in this Note to other Persons without notice to, or approval of Maker.

14.4 Notices. All notices required to be given hereunder shall be given in the manner specified in the Loan Agreement directed to the parties at their respective address as provided therein.

14.5 Joint and Several Liability. If Maker consists of more than one person or party, the obligations and liabilities of each such person or party shall be joint and several.

14.6 Counterparts. This Note may be executed in several counterparts, each of which when executed and delivered is an original, but all of which together shall constitute one instrument. In making proof of this Note, it shall not be necessary to produce or account for more than one such counterpart which is executed by the party against whom enforcement of such Note is sought.

14.7 Purpose of Note. MAKER ACKNOWLEDGES, REPRESENTS AND WARRANTS TO HOLDER THAT THE LOAN EVIDENCED BY THIS NOTE IS FOR COMMERCIAL PURPOSES. MAKER FURTHER ACKNOWLEDGES, REPRESENTS AND WARRANTS THAT IT IS ENGAGED EXCLUSIVELY IN COMMERCIAL PURSUITS AND THAT THE PROCEEDS OF THIS NOTE ARE TO BE UTILIZED IN THE BUSINESS ACTIVITIES OF MAKER AND WILL NOT BE UTILIZED FOR CONSUMER PURPOSES.

14.8 Waiver of Trial by Jury. MAKER WAIVES TRIAL BY JURY IN ANY PROCEEDING RELATING TO THIS NOTE, THE DEEDS OF TRUST, OR THE OTHER DOCUMENTS OR TRANSACTIONS EVIDENCED HEREBY OR THEREBY AND AGREES THAT NO SUCH ACTION WITH RESPECT TO WHICH A JURY TRIAL HAS BEEN WAIVED SHALL BE SOUGHT TO BE CONSOLIDATED WITH ANY OTHER ACTION WITH RESPECT TO WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.

14.9 NO ORAL AGREEMENTS.

THIS NOTE AND ALL THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT OF THE BORROWER AND THE LENDER AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE LOAN AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE BORROWER AND THE LENDER. THERE ARE NO ORAL AGREEMENTS BETWEEN THE BORROWER AND THE LENDER. THE PROVISIONS OF THIS NOTE AND THE OTHER LOAN DOCUMENTS MAY BE AMENDED OR REVISED ONLY BY AN INSTRUMENT IN WRITING SIGNED BY THE BORROWER AND THE LENDER.

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.

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

ORM TIMBER OPERATING COMPANY II, LLC
a Delaware limited liability company

By: Olympic Resource Management LLC, a
Washington limited liability company
Its Manager

By: _____
David L. Nunes
President & Chief Executive Officer

SCHEDULE 1.3

PAYMENT INSTRUCTIONS

Midland Loan Services, Inc.

Customer Service Information:

Main Phone: 1-800-894-9205

Main Fax: 1-913-253-9737

General Correspondence:

Mailing Address:

Midland Loan Services, Inc.

Attn: (name of contact)

P.O. Box 25965

Shawnee Mission, KS 66225-5965

Overnight Package Mailing Address:

Midland Loan Services, Inc.

Attn: (name of contact)

10851 Mastin, Suite 300

Overland Park, KS 66210

Payments:

Overnight Address:

Midland Loan Services, Inc.

c/o JP Morgan Chase Lockbox 974754

14800 Frye Road, TX1-0006

Fort Worth, TX 76155

Wire:

PNC Bank NA

ABA#: 043000096

Midland Loan Services Inc.

Credit #: 1006967647

Ref Loan#:

Wire Address: (if necessary)

PNC Bank

620 Liberty Avenue

Two PNC Plaza

Pittsburgh, PA 15222

SCHEDULE 2.3

**OWNERSHIP OF BORROWER, SUBSIDIARIES, OFFICERS OF
BORROWER AND STATUTORY AGENTS IN EACH STATE**

Ownership of Borrower:

Direct ownership of Borrower is as follows:

- 99% owned by ORM Timber Fund II, Inc. ("Guarantor")
- 1% owned by Olympic Resource Management LLC ("Olympic") and Olympic is the member-manager of the LLC

Direct ownership of Guarantor is as follows:

- 100% owned by 25 common stock investors, one of which is Pope Resources, A Delaware Limited Partnership ("Pope Resources") that owns 19.2% of Guarantor
- There are approximately 125 preferred non-voting stock investors in Guarantor

Direct ownership of Olympic is as follows:

- 100% owned by ORM, Inc., a Washington corporation, that is in turn owned 100% by Pope Resources
- Pope MGP, Inc., the managing general partner of Pope Resources and has a profit-sharing interest only in Olympic

Subsidiaries of Borrower (100% owned):

Tillamook Log Company LLC, a Delaware limited liability company

Officers of Borrower:

David L. Nunes, President & Chief Executive Officer of Olympic
Thomas M. Ringo, Vice President, Chief Financial Officer, Treasurer & Secretary of Olympic

Officers of Guarantor:

David L. Nunes, President
Thomas M. Ringo, Treasurer & Secretary

Officers of Project Manager:

David L. Nunes, President & Chief Executive Officer
Thomas M. Ringo, Vice President, Chief Financial Officer, Treasurer & Secretary

Statutory Agents for Service of Process:

Washington: Olympic Resource Management LLC
19245 Tenth Avenue NE
Poulsbo, Washington 98370

Oregon: Davis Wright Tremaine LLP
1300 SW Fifth Avenue, Suite 2300
Portland, Oregon 97201

SCHEDULE 2.4.1

PENDING LITIGATION

None

SCHEDULE 2.6.1

PROJECT MANAGER CERTIFICATE

The undersigned Thomas M. Ringo, the Vice President, Chief Financial Officer, Treasurer and Secretary of Olympic Resource Management LLC, a Washington limited liability company, the Project Manager for the Timberlands as that term is defined in paragraph 4.13 of that Loan Agreement dated as of September 1 2010, by and between ORM Timber Operating Company II, LLC as Borrower and Metropolitan Life Insurance Company as Lender, certifies that he is authorized to execute this Project Manager Certificate in the name of and on behalf of the Project Manager, and further certifies and represents to the Lender on behalf of Borrower that:

1. The information set forth in the timber inventory verification report attached hereto as Schedule 2.6.1A setting forth the species, age, quantity, location and volumes of all standing Timber located on the Timberlands is not misleading and is true, correct and complete at 95% confidence level with a margin of error of +/- 5%, and is the same information that was provided by Borrower and Project Manager to The Healy Company in its development of the comprehensive appraisal of the Copper Creek Block referenced in Section 4.5.2 of the Loan Agreement.
2. The information referred to above is certified knowing that Lender is relying on such certification to make this Loan.

WITNESS, the signature of the undersigned as an officer of the Project Manager, and not individually, on this Certificate as of this 1st day of September, 2010.

By: _____
Printed Name: Thomas M. Ringo
Title: Vice President, Chief Financial Officer, Treasurer and Secretary

SCHEDULE 2.6.1A

TIMBER VOLUMES

Appraisal Summary Report

All Properties							
Property Type	Owner L.S.	Stand# Owl Cir	Available	Parcel	Yr. Est.	Ct. Yr.	Stand
All Properties	*	*	*	*	*	*	*
Misc1		Misc2		SubParcel			Mortgage MetLife Collateral
*		*		*			

LAND	Gross Acres
Timberland:	18,924
Non-Timbered:	2,954
Grand Total:	21,878

PRE-Merchantable	Net Acres
0 - 4	1,597
5 - 9	1,280
10 - 14	790
15 - 19	2,407
20 - 24	1,641
25 - 29	1,518
30 - 34	1,332
Total Pre-Merch Acres	10,566

SUB-Merchantable Timber: Age 35-44

	Acres	12+	8-11	Chipnsaw	Pulpwood	Total MBF
Doug-fir		1,343	5,151	3,767	2,177	49,194
Hemlock		865	1,638	1,364	1,133	5,000
Cedar		43	13	27	38	121
Oth. Con.		196	526	424	285	1,431
Red Alder		1	55	217	407	680
Oth. Hwd.		10	10	90	110	219
Total Sub-Merch Acres	5,178	2,458	7,393	5,889	4,151	56,646

Merchantable Timber: Age 45+

	Acres	12+	8-11	Chipnsaw	Pulpwood	Total MBF
Doug-fir		4,944	7,577	3,400	1,685	56,226
Hemlock		1,965	2,770	2,179	1,731	8,645
Cedar		28	91	53	64	236
Oth. Con.		495	713	355	623	2,186
Red Alder		15	309	924	487	1,735
Oth. Hwd.		69	233	255	105	661
Total Merch MBF	3,180	7,516	11,692	7,165	4,695	69,689

GRAND TOTAL MBF		9,974	19,085	13,054	8,846	126,335
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Appraisal Summary Report

Copper Creek								
Property Type	Owner L.S.	Stand# Owl Cir	Available	Parcel	Yr. Est.	Ct. Yr.	Stand	
Copper Creek	*	*	*	*	*	*	*	*
Misc1	*	Misc2	*	SubParcel	*			Mortgage MetLife Collateral

LAND	Gross Acres
Timberland:	11,308
Non-Timbered:	1,451
Grand Total:	12,759

PRE-Merchantable	Net Acres
0 - 4	848
5 - 9	301
10 - 14	63
15 - 19	97
20 - 24	350
25 - 29	597
30 - 34	1,214
Total Pre-Merch Acres	3,470

SUB-Merchantable Timber: Age 35-44						
	Acres	12+	8-11	Chipnsaw	Pulpwood	Total MBF
Doug-fir		997	3,934	3,054	1,712	46,452
Hemlock		441	1,122	1,115	853	3,530
Cedar		7	8	27	31	72
Oth. Con.		184	515	421	282	1,401
Red Alder		1	37	91	214	343
Oth. Hwd.		0	0	77	66	143
Total Sub-Merch Acres	4,912	1,629	5,615	4,786	3,157	51,942

Merchantable Timber: Age 45+						
	Acres	12+	8-11	Chipnsaw	Pulpwood	Total MBF
Doug-fir		4,525	7,011	3,135	1,473	54,764
Hemlock		1,503	2,343	1,833	1,567	7,246
Cedar		10	52	46	60	169
Oth. Con.		495	713	355	623	2,186
Red Alder		15	51	334	202	603
Oth. Hwd.		0	6	34	17	57
Total Merch MBF	2,926	6,548	10,178	5,736	3,943	65,024

GRAND TOTAL MBF	8,176	15,793	10,522	7,100	116,967
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Appraisal Summary Report

Riffe Lake							
Property Type	Owner	Stand#	Available	Parcel	Yr. Est.	Ct. Yr.	Stand
Riffe Lake	L.S.	Owl Cir	*	*	*	*	*
*	*	*	*	*	*	*	*

Misc1	Misc2	SubParcel	Mortgage
*	*	*	MetLife Collateral

LAND	Gross Acres
Timberland:	7,617
Non-Timbered:	1,502
Grand Total:	9,119

PRE-Merchantable	Net Acres
0 - 4	750
5 - 9	979
10 - 14	727
15 - 19	2,310
20 - 24	1,291
25 - 29	921
30 - 34	118
Total Pre-Merch Acres	7,096

SUB-Merchantable Timber: Age 35-44						
	Acres	12+	8-11	Chipsaw	Pulpwood	Total MBF
Doug-fir		346	1,218	713	465	2,741
Hemlock		425	516	249	280	1,470
Cedar		37	5	0	7	49
Oth. Con.		12	12	3	3	31
Red Alder		0	18	126	193	337
Oth. Hwd.		10	10	13	44	76
Total Sub-Merch Acres	267	829	1,777	1,103	993	4,704

Merchantable Timber: Age 45+						
	Acres	12+	8-11	Chipsaw	Pulpwood	Total MBF
Doug-fir		419	566	265	213	1,463
Hemlock		462	426	346	164	1,399
Cedar		18	39	7	3	67
Red Alder		0	257	590	285	1,132
Oth. Hwd.		69	227	221	88	604
Total Merch MBF	254	968	1,515	1,429	752	4,665

GRAND TOTAL MBF	1,798	3,292	2,532	1,746	9,368
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SCHEDULE 2.6.2

NON-ACCESS TO TIMBERLANDS

RIFFE LAKE TREE FARM

The following portions of the Riffe Lake Block currently are accessible to vehicles by private roads for which Borrower does not currently hold perpetual easements or irrevocable licenses:

South half of the Northwest quarter; the Southwest quarter; the West half of the Southeast quarter of Section 4;
All of Section 8, except the Southeast quarter;
All of Section 9;
All of Section 17, all in Township 11 North, Range 5 East, W.M., County of Lewis, State of Washington.

Government Lots 1, 2, and 3, and the Southwest quarter of the Northeast quarter all in Section 6, Township 12 North, Range 4 East, W.M., County of Lewis, State of Washington.

Northeast quarter of the Southwest quarter and the Southeast quarter of the Northwest quarter, Section 32, Township 12 North, Range 4 East, W.M., County of Lewis, State of Washington.

EXCEPT that portion described as follows: Beginning at the Northwest corner of said Southeast quarter of the Northwest quarter;
Thence South 88° 10' 29" East 1,333.79 feet;
Thence South 1° 22' 58" West 971.98 feet;
Thence North 52° 14' 46" West 1,656.44 feet to the point of beginning.

West half of Section 31, Township 13 North, Range 4 East, W.M., County of Lewis, State of Washington.

COPPER CREEK TREE FARM

The Copper Creek Block currently is accessible to vehicles only via BLM-owned roads passing through Weyerhaeuser lands, BLM lands, the Copper Creek Block, and other private property, under Right-of-Way and Road Use Agreement RWA S-975 dated November 2, 1987, as amended from time to time (as amended, the "Road Use Agreement"), which covers extensive lands owned by Weyerhaeuser. After closing, the BLM is required to cooperate with the former and new owners in a full or partial assignment of the access rights under the Road Use Agreement, and Weyerhaeuser is required under Section 13.19(b) of the Purchase Agreement to cooperate with Borrower in completing the assignment.

SCHEDULE 2.6.3

TIMBER SALE AGREEMENTS

1. Master Stumpage Agreement dated June 7, 2010 between ORM Timber Operating Company II, LLC as Seller, and Tillamook Log Company as Purchaser.
2. Log Marketing Agreement dated June 1, 2010 between Olympic Resource Management LLC as Contractor, and Tillamook Log Company LLC as Company.

Schedule 2.6.3-1

SCHEDULE 2.6.4

LEASES AFFECTING TIMBERLANDS

None

Schedule 2.6.4-1

SCHEDULE 2.6.5

MINING PERMITS

None

Schedule 2.6.5-1

SCHEDULE 2.7

RENT ROLL – RECREATIONAL LICENSES AND LEASES

None

Schedule 2.7.2-1

SCHEDULE 2.15.4

ENDANGERED SPECIES ISSUES

RIFFE LAKE TREE FARM

None.

There are no known activity centers for Northern Spotted Owls, marbled murrelets, bald or golden eagles, osprey, and other species known to negatively impact timberland management, although these species may be found on nearby and adjacent timberlands.

The majority of the Riffe Lake Tree Farm is located in the Mineral Spotted Owl Special Emphasis Area, which requires special timberland management provisions if habitat exists and an activity center is established.

COPPER CREEK TREE FARM

There are no known activity centers for Northern Spotted Owls, bald or golden eagles, osprey, and other species known to negatively impact timberland management, although these species may be found on nearby and adjacent timberlands.

Northern Spotted Owls are located on adjacent federal timberlands, and adjacent mature timber on the Copper Creek Tree Farm suitable for habitat has been classified as "Unavailable" in the Borrowers Forest Inventory Reporting System.

Upper Willamette River Chinook and Upper Willamette River Steelhead are present in the Molalla River and its larger tributaries, including Copper Creek and the Table Rock Fork of the Molalla River. These waterways are protected by riparian management zones where they flow through and adjacent to the Copper Creek Tree Farm.

SCHEDULE 2.15.5

STORAGE TANKS

None

Schedule 2.15.5-1

SCHEDULE 4.2.6

ADMINISTRATIVE VALUES

Schedule 4.2.6 - Administrative Values

Species	\$ per MBF
Douglas-fir	320
Whitewoods	206
Hardwoods	267
Red Cedar	838

Schedule 4.2.6-1

EXHIBIT A

TIMBERLANDS

COPPER CREEK:

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 7 SOUTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, CLACKAMAS COUNTY, OREGON:

- Section 1:** That portion of the South half of the Southwest quarter lying South of the centerline of the Table Rock Fork of the Molalla River TOGETHER WITH an easement for Access, Utilities, Storm Water Easement Area and Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 2:** That portion of the South half lying South of the centerline of the Table Rock Fork of the Molalla River TOGETHER WITH an easement for Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 3:** That portion of the Southeast quarter, Southwest quarter, and the South half of the Northwest quarter lying South of the centerline of the Table Rock Fork of the Molalla River TOGETHER WITH an easement for Access, Utilities, Storm Water Easement Area and Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 4:** That portion of the Southeast quarter of the Northeast quarter lying South of the centerline of the Table Rock Fork of the Molalla River, the North half of the Southeast quarter, and the Northeast quarter of the Southwest quarter TOGETHER WITH an easement for Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 10:** The North half
- Section 11:** All
- Section 12:** All
- Section 13:** All

Section 14: The East half and the Northwest quarter

Section 23: The East half

Section 24: The North half; the North half of the Southwest quarter; the Southeast quarter of the Southwest quarter; and the Southeast quarter

Section 28: The South half

Section 29: The Southeast quarter

Section 30: All

Section 31: Government Lots 1, 2, 5, 6, 7, 8, 13 and 14; the Northeast quarter; and the East half of the Northwest quarter

Section 32: All

Section 33: All

Section 34: All

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 3 EAST OF THE WILLAMETTE MERIDIAN, CLACKAMAS COUNTY, OREGON:

Section 12: The Northeast quarter, and the North half of the Southeast quarter

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, CLACKAMAS COUNTY, OREGON:

Section 4: All

Section 5: All

Section 6: All

Section 8: All

Section 9: The North half, and the Ogle Mountain Consolidated Mining Claim, comprising the Hillside, Franklin No. 1, Franklin No. 2, Oregon City, Silver Leaf, Russell No. 1, Wildcat and Russell Fraction Lodes, being portions of the North half of the Southwest quarter, the Southeast quarter of the Southwest quarter, and the West half of the Southeast quarter of said Section 9, more particularly described as follows:

Commencing at the South quarter section corner of said section; thence North 88°10' West a distance of 62.5 feet to Corner No. 1 of Hillside Lode, the true point of beginning, said corner being marked by a porphyry stone, 30 x 14 x 7 inches, set 15 inches in the ground, chiseled 1-710, whence a fir, 30 inches in diameter, bears North 35°30' West 28 feet, and a hemlock, 20 inches in diameter, bears South 74° West 24.2 feet, each blazed and scribed BT 1-710; thence South 89°22' West, along the Southerly line of said lode, a distance of 115.00 feet to Corner No. 2 therefrom, which is marked by a basalt stone 24 x 9 x 8 inches, set 12 inches in the ground, chiseled 2-710, whence a fir, 48 inches in diameter, bears South 77°20' West 21.6 feet and a hemlock, 16 inches in diameter, bears North 27° West 11.4 feet, each blazed and scribed BT 2-710; thence North 5°49' East, along the Westerly line of said lode, a distance of 280.37 feet to its intersection with the Southeasterly line of Franklin No. 1 Lode; thence South 55°50' West, along the Southeasterly line of said Franklin No. 1 Lode, a distance of 290.49 feet to Corner No. 1 thereof, which is marked by a porphyry stone 24 x 15 x 14 inches, set 12 inches in the ground, chiseled 1-710, whence a hemlock, 16 inches in diameter, bears North 68°30' East 9.3 feet, and a hemlock, 18 inches in diameter, bears South 58°45' West 28.0 feet, each blazed and scribed BT 1-710; thence North 34°40' West, along the Southwesterly line of said lode, a distance of 1445.30 feet to Corner No. 2 thereof, which is also Corner No. 1 of Franklin No. 2 Lode, and is marked by a basalt stone 24 x 14 x 10 inches, set 12 inches in the ground, chiseled 2-1-710, whence a hemlock, 18 inches in diameter, bears North 33°10' East 26.0 feet, and a hemlock, 18 inches in diameter, bears South 11°30' East 12.6 feet, each blazed and scribed BT 2-1-710; thence North 30°35' West, along the Southwesterly line of Franklin No. 2 Lode, a distance of 1160.00 feet to Corner No. 2 thereof, which is marked by a cross (x) at the exact corner point and 2-710 chiseled on the East face of a ledge of rock, whence a fir, 30 inches in diameter, bears North 64° East 18.0 feet, and a fir, 36 inches in diameter, bears North 40° West 13.0 feet, each blazed and scribed BT 2-710; thence North 55°50' East, along the Northwesterly line of said lode, a distance of 600.00 feet to Corner No. 3 thereof, which is marked by a basalt stone 26 x 12 x 7 inches, set 13 inches in the ground, chiseled 3-710, whence a hemlock, 18 inches in diameter, bears North 74°30' East 9.3 feet and a hemlock, 18 inches in diameter, bears South 40° West 9.8 feet, each blazed and scribed BT 3-710; thence South 30°35' East, along the Northeasterly line of said lode, a distance of 740.00 feet to Corner No. 3 of the Oregon City Lode, which is marked by a porphyry stone 24 x 14 x 14 inches, set 12 inches in the ground, chiseled 3-710, whence a hemlock, 16 inches in diameter, bears North 83°30' East 22.6 feet, and a hemlock, 36 inches in diameter, bears North 18° East 36.4 feet, each blazed and scribed BT 3-710; thence North 59°25' East, along the

Northerly line of said Oregon City Lode, a distance of 365.00 feet to Corner No. 4 thereof, which is marked by a porphyry stone 24 x 16 x 12 inches, set 12 inches in the ground, chiseled 4-710, whence a hemlock, 14 inches in diameter, bears South 52° East 15.3 feet, and a hemlock, 30 inches in diameter, bears South 48°30' West 15.8 feet, each blazed and scribed BT 4-710; thence South 21°15' East, along the Easterly line of said lode, a distance of 449.70 feet to Corner No. 5 thereof, which is also Corner No. 2 of Silver Leaf Lode, and is marked by a porphyry stone 26 x 10 x 6 inches, set 13 inches in the ground, chiseled 2-710, whence a fir, 30 inches in diameter, bears South 15°20' East 8.6 feet, and a hemlock, 18 inches in diameter, bears North 42°25' East 10.7 feet, each blazed and scribed BT 2-5-710; thence North 62°50' East, along the Northerly line of said Silver Leaf Lode, a distance of 537.9 feet to Corner No. 3 thereof, which is also Corner No. 2 of Russell Fraction Lode, and is marked by a basalt stone 26 x 10 x 5 inches, set 14 inches in the ground, chiseled 3-2-710, whence a hemlock, 18 inches in diameter, bears South 44°40' West 24.8 feet, and a hemlock, 18 inches in diameter, bears North 33°45' West 22.8 feet, each blazed and scribed BT 3-710; thence North 15°58' West, along the Westerly line of said Russell Fraction Lode, a distance of 535.50 feet to Corner No. 3 thereof, which is marked by a cross (x) at the exact corner point and 3-710 chiseled on a ledge of rock facing West, whence a hemlock, 20 inches in diameter, bears North 33°30' West 17.5 feet, and a hemlock, 22 inches in diameter, bears South 23° West 18.2 feet, each blazed and scribed BT 3-710; thence North 80°21' East, along the Northerly line of said lode, a distance of 575.00 feet to Corner No. 4 thereof, which is marked by a basalt stone 24 x 10 x 6 inches, set 12 inches in the ground, chiseled 4-710, whence a hemlock, 20 inches in diameter, bears North 3°20' East 10.5 feet, and a hemlock, 16 inches in diameter, bears South 89°30' West 10.3 feet, each blazed and scribed BT 4-710; thence South 0°17' West, along the Easterly line of said lode, a distance of 701.15 feet to its intersection with the Northerly line of Russell No. 1 Lode; thence North 72°13' East, along the Northerly line of said Russell No. 1 Lode, a distance of 306.30 feet to Corner No. 3 thereof, which is also Corner No. 2 of Wildcat Lode, and is marked by a basalt stone 24 x 10 x 8 inches, set 12 inches in the ground, chiseled 3-2-710, whence a larch, 26 inches in diameter, bears South 54°10' West 26.6 feet, and a fir, 30 inches in diameter, bears South 6°30' West 7.0 feet, each blazed and scribed BT 3-2-710; thence South 86°24' East, along the Northerly line of said Wildcat Lode, a distance of 565.90 feet to Corner No. 3 thereof, which is marked by a basalt stone 26 x 12 x 7 inches, set 12 inches in the ground, chiseled 3-710, whence a hemlock, 36 inches in diameter, bears South 30° West 23.3 feet, and a fir, 24 inches in diameter, bears South 38°30' West 45.6 feet, each blazed and scribed BT 3-710; thence South 1°35' West, along the Easterly line of said lode, a distance of 1120.70 feet to Corner No. 4 thereof, which is marked by a basalt stone 24 x 20 x 6 inches, set 12 inches in the ground, chiseled 4-710,

Exhibit A-4

whence a fir, 24 inches in diameter, bears South 31°15' West 21.2 feet, and a pine, 18 inches in diameter, bears South 27°30' East 18.5 feet, each blazed and scribed BT 4-710; thence North 86°24' West, along the Southerly line of said lode, a distance of 600.00 feet to Corner No. 1 thereof, which is also Corner No. 4 of said Russell No. 1 Lode, and is marked by a basalt stone 24 x 10 x 6 inches, set 12 inches in the ground, chiseled 1-4-710, whence a fir, 26 inches in diameter, bears North 39°10' East 8.8 feet, and a fir, 26 inches in diameter, bears North 13° West 5.8 feet, each blazed and scribed 1-4-710; thence South 72°13' West, along the Southerly line of said Russell No. 1 Lode, a distance of 466.80 feet to Corner No. 1 thereof, which is also Corner No. 4 of said Hillside Lode, and is marked by a basalt stone, 24 x 14 x 12 inches, set 12 inches in the ground, chiseled 4-1-710, whence a hemlock, 30 inches in diameter, bears North 40° East 18.9 feet, and a hemlock, 30 inches in diameter, bears South 10°30' West 21.4 feet, each blazed and scribed BT 4-1-710; thence South 20°57' West, along the Easterly line of said Hillside Lode, a distance of 809.00 feet to the true point of beginning.

(The diameters of the bearing trees mentioned herein were measured in the period October 5 to 20, 1908.)

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 3 EAST OF THE WILLAMETTE MERIDIAN, MARION COUNTY, OREGON:

Section 12: The Southeast quarter of the Southeast quarter, and Government Lot 6.

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, MARION COUNTY, OREGON:

Section 16: The North half, the Southwest quarter, and the West half of the Southeast quarter

Section 17: The East half

Section 18: All

Section 20: All

Section 21: The Northwest quarter

RIFFE LAKE:

THE FOLLOWING DESCRIBED PROPERTY IS SITUATED IN LEWIS COUNTY WASHINGTON:

PARCEL 1

South half of the northwest quarter; the southwest quarter; the west half of the southeast quarter of Section 4, Township 11 North, Range 5 East, W.M., Lewis County, Washington.

PARCEL 2

ALL of Section 8, Township 11 North, Range 5 East, W.M., Lewis County, Washington.
EXCEPT the southeast quarter of said Section 8.

PARCEL 3

ALL of Section 9, Township 11 North, Range 5 East, W.M., Lewis County, Washington.

PARCEL 4

ALL of Section 17, Township 11 North, Range 5 East, W.M., Lewis County, Washington.

PARCEL 5

Southwest quarter of the northeast quarter; the west half of the southwest quarter; the north half of the southeast quarter; Government Lots 5-11 inclusive in Section 3, Township 11 North, Range 6 East, W.M., Lewis County, Washington.
TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

PARCEL 6

Government Lots 1-4 inclusive, 8 and 9 in Section 4, Township 11 North, Range 6 East, W.M., Lewis County, Washington.
EXCEPT that portion of the northwest quarter of Section 4, Township 11 North, Range 6 East, W.M., Lewis County, Washington, described as follows:
BEGINNING at the northwest corner of said Section; thence south 02°58'30" west along the west line of said Section a distance of 346.61 feet to the true point of beginning; thence south 66°45'18" east a distance of 445.73 feet; thence south 78°47'35" east a distance of 175.48 feet; thence north 77°41'25" east a distance of 1374.99 feet; thence south 81°27'58" east a distance of 202.86 feet; thence south 04°10'13" west to the right bank of the Cispus River; thence continuing southerly and westerly along the top bank of said River to the intersection of said west line and the northerly top bank of said River; thence continuing north 02°58'30" east along said west line to the true point of beginning.

TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

PARCEL 7

ALL of Section 14, Township 11 North, Range 6 East, W.M., Lewis County, Washington.

TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

PARCEL 8

ALL of Section 1, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT Government Lot 1 and the southeast quarter of the northeast quarter.

TOGETHER WITH easement rights as disclosed by that document recorded May 15, 1989, under Auditor's File No. 8903952.

PARCEL 9

ALL of Section 3, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT the south half of the southeast quarter.

PARCEL 10

ALL of Section 4, Township 12 North, Range 3 East, W.M., Lewis County, Washington. EXCEPT that portion of the southwest quarter of said Section, described as follows:

BEGINNING at the southwest corner of said southwest quarter; thence north 400 feet along the west line of said southwest quarter; thence east 270 feet to the true point of beginning; thence west 270 feet to the west line of said southwest quarter; thence north 1613 feet along said west line; thence east 60 rods; thence south 42 rods; thence southwesterly to the true point of beginning.

PARCEL 11A

North half of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington. EXCEPT the southeast quarter of the northwest quarter thereof.

PARCEL 11B

South half of the southeast quarter of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT a tract of land in the northeast quarter of the southeast quarter of the southeast quarter described as follows:

BEGINNING at the northeast corner of said southeast quarter of the southeast quarter; thence 170 feet west along the north line of said southeast quarter of the southeast quarter to a point; thence south approximately 15 feet to the north boundary of the Lewis County Road; thence southeasterly along the east boundary of said County Road to a point where it intersects the east line of said southeast quarter of the southeast quarter; thence north along the east line of said southeast quarter of the southeast quarter approximately 514 feet to the point of beginning.

ALSO EXCEPT the Young County Road.

PARCEL 11C

The southeast quarter of the northwest quarter and the northeast quarter of the southwest quarter of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT that portion of the northeast quarter of the southwest quarter of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington, more particularly described as follows:

BEGINNING at the southwest corner of said Subdivision; thence north 2°26'56" east along the west line of said Subdivision a distance of 441.49 feet; thence south 88°36'56" east a distance of 1280.20 feet to the east line of said Subdivision; thence south 1°45'11" west along the east line of said Subdivision a distance of 441.42 feet to the southeast corner of said Subdivision; thence north 88°36'56" west along the south line of said Subdivision a distance of 1285.56 feet to the point of beginning.

PARCEL 12

Government Lots 1 and 2 of Section 6, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 13

Northeast quarter of the northeast quarter of the northeast quarter of Section 8, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 14

North half of the north half of Section 9, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 15

The north half of the north half of Section 10, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 16

All of Section 11, Township 12 North, Range 3 East, W.M., Lewis County, Washington, EXCEPT that part of the south half of the southwest quarter lying southwesterly of the following described line:

Beginning at the northwest corner of the southwest quarter of the southwest quarter; thence southeasterly to the south one-quarter corner and the terminus of said line. ALSO EXCEPT Primary State Highway No. 5.

PARCEL 17

South half of Section 12, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT that part lying southeasterly and south of a line described as follows:

BEGINNING at the southeast corner of the northeast quarter of the southeast quarter; thence northerly along the east line of said Section a distance of 400.0 feet; thence westerly parallel to the south line of said northeast quarter of the southeast quarter to a point on the west line of said Subdivision; thence southwesterly to the southwest corner of the southeast quarter of the southeast quarter of the southwest quarter and the terminus of said line.

ALSO EXCEPT Primary State Highway No. 5.

ALSO EXCEPT Rife-Morton Highway.

PARCEL 18

That portion of the north half of the northwest quarter of Section 13, Township 12 North, Range 3 East, W.M., Lewis County, Washington, lying northwesterly of the following described line:

BEGINNING at the southwest corner of the north half of the northwest quarter; thence north 58°57'36" east to the northwest corner of the northeast quarter of the northeast quarter of the northwest quarter and the terminus of said line.

PARCEL 19

That part of the northwest quarter of the northeast quarter of Section 14, Township 12 North, Range 3 East, W.M., Lewis County, Washington, lying northerly of a line beginning at the north quarter corner; thence on a bearing south 60°54'03" east to the northeast corner of the southeast quarter of the northwest quarter of the northeast quarter.

ALSO that part of the northeast quarter of the northeast quarter of Section 14, Township 12 North, Range 3 East, W.M., Lewis County, Washington, lying northerly of a line beginning at the northwest corner of the southwest quarter of the northeast quarter of the northeast quarter; thence south 60°37'52" east to the southeast corner of the northeast quarter of the northeast quarter.

PARCEL 20

Government Lots 1, 2, and 3, and the southwest quarter of the northeast quarter all in Section 6, Township 12 North, Range 4 East, W.M., Lewis County, Washington.

PARCEL 21

Northeast quarter of the southwest quarter and the southeast quarter of the northwest quarter, Section 32, Township 12 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT that portion described as follows: Beginning at the northwest corner of said southeast quarter of the northwest quarter; thence south 88°10'29" east 1333.79 feet; thence south 1°22'58" west 971.98 feet; thence north 52°14'46" west 1656.44 feet to the point of beginning.

PARCEL 22

That portion of Section 33, Township 12 North, Range 6 East, W.M., Lewis County, Washington, lying southeasterly of Line "A":

BEGINNING at the northwest corner of said Section; thence south 01°11'41" west a distance of 276.50 feet to a point on the west line of said Section; thence south 04°45'45" east along said west line a distance of 344.18 feet; thence north 35°39'51" east a distance of 597.29 feet; thence north 84°34'31" east a distance of 521.07 feet; thence south 69°21'42" east a distance of 963.53 feet; thence north 87°37'09" east a distance of 470.73 feet; thence south 75°09'24" east a distance of 662.91 feet; thence south 58°55'09" east a distance of 358.49 feet; thence north 47°52'15" east a distance of 628.57 feet; thence north 30°10'05" east a distance of 435.77 feet to the north line of said Section; thence north 89°26'00" east along said north line a distance of 1072.76 feet to the true point of beginning of Line "A"; thence south 05°41'23" west a distance of 1053.06 feet; thence south 37°40'05" west a distance of 1589.65 feet; thence south 68°35'31" west a distance of 1361.82 feet; thence north 29°14'23" west a distance of 665.42 feet; thence south 65°23'29" west a distance of 1657.40 feet; thence south 87°41'13" west a distance of 580.65 feet to the west quarter corner of said Section and the terminus of said Line "A".

ALSO that portion of the north half of Section 33, Township 12 North, Range 6 East, W.M., Lewis County, Washington, lying northerly of the following described property:

That portion of the north half of Section 33, Township 12 North, Range 6 East, W.M., Lewis County Washington, described as follows: BEGINNING at the northwest corner of said Section; thence south 01°11'41" west a distance of 276.50 feet to a point on the west line of said Section; thence south 04°45'45" east along said west line a distance of 344.18 feet to the True Point of Beginning; thence north 35°39'51" east a distance of 597.29 feet; thence north 84°34'31" east a distance of 521.07 feet; thence south 69°21'42" east a distance of 963.53 feet; thence north 87°37'09" east a distance of 470.73 feet; thence south 75°09'24" east a distance of 662.91 feet; thence south 58°55'09" east a distance of 358.49 feet; thence north 47°52'15" east a distance of 628.57 feet; thence north 30°10'05" east a distance of 435.77 feet to the north line of said Section; thence north 89°26'00" east along said north line a distance of 1072.76 feet; thence south 05°41'23" west a distance of 1053.06 feet; thence south 37°40'05" west a distance of 1589.65 feet; thence south 68°35'31" west a distance of 1361.82 feet; thence north 29°14'23" west a distance of 665.42 feet; thence south 65°23'29" west a distance of 1657.40 feet; thence south 87°41'13" west a distance of 580.65 feet to the west one quarter corner of said Section; thence north 04°45'45" west along the west line a distance of 2275.51 feet to the True Point of Beginning.

EXCEPTING THEREFROM the Cowlitz River.

TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

ALSO TOGETHER WITH those easement rights as disclosed by those documents recorded August 3, 2010, under Auditor's File Nos. 3348832 and 3348833.

PARCEL 23

The southwest quarter of the northeast quarter and Government Lot 6 (fractional southwest quarter of the northwest quarter) and the south half of Government Lot 7 (fractional southeast quarter of the northwest quarter) and that portion of the east half of Government Lot 2 (fractional northwest quarter of the northeast quarter), lying south of Bennett County Road, all in Section 24, Township 12 North, Range 7 East, W.M., Lewis County, Washington.

ALSO that portion of Government Lot 5 (fractional northwest quarter of the northwest quarter) in Section 24, Township 12 North, Range 7 East, W.M., Lewis County, Washington, described as follows:

BEGINNING at the northwest corner of said Section 24; thence south 1020 feet; thence north 63° east 630 feet; thence north 17° east 225 feet; thence north 43° east to the north line of the said Section; thence west along the Section line to the point of beginning.

PARCEL 24

The northeast quarter of the southeast quarter of Section 31, Township 13 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 25

The south half of Section 34, Township 13 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 26

South half of the northwest quarter; the east half of the southeast quarter; the east half of the west half of the southeast quarter all in Section 35, Township 13 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 27

The south half of the southwest quarter of Section 24, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

ALSO the northeast quarter of Section 24, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT the southwest quarter of the northeast quarter.

TOGETHER WITH those easement rights as disclosed by those documents recorded August 4, 2010, under Auditor's File Nos. 3348881, and December 2, 2008, under Auditor's File No. 3317340.

PARCEL 28

That portion of Section 25, Township 13 North, Range 4 East, W.M., Lewis County, Washington, lying westerly of the North Fork of the Tilton River. TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.

PARCEL 29A

**The north half of the south half of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.
EXCEPT the east half of the northeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.
ALSO, the south half of the southeast quarter and the southeast quarter of the southwest quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.
EXCEPT the east half of the southeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.
TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.**

PARCEL 29B

**The east half of the northeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.
ALSO, the east half of the southeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.
TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.**

PARCEL 30

West half of Section 31, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

PARCEL 31

The northwest quarter of the northeast quarter of Section 35, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT State Road No. 7, as described in Warranty Deed recorded November 9, 1971, under Auditor's File No. 760141.

ALSO that part of the west half of the northeast quarter of Section 35, Township 13 North, Range 4 East, W.M., Lewis County, Washington, described as follows: BEGINNING at Highway Engineer's Station (hereinafter referred to as HES) 80+00 on the SR 7 Line Survey of SR 7, Morton to Elbe; thence southeasterly to a point opposite said HES and 125 feet southeasterly therefrom; thence northeasterly parallel with said SR 7 Line Survey to a point opposite HES 90+00 thereon; thence northeasterly to a point opposite HES 92+00 on said SR 7 Line Survey and 140 feet southeasterly therefrom; thence northeasterly (along a line drawn from said point opposite HES 92+00 and 140 feet southeasterly therefrom northeasterly to a point opposite HES 97+00 on said SR 7 Line Survey and 110 feet southeasterly therefrom) to a point on the east line of said west half of the northeast quarter; thence northerly along said east line to a point on a line drawn parallel with and 190 feet northwesterly, when measured radially, from said SR 7 Line Survey; thence southwesterly along said parallel line to a point opposite HES 89+00 thereon; thence southwesterly to a point opposite HES 88+00 on said SR 7 Line Survey and 100 feet northwesterly therefrom; thence southwesterly parallel with said SR 7 Line Survey to a point opposite said HES 80+00 thereon; thence southeasterly to the point of beginning. TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.

EXHIBIT B

PARTIAL RELEASE FORMS

REQUEST FOR PARTIAL RECONVEYANCE

TO: **Chicago Title Insurance Company, Trustee**

Reference is made to that certain **Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing** dated September 1, 2010 recorded on _____, 2010 in File No. _____, Official Records of _____ County, [Washington] [Oregon], (as supplemented and amended from time to time, the "**Deed of Trust**"), made by ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company (the "**Grantor**") to the above named Title Insurance Company, as trustee (the "**Trustee**") for the benefit of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation (the "**Beneficiary**"), in which the Grantor conveyed that certain real property, together with the appurtenances thereto and improvements and timber thereon and other interests therein, as more fully described in the Deed of Trust (the "**Property**"), reference to which is hereby made, to secure a certain Promissory Note of even date therewith from Grantor to the Beneficiary.

You are hereby requested and directed to reconvey to the Grantor, without warranty, the estate now held by you under the Deed of Trust in and to ONLY that certain portion of the Property more particularly described on **Exhibit A** attached hereto and made a part hereof, together with the appurtenances thereto and improvements and timber thereon and other interests therein (the "**Released Property**").

It is expressly agreed and understood that this is a partial reconveyance only as to the Released Property; and nothing herein contained shall be construed to in any way affect, impair, or release the liens and security interest held by the Trustee under the Deed of Trust as to any other portion of the Property, or any other property whatsoever, real or otherwise, and any appurtenances thereto and improvements or timber thereon, described in the Deed of Trust, but all such other property shall remain bound and encumbered in favor of Beneficiary, pursuant to the terms of the Deed of Trust in the same manner as if this Request for Partial Reconveyance had never been given. You are to record said reconveyance and the recorded document should be mailed to, and your fees and the recording fees in connection herewith paid by: **[Insert the Borrower's Name]**.

[Remainder of page intentionally left blank, signature page to follow]

Dated this ____ day of _____, 20____.

Beneficiary:

METROPOLITAN LIFE INSURANCE COMPANY

By: _____

Name:

Title:

Duly Authorized

Address of Beneficiary:

Metropolitan Life Insurance Company
6750 Poplar Avenue, Suite 109
Memphis, Tennessee 38138
Attention: Paulette J. Oxner

Exhibit B-2

EXHIBIT A

[Insert Legal Description]

Exhibit B-3

WHEN RECORDED RETURN TO:

[Name of Borrower]

[Address: _____]

[Attention: _____]

DEED OF PARTIAL RECONVEYANCE
(WITHOUT SATISFACTION)

The undersigned is the trustee ("**Trustee**") under that certain **Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing** dated September 1, 2010 recorded on _____, 2010 in File No. _____, Official Records of _____ County, [Washington] [Oregon] (as supplemented and amended from time to time, the "**Deed of Trust**"), made by ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company (the "**Grantor**") for the benefit of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation (the "**Beneficiary**"), in which the Grantor conveyed that certain real property, together with the appurtenances thereto and improvements and timber thereon and other interests therein, as more fully described in the Deed of Trust (the "**Property**"), reference to which is hereby made, to secure a certain Promissory Note of even date therewith from Grantor to the Beneficiary.

The undersigned, having received a written request from the Beneficiary to reconvey without warranty to the Grantor ONLY that certain portion of the Property more particularly described in **Exhibit A** attached hereto and made a part hereof, together with the appurtenances thereto and improvements and timber thereon and other interests therein (the "**Release Property**"), does hereby reconvey the Release Property to the Grantor.

It is expressly agreed and understood that this is a partial reconveyance only as to the Release Property; and nothing herein contained shall be construed to in any way affect, impair, or release the liens and security interest held by the Trustee under the Deed of Trust as to any other portion of the Property, and any other property whatsoever, real or otherwise, and any appurtenances thereto and improvements or timber thereon, described in the Deed of Trust, but all such other property shall remain bound and encumbered in favor of Beneficiary, pursuant to the terms of the Deed of Trust in the same manner as if this Partial Reconveyance had never been given. The Loan secured by the Deed of Trust remains outstanding and this Partial Reconveyance does not satisfy or evidence the satisfaction of any portion of the outstanding indebtedness.

Dated this ____ day of _____, 20__.

Trustee:

CHICAGO TITLE INSURANCE COMPANY

By: _____
Name: _____
Title: _____
Duly Authorized

STATE OF)
WASHINGTON) ss.
COUNTY OF)

On this ___ day of _____, 20___, before me, the undersigned, a Notary Public in and for the State of Oregon, duly commissioned and sworn, personally appeared _____, to me known to be the _____ of the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, and on oath stated that he/she is authorized to execute the said instrument for the uses and purposes therein mentioned.

Witness my hand and official seal affixed the day and year first above written

NOTARY PUBLIC in and from
the State of _____
My appointment expires: _____, _____
My Commission expires on: _____

EXHIBIT A

Release Property

[Insert Legal Description]

Exhibit B-6

FIRST AMENDMENT TO LOAN AGREEMENT

This First Amendment to Loan Agreement (this "First Amendment") is made this 7th day of February, 2011, by and between METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation ("Lender"), and ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company ("Borrower"), with reference to the following recitals of fact:

A. Lender and Borrower are parties to that certain Loan Agreement dated as of September 1, 2010 (the "Loan Agreement"), executed in connection with a loan (the "Loan") made by Lender to Borrower in the original principal amount of \$11,000,000. The Loan is secured by certain timberlands and related assets situated in Lewis County, Washington and Clackamas and Marion Counties, Oregon. Capitalized terms used but not defined herein shall have the meanings given in the Loan Agreement.

B. Pursuant to Section 2.6.2 of the Loan Agreement, Borrower is obligated to obtain legally enforceable access easements appurtenant to the portion of the Riffe Lake Timberlands identified on Schedule 2.6.2 of the Loan Agreement. Borrower has requested that Lender waive the requirement to cure the lack of established legal access for the portion of the Riffe Lake Timberlands identified on Exhibit A attached hereto and incorporated herein (the "Non-Access Riffe Lake Timberlands"). Lender has agreed to afford such a waiver on the condition that the value of the Non-Access Riffe Lake Timberlands shall not be included in the Loan to Value Ratio as described in Section 5.4 of the Loan Agreement, as more fully provided in this First Amendment.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Status of Existing Loan. Borrower acknowledges for the benefit of Lender that the Note, the Loan Agreement, the Deeds of Trust and the other Loan Documents all comprise valid and binding obligations enforceable in accordance with their terms, and that Borrower has no offset or defense against the indebtedness evidenced by the Note or any of the obligations set forth in the Loan Documents.

2. Access to Timberlands. Borrower and Lender agree that the Non-Access Riffe Lake Timberlands are excluded from the covenant regarding the procurement of access easements set forth in the last paragraph of Section 2.62 of the Loan Agreement, and Section 2.6.2 is hereby modified accordingly. Such covenant shall continue to apply to the balance of the Riffe Lake Block described in Schedule 2.6.2.

3. Loan to Value Ratio. The definition of Timberlands used in Section 5.4 of the Loan Agreement, to calculate the Loan to Value Ratio is hereby modified to exclude the Non-Access Riffe Timberlands. This change in the definition of Timberlands shall apply only to this Section 5.4 of the Loan Agreement. The Loan to Value Ratio threshold of Forty Percent (40%) set forth in Section 5.4.2 of the Loan Agreement remains unmodified and in effect.

4. Miscellaneous. Borrower and Lender hereby agree that all references in the Loan Documents to the Loan Agreement shall mean the Loan Agreement as amended by this First Amendment.

5. Counterparts. This First Amendment may be executed in multiple counterparts and any counterpart may be executed by one or more of the parties hereto with the same effect as if all parties had executed the same counterpart.

6. No Waiver. Lender's execution and delivery of this First Amendment and the accommodations set forth herein do not comprise a course of dealing between the Lender and Borrower, and nothing hereunder shall operate as a waiver of any rights of Lender to require strict performance of and to enforce the obligations set forth in the Loan Agreement and the other Loan Documents.

7. Reaffirmation. Except as specifically amended by this First Amendment, the Loan Agreement shall remain unmodified and in full force and effect. Borrower hereby reaffirms for the benefit of Lender, each and every one of the terms and provisions of the Loan Agreement as originally set forth therein.

[signatures follow on next page]

IN WITNESS WHEREOF, the parties have executed this First Amendment as of the date first above written.

LENDER:

**METROPOLITAN LIFE INSURANCE
COMPANY**, a New York corporation

By: _____
Printed Name: _____
Title: _____

BORROWER:

ORM TIMBER OPERATING COMPANY II, LLC, a
Delaware limited liability company

By: Olympic Resource Management LLC, a
Washington limited liability company
Its Manager

By: _____
Printed Name: _____
Title: _____

CONSENT OF GUARANTOR

The undersigned, ORM TIMBER FUND II, INC., a Delaware corporation (“Guarantor”), is the Guarantor of the Loan pursuant to that certain Guaranty dated as of September 1, 2010 (the “Guaranty”). Guarantor hereby consents to the terms and provisions of the foregoing First Amendment to Loan Agreement and agrees that its obligations under the Guaranty remain unmodified and in full force and effect with respect to the Loan Agreement as so amended. Guarantor hereby reaffirms the terms and obligations arising under the Guaranty as of the date hereof.

GUARANTOR:

ORM TIMBER FUND II, INC.,
a Delaware corporation

By: Olympic Resource Management LLC,
Its Manager

By: _____
David L. Nunes
President and CEO

EXHIBIT A

Non-Access Riffe Lake Timberlands

The following portions of the Riffe Lake Block:

Parcel A:

South half of the Northwest quarter; the Southwest quarter; the West half of the Southeast quarter of Section 4;
All of Section 8, except the Southeast quarter;
All of Section 9;
All of Section 17, all in Township 11 North, Range 5 East, W.M., County of Lewis, State of Washington.

Parcel B:

Northeast quarter of the Southwest quarter and the Southeast quarter of the Northwest quarter, Section 32, Township 12 North, Range 4 East, W.M., County of Lewis, State of Washington.

EXCEPT that portion described as follows: Beginning at the Northwest corner of said Southeast quarter of the Northwest quarter;

Thence South 88°10'29" East 1,333.79 feet;

Thence South 1°22'58" West 971.98 feet;

Thence North 52°14'46" West 1,656.44 feet to the point of beginning.

PROMISSORY NOTE

\$11,000,000

Loan No. 194231
September 1, 2010

FOR VALUE RECEIVED, the undersigned, **ORM TIMBER OPERATING COMPANY II, LLC**, a Delaware limited liability company with an address at 19245 Tenth Avenue NE, Poulsbo, Washington 98370 (hereinafter referred to as "**Maker**"), promises to pay to the order of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation, together with any subsequent holder of this Note ("**Holder**"), at the location and in the manner provided in Section 1.3 of the Loan Agreement between Maker and the Lender (as defined therein) (as amended, restated or supplemented from time to time, the "**Loan Agreement**"), or at such other location and manner as Holder may designate in writing from time to time, the principal sum of **ELEVEN MILLION AND NO/100 DOLLARS (US\$11,000,000.00)** in lawful money of the United States of America (the "**Loan**") together with interest thereon at the rates and times specified below. Capitalized terms used but not otherwise defined herein shall have the respective meanings assigned thereto in the Loan Agreement.

1. INTEREST RATE

1.1 INTEREST. Maker promises to pay interest on the unpaid principal balance from the date of funding by Holder until payment in full at the rate of four and 85/100 percent (4.85%) per annum (the "**Loan Rate**"). Interest at the Loan Rate shall be calculated on the basis of a three hundred sixty day (360) calendar year containing twelve (12) months of thirty days (30) each; provided that for partial payment periods, interest shall be calculated on the basis of the actual number of days elapsed over a three hundred sixty-five (365) day calendar year. The date of funding hereunder shall be considered the date that the Loan funds are wired or delivered by Holder to Maker or if the Loan is being closed through an escrow, to the escrow agent responsible for closing the Loan, regardless of the date that the escrow agent releases such funds to Maker.

1.2 DEFAULT INTEREST. Upon the occurrence of (i) an Event of Default and/or (ii) maturity of this Note (whether maturity occurs by demand, acceleration, lapse of time or otherwise), at the option of Holder, the unpaid principal balance of the Loan and accrued but unpaid interest due on this Note and all other sums owed by Maker to Holder shall bear interest until paid at a default rate of interest of four percent (4.00%) per annum above the Loan Rate but not in excess of the maximum interest rate permitted by law (the "**Default Rate**"). Any interest due at the Default Rate shall be added to the amount due hereunder, and shall be deemed to be secured by the Deeds of Trust. The fact that any such interest shall become due hereunder shall not be construed as an agreement or privilege to extend the date of the payment of any amount due hereunder, nor as a waiver of any other right or remedy available to Holder by reason of the occurrence of any Event of Default, nor to prevent Holder from collecting the late fee rate set forth in Section 2.3 below.

2. PAYMENTS; MATURITY DATE

2.1 **PAYMENTS.** Maker promises to pay the principal and interest under this Note to Holder as follows:

2.1.1 Accrued interest only at the Loan Rate shall be due and payable quarterly, commencing on October 1, 2010 and continuing on the first day of each succeeding January, April, July and October thereafter (each such day, a "**Payment Date**") until the Maturity Date.

2.1.2 The outstanding principal balance and all accrued and unpaid interest thereon and all other sums and fees due under this Note, the Loan Agreement and the other Loan Documents shall be due and payable on September 1, 2020 (the "**Maturity Date**").

2.2 **PAYMENT ON NON-BUSINESS DAYS.** If a payment of principal or interest on this Note is due on a day other than a Business Day, such payment shall be due on the next succeeding Business Day. A "**Business Day**" shall mean any day that is not a Saturday, Sunday or holiday and on which the New York, New York office of Holder and the New York Stock Exchange are open for business.

2.3 **LATE FEE.** In the event Maker fails to make any required payment by the end of the fourth (4th) calendar day following the due date of any such payment (the "**Grace Period**"), Holder shall be entitled to collect, and Maker agrees to pay, in addition to the amount of the scheduled payment, a late charge equal to five percent (5%) of the overdue amount, as liquidated damages for the costs and risk incurred by Holder as a result of the delinquent payment (the "**Late Charge**"). The Late Charge is intended to reimburse Holder for a portion of the administrative cost and additional loan risk associated with said late payment and shall be in addition to, and not in lieu of, any other remedy Holder may have (e.g., to collect Default Rate interest) and is in addition to Holder's right to collect reasonable fees and charges of any agents or attorneys which Holder employs in connection with any Event of Default, whether or not litigation is commenced. Such late charges if not previously paid shall become part of the indebtedness evidenced hereby and shall, at the option of Holder, be added to any succeeding monthly payment due hereunder. Failure to pay such late charges with such succeeding monthly payment shall constitute an Event of Default and such late charges shall bear interest at the Default Rate from the date due. Notwithstanding the foregoing, in no event shall Maker be entitled to the benefit of the Grace Period for payments due on the Maturity Date.

3. APPLICATION OF PAYMENTS

Provided no Event of Default has occurred, each payment received with respect to the Loan may be applied by Holder as follows: first, to recovery, with interest thereon at the Default Rate, of any expenses, costs, or fees, including attorneys' fees, funds paid or advanced by Holder or any similar charges pursuant to any of the Loan Documents; second, to any scheduled escrow for tax, insurance or similar items; third, to any late charge or interest calculated at the Default Rate then due; fourth, to the payment of accrued interest at the Loan Rate from time to time remaining unpaid; fifth, to any prepayment premium due with respect to the current payment and any other prepayment premium that may remain unpaid; and sixth, subject to the prepayment provisions of this Note, to reduce the principal hereunder, whether or not due and payable. If any partial payment is accepted on this Note at a time when an amount in excess of such partial payment is then due and payable, such partial payment shall be applied to the oldest outstanding amount in arrears in the order of the arrearage unless Holder elects to apply such payment in some other order. Notwithstanding any other provision of this Note or of any of the other Loan Documents, from and after the occurrence of an Event of Default, all payments and other amounts received by Holder may be applied by Holder in such manner and to such indebtedness (whether to payment of advances made by Holder pursuant to any provision of any of the Loan Documents, interest, principal, Late Charges, interest at the Default Rate, prepayment premium, fees and expenses or otherwise) and in such amounts and order of priority as Holder may determine in the exercise of its sole and absolute discretion.

4. PREPAYMENTS

4.1 PREPAYMENT. Subject to the provisions of this Section 4, upon not less than thirty (30) days prior written notice to Holder, which notice must identify the amount being prepaid and the date of prepayment (a "**Prepayment Notice**"), Maker shall have the right to prepay this Note in full or in part, subject to the conditions provided below, on any Payment Date by paying, in addition to the amount of the principal prepayment, all accrued and unpaid interest hereunder and all additional sums and charges due under this Note and/or the other Loan Documents, together with a prepayment premium equal to the greater of:

(a) an amount determined by calculating one percent (1%) of the outstanding principal balance;

OR

(b) an amount determined by:

(i) calculating the sum of the present values of all unpaid principal and interest payments required under the Loan Documents through and including the scheduled Maturity Date and including the present value of the outstanding principal balance as of such date (prior to the application of the principal being prepaid), by discounting such payments from their scheduled payment dates back to the date prepayment will be made utilizing a discount rate equal to the Converted Treasury Yield (as defined below); and

(ii) subtracting from such sum the outstanding principal balance (prior to application of the principal being prepaid) as of the date prepayment will be made; and

(iii) multiplying such remainder by the quotient of (A) the principal being prepaid, *divided by* (B) the outstanding principal balance as of the date of prepayment (prior to application of the principal being prepaid).

The “**Converted Treasury Yield**” means 50 basis points plus the yield available, or if there is more than one yield available, the average yields of United States Treasury non-callable bonds and notes having a maturity date closest to (before, on, or after) the scheduled Maturity Date as reported in *The Wall Street Journal* or similar publication on the fifth (5th) Business Day preceding the date prepayment will be made (as calculated by Holder in the exercise of its reasonable judgment), converted to a quarterly equivalent yield. As used herein, the terms “Converted Treasury Yield” and quarterly equivalent yield are annualized rates which reflect the frequency of the interest payments made during a calendar year.

Notwithstanding the foregoing, no prepayment premium shall be payable if Maker voluntarily prepays the Loan in full or in part, within the fifteen (15) day period immediately preceding the scheduled Maturity Date, and on the date such prepayment is made Holder has not exercised and is not entitled to exercise its right to accelerate the scheduled Maturity Date.

4.2 PREPAYMENT RIGHTS. Maker acknowledges that it possesses no right to prepay the Loan, except as expressly provided herein. Maker further acknowledges and agrees that, except as expressly provided herein, if the Loan is prepaid prior to the scheduled Maturity Date, for any reason, including, but not limited to, acceleration of the Maturity Date by reason of an Event of Default, any subsequent tender of payment of the Loan made by Maker or by anyone on behalf of Maker or otherwise, including any tender of payment at any time prior to or at foreclosure sale or proceedings or during any redemption period following foreclosure, or during any federal or state bankruptcy or insolvency proceedings, shall constitute an evasion of the restrictions on prepayment set forth herein, and shall be deemed a voluntary prepayment prior to the scheduled Maturity Date requiring payment of the prepayment premium provided for, if any, and Holder shall not be required to accept such prepayment if it does not include payment of the prepayment premium provided for, if any. Further, Holder’s acceptance of such prepayment without the requisite prepayment premium shall not constitute or be deemed to constitute a waiver by Holder of its right to seek payment of the required prepayment premium in accordance with the terms hereof or any rights and remedies Holder may have under this Note, the other Loan Documents, at law or in equity on account of Maker’s failure to timely pay such prepayment premium as and when required hereunder. To the extent permitted by law, Holder may bid at any foreclosure sale, as part of the indebtedness evidenced by the Loan Documents, the amount of the prepayment premium, if any, which is payable hereunder calculated as if prepayment of the Loan occurs on the date of such foreclosure sale. To the extent the amount of the indebtedness evidenced by this Note must be determined as of a date certain pursuant to a judicial foreclosure, the Loan will be deemed prepaid as of the date judgment enters and the prepayment premium due and payable hereunder (if any) will be calculated as if prepayment of the Loan occurred on the date of said judgment.

4.3 NEGOTIATION OF PREPAYMENT PREMIUM. Maker and Holder have negotiated the Loan upon the understanding that if the Loan is paid or prepaid prior to the scheduled Maturity Date, for any reason, except as expressly provided herein, Holder shall receive the prepayment premium provided for as partial compensation for: (i) the cost of reinvesting the prepayment proceeds and/or the loss of the contracted rate of return on the Loan; and (ii) the privilege of early payment of the Loan, which Maker has expressly bargained for and which privilege Holder would not have granted to Maker without a prepayment premium. Maker agrees that the prepayment premium provided for herein is reasonable. Maker agrees that Holder shall not be obligated, as a condition subsequent to its receipt of the prepayment premium provided for, to actually reinvest all or any part of the amount prepaid in any United States Treasury instruments or obligations or otherwise.

4.4 APPLICATION OF PREPAYMENTS. Any partial prepayments of the principal of this Note shall be applied to installments of principal coming due hereunder in the inverse order of maturity, and shall not reduce the scheduled installments of principal payable hereunder, if any. If the amounts necessary to prepay this Note in accordance with the terms and provisions hereof are received by Holder after 2:00 p.m. (Eastern Time), such prepayment shall be deemed to have been made on the next occurring Business Day and Holder shall be entitled to receive interest on the outstanding principal balance of the Loan, calculated at the Loan Rate or the Default Rate, as applicable, and a re-calculated prepayment premium to the effective date of such prepayment.

4.5 PREPAYMENT IN CONNECTION WITH CASUALTY, CONDEMNATION OR EXCESS INTEREST. Notwithstanding anything to the contrary set forth in this Note or the other Loan Documents, Holder agrees that provided no Event of Default has occurred, no prepayment premium shall be due and payable in connection with the reduction of the outstanding principal balance of the Loan pursuant to (i) the application of insurance or condemnation proceeds received by Holder pursuant to the Deed of Trust, or (ii) the application of Excess Interest (as defined in the this Note).

4.6 PREPAYMENT PERMITTED WITHOUT PREMIUM. Subject to the provisions of this Section 4, but notwithstanding Section 4.1, Maker may prepay principal in an amount of not more than ten percent (10%) of the original principal amount of the Loan during any calendar year or portion thereof without prepayment premium, provided that no Event of Default exists.

4.7 NOTICE OF PREPAYMENTS. Any prepayment otherwise permitted under Sections 4.1, 4.5 and 4.6, shall not be permitted unless Holder shall have received written notice from Maker of the amount of such prepayment and the date such prepayment will be paid at least thirty (30) days prior to such date of prepayment.

4.8 PREPAYMENT NOT PERMITTED. Except as hereinabove set forth, no full or partial prepayments of principal shall be allowed.

MAKER'S INITIALS _____

INITIALS _____

INITIALS _____

5. ISSUANCE PURSUANT TO LOAN AGREEMENT

This Note has been issued by the Maker pursuant to the terms of the Loan Agreement, and Maker and Holder are entitled to the benefits and subject to the obligations thereof. This Note is secured by, among other things, the Deeds of Trust. Reference is hereby made to the Loan Agreement for a full statement of the rights of the holder of, and the nature and extent of the security for, this Note. All covenants, conditions and agreements contained in the Loan Agreement, the Deeds of Trust and any other document securing this Note, are hereby made a part of this Note. In the event of any conflict between the terms of the Note and the terms of the Loan Agreement, the Deeds of Trust and other security instruments, the terms of this Note shall govern. Maker acknowledges and agrees that the Loan and the other obligations evidenced and secured by the Loan Documents are fully recourse and that, subject to the provisions of this Note, the Loan Agreement, the Loan Documents and the Deeds of Trust and applicable law, Holder's remedies upon default by Maker are not limited to foreclosure of the Deeds of Trust.

6. EVENTS OF DEFAULT AND REMEDIES

The entire unpaid principal balance and accrued interest under this Note, and any and all other notes of Maker to Holder or other sums owed from Maker to Holder, shall, as set forth in the Loan Agreement, either automatically or as declared at the option of Holder, be immediately due and payable upon the occurrence of an Event of Default with respect to any automatic acceleration and upon the occurrence and during the continuance of one or more Events of Default, with respect to any optional acceleration. Upon the occurrence and during the continuance of one or more Events of Default, Holder shall also have the right to (i) demand additional security in lieu of asserting any other remedy; (ii) use any remedy Holder has under any federal, state, or local law of the United States; and (iii) use any remedy given to Holder in the Loan Agreement or in any of the Loan Documents.

7. ACTIONS BY HOLDER

Any forbearance by Holder in exercising any right or remedy under this Note, the Deeds of Trust, the Loan Agreement, or any other Loan Document or otherwise afforded by applicable law shall not be a waiver of or preclude the exercise of that or any other right or remedy. The acceptance by Holder of any payment after the due date of such payment or in an amount which is less than the required payment shall not be a waiver of Holder's right to require prompt payment when due of all other payments or to exercise any right or remedy with respect to any failure to make prompt payment. Enforcement by Holder of any security for Maker's obligations under this Note shall not constitute any election by Holder of remedies so as to preclude the exercise of any other right or remedy available to Holder.

8. ATTORNEYS' FEES

If Holder shall employ the services of legal counsel in connection with (i) any request made by Maker to Holder for a modification, amendment, waiver, or consent in connection with the Loan Documents, (ii) defending or protecting Holder's interests in any Loan Document or any property securing the Loan from and against any claim or assertion made by any third party, (iii) rendering advice to Holder, enforcing Holder's legal rights, or performing other legal services for Holder upon the occurrence of an Event of Default, including, without limitation, any services relating to any so-called "work-out" or other negotiations following or anticipating the occurrence of any Event of Default, (iv) representing the interests of Holder in any lawsuit arising out of or in connection with the Loan Documents or Holder's position as secured party or beneficiary under any Loan Document, or (v) any other judicial or nonjudicial action, suit or proceeding instituted by Holder or any other person connected with or related to or with reference to the Loan or to reclaim, seek relief from a judicial or statutory stay, sequester, protect, preserve or enforce Holder's interest in this Note or the Deeds of Trusts or any other Loan Document (including proceedings under state or federal bankruptcy or insolvency law, in eminent domain, under probate proceedings, or in connection with any state or federal tax lien), then in such event Maker promises to pay or reimburse Holder, within thirty (30) days following demand, for all reasonable attorneys' fees and reasonable costs and expenses and any other professional's fees incurred by Holder and/or its attorney in connection with the above-mentioned events.

9. MAXIMUM INTEREST RATE/CHARGES

It being the intention of Holder and Maker to comply with the laws of the State of Washington with regard to the rate of interest charged hereunder, it is agreed that, notwithstanding any provision to the contrary in this Note or any of the other Loan Documents, no such provision shall require the payment or permit the collection of any amount (“**Excess Interest**”) in excess of the maximum amount of interest permitted by law to be charged for the use or detention, or the forbearance in the collection, of all or any portion of the indebtedness evidenced by this Note. If any Excess Interest is provided for, or is adjudicated to be provided for, in this Note or any of the other Loan Documents, then in such event:

(a) The provisions of this paragraph shall govern and control;

(b) Maker shall not be obligated to pay any Excess Interest;

(c) Any Excess Interest that Holder may have received hereunder shall, at the option of Holder, be (i) applied as a credit against the then-outstanding principal balance due under this Note, accrued and unpaid interest thereon not to exceed the maximum amount permitted by law, or both, (ii) refunded to the payor thereof, or (iii) any combination of the foregoing;

(d) The applicable interest rate or rates shall be automatically subject to reduction to the maximum lawful rate allowed to be contracted for in writing under the applicable usury laws of the aforesaid State, and this Note, the Loan Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in such interest rate or rates; and

(e) Maker shall not have any action or remedy against Holder for any damages whatsoever or any defense to enforcement of the Note, Loan Agreement or any of the other Loan Documents arising out of the payment or collection of the Excess Interest.

10. GOVERNING LAW AND OTHER AGREEMENTS

Maker agrees that: (i) this Note and the rights and obligations of the parties hereunder shall be governed by the laws of the State of Washington without reference to the conflict of law principles of such state; (ii) the obligation evidenced by this Note is an exempted transaction under the Truth In Lending Act, 15 U.S.C. Section 1601, et seq.; and (iii) said obligation constitutes a business loan and is not intended by Maker for use for personal, family, or household purposes.

11. WAIVERS

Maker and any and all others who may become liable for all or part of the obligations of Maker under this Note (collectively the “**Obligors**”) agree to be jointly and severally bound hereby and jointly and severally, to the extent permitted by law: (i) waive and renounce any and all redemption and exemption rights and the benefit of all valuation and appraisal privileges against the indebtedness evidenced by this Note or by any extension or renewal hereof; (ii) waive presentment and demand for payment, notices of nonpayment and of dishonor, protest of dishonor, and notice of protest; (iii) waive all notices in connection with the delivery and acceptance hereof and all other notices in connection with the performance, default, or enforcement of the payment hereof or hereunder, except as otherwise specifically provided in the Loan Documents; (iv) waive any and all lack of diligence and delays in the enforcement of the payment hereof; (v) agree that the liability of each Obligor shall be unconditional and without regard to the liability of any other person or entity for the payment hereof, and shall not in any manner be affected by any indulgence or forbearance granted or consented to by Holder to any Obligor or any such other person or entity; (vi) consent to any and all extensions of time, renewals, waivers, or modifications that may be granted by Holder with respect to the payment or other provisions hereof, and to the release of any security at any time given for the payment hereof, or any part thereof, with or without substitution, and to the release of any person or entity liable for the payment hereof; and (vii) consent to the addition of any and all other makers, endorsers, guarantors, and other obligors for the payment hereof, and to the acceptance of any and all other security for the payment hereof, and agree that the addition of any such obligors or security shall not affect the liability of any of Obligors for the payment hereof.

12. ENTIRE AGREEMENT

This instrument, together with the other Loan Documents as defined above, constitutes and sets forth the entire understanding and agreement between the parties, and no party hereto has relied upon any representations, agreements or understandings, verbal or written, not set forth herein, or in such other Loan Documents, whether made by any party hereto or by any agent, employee or representative of any party hereto. Specifically, without limiting the generality of the foregoing, the parties agree that Holder has made no agreement to extend or renew this Note in any way, and no such agreement will be binding upon Holder unless made in writing, subsequent to the date hereof, and executed by a duly authorized representative of Holder.

13. HEADINGS AND INTERPRETATION

Headings are for convenience only and are not intended as a limitation on the content of the paragraph following, nor as an aid to the construction thereof. The parties hereto intend and believe that each provision in this Note comports with all applicable law. However, if any provision in this Note is found by a court of law to be in violation of any applicable law, and if such court should declare such provision of this Note to be unlawful, void or unenforceable as written, then it is the intent of Maker and Holder that there shall be added in lieu thereof a provision as similar in terms to such provision as is possible which is legal, valid and enforceable, provided, however, that if any provision of this Note which is found to be in violation of any applicable law concerns the imposition of interest hereunder, the rights, obligations and interests of Maker and Holder with respect to the imposition of interest hereunder shall be governed and controlled by the provisions of this Note. **TIME IS OF THE ESSENCE OF THIS NOTE.** Use of the word "including" shall not be construed as a limitation and the word "including" shall be deemed to mean "including, but not limited to."

14. MISCELLANEOUS

14.1 CHANGES TO NOTE. This Note may not be modified, amended, waived, extended, changed, discharged, or terminated orally or by any act or failure to act on the part of Maker or Holder, but only by an agreement in writing signed by both Maker and Holder. Holder may change any terms of payment of this Note, including extensions of time and renewals, and release any security for, or any party to, this Note, without notifying or releasing any accommodation maker, endorser or guarantor from liability on this Note.

14.2 LOSS, THEFT OR DESTRUCTION OF NOTE. In the event of the loss, theft or destruction of this Note, upon Maker's receipt of a reasonably satisfactory indemnification agreement executed in favor of Maker by Holder or in the event of the mutilation of this Note, upon the surrender of the mutilated Note by Holder to Maker, Maker shall execute and deliver to Holder a new note in form and content identical to this Note in lieu of the lost, stolen, destroyed or mutilated Note.

14.3 MEANING OF PARTICULAR TERMS. Wherever used, the singular member shall include the plural, the plural the singular, and the words "Holder" and "Maker" shall include their respective successors, assigns, heirs, executors and administrators. Upon any endorsement, assignment, or other transfer of this Note by Holder or by operation of law, the term "Holder," as used herein, shall mean such endorsee, assignee, or other transferee or successor to Holder then becoming the holder of this Note. This Note shall inure to the benefit of Holder and its successors and assigns and shall be binding upon the undersigned Maker and its successors and assigns. Maker agrees that Holder and any future Holders or participants may grant or sell participation interests in this Note to other Persons without notice to, or approval of Maker.

14.4 NOTICES. All notices required to be given hereunder shall be given in the manner specified in the Loan Agreement directed to the parties at their respective address as provided therein.

14.5 JOINT AND SEVERAL LIABILITY. If Maker consists of more than one person or party, the obligations and liabilities of each such person or party shall be joint and several.

14.6 COUNTERPARTS. This Note may be executed in several counterparts, each of which when executed and delivered is an original, but all of which together shall constitute one instrument. In making proof of this Note, it shall not be necessary to produce or account for more than one such counterpart which is executed by the party against whom enforcement of such Note is sought.

14.7 PURPOSE OF NOTE. MAKER ACKNOWLEDGES, REPRESENTS AND WARRANTS TO HOLDER THAT THE LOAN EVIDENCED BY THIS NOTE IS FOR COMMERCIAL PURPOSES. MAKER FURTHER ACKNOWLEDGES, REPRESENTS AND WARRANTS THAT IT IS ENGAGED EXCLUSIVELY IN COMMERCIAL PURSUITS AND THAT THE PROCEEDS OF THIS NOTE ARE TO BE UTILIZED IN THE BUSINESS ACTIVITIES OF MAKER AND WILL NOT BE UTILIZED FOR CONSUMER PURPOSES.

14.8 WAIVER OF TRIAL BY JURY. MAKER WAIVES TRIAL BY JURY IN ANY PROCEEDING RELATING TO THIS NOTE, THE DEEDS OF TRUST, OR THE OTHER DOCUMENTS OR TRANSACTIONS EVIDENCED HEREBY OR THEREBY AND AGREES THAT NO SUCH ACTION WITH RESPECT TO WHICH A JURY TRIAL HAS BEEN WAIVED SHALL BE SOUGHT TO BE CONSOLIDATED WITH ANY OTHER ACTION WITH RESPECT TO WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.

14.9 NO ORAL AGREEMENTS.

THIS NOTE AND ALL THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT OF THE BORROWER AND THE LENDER AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE LOAN AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE BORROWER AND THE LENDER. THERE ARE NO ORAL AGREEMENTS BETWEEN THE BORROWER AND THE LENDER. THE PROVISIONS OF THIS NOTE AND THE OTHER LOAN DOCUMENTS MAY BE AMENDED OR REVISED ONLY BY AN INSTRUMENT IN WRITING SIGNED BY THE BORROWER AND THE LENDER.

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.

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

ORM TIMBER OPERATING COMPANY II, LLC
a Delaware limited liability company

By: Olympic Resource Management LLC, a
Washington limited liability company
Its Manager

By: _____
David L. Nunes
President & Chief Executive Officer

[Signature Page to Promissory Note]

GUARANTY

THIS GUARANTY is made as of the 1st day of September, 2010 by **ORM TIMBER FUND II, INC.**, a Delaware corporation ("**Guarantor**"), to and in favor of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation ("**Lender**"), and the subsequent owners and holders of the Note defined herein.

RECITALS

A. Pursuant to the terms and conditions contained in that certain Loan Agreement of even date herewith (as the same may be amended, modified, renewed or extended from time to time, the "**Loan Agreement**"), between Lender and ORM Timber Operating Company II, LLC, a Delaware limited liability company ("**Borrower**"), Lender has agreed to make a loan (the "**Loan**") to Borrower in the original principal amount of \$11,000,000. The Loan shall be evidenced by the Promissory Note of even date herewith made by Borrower to the order of Lender in the principal amount of the Loan (as the same may be amended, modified, renewed, extended or refinanced from time to time, the "**Note**") and secured by, among other things, certain Deeds of Trust as defined in the Loan Agreement.

B. Guarantor is an affiliate of Borrower and Guarantor will directly benefit from Lender making the Loan.

C. Lender has advised Guarantor that it will not extend the Loan to Borrower unless, among other matters, all of the obligations of Borrower under the Note, the Loan Agreement and certain other agreements as hereinafter provided, including without limitation the punctual payment of both principal and interest to be paid, are guaranteed by Guarantor.

D. Guarantor is willing and has agreed to guarantee the payment and performance of the Borrower's obligations under the Loan pursuant to the terms of this Guaranty.

NOW, THEREFORE, in order to induce Lender to enter into the Loan Agreement and disburse the Loan and in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees as follows:

1. **Guaranty.** Guarantor, as primary obligor and not merely as a surety, hereby unconditionally and irrevocably guaranties: (i) the due and punctual payment in full (and not merely the collectibility) of the principal of the Note and the interest thereon, in each case when due and payable, according to the terms of the Note, whether at stated maturity, by reason of acceleration or otherwise; (ii) the due and punctual payment in full (and not merely the collectibility) of all other sums and charges which may at any time be due and payable in accordance with, or under the terms of, the Note, whether at stated maturity, by reason of acceleration or otherwise; (iii) the due and punctual performance and observance of all of the other terms, covenants and conditions contained in the Note, the Loan Agreement, the Deeds of Trust and any other security instruments and agreements relating to the Note now or hereafter existing, on the part of Borrower to be performed or observed (collectively the Note, the Loan Agreement, the Deeds of Trust, all security instruments and all related agreements are collectively referred to therein as the “**Loan Documents**”); and (iv) the accuracy of the representations and warranties made by the Borrower in the Loan Agreement; and (v) the payment and performance of all Obligations, as defined in the Loan Agreement; and which guaranty shall survive (among other events) payment and satisfaction of the Note, foreclosure, a deed in lieu transaction, and release of any collateral.

2. **Nature of Guaranty.** This Guaranty is an irrevocable, absolute, continuing guaranty of payment and performance and not a guaranty of collection. This Guaranty may not be revoked by Guarantor and shall continue to be effective with respect to any obligations hereunder arising or created after any attempted revocation by Guarantor. The fact that at any time or from time to time the Obligations may be increased or reduced shall not release or discharge the obligation of Guarantor to Lender with respect to the Obligations. This Guaranty may be enforced by Lender and any subsequent holder of the Note and shall not be discharged by the assignment or negotiation of all or part of the Note.

3. **Subsequent Changes.** Guarantor expressly agrees that Lender may, in its sole and absolute discretion, without notice to or further assent of Guarantor and without in any way releasing, affecting or impairing the obligations and liabilities of Guarantor hereunder: (i) renew, extend, rearrange, modify, release or cancel any payments called for and provisions contained in the Loan Documents, including without limitation, the Note; (ii) waive compliance with, or any default under, or grant any other indulgences with respect to, the Loan Documents; (iii) modify, amend or change any provisions of the Loan Documents; (iv) grant extensions or renewals of or with respect to the Loan Documents, and/or effect any release, compromise or settlement in connection therewith; (v) agree to the substitution, exchange, release or other disposition of all or any part of the collateral securing the Note; (vi) make advances for the purpose of performing any term or covenant contained in the Loan Documents, with respect to which Borrower shall be in default; (vii) assign or otherwise transfer the Loan Documents including without limitation this Guaranty, or any interest therein; (viii) take, or delay in taking or refuse to take, any and all action with reference to the Note and the other Loan Documents (regardless of whether same might vary the risk or alter the rights, remedies or recourses of Guarantor), including specifically (but without limitation) the settlement or compromise of any amount or performance allegedly due thereunder, and (ix) deal in all respects with Borrower without regard to the existence of this Guaranty. The obligations of Guarantor under this Guaranty shall be unconditional, irrespective of the genuineness, validity, regularity, enforceability, or priority of the Loan Documents or any other circumstances which might otherwise constitute a legal or equitable discharge of a surety or guarantor and without regard to any counterclaim, setoff, deduction, or defense of any kind which any party obligated under the Loan Documents may have or assert.

4. Direct and Absolute Obligation. The liability of Guarantor under this Guaranty shall be primary, direct and immediate and not conditional or contingent upon pursuit by Lender of any remedies it may have against Borrower or any other party with respect to the Loan Documents, whether pursuant to the terms thereof or otherwise. No exercise or nonexercise by Lender of any right given to it hereunder or under the Loan Documents, and no change, impairment or suspension of any right or remedy of Lender shall in any way affect any of Guarantor's obligations hereunder or give Guarantor any recourse against Lender. Without limiting the generality of the foregoing, Lender shall not be required to make any demand on Borrower and/or any other party, or otherwise pursue or exhaust its remedies against Borrower or any other party, before, simultaneously with or after, enforcing its rights and remedies hereunder against Guarantor. Any one or more successive and/or concurrent actions may be brought hereon against Guarantor, either in the same action, if any, brought against Borrower and/or any other party, or in separate actions, as often as Lender, in its sole discretion, may deem advisable.

5. Waivers. Guarantor hereby expressly waives: (i) diligence, presentment and demand for payment and protest of nonpayment; (ii) notice of acceptance of this Guaranty and of presentment, demand and protest; (iii) notice of any default hereunder or under the Loan Documents and of all indulgences; (iv) demand for observance or performance of, or enforcement of, any terms or provisions of this Guaranty or the Loan Documents; (v) all other notices and demands otherwise required by law which Guarantor may lawfully waive, including, without limitation, notice of intent to accelerate and notice of acceleration; (vi) the right to assert in any action or proceeding hereupon by Lender any setoff, counterclaim or other claim which it may have against Lender or Borrower; (vii) all rights of indemnity, reimbursement, contribution, and subrogation from the Borrower, (viii) any and all requirements that Lender institute any action or proceeding, or exhaust or attempt to enforce any or all of Lender's right, remedies or recourses against Borrower or anyone else or in respect of any mortgaged property or collateral covered by any Loan Documents, or join Borrower or any other persons liable on the Obligations in any action to enforce this Guaranty as a condition precedent to bringing an action against Guarantor upon this Guaranty, it being expressly agreed that the liability of Guarantor hereunder shall be primary and not secondary; (ix) any defense arising by reason of any disability, insolvency, lack of authority or power, death, insanity, minority, dissolution or any other defense of Borrower, or any other surety, co-maker, endorser or guarantor of the Obligations (even though rendering same void, unenforceable or otherwise uncollectible), it being agreed that Guarantor shall remain liable hereon regardless of whether Borrower or any other such person be found not liable thereon for any reason; (x) all suretyship defenses of every kind and nature; (xi) any claim Guarantor might otherwise have against Lender by virtue of Lender's invocation of any right, remedy or recourse permitted it hereunder or under the Loan Documents; and (xii) the benefit of all other principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms hereof.

6. Subordination, Assignment and Transfer; No Subrogation. Guarantor further agrees with Lender (a) that all of the present and future indebtedness of Borrower to Guarantor shall be and hereby is subordinated to, assigned and transferred to Lender and pledged and made security for the payment of all Obligations; (b) that all of the present and future indebtedness of Guarantor to Pope Resources, a Delaware limited partnership, including without limitation, the unsecured indebtedness evidenced by that certain Revolving Promissory Note dated August 20, 2010 (the "**Pope Note**"), shall be and hereby is subordinated in right of payment to the Obligations, together with all costs of enforcing this Agreement; (d) that Guarantor contemporaneously herewith and from time to time hereafter shall on request execute such further endorsements, assignments or other proper transfers as Lender may request further to evidence the assignment thereby agreed to and made; and (c) that Guarantor hereby appoints Lender as Guarantor's attorney in Guarantor's or their name to demand and enforce payment of said indebtedness, to prove all claims, receive all dividends and take all action on said indebtedness in any liquidation or any proceedings whatsoever affecting Borrower or its property under any bankruptcy or other laws now or hereafter in effect for the relief of debtors and in general to do any act or take any action in regards to said indebtedness which Guarantor might otherwise do. Notwithstanding anything to the contrary contained in this Guaranty or any payments made by Guarantor hereunder, Guarantor shall not have any right of subrogation in or under the Loan Documents or to participate in any way therein or in any right, title or interest in and to any mortgaged property or any collateral for the Loan, all such rights of subrogation and participation, together with any other contractual, statutory or common law right which guarantor may have to be reimbursed for any payments Guarantor may make to Lender pursuant to this Guaranty, being hereby expressly waived and released.

7. Events and Circumstances Not Reducing or Discharging Guarantor's Obligations. Guarantor hereby consents and agrees to each of the following, and agrees that Guarantor's obligations under this Guaranty shall not be released, diminished, impaired, reduced or adversely affected by any of the following, and waives any common law, equitable, statutory or other rights (including without limitation rights to notice) which Guarantor might otherwise have as a result of or in connection with any of the following:

- (a) Modifications. Any renewal, extension, increase, modification, alteration or rearrangement of all or any part of the Note, Loan Documents, or other document, instrument, contract or understanding between Borrower and Lender, or any other parties, pertaining to the Guarantor's obligations or any failure of Lender to notify Guarantor of any such action.
- (b) Adjustment. Any adjustment, indulgence, forbearance or compromise that might be granted or given by Lender to Borrower.
- (c) Condition of Borrower or Guarantor. The insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or lack of power of Borrower, Guarantor or any other party at any time liable for the payment of all or part of the obligations guaranteed hereunder; or any dissolution of Borrower or Guarantor, or any sale, lease or transfer of any or all of the assets of Borrower or Guarantor, or any changes in the shareholders, partners or members of Borrower or Guarantor; or any reorganization of Borrower or Guarantor.
- (d) Invalidity of Guaranteed Obligations. The invalidity, illegality or unenforceability of all or any part of the Note or other of the Loan Documents, or any other document or agreement executed in connection therewith, for any reason whatsoever, including without limitation the fact that (i) the loan evidenced by the Note and the Loan Documents, or any part thereof, exceeds the amount permitted by law, (ii) the act of creating the loan evidenced by the Note and the Loan Documents or any part thereof is ultra vires, (iii) the officers or representatives executing the Note or the other Loan Documents acted in excess of their authority, (iv) the obligations guaranteed hereby violates applicable usury laws, (v) the Borrower has valid defenses, claims or offsets (whether at law, in equity or by agreement) which render the obligations guaranteed hereby wholly or partially uncollectible from Borrower, (vi) the creation, performance or repayment of the obligations guaranteed hereby (or the execution, delivery and performance of any document or instrument representing part of the obligations guaranteed hereby or executed in connection with the obligations guaranteed hereby, or given to secure the repayment of the obligations guaranteed hereby) is illegal, uncollectible or unenforceable, or (vii) the Note or any of the other Loan Documents have been forged or otherwise are irregular or not genuine or authentic, it being agreed that Guarantor shall remain liable hereon regardless of whether Borrower or any other person be found not liable on the obligations guaranteed hereby or any part thereof for any reason.

- (e) Release of Obligors. Any full or partial release of the liability of Borrower on the obligations guaranteed hereby, or any part thereof, or of any co-guarantors, or any other person or entity now or hereafter liable, whether directly or indirectly, jointly, severally, or jointly and severally, to pay, perform, guarantee or assure the payment of the obligations guaranteed hereby, or any part thereof, it being recognized, acknowledged and agreed by Guarantor that Guarantor may be required to pay the obligations guaranteed hereby in full without assistance or support of any other party, and Guarantor has not been induced to enter into this Guaranty on the basis of a contemplation, belief, understanding or agreement that other parties will be liable to pay or perform the obligations guaranteed hereby, or that Lender will look to other parties to pay or perform the obligations guaranteed hereby.
- (f) Other Collateral. The taking or accepting of any other security, collateral or guaranty, or other assurance of payment, for all or any part of the obligations guaranteed hereby.
- (g) Release of Collateral. Any release, surrender, exchange, subordination, deterioration, waste, loss or impairment (including without limitation negligent, willful, unreasonable or unjustifiable impairment) of any collateral, property or security, at any time existing in connection with, or assuring or securing payment of, all or any part of the obligations guaranteed hereby.
- (h) Care and Diligence. The failure of Lender or any other party to exercise diligence or reasonable care in the preservation, protection, enforcement, sale or other handling or treatment of all or any part of such collateral, property or security, including but not limited to any neglect, delay, omission, failure or refusal of Lender (i) to take or prosecute any action for the collection of any of the obligations guaranteed hereby or (ii) to foreclose, or initiate any action to foreclose, or, once commenced, prosecute to completion any action to foreclose upon any security therefor, or (iii) to take or prosecute any action in connection with any instrument or agreement evidencing or securing all or any part of the obligations guaranteed hereby.
- (i) Unenforceability. The fact that any collateral, security, security interest or lien contemplated or intended to be given, created or granted as security for the repayment of the obligations guaranteed hereby, or any part thereof, shall not be properly perfected or created, or shall prove to be unenforceable or subordinate to any other security interest or lien, it being recognized and agreed by Guarantor that Guarantor is not entering into this Guaranty in reliance on, or in contemplation of the benefits of, the validity, enforceability, collectibility or value of any of the collateral for the obligations guaranteed hereby.

- (j) Merger. The reorganization, merger or consolidation of Borrower or either of them into or with any other corporation or entity.
- (k) Preference. Any payment by Borrower to Lender is held to constitute a preference under bankruptcy laws, or for any reason Lender is required to refund such payment or pay such amount to Borrower or someone else.
- (l) Other Actions Taken or Omitted. Any other action taken or omitted to be taken with respect to the Loan Documents, the obligations guaranteed hereby, or the security and collateral therefor, whether or not such action or omission prejudices Guarantor or increases the likelihood that Guarantor will be required to pay the obligations guaranteed hereby pursuant to the terms hereof, it is the unambiguous and unequivocal intention of Guarantor that Guarantor shall be obligated to pay the obligations guaranteed hereby when due, notwithstanding any occurrence, circumstance, event, action, or omission whatsoever, whether contemplated or un contemplated, and whether or not otherwise or particularly described herein, which obligation shall be deemed satisfied only upon the full and final payment and satisfaction of the obligations guaranteed hereby.

8. Financial Statements; Equity, Debt; Contracts; Material Adverse Change. Guarantor has delivered to Lender prior to the date hereof copies of the unaudited quarterly financial statements of Guarantor dated as of June 30, 2010, which have been accepted by Lender. Guarantor hereby represents and warrants that all of said financial statements (including in each case the related schedules and notes) are true and correct in all material respects and present fairly the financial position of the Guarantor as of the respective dates specified in such statements (subject, in the case of interim financial statements, to audit and normal yearend adjustments) and the results of its operations and its cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (i) for charges required or permitted by GAAP and with which the auditors of Guarantor concur, or (ii) where applicable, as set forth in the notes thereto. Guarantor agrees to deliver to Lender all of the financial statements and other information as may be required of Guarantor under the terms of the Loan Agreement, and further agrees that the representations set forth in the preceding sentence will apply to all financial statements to be delivered to Lender under the terms of the Loan Agreement or this Guaranty.

9. Guarantor's Representations and Warranties. Guarantor hereby warrants and represents unto Lender as follows:

- (a) Guarantor is not now insolvent and Guarantor's obligations under this Guaranty or under any of the other Loan Documents do not render Guarantor insolvent; Guarantor is not contemplating either the filing of a petition by Guarantor under any state or federal bankruptcy or insolvency laws or the liquidating of all or a major portion of Guarantor's property; and Guarantor has no knowledge of any person contemplating the filing of any such petition against Guarantor;
- (b) that this Guaranty constitutes the legal, valid and binding obligation of Guarantor and is fully enforceable against Guarantor in accordance with its terms;
- (c) that there are no legal proceedings or material claims or demands pending against or, to the best of Guarantor's knowledge threatened against, Guarantor or any of its assets;
- (d) that neither the execution nor the delivery of this Guaranty nor the fulfillment and compliance with the provisions hereof will conflict with, result in a breach of, constitute a default under or result in the creation of any lien, charge, or encumbrance upon any property or assets of Guarantor under any agreement or instrument to which Guarantor is now a party or by which he may be bound;
- (e) that neither Lender nor anyone acting on behalf of Lender has made any representation, warranty or statement to Guarantor to induce Guarantor to execute and deliver this Guaranty;
- (f) that Guarantor is a principal of Borrower, is the owner of a direct and/or indirect interest in Borrower, and has received, or will receive, direct or indirect benefit from the making of this Guaranty with respect to the obligations guaranteed hereby; and
- (g) that Guarantor is familiar with, and has independently reviewed books and records regarding the financial condition of the Borrower, and is familiar with the value of any and all collateral intended to be created as security for the payment of the Note and the other obligations guaranteed hereby; however, Guarantor is not relying on such financial condition or the collateral as an inducement to enter into this Guaranty.

- (h) Guarantor has no Debt other than the Loan and the unsecured Pope Note, which is subordinate in all respects to the Obligations.
- (i) Since the date of the most recent financial statement of Guarantor delivered to Lender referred to Section 8 above there has been no material adverse change in the business, prospects, profits, property or condition (financial or otherwise) of Guarantor.
- (j) Guarantor is not or has ever been, involved in bankruptcy or adjudicated as bankrupt, and has not entered into an agreement or received the benefit of any settlement or compromise of a debt, as debtor.

10. Borrower Insolvency. The obligations of Guarantor to make payment in accordance with the terms of this Guaranty shall not be impaired, modified, changed, released or limited in any manner whatsoever by any impairment, modification, change, release or limitation of the liability of Borrower or its estate in bankruptcy or reorganization resulting from the operation of any present or future provision of the Federal Bankruptcy Act or other statute or from the decision of any court. Guarantor agrees that in the event any amounts referred to herein are paid in whole or in part by Borrower or by Guarantor, Guarantor's liability hereunder shall continue and remain in full force and effect in the event that all or any part of any such payment is recovered from Lender as a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law. Guarantor further agrees that this Guaranty includes the costs incurred by the Lender in defending any claim or suit seeking such recovery.

11. Notices. All notices given hereunder shall be in writing and shall be either hand delivered, mailed, by certified U.S. mail, Return Receipt Requested, first class postage prepaid, or sent by nationally recognized courier (such as Federal Express) to the parties at their respective addresses below or at such other address for any party as such party may designate by notice in accordance with this Section to the other parties hereto, and shall be deemed to be given upon receipt or refusal to accept:

Guarantor:

ORM Timber Fund II, Inc.
c/o Olympic Resource Management LLC
19245 Tenth Avenue NE
Poulsbo, Washington 98370
Attention: Thomas M. Ringo
Email: tringo@orminc.com

with a copy to:

Davis Wright Tremaine LLP
1201 Third Avenue, Suite 2200
Seattle, Washington 98101-1688
Attention: Greg Adams
Email: gregadams@dwt.com

In the case of Lender, to:

Metropolitan Life Insurance Company
6750 Poplar Avenue, Suite 109
Memphis, Tennessee 38138
Attention: Loan No. 194231

with a copy to:

Metropolitan Life Insurance Company
8717 West 110th Street, Suite 700
Overland Park, Kansas 66210
Attention: Agricultural Investments
Loan No. 194231

12. **Place of Payment.** Any payments made by Guarantor under the provisions of this Guaranty shall, if made to Lender be made at its principal office at its address first set forth above, unless some other address is hereafter designated by Lender.

13. **Nonwaiver.** All rights and remedies afforded to Lender by reason of this Guaranty and the Loan Documents, or by law are separate and cumulative and the exercise of one shall not in any way limit or prejudice the exercise of any other such rights or remedies. No delay or omission by Lender in exercising any such right or remedy shall operate as a waiver thereof. No waiver of any rights and remedies hereunder, and no modification or amendment hereof, shall be deemed made by Lender unless in writing and duly executed. Any such written waiver shall apply only to the particular instance specified therein and shall not impair the further exercise of such right or remedy or of any other right or remedy of Lender, and no single or partial exercise of any right or remedy hereunder shall preclude further exercise of any other right or remedy.

14. **Setoff.** The Guarantor hereby agrees that Lender shall have a lien and a right to setoff for all liabilities arising out of this Guaranty upon and against all deposits, credits, and property of Guarantor now or hereafter in the possession or control of Lender or in transit to it. Lender may at any time, without first resorting to any collateral for the Note, apply all or any part of said deposits, credits and property to the Guarantor's liabilities hereunder.

15. Consent to Jurisdiction. GUARANTOR, TO THE EXTENT THAT GUARANTOR MAY LAWFULLY DO SO, HEREBY SUBMITS TO THE JURISDICTION OF (i) THE COURTS OF THE STATE OF WASHINGTON OR OREGON AND ANY UNITED STATES DISTRICT COURT WITHIN THE STATE OF WASHINGTON OR OREGON; AS WELL AS TO THE JURISDICTION OF ALL COURTS FROM WHICH AN APPEAL MAY BE TAKEN FROM THE AFORESAID COURTS, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF ANY OF GUARANTOR'S OBLIGATIONS UNDER OR WITH RESPECT TO THIS GUARANTY, AND EXPRESSLY WAIVES ANY AND ALL OBJECTIONS GUARANTOR MAY HAVE AS TO VENUE IN ANY OF SUCH COURTS.

16. Jury Trial Waiver. GUARANTOR AND LENDER EACH HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN ANY WAY CONCERNED WITH THIS GUARANTY OR ANY OF THE OTHER LOAN DOCUMENTS. GUARANTOR AGREES THAT IN THE EVENT THIS GUARANTY OR ANY OF THE GUARANTY DOCUMENTS SHALL BE ENFORCED BY SUIT OR OTHERWISE, OR IF LENDER SHALL EXERCISE OR ENDEAVOR TO EXERCISE ANY OF ITS REMEDIES UNDER THIS GUARANTY OR THE OTHER THE LOAN DOCUMENTS, GUARANTOR WILL REIMBURSE LENDER, UPON DEMAND, FOR ALL EXPENSES AND DAMAGES INCURRED IN CONNECTION THEREWITH, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES.

NO PARTY TO THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO ANY ASSIGNEE OF OR SUCCESSOR TO GUARANTOR OR LENDER, SHALL SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER LITIGATION PROCEDURE BASED UPON, OR ARISING OUT OF, THIS GUARANTY OR ANY OF THE OTHER LOAN DOCUMENTS. NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION, IN WHICH A JURY TRIAL HAS BEEN WAIVED, WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCUSSED BY THE PARTIES HERETO, AND THE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTION. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

17. Governing Law. This Guaranty shall be governed by, and construed and enforced in accordance with, the law of the State of Washington, excluding choice-of-law principles of the law of such state that would require the application of the laws of a jurisdiction other than such jurisdiction.

18. Entirety. This Guaranty and the other loan documents executed by Guarantor embody the final, entire agreement of Guarantor and Lender with respect to Guarantor's guaranty of the obligations and supersede any and all prior commitments, agreements, representations, and understandings, whether written or oral, relating to the subject matter hereof. This Guaranty is intended by Guarantor and Lender as a final and complete expression of the terms of the Guaranty, and no course of dealing between Guarantor and Lender, no course of performance, no trade practices, and no evidence of prior, contemporaneous or subsequent oral agreements or discussions or other extrinsic evidence of any nature shall be used to contradict, vary, supplement or modify any term of this Guaranty agreement. There are no oral agreements between Guarantor and Lender.

19. Section Headings. The section headings in this Guaranty are inserted for convenience of reference only and shall not in any way affect the meaning or construction of any provision of this Guaranty.

20. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and it is the intent of Lender and Guarantor that there shall be added in lieu thereof a provision as similar in terms to such provision as is possible which is legal, valid and enforceable.

21. Successors. This Guaranty shall inure to the benefit of, and be enforceable by, Lender and its successors and assigns, and shall be binding upon, and enforceable against, Guarantor and Guarantor's heirs, successors and assigns.

22. No Oral Agreements.

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.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty as of the day and year first above written.

GUARANTOR:

ORM TIMBER FUND II, INC.,
a Delaware corporation

By: Olympic Resource Management LLC,
Its Manager

By: _____
David L. Nunes
President and CEO

Prepared by, and after recording return to:

Virginia M. Pedreira
Stoel Rives LLP
600 University Street, Suite 3600
Seattle, Washington 98101-4109

Loan No. 194231

ATTENTION: COUNTY RECORDER—THIS INSTRUMENT COVERS GOODS THAT ARE OR WILL BECOME FIXTURES ON THE DESCRIBED REAL PROPERTY AND SHOULD BE FILED FOR RECORD IN THE REAL PROPERTY RECORDS WHERE DEEDS OF TRUST ON REAL ESTATE ARE RECORDED. THIS INSTRUMENT SHOULD ALSO BE INDEXED AS A UNIFORM COMMERCIAL CODE FINANCING STATEMENT COVERING GOODS THAT ARE OR WILL BECOME FIXTURES ON THE DESCRIBED REAL PROPERTY. THE MAILING ADDRESSES OF THE SECURED PARTY AND THE DEBTOR ARE WITHIN.

TRUST DEED, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING

(This Trust Deed is executed in duplicate counterpart originals for concurrent recording in Clackamas and Marion Counties, Oregon)

Maximum Principal to be Advanced: \$11,000,000
Maturity Date of Note: September 1, 2020

THIS TRUST DEED, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING (hereinafter, together with all amendments thereto, being referred to as this “**Deed of Trust**”), is made and entered into as of September 1, 2010, by **ORM TIMBER OPERATING COMPANY II, LLC**, a Delaware limited liability company, whose address is c/o Olympic Resource Management LLC 19245 Tenth Avenue NE, Poulsbo, Washington 98370 (the “**Grantor**”) to AMERITITLE 1393 Clay Street, SE Albany, Oregon 97322, whose address is (“**Trustee**”), for the benefit of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation, whose address is 6750 Poplar Avenue, Suite 109, Memphis, Tennessee 38138 (the “**Beneficiary**” or the “**Lender**”).

GRANTOR DOES HEREBY IRREVOCABLY TRANSFER, GRANT, BARGAIN, SELL, CONVEY, ASSIGN, WARRANT AND MORTGAGE TO TRUSTEE, ITS SUCCESSORS AND ASSIGNS, IN TRUST, WITH POWER OF SALE AND RIGHT OF ENTRY AND POSSESSION, FOR THE BENEFIT OF BENEFICIARY, all of its right, title and interest, now or hereafter acquired, in and to the property and interests in Collateral described in the following Granting Clauses, which constitute or may constitute an interest in real property or fixtures, and Grantor does hereby grant to the Beneficiary a security interest in and a pledge of the property and interests in Collateral described in the following Granting Clauses, which constitute or may constitute goods or personal property:

(a) All right, title and interest in and to the real estate described on Exhibit A attached hereto and incorporated herein by reference, whether held in fee or leasehold (the "**Premises**"), together with all improvements, buildings, structures, bridges, fixtures of every description and appurtenances now or hereafter located thereon or therein (the "**Improvements**");

(b) All coal, oil, gas and other minerals owned by Grantor and located on, in or under the Premises and extracted or to be extracted, as extracted collateral and all mineral interests and all proceeds, accounts and general intangibles resulting from the sale of such minerals or mineral interests (sometimes collectively referred to herein as the "**Minerals**"), and all farm products, permanent plantings, crops and timber of every species and of every kind and description, now or hereafter growing, or to be grown, harvested from, pertaining to and located on the Premises (including owned or leased by Grantor) and proceeds thereof, and including, without limitation all property related to nursery operations or replanting and reforestation, seedlings, nursery stock, trees, growing trees, standing timber, timber cut and to be cut, severed timber, stumpage, forest products, lumber, pulpwood, and all related inventory, products and by-products of any of the foregoing or timber operations conducted or to be conducted on the Premises, and all proceeds, accounts, investment property and general intangibles resulting from the sale of such farm products, crops, timber and timber to be cut and timber interests (sometimes collectively referred to herein as "**Timber**") (the Premises, the Improvements, the Minerals and the Timber hereinafter sometimes collectively referred to as the "**Real Estate**");

(c) (i) All of Grantor's rights (but not its obligations except as otherwise expressly agreed in writing by Beneficiary) under any and all leases, subleases, surface leases, licenses, written or oral, and all agreements for use or occupancy, or exploration, drilling, mining, extraction, storage, transportation, processing and handling of Minerals, and all timber sale agreements, log supply agreements, stumpage contracts, timber purchase agreements or stumpage agreements and other contracts and agreements pursuant to which Grantor has agreed to sell any standing or severed timber, pulpwood or other timber products from the Real Estate, affecting all or any portion of the Real Estate with respect to which the Grantor is the landlord or sublandlord, including without limitation the leases and contracts identified in the Loan Agreement and any specifically identified on Exhibit B attached hereto and incorporated herein (the "**Existing Leases**"), any and all extensions and renewals of said leases and agreements and any and all further leases or agreements, now existing or hereafter made including subleases thereunder, upon, covering or affecting all or any part of the Real Estate or the Improvements, together with any and all guaranties of the lessee's, any sublessee's, or contracting party's performance thereunder (all such existing or future leases, subleases, agreements and tenancies heretofore mentioned, including but not limited to the Existing Leases, any use or occupancy arrangements created pursuant to Section 365(h) of Title 11 of the United States Code or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Real Estate being hereinafter collectively referred to as the "**Leases**") and all right, title and interest of Grantor in and to property of any tenant or other person under any such lease or under any other arrangement entered into in connection with any such lease, and any and all cash, security deposits, advance rentals and deposits or payments of a similar nature under any such lease or other arrangement and together with all money payable thereunder or in connection therewith (including, without limitation, any and all cancellation or termination payments), subject, however, to the revocable license given to Grantor to collect and use the rents, income and other benefits arising under any such Lease as provided below;

(ii) All permits, special permits, licenses, access rights, approvals, maps, forest practice approvals, surveys, title records, studies, reports, contracts and other rights, privileges and agreements affecting the operation of the Real Estate now owned or hereafter acquired by Grantor, including without limitation the access rights described on Exhibit B hereto;

(iii) All water and water rights, royalties, coal, oil, gas and other mineral royalties, profits, proceeds, fees, farm products revenue, hunting lease or other recreational lease revenue and other income of Grantor of any kind or manner whatsoever arising from or related to operations on the Real Estate, including income from nursery operations, seedling operations, timber and pulpwood contracts, option agreements, coal, oil, gas or mineral leases, coal tipple leases, option agreements and land sales;

(iv) The immediate and continuing right to collect and receive all of the rents, income, royalties, receipts, revenues, issues and profits now due or which may become due or to which the Grantor may now or shall hereafter (including during the period of redemption, if any) become entitled or may demand or claim, arising or issuing from or out of any timber contracts, log supply agreements, stumpage contracts, leases, licenses, bills of sale or deeds, the Leases or from or out of the Real Estate, or any part thereof, including but not limited to any and all rights and claims of any kind that the Grantor may have against any such lessee under the Leases or against any subtenants, occupants or licenses of the Real Estate or the Improvements, or against the purchaser under any coal lease, oil or gas lease, or any other mineral lease, timber deed, contract or other agreement in any way relating to the coal, oil, gas, Minerals or Timber, (including any payments received pursuant to Section 502(b) of the Bankruptcy Code or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Real Estate and all claims as a creditor in connection with any of the foregoing), all such moneys, rights and claims in this paragraph described being hereinafter referred to as the “**Rents**,” provided, however, so long as no Event of Default has occurred and is continuing under this Deed of Trust, the Grantor shall have the right under a license granted hereby (but limited as provided below) to collect, receive and retain the Rents, but no Rents shall be collected in advance of the due date thereof;

(d) All accounts, general intangibles, payment intangibles, investment property, trade names, trademarks, commercial tort claims, letter of credit rights and proceeds, supporting obligations of every kind and nature, documents, contract rights, construction contracts, and instruments now owned or hereafter acquired by Grantor which relate to the Real Estate, the Leases, the Rents or the proceeds thereof, but not Grantor’s obligations thereunder, and all funds and deposit accounts and other accounts into which any funds of the Grantor are now or hereafter deposited to be held by or on behalf of Beneficiary;

(e) All building materials, supplies and other property now or hereafter stored at or delivered to the Premises or the Improvements, and all fixtures, fittings, furnishings, apparatus, machinery, appliances, equipment, goods, inventory and all other articles of personal property of every nature whatsoever now or hereafter located in or on, or attached to, and used or intended to be used in the connection with the Real Estate or any of the Improvements, or in connection with any operations conducted or intended to be conducted on the Real Estate or with respect to the Improvements, including without limitation with respect to coal, oil, gas or mineral extraction, storage, processing or handling, Timber harvesting and management (collectively, the “**Equipment**”) (all of the Equipment, so far as permitted by law, shall be deemed to be fixtures and part of the Real Estate and of the Improvements), and any and all title information, opinions, reports, abstracts of title, plans, specifications, drawings, books, records and similar items relating to the Real Estate, the Improvements or the Equipment, the operation thereof, any rights thereto or any interest therein;

(f) All proceeds, products, extensions, additions, improvements, betterments, renewals, reversions, substitutions, replacements, accessions, accretions and relictions of and to all or any part of the Real Estate, Minerals, Timber, Improvements or Equipment and on the other property referenced in these Granting Clauses or encumbered by this Deed of Trust, including, without limitation, all proceeds arising from the sale or other disposition thereof;

(g) All right, title and interest of Grantor, of whatever character (whether vested or contingent and whether now owned or hereafter acquired), in and to (1) all streets, roads, railroad rights of way, riparian rights and public places (whether open or proposed) adjoining or otherwise providing access to the Real Estate, (2) the Real Estate lying in the bed of such streets, roads, railroad rights of way and public places, and (3) all other sidewalks, alleys, ways, passages, vaults, water courses, strips and gores of Real Estate adjoining or used or intended to be used in connection with all or any part of the Real Estate, Minerals, Timber, Improvements or Equipment or appurtenances thereto;

(h) All easements, rights-of-way, gores of land, ways, riparian rights and rights of use or passage (whether public or private), estates, interests, benefits, powers, rights (including, without limitation, any and all lateral support, drainage, slope, sewer, water, air, mineral, oil, gas and subsurface rights), privileges, claims, franchises, licenses, profits, rents, royalties, tenements, hereditaments, reversions, remainders and appurtenances of every nature whatsoever in any way now or hereafter belonging, relating or appertaining to all or any part of Real Estate, Minerals, Timber, Improvements or Equipment, whether legal or equitable ("**Easements**");

(i) All right, title and interest of Grantor (but not its obligations except as otherwise expressly agreed in writing by Beneficiary), whether now owned or hereafter acquired, in and to: (1) each and every policy of insurance now or hereafter in effect which insures the Collateral, or any part thereof, (2) any and all judgments, settlements, claims, awards, insurance proceeds and other proceeds and compensation, and interest thereon, now or hereafter made or payable in connection with any casualty or other damage to all or any part of the Real Estate, Minerals, Timber, Improvements or Equipment or appurtenances thereto, or in connection with any condemnation proceedings affecting any such property or any taking under power of eminent domain (or any conveyance in lieu of or under threat of any such taking) of any such property or any rights thereto or any interest therein, including, without limitation, any and all compensation for change of grade of streets or any other injury to or decrease in the value of such property, (3) all inventory and any and all proceeds of any sales, assignments or other dispositions of any such property or any rights thereto or any interest therein (inventory shall mean and include, without limitation, all goods now owned or hereafter acquired and owned from time to time by Grantor which are held for sale or lease or are to be furnished under contracts of service and all goods, materials, raw materials, work in process, finished goods or materials used or consumed in the business of Grantor, which are products of or related to Timber or Minerals), (4) any credits, claims, rights or benefits arising from or related to the absorption of carbon dioxide by the trees and other organic plants growing on the Real Estate, carbon sequestration, carbon credits, carbon financial instruments or any other benefit by any other name or description, financial or otherwise related to the control or reduction of greenhouse gases, carbon dioxide or any other form of air or atmospheric quality incentives, (5) any and all proceeds of any other conversion (whether voluntary or involuntary) of any such property into cash or any liquidated claim; (6) any and all refunds or rebates of or with respect to any insurance premiums and real estate taxes, impositions or levies, and tax credits or benefits or deposits relating thereto, with respect to such property, and (7) all accounts, accounts receivable, option rights, contract rights, documents, commercial paper, notes, drafts, acceptances, instruments, chattel paper, general intangibles, trademarks, trade names and symbols, permits, licenses, approvals, bonuses, actions and rights in action arising from or relating to any such property (including, without limitation, all rights, benefits and privileges of Grantor under any and all Mineral leases and agreements and stumpage, cutting and Timber sale agreements, all contractual and other indemnities, assurances, guaranties and similar agreements, and all rights, benefits and privileges of Grantor in and to any and all contracts relating to operation, maintenance, management or security of any such property and those rights and reservations as set forth on Exhibit B attached hereto and incorporated herein by reference as the same affect the land described in said Exhibit B to the extent affecting the Real Estate), and (8) all investment property, relating to such property, whether now owned or hereafter acquired, including all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts;

(j) All right, title and interest of Grantor (whether as seller, purchaser or otherwise), but not its obligations, in and to any and all agreements in the nature of options or for the sale or any other transfer of all or any part of the Collateral, together with any and all down payments, earnest money deposits and other sums paid or payable or deposited in connection therewith, and all rights which Grantor now has or may hereafter acquire to be indemnified and/or held harmless from any liability, loss, damage, cost or expense (including, without limitation, attorneys' fees and disbursements) relating to the Real Estate or Collateral or any part thereof;

(k) All rights and reservations held by Grantor and necessary to (i) manage, harvest, cut, remove and sell Timber and trees on the Premises, including rights necessary to permit the removal of same, including ingress and egress for such purposes, and the right to construct roads for such purposes, and (ii) to sell stumpage or cutting rights or standing Timber (and all rights necessary to permit the removal of same) to third parties (which Timber and trees and said rights of access, cutting, removal and road building are herein included in all references to the Premises), together with all rights therein as described in subsections (b), (c), (f), (g), (h) and (i) above;

(l) All rights, hereditaments and appurtenances pertaining to the foregoing; and all other interests of every kind and character that Grantor now has or at any time hereafter acquires in and to the Premises, Improvements, Equipment or the Timber described herein and all property that is used or useful in connection therewith, including rights of ingress and egress and all reversionary rights or interests of Grantor with respect to such property;

(m) And including all property and rights of the type and nature set forth above hereafter acquired by Grantor, relating to the Real Estate and any and all further or greater estate, right, title, interest, claim and demand of Grantor, of whatever character (whether vested or contingent and whether now owned or hereafter acquired), in and to any of the property described in the foregoing paragraphs or any rights or interests appurtenant thereto; and

(n) All other Collateral defined in the Loan Agreement or in any other Loan Document now or hereafter signed by Grantor in favor of Beneficiary.

SUBJECT, HOWEVER, to the exceptions described in the Loan Agreement as Permitted Encumbrances.

All of the property described in the foregoing Granting Clauses is herein sometimes collectively referred to as the "Collateral." That portion of the Collateral which constitutes real property or fixtures is referred to as the "Real Property Collateral" and all other Collateral is referred to as the "UCC Collateral" or the "Code Collateral," and Grantor does hereby grant, convey and pledge the Code Collateral to Beneficiary as security for the Obligations, as that term is hereinafter defined. For purposes of the UCC Collateral, the name of the Debtor and the owner of the Real Estate is ORM Timber Operating Company II, LLC, a Delaware limited liability company, and the name of the Secured Party is Metropolitan Life Insurance Company, a New York corporation, each of which has an address as indicated in the introductory paragraph of this Deed of Trust.

TO HAVE AND TO HOLD the Real Property Collateral, together with the rights, privileges and appurtenances thereto belonging, unto Beneficiary and its successors and assigns, forever, and Grantor hereby binds itself and its heirs, executors, administrators, personal representatives, successors and assigns to warrant and forever defend the Real Property Collateral unto Beneficiary and its successors and assigns, against the claim or claims of all persons claiming or to claim the same or any part thereof, except those claiming under Permitted Encumbrances, and the Code Collateral, together with the rights, privileges and appurtenances thereto belonging, unto the Beneficiary and its successors and assigns, forever, and Grantor hereby binds itself and its heirs, executors, administrators, personal representatives, successors and assigns to warrant and forever defend the Code Collateral unto the Beneficiary, its successors and assigns, against the claim or claims of all persons claiming or to claim the same or any part thereof, except those claiming under Permitted Encumbrances.

1. LOAN AGREEMENT; NOTE. This Deed of Trust is being executed pursuant to the terms of the Loan Agreement of even date herewith, between Grantor and Beneficiary (as amended, restated or supplemented from time to time, the "Loan Agreement"). Any capitalized terms used in this Deed of Trust and not otherwise defined shall have the meanings assigned in the Loan Agreement. Pursuant to the Loan Agreement, Grantor is or hereafter shall be justly indebted in the original principal amount of Eleven Million and 00/100 US Dollars (US\$11,000,000) (the "Loan"), as evidenced by a promissory note from Grantor to Beneficiary in the amount of \$11,000,000 of even date herewith, bearing a fixed rate of interest as set forth therein, and all successive extensions and renewals of the indebtedness represented thereby (said note, as presently constituted and as it may hereafter be amended, extended, renewed or consolidated, together with any and all notes that may hereafter be given in substitution therefor, being hereinafter referred to as the "Note"). The loan, if not sooner paid, is due and payable in full on September 1, 2020.

1.1 Obligations. This Deed of Trust is made for the following uses and purposes, and is given to secure and shall secure the prompt payment and performance of the following, which Grantor agrees to pay and perform (hereinafter sometimes referred to collectively as the "Obligations" or "Secured Obligations"):

1.1.1 Payment and performance of all of Grantor's indebtedness and obligations pursuant to the Loan Agreement, including without limitation, payment of the principal indebtedness evidenced by the Note, together with interest thereon at the rate or rates specified in the Note, including without limitation interest at the Default Rate, as applicable, in accordance with the terms of the Note, and all premiums payable thereon and all other indebtedness evidenced by the Note, all of which indebtedness is payable in lawful money of the United States of America;

1.1.2 Any and all sums now or hereafter becoming due and payable by the Grantor to the Beneficiary under the terms of this Deed of Trust, including but not limited to advancements made by the Beneficiary pursuant to the terms and conditions of this Deed of Trust with interest as herein provided and any debt or obligation arising as a result of the breach of any warranty or representation set forth in this Deed of Trust;

1.1.3 All renewals and extensions of any or all of the obligations described in 1.1.1 and 1.1.2 above, whether or not any renewal or extension agreement is executed in connection therewith;

1.1.4 Performance and discharge of each and every obligation, promise and agreement of Grantor contained in this Deed of Trust, the Note, the Loan Agreement and in any and all assignments of rents and leases, security agreements, collateral assignments, cash collateral agreements, supplemental agreements and any and all other Loan Documents, other than any obligations evidenced by the Environmental Indemnity Agreement which are stated to be unsecured;

1.1.5 The Obligations as defined in the Loan Agreement, other than any obligations evidenced by the Environmental Indemnity Agreement which are stated to be unsecured; and

1.1.6 The payment of all future and additional indebtedness, direct or indirect, created after the date of this Deed of Trust, pursuant to the terms hereof or of the Loan Documents, which may be owing by Grantor to the holder of the Note at any time prior to the payment in full with interest of the Indebtedness or the foreclosure of this Deed of Trust therefor (the event occurring first to be controlling);

and also to secure the full and complete performance of each and every obligation, covenant, duty and agreement of the Grantor contained in this Deed of Trust.

1.2 Future Advances and Other Debts. It is expressly understood that this Deed of Trust is intended to and does secure, not only the indebtedness herein specifically mentioned, but also future advances and any and all other indebtedness and other obligations and liabilities, direct or contingent, of Grantor to said Beneficiary, whether now existing or hereafter arising, and any and all extensions, renewals and modifications of same, or any part thereof, at any time before actual cancellation of this instrument on the land records of the county or counties where the Collateral is located, and whether the same be evidenced by note, open account, assignment, endorsement, guaranty, pledge or otherwise (all of which future advances and other indebtedness shall be deemed to be included in the definition of "**Obligations**" and "**Secured Obligations**" hereunder). Notwithstanding anything to the contrary set forth herein, this Deed of Trust does not secure the obligations of Grantor arising under the Environmental Indemnity Agreement.

2. **GRANTOR'S REPRESENTATIONS, COVENANTS AND WARRANTIES**

Grantor represents, covenants and warrants to the Beneficiary that:

2.1 **Valid Title, etc.** The Grantor has good and marketable title and is lawfully seized of an indefeasible estate in fee simple in and to the Real Estate and other property set forth on Exhibit A, and good and marketable title to personal property in which a security interest is granted under the Loan Documents, subject to Permitted Encumbrances; provided, however, that Grantor's interest in the Road Use Agreement described on Exhibit B is subject to the consent of the Bureau of Land Management under its customary assignment process, as more particularly provided in the Loan Agreement. Grantor further has a good right to sell, convey, encumber and mortgage, grant a security interest in, and assign, the Collateral. The Collateral is subject to no deeds of trust, mortgages, liens, encumbrances, assignments or security interests other than Permitted Encumbrances, and the Grantor will forever warrant and defend the title to the Collateral unto the Beneficiary against the claims of all persons whomsoever, except those claiming under Permitted Encumbrances.

2.2 **Maintenance of Lien Priority.** The Grantor shall take all steps necessary to preserve and protect the validity and priority of the perfected first lien on, security interests in, and assignments of, the Collateral created hereby (subject to the Permitted Encumbrances). The Grantor shall execute, acknowledge and deliver such additional instruments as the Beneficiary may deem necessary in order to preserve, protect, continue, extend or maintain the liens, security interests and assignments created hereby as a first lien on, security interests in, and assignments of, the Collateral, except as otherwise permitted under the terms of this Deed of Trust. All costs and expenses incurred in connection with the protection, preservation, maintaining of the liens, security interests and assignments hereby created, including without limitation costs, fees and expenses incurred in correcting, reforming or altering this Deed of Trust, shall be paid by the Grantor.

2.3 **Representations and Warranties Specifically Relating to Rents and Leases. Except for any Permitted Encumbrances:**

2.3.1 The Grantor has good title to the Rents and Leases here assigned and good right to assign the same, and no other person, corporation or entity has any right, title or interest therein.

2.3.2 The Grantor has duly and punctually performed all and singular the terms, covenants, conditions and warranties of the Leases on the Grantor's part to be kept, observed and performed.

2.3.3 The Grantor has not previously sold, assigned, transferred, mortgaged or pledged the Leases or the Rents, whether now or hereafter to become due. No Rents due for any period subsequent to the month next succeeding the date of this Deed of Trust have been collected, and no payment of any of the Rents has otherwise been anticipated, waived, released, discounted, set off or otherwise discharged or compromised except in the ordinary course of the Grantor's business.

2.3.4 The Grantor has not paid any funds to any lessor in excess of one month's rent for which credit has not already been made on account of accrued rents.

2.3.5 To the best of the Grantor's knowledge, the lessors under the Leases are not in default under any of the terms thereof.

2.4 Hazardous Substances. With respect to Hazardous Substances (as such term is defined in the Loan Agreement), the Grantor represents, agrees and warrants as follows:

2.4.1 The Grantor has not caused or permitted any Hazardous Substance to be placed, held, located or disposed of on, under or at the Real Estate or any part thereof, nor, to the best of Grantor's knowledge following diligent inquiry, and except as disclosed in the Phase I Report (defined in the Loan Agreement), has the Real Estate or any part thereof ever been used as a dump site or storage site (whether permanent or temporary) for any Hazardous Substance;

2.4.2 The Grantor hereby agrees to indemnify the Beneficiary and hold the Beneficiary harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind whatsoever paid, incurred or suffered by, or asserted against the Beneficiary for, with respect to, or as a direct or indirect result of, the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission, or release from, the Collateral of any Hazardous Substance, including, without limitation, any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under any Environmental Protection Law (as such term is defined in the Loan Agreement), regardless of whether or not caused by, or within the control of, the Grantor.

2.4.3 If the Grantor receives any notice of (i) the happening of any event involving the use, spill, discharge or cleanup of any Hazardous Substance (a "**Hazardous Discharge**") affecting the Grantor or the Real Estate or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, noise emissions or any other environmental, health or safety matter affecting the Grantor or the Collateral (an "**Environmental Complaint**") from any person or entity, including, without limitation, the United States Environmental Protection Agency ("**EPA**"), then the Grantor will give, within seven (7) business days, oral and written notice of same to the Beneficiary.

2.4.4 Upon the request of Beneficiary, Grantor agrees to provide Beneficiary with copies of all emergency and hazardous chemical inventory forms (hereinafter "**Notices**") given by Grantor to any Governmental Authority as required pursuant to the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C., Section 11001 et seq. Copies of such Notices shall be sent to Beneficiary concurrently with their being mailed to any such Governmental Authority.

2.4.5 Grantor, promptly upon any request of Beneficiary, given from time to time during the existence of an Event of Default or upon a Hazardous Discharge or Environmental Complaint or upon the reasonable determination of Beneficiary that Hazardous Substances are present on the Real Estate, shall provide Beneficiary with an environmental site assessment or environmental audit report, or an update of such an assessment or report, including the results of any additional testing recommended by an environmental professional or determined to be necessary by Beneficiary based upon such audits or reports, all in scope, form, content, and prepared and certified by an environmental professional satisfactory to Beneficiary at Grantor's expense. In the event Grantor shall fail to so provide any such assessment, audit or update or shall fail to remove or remediate any Hazardous Substances required to be removed or remediated under any Environmental Protection Law, Grantor grants Beneficiary and its employees and agents an irrevocable and non-exclusive license, subject to the rights of tenants, to enter the Collateral to conduct testing and to remove or remediate such Hazardous Substances, and the costs of such testing and removal shall immediately be due and payable by the Grantor upon demand by Beneficiary together with interest at the Default Rate and shall be secured by this Deed of Trust.

2.4.6 Grantor covenants and agrees that it shall comply with all Environmental Protection Laws which are applicable to the Collateral, and it shall not permit (A) the Collateral to be used for a mine, a landfill, a dump, or other disposal facility, (B) any underground storage tanks of any kind or character, whether empty or containing substances of any nature to be located on the Collateral, (C) the location, production, treatment, transportation, incorporation, discharge, emission, release, deposit or disposal of any Hazardous Substances in violation of any Environmental Protection Law in, upon, under, over or from the Collateral, or (D) any Hazardous Substances to be located, produced, treated, transported, incorporated, discharged, emitted, released, deposited, disposed of on the Collateral or to escape therein, thereupon, thereunder, thereover or therefrom in violation of any Environmental Laws.

2.4.7 Grantor's liability under this Section 2.4 shall not terminate until the earlier of (i) the sale of the Real Estate pursuant to the enforcement of the lien of this Deed of Trust, the proceeds of which are applied to the indebtedness secured hereby, or (ii) the payment in full of the indebtedness. This Deed of Trust does not secure any of the obligations stated to be unsecured in the Environmental Indemnity Agreements, including those obligations arising following the enforcement of this Deed of Trust; provided, however that all losses, damages and costs incurred by Lender prior to such foreclosure as a result of a breach of this Section 2.4 shall be secured hereunder.

2.5 **Commercial Purpose.** This Trust Deed is a commercial trust deed and is not a residential trust deed, as the phrase “residential trust deed” is defined in ORS 86.705, and the provisions of ORS 86.705 through 86.795 applicable to the foreclosure of commercial trust deeds shall apply to this Trust Deed at the option of Beneficiary. Trustor warrants that the loans secured hereby are for commercial purposes and are not for residential, household, personal or consumer purposes.

3. **COVENANTS AND AGREEMENTS OF GRANTOR**

The Grantor covenants and agrees that, until the Obligations are paid in full and this Deed of Trust is satisfied in writing by the Beneficiary:

3.1 **Payment of Taxes and Other Assessments.** The Grantor will pay or cause to be paid all taxes, assessments and other governmental, municipal or other public dues, charges, fines or impositions imposed or levied upon the Collateral or on the interests created by this Deed of Trust or with respect to the filing of this Deed of Trust, and any tax or excise on Grantor’s rents or other tax, however described, assessed or levied by any state, federal or local taxing authority as a substitute, in whole or in part, for taxes assessed or imposed on the Collateral, including, without limitation, timber, coal or mineral severance taxes, taxes on the value of unmined or unextracted coal, oil, gas or other minerals, or any other taxes related to mining, drilling, extracting, producing, transporting, storing or processing coal, oil, gas or other minerals, or any royalty interest therein, and all excise, privilege or license taxes that may be levied against or upon coal, oil, gas or other minerals located on or produced from the Real Estate, or on the lien and other interests created by this Deed of Trust, and the Grantor will deliver receipts therefor or other evidence of payment in accordance with the Loan Agreement. The Grantor may, at the Grantor’s own expense, in good faith contest any such taxes, assessments and other governmental charges and, in the event of any such contest, may permit the taxes, assessments or other governmental charges so contested to remain unpaid during the period of such contest and any appeal therefrom, provided that during such period Grantor shall be in compliance with the Loan Agreement. If any tax or assessment (other than state and federal income taxes) is levied, assessed or imposed by any Governmental Authority on the Deed of Trust as a legal holder of the Note, any interest in this Deed of Trust or any of the other Loan Documents, then unless all such taxes and assessments are paid by the Grantor as they become due and payable, but in any case before they become delinquent (and in the opinion of counsel for the Beneficiary, such payment by Grantor is lawful and does not place the Beneficiary in violation of any law, or subject Beneficiary to any penalty), the Beneficiary may, at its option, declare an Event of Default under this Deed of Trust, subject to the terms of the Loan Agreement.

3.2 Insurance. The Grantor shall keep or cause to be kept insurance with respect to the Collateral in accordance with the Loan Agreement. The following notice is provided pursuant to ORS 746.201(1):

WARNING:

Unless Grantor provides Beneficiary with evidence of the insurance coverage required by the Note, Beneficiary may purchase insurance at Grantor's expense to protect Beneficiary's interest. This insurance may, but need not, also protect Grantor's interest. If the Trust Property becomes damaged, the coverage Beneficiary purchases may not pay any claim Grantor makes or any claim made against Grantor. Grantor may later cancel this coverage by providing evidence that Grantor has obtained property coverage elsewhere.

Grantor is responsible for the cost of any insurance purchased by Beneficiary. The cost of this insurance may be added to Grantor's loan balance. If the cost is added to Grantor's loan balance, the interest rate on the underlying loan will apply to this added amount. The effective date of coverage may be the date Grantor's prior coverage lapsed or the date Grantor failed to provide proof of coverage.

The coverage Beneficiary purchases may be considerably more expensive than insurance Grantor can obtain on its own and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

3.3 Compliance with Law. The Grantor shall comply with all applicable laws, ordinances, regulations, covenants, conditions and restrictions affecting the Collateral, and shall obtain any and all licenses, permits, franchises or other governmental authorizations necessary to the ownership of the Collateral or the conduct of its business, and Grantor shall not suffer nor permit any act to be done in or upon the Collateral in violation thereof.

3.4 Waste, Demolition, Alteration or Replacement and Preservation and Use of Collateral. The Grantor shall cause the Collateral and every part thereof to be maintained, preserved and kept in safe and good repair, working order and condition, normal wear and tear excepted (subject to damage by casualties) shall not commit or permit waste thereon, shall not remove, demolish or alter the design or structural character of any building now or hereafter erected on the Real Estate without the express prior written consent of the Beneficiary, shall manage and conserve all coal, oil, gas and minerals and Timber located on the Real Estate in accordance with sound and prudent management practices, shall not remove or authorize the cutting or removal of any of the Timber on the Real Estate, other than in accordance with and pursuant to the Loan Agreement and the relevant provisions of this Deed of Trust, not do or permit any act to be done that would result in the creation of a lien, other than Permitted Encumbrances, upon the Collateral or any portion thereof, shall comply with all laws and regulations of any Governmental Authority with reference thereto and the manner and use of the same, and shall from time to time make all necessary and proper repairs, renewals, additions and restorations thereto so that the value and efficient use thereof shall be fully preserved and maintained. The Grantor agrees not to remove any of the fixtures or personal property included in the Collateral without the express prior written consent of the Beneficiary and unless the same is immediately replaced with like property of at least equal value and utility, other than the severance of Timber in accordance with the Loan Agreement. Upon any material failure to maintain the Collateral in accordance with the provisions of the Loan Agreement and this Deed of Trust, and after notice to Grantor of such failure, which is not cured by Grantor within thirty (30) days of receipt of such notice, Beneficiary, at its option, may cause reasonable repair and maintenance work to be performed at the cost of Grantor.

3.5 **Protection of Security.** Beneficiary may appear in and defend any action or proceeding purporting to affect the security hereof and may bring any action or proceeding, in its own name or in the name of and on behalf of Grantor, which Beneficiary shall decide should be brought to protect its interests in the Collateral, including, without limitation, any material title defect or claim.

3.6 **Timber Management and Harvest Provisions.** Grantor shall comply with all of the covenants and restrictions regarding the management and harvesting of Timber and the management, extraction, processing and handling of coal, oil, gas or other minerals located on the Collateral in accordance with the terms and conditions of the Loan Agreement.

3.7 **Assignment of Rents and Profits.**

3.7.1 Grantor does hereby absolutely and unconditionally assign to Beneficiary all of its right, title and interest in all Leases and Rents and all proceeds from the sale, cancellation, surrender or other disposition of the Leases, it being intended by Grantor that this assignment constitutes a present, absolute assignment and not an assignment for additional security only. Such assignment to Beneficiary shall not be construed to bind Beneficiary to the performance of any of the covenants, conditions or provisions contained in any such Lease or otherwise to impose any obligation upon Beneficiary. Grantor agrees to execute and deliver to Beneficiary such additional instruments in form and substance satisfactory to Beneficiary, as may hereafter be reasonably requested by Beneficiary to further evidence and confirm such assignment. Nevertheless, subject to the terms of this Section, Beneficiary grants to Grantor a revocable license to collect the Rents. Upon the occurrence of an Event of Default, the license granted to Grantor herein shall be automatically revoked and Beneficiary shall immediately be entitled to receive all Rents, whether or not Beneficiary enters upon or takes control of the Collateral. Beneficiary is hereby granted and assigned by Grantor the right, at its option, upon the revocation of the license granted herein to enter upon the Collateral in person, by agent or by court-appointed receiver to collect the Rents and to take any other action permitted by law to collect the Rents. Any Rents collected after the revocation of the license herein granted may be applied toward payment of the Obligations in such priority and proportion as Beneficiary, acting reasonably, shall deem proper. Delivery of written notice of Beneficiary's exercise of the rights granted herein to any tenant or other contract party under a Lease shall be sufficient to require said tenant or other contract party to pay all Rent to Beneficiary until further notice, and upon such payment any such tenant or other contract party shall be relieved of all duty, liability or obligation to Grantor in respect of all payments so made. It is further the intent of Grantor and Beneficiary that the Rents hereby absolutely assigned are no longer, during the term of this Deed of Trust, property of Grantor or property of any estate of Grantor as defined in Section 541 of the Bankruptcy Code and shall not constitute collateral, cash or otherwise, of Grantor. The term "Rents" as used herein shall mean the gross rents without deduction or offsets of any kind.

3.7.2 All Leases executed after the date of this Deed of Trust, except as provided in the Loan Agreement, shall provide that they are subordinate to this Deed of Trust and that the lessee or other contract party agrees to attorn to Beneficiary; provided, however, that nothing herein shall affect Beneficiary's right to designate from time to time any one or more Leases as being superior to this Deed of Trust and Grantor shall execute and deliver to Beneficiary and shall cause to be executed and delivered to Beneficiary from each tenant or other contract party under such Lease any instrument or agreement as Beneficiary may deem necessary to make such Lease superior to this Deed of Trust.

3.7.3 Grantor shall not, without the prior written consent of Beneficiary, enter into any Lease for all or any significant portion of the Real Estate other than leases, contracts or licenses permitted under the Loan Agreement.

3.7.4 With respect to any Lease (other than as provided in the Loan Agreement), (x) Grantor shall not, without the prior consent of Beneficiary, which shall not be unreasonably withheld, (i) alter or change the terms of any such Lease or cancel or terminate, abridge or otherwise modify the terms of any such Lease, (ii) consent to any assignment of or subletting under any such Lease (except where consent may be required under the terms of the Lease), (iii) cancel, terminate, abridge or otherwise modify any guaranty of any such Lease or the terms thereof, or (iv) collect or accept prepayments of installments of Rents in advance of the due date thereof, and (y) Grantor shall not, without the prior consent of Beneficiary, further assign the whole or any part of any such Lease or the Rents therefrom.

3.7.5 With respect to each Lease (other than as provided in the Loan Agreement), Grantor shall (i) observe and perform each and every provision thereof on the lessor's part to be fulfilled or performed under each Lease and not do or permit to be done anything to impair the value of the Lease as security for the Loan, including surrender or voluntary termination of any Lease, (ii) promptly send to Beneficiary copies of all notices of default which Grantor shall send or receive thereunder, (iii) enforce all of the terms, covenants and conditions contained in such Lease upon the lessee's or other contract party's part to be performed, short of termination thereof, (iv) execute and deliver, at the request of Beneficiary, all such further assurances, confirmations and assignments in connection with the Collateral as Beneficiary shall, from time to time, require and (v) upon request, furnish Beneficiary with executed copies of all Leases. Grantor shall from time to time upon request of Beneficiary, deliver to Beneficiary a Rent Roll showing all leases and licenses, with terms, rent, tenant information and other information required by Beneficiary and certified as true and correct by Grantor.

3.7.6 Grantor hereby indemnifies and holds Beneficiary harmless from and against any all liability, loss, cost, damage, or expense which Beneficiary may incur by reason of this assignment of rents and leases, or for any action taken by Beneficiary hereunder, or by reason or in defense of any and all claims and demands whatsoever which may be asserted against Beneficiary arising out of the leases or with respect to the rents regardless of whether the claims or causes of action of whatever nature are founded in whole or in part upon the negligence (either act or omission) of Beneficiary except to the extent they arise out of the gross negligence or willful misconduct of Beneficiary. In the event Beneficiary incurs any such liability, loss, cost, damage, or expense, the amount thereof, together with all reasonable attorneys' fees will be payable by Grantor immediately without demand and will be deemed a part of the obligations secured hereby.

3.7.7 Beneficiary's acceptance of this assignment shall not, prior to entry upon and taking possession of the Collateral by Beneficiary, be deemed to constitute Beneficiary a "mortgagee in possession," nor obligate Beneficiary to appear in or defend any proceeding relating to any of the Leases or to the Collateral, take any action hereunder, expend any money, incur any expenses, or perform any obligation or liability under the Leases, or assume any obligation for any deposits delivered to Grantor by any lessee and not delivered to Beneficiary. Beneficiary shall not be liable for any injury or damage to person or property in or about the Collateral.

3.7.8 Upon the occurrence of an Event of Default, Grantor hereby authorizes and directs the tenants under the Leases to pay Rents to Beneficiary upon written demand by Beneficiary, without further consent of Grantor and regardless of whether Beneficiary has taken possession of any other portion of the Collateral, and the tenants may rely upon any written statement delivered by Beneficiary to the tenants. Any such payment to Beneficiary shall constitute payment to Grantor under the Leases, and Grantor hereby appoints Beneficiary as Grantor's lawful attorney-in-fact for giving, and is hereby empowered to give, acquittances to any tenants for such payments to Beneficiary after an Event of Default.

3.8 Transfer or Further Encumbrance of the Collateral.

3.8.1 Grantor acknowledges that Beneficiary has examined and relied on the creditworthiness and experience of Grantor and its constituent members and manager in owning and operating properties such as the Collateral in agreeing to make the Loan, and that Beneficiary will continue to rely on Grantor's ownership of the Collateral as a means of maintaining the value of the Collateral as security for repayment of the Secured Obligations. Grantor acknowledges that Beneficiary has a valid interest in maintaining the value of the Collateral so as to ensure that, should Grantor default in the repayment of the Obligations, Beneficiary can recover the Obligations by a sale of the Collateral. Grantor shall not, without the prior written consent of Beneficiary, or in accordance with the Loan Agreement, sell, convey, alienate, mortgage, encumber, pledge or otherwise transfer the Collateral or any part thereof, or permit or suffer the Collateral or any part thereof to be sold, conveyed, alienated, mortgaged, encumbered, pledged or otherwise transferred. Beneficiary's consent shall be within its sole and absolute discretion, and Beneficiary specifically reserves the right to condition its consent upon (by way of illustration but not by way of limitation) its approval of the financial and/or management ability of the purchaser, transferee, lessee, pledgee or assignee, upon an agreement to increase the interest rate of the Note to Beneficiary's then current interest rate for similarly situated properties, upon the assumption of the Obligations and liabilities of the Note, this Deed of Trust and any or all of the other Loan Documents by the purchaser, transferee, lessee, pledgee or assignee, upon the receipt of guarantees of the Obligations satisfactory to Beneficiary and/or additional collateral satisfactory to Beneficiary and upon payment to Beneficiary of a reasonable assumption fee.

3.8.2 A sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral within the meaning of this Section shall be deemed to include (i) an installment sales agreement wherein Grantor agrees to sell the Collateral or any part thereof for a price to be paid in installments, (ii) an agreement by Grantor leasing all or a substantial part of the Collateral or a sale, assignment or other transfer of, or the grant of a security interest in, Grantor's right, title and interest in and to any Leases or any Rents, or (iii) the voluntary or involuntary sale, conveyance, encumbrance, pledge, hypothecation, dilution or transfer of ownership or beneficial interest in Grantor, or a change in management or control of Grantor that is not permitted under the Loan Agreement.

3.8.3 Beneficiary shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Secured Obligations immediately due and payable upon Grantor's sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral without Beneficiary's consent. This provision shall apply to every sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral regardless of whether voluntary or not, or whether or not Beneficiary has consented to any previous sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral. Any sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral made in contravention of this Section shall constitute an Event of Default and, at the option of Beneficiary, shall be null and void and of no force and effect.

3.8.4 Grantor agrees to bear and shall pay or reimburse Beneficiary on demand for all reasonable expenses (including, without limitation, reasonable attorneys' fees and disbursements, title search costs and title insurance endorsement premiums) incurred by Beneficiary in connection with the review, approval and documentation of any such sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer.

3.8.5 Any purchaser, transferee or future ground lessee of a substantial portion of the Collateral pledged and assigned herein shall be deemed to have assumed and agreed to pay the Secured Obligations and to have assumed and agreed to be bound by and to keep, observe, perform and comply with all covenants, agreements, conditions and provisions of this Deed of Trust (including, without limitation, the terms of this Section) unless Beneficiary specifically agrees in writing to the contrary. Without limiting the generality of the foregoing, each such purchaser, transferee, lessee, pledgee and assignee shall be deemed to have made and agreed to each waiver, consent, authorization, direction and appointment made by or agreed to by Grantor under this Deed of Trust. Grantor agrees that, in the event ownership of all or any part of the Collateral becomes vested in a person other than Grantor, Beneficiary may, without notice to Grantor, deal in any way with such successor or successors in interest with reference to this Deed of Trust, the other Loan Documents and the Obligations, without in any way vitiating or discharging Grantor's liability with respect thereto. Any such purchaser, transferee, lessee, pledgee or assignee shall confirm the above in writing at the request of Beneficiary and shall furnish any other performance or documentation required by Beneficiary. No sale, conveyance, transfer, pledge, encumbrance, assignment or lease referred to in the immediately preceding Section, and no forbearance, extension or assumption by or to any person with respect to the Obligations or any of the Loan Documents, shall operate to release, discharge, modify, change or affect the liability of Grantor, either in whole or in part, unless Beneficiary specifically agrees in writing to the contrary.

3.8.6 Sale of Timber of Grantor pursuant to Section 7.7 shall not be within the scope of this Section 3.8.

3.9 Inspection. Grantor agrees that Beneficiary and/or its agents and independent contractors, shall have the right to the extent permitted hereunder to enter the Collateral at reasonable times and intervals, to inspect and test the Collateral, for the purpose of determining whether Grantor is in compliance with the provisions of this Deed of Trust and the other Loan Documents. Any reasonable costs or expenses incurred in connection with this inspection shall be borne by Grantor.

3.10 Security Agreement, Financing Statements and Fixture Filing.

3.10.1 Security Agreement. This Deed of Trust is a real property deed of trust and a “security agreement” within the meaning of the Oregon Uniform Commercial Code–Secured Transactions in ORS Chapter 79 governing this transaction (the “Code”). The Collateral includes both real and personal property, including timber to be cut, as-extracted collateral and goods, including goods which are or are to become fixtures, and all other rights and interests, whether tangible or intangible in nature, of Grantor in the Collateral. Grantor, by executing and delivering this Deed of Trust, grants to Beneficiary, as security for the Obligations, a security interest in and lien upon the Code Collateral and in all other Collateral to the full extent that the Code Collateral and such other Collateral may be subject to the Code. Beneficiary, by accepting this Deed of Trust, agrees to and enters into this Security Agreement. Grantor authorizes Beneficiary to prepare and file such financing statements and further assurances as Beneficiary may, from time to time, deem necessary in order to create, perfect, and preserve the security interest(s) and lien(s) granted in this Section. This Deed of Trust shall also constitute a financing statement covering goods and inventory, including goods that are to become fixtures and a financing statement covering timber to be cut and as-extracted collateral, for the purposes of the Code. Information concerning the security interest(s) herein granted in the Code Collateral may be obtained from Beneficiary upon request at the address given herein. The mailing address of the Grantor, as debtor, and the Beneficiary as secured party, are as stated in the opening paragraph hereof. Proceeds and products of the portion of the Collateral constituting fixtures or timber are also covered by the security interest granted hereby.

3.10.2 Grantor’s Status. The Grantor has made certain representations to the Beneficiary in the Loan Agreement regarding information necessary to assure compliance with the Code and Grantor represents and warrants to the Beneficiary that all such information pertaining to the Grantor is accurate and complete in all material respects. The Grantor covenants with the Beneficiary as follows: (a) without providing at least 30 days prior written notice to the Beneficiary, the Grantor will not change its name, its place of business or, if more than one, chief executive office or principal place of business, its mailing address or organizational identification number if it has one and (b) the Grantor will not change its type of organization, jurisdiction or organization or other legal structure.

3.10.3 Other Actions. Further to insure the attachment, perfection and first priority of, and the ability of the Beneficiary to enforce, the Beneficiary's security interest in the Collateral, the Grantor agrees, in each case at the Grantor's own expense, to take the following actions with respect to the following types of property which may be acquired by Grantor and which constitute Collateral hereunder.

(a) If the Grantor shall at any time hold or acquire any promissory notes or tangible chattel paper, the Grantor shall forthwith endorse, assign and deliver the same to the Beneficiary, accompanied by such instruments of transfer or assignment duly executed in blank as the Beneficiary may from time to time specify.

(b) For each deposit account that the Grantor at any time opens or maintains, the Grantor shall, at the Beneficiary's request and option, pursuant to an agreement in form and substance reasonably satisfactory to the Beneficiary, either (a) cause the depository bank to agree to comply at any time with instructions from the Beneficiary to such depository bank directing the disposition of funds from time to time credited to such deposit account, without further consent of the Grantor, or (b) arrange for the Beneficiary to become the customer of the depository bank with respect to the deposit account, with the Grantor being permitted only with the consent of the Beneficiary to exercise rights to withdraw funds from such deposit account.

(c) If the Grantor shall at any time hold or acquire any certificated securities, the Grantor shall forthwith endorse, assign and deliver the same to the Beneficiary, accompanied by such instruments of transfer or assignment duly executed in blank as the Beneficiary may from time to time specify. If any securities now or hereafter acquired by the Grantor are uncertificated and are issued to the Grantor or its nominee directly by the issuer thereof, the Grantor shall immediately notify the Beneficiary thereof and, at the Beneficiary's request and option, pursuant to an agreement in form and substance satisfactory to the Beneficiary, either (a) cause the issuer to agree to comply with instructions from the Beneficiary as to such securities, without further consent of the Grantor or such nominee, or (b) arrange for the Beneficiary to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by the Grantor are held by the Grantor or its nominee through a securities intermediary or commodity intermediary, the Grantor shall immediately notify the Beneficiary thereof and, at the Beneficiary's request and option, pursuant to an agreement in form and substance satisfactory to the Beneficiary, either (i) cause such securities intermediary or (as the case may be) commodity intermediary to agree to comply with entitlement orders or other instructions from the Beneficiary to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Beneficiary to such commodity intermediary, in each case without further consent of the Grantor or such nominee, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Beneficiary to become the entitlement holder with respect to such investment property, with the Grantor being permitted, only with the consent of the Beneficiary, to exercise rights to withdraw or otherwise deal with such investment property.

(d) If any Code Collateral is at any time in the possession of a bailee, the Grantor shall promptly notify the Beneficiary thereof and, if requested by the Beneficiary, shall promptly obtain an acknowledgement from the bailee, in form and substance satisfactory to the Beneficiary, that the bailee holds such Collateral for the benefit of the Beneficiary and shall act upon the instructions of the Beneficiary, without the further consent of the Grantor.

(e) If the Grantor at any time holds or acquires an interest in any electronic chattel paper or any "transferable record," as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in § 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, the Grantor shall promptly notify the Beneficiary thereof and, at the request of the Beneficiary, shall take such action as the Beneficiary may reasonably request to vest in the Beneficiary control, under § 9-105 of the Uniform Commercial Code, of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, § 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record.

(f) If the Grantor is at any time a beneficiary under a letter of credit now or hereafter issued in favor of the Grantor, the Grantor shall promptly notify the Beneficiary thereof and, at the request and option of the Beneficiary, the Grantor shall, pursuant to an agreement in form and substance satisfactory to the Beneficiary, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Beneficiary of the proceeds of any drawing under the letter of credit or (ii) arrange for the Beneficiary to become the transferee beneficiary of the letter of credit, with the Beneficiary agreeing, in each case, that the proceeds of any drawing under the letter of credit are to be applied in accordance with the Loan Agreement.

(g) If the Grantor shall at any time hold or acquire a commercial tort claim with respect to the Collateral, the Grantor shall immediately notify the Beneficiary in a writing signed by the Grantor of the brief details thereof and grant to the Beneficiary in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Beneficiary.

(h) The Grantor further agrees to take any other action reasonably requested by the Beneficiary to insure the attachment, perfection and first priority of, and the ability of the Beneficiary to enforce, the Beneficiary's security interest in any and all of the Collateral including, without limitation, (i) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the Uniform Commercial Code, to the extent, if any, that the Grantor's signature thereon is required therefor, (ii) causing the Beneficiary's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Beneficiary to enforce, the Beneficiary's security interest in such Collateral, (iii) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Beneficiary to enforce, the Beneficiary's security interest in such Collateral, (iv) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other person obligated on Collateral, (v) obtaining waivers from Beneficiaries and landlords in form and substance satisfactory to the Beneficiary, and (vi) taking all actions required by any earlier versions of the Uniform Commercial Code or by other law, as applicable in any relevant Uniform Commercial Code jurisdiction, or by other law as applicable in any foreign jurisdiction.

(i) The Beneficiary agrees with the Grantor that the Beneficiary shall not give any such instructions or take any of the actions set forth in clauses (a) through (f), unless an Event of Default has occurred and is continuing, or, after any distribution of any such asset withdrawal not otherwise permitted by the Loan Documents occurs.

(j) The provisions of this paragraph shall not apply to deposit accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of the Grantor's salaried employees.

3.10.4 Remedies. If an Event of Default shall occur Beneficiary, in addition to any other rights and remedies which it may have, including, without limitation, all rights and remedies with respect to the Code Collateral under the foreclosure or non-judicial foreclosure procedures of this Deed of Trust in lieu of proceeding under the Code, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Code, including, without limiting the generality of the foregoing, the right to take possession of the Code Collateral or any part thereof, and to take such other measures as Beneficiary may deem necessary for the care, protection and preservation of the Code Collateral. Upon request or demand of Beneficiary, to the extent reasonably practicable, Grantor shall at its expense assemble the Collateral and make it available to Beneficiary at a convenient place acceptable to Beneficiary. Grantor shall pay to Beneficiary on demand any and all reasonable expenses, including reasonable legal expenses and outside attorneys' fees and disbursements, incurred or paid by Beneficiary in protecting its interest in the Code Collateral and in enforcing its rights hereunder with respect to the Code Collateral. Any notice of sale, disposition or other intended action by Beneficiary with respect to the Code Collateral sent to Grantor in accordance with the provisions hereof at least ten (10) days prior to such sale, disposition or action shall constitute reasonable notice to Grantor. The proceeds of any disposition of the Code Collateral, or any part thereof, may be applied by Beneficiary to the payment of the Obligations in such priority and proportions as Beneficiary in its discretion shall deem proper.

3.10.5 Filing. The Grantor hereby irrevocably authorizes the Beneficiary at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral as being assets of the Grantor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction, or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the Uniform Commercial Code of the state where this Deed of Trust is recorded for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Grantor is an organization, the type of organization and any organization identification number issued to the Grantor and, (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. The Grantor agrees to furnish any such information to the Beneficiary promptly upon request. The Grantor also ratifies its authorization for the Beneficiary to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof. Grantor shall promptly execute, file and record, at its sole cost and expense, such Code forms as are necessary to maintain the validity and priority of the lien of Beneficiary upon and security interest in the Code Collateral. In addition, Grantor shall promptly execute, file and record such additional Code forms or continuation statements and further assurances as Beneficiary shall deem necessary and shall pay all expenses and fees in connection with the filing and recording thereof, provided that no such additional documents shall increase the Obligations of Grantor under the Note, this Deed of Trust or the other Loan Documents. In addition, in the event Grantor shall acquire motor vehicles or rolling stock that are to comprise part of the Collateral, Grantor shall promptly provide Beneficiary upon request with vehicle identification numbers and, if applicable, certificates or other evidence of title with respect thereto, and shall take such action as may be necessary to create and perfect Beneficiary's lien and security interest therein. Grantor hereby grants to Beneficiary an irrevocable power of attorney, coupled with an interest, to file with the appropriate public office on its behalf any financing or other statements signed only by Beneficiary, as secured party, in connection with the Code Collateral covered by this Deed of Trust.

3.10.6 Certain Representations, Warranties and Covenants. The Grantor has made certain representations, including but not limited to the following information and covenants, to the Beneficiary in the Loan Agreement regarding information necessary to assure compliance with the Code and Grantor represents and warrants to the Beneficiary that all such information pertaining to the Grantor is accurate and complete in all respects.

(a) The address of Grantor's chief executive office and principal place of business is 19425 Tenth Avenue NE, Poulsbo, Washington 98370, and the location of Grantor under the Code is the State of Delaware.

(b) With the exception of inventory in transit, all tangible (corporeal) assets comprising the Code Collateral are situate on the Real Estate.

(c) Grantor shall prevent any Code Collateral from being or becoming an accession to any property not subject to security interests created by this Deed of Trust.

(d) From time to time hereafter at the request of Beneficiary, Grantor shall deliver to Beneficiary up to date schedules of any items of Code Collateral.

3.10.7 Description of Collateral. For avoidance of doubt it is expressly understood and agreed that any terms included in the description of Collateral shall refer to any definitions thereof in the Code, as the same may be revised from time to time, it being the intention of the parties hereto that the description of Collateral set forth herein be construed to include the broadest possible range of property and assets.

3.11 Personal Property. Except as permitted by the Loan Agreement and the other Loan Documents, that portion of the Collateral consisting of personal property and equipment, shall be owned by Grantor and shall not be the subject matter of any capital lease or other transaction whereby the ownership or any beneficial interest in any of such property is held by any person or entity other than Grantor nor shall Grantor create or suffer to be created any security interest, other than a Permitted Encumbrance, covering any such Collateral as it may from time to time be replaced, other than the security interest created herein.

3.12 Subrogation. To the extent permitted by law and the provisions of the Loan Agreement, Beneficiary shall be subrogated, notwithstanding their release of record, to any construction or mechanic's or vendor's lien or liens, superior titles, mortgages, deeds of trust, liens, encumbrances, rights, equities, and charges of all kinds heretofore or hereafter existing on the Real Estate to the extent that the same are paid or discharged by Beneficiary whether or not from the proceeds of the Note; provided, however, this Section shall not be deemed or construed to obligate Beneficiary to pay or discharge the same.

4. DEFAULT AND REMEDIES.

4.1 Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default:"

4.1.1 (i) Failure to make payment of any scheduled installment of interest or principal under the Note on or before the date which is four (4) days after the due date (ii) failure to make payment of any partial prepayment of principal under the Note and any premium thereon on or before the date due, or (iii) failure to make payment of the entire indebtedness under the Note and any premiums thereon on or before the applicable maturity or due date;

4.1.2 Grantor shall fail to make payment on or before the due date of any other amount payable to Beneficiary hereunder or under the Note, the Loan Agreement or any other Loan Document (after any applicable grace or notice period, or if no grace or notice period is specified, within ten (10) days of written notice thereof), or Grantor shall be in default of payment in respect of any Taxes or Other Charges (except to the extent contested in accordance herewith and with the Loan Agreement) or with respect to any insurance premiums or payments;

4.1.3 Any warranty, representation, certificate, schedule or other statement or written information made or furnished to Beneficiary in writing by or on behalf of Grantor or any other party under the Loan in any instrument delivered in connection with the Loan was false or misleading in any material respect when made or furnished;

4.1.4 Grantor fails or neglects to perform, keep or observe any other term, provision, condition or covenant contained in this Deed of Trust which is required to be performed, kept or observed by Grantor (other than those referred to in any of the other paragraphs of this Section) and the same is not cured to Beneficiary's satisfaction within thirty (30) days after written notice thereof by Beneficiary; provided, that if (i) such failure cannot be cured within such thirty (30) day period, (ii) such failure is susceptible of cure, (iii) Grantor commences to cure such failure within such thirty (30) day period and thereafter continuously proceeds with diligence and in good faith to cure such failure and (iv) Beneficiary shall receive an officer's certificate of Grantor to the effect of clauses (i), (ii), and (iii) above and specifying the action Grantor is taking to cure such failure, then such thirty (30) day cure period shall be extended by an additional period of time necessary to effect the cure not to exceed ninety (90) days;

4.1.5 There shall occur a default (after the expiration of any applicable notice or cure periods thereunder, or if no notice or cure period is specified, within ten (10) days of written notice thereof) or Event of Default (however defined), under the Loan Agreement or any other Loan Document, including without limitation deeds of trust or security documents granted by any party to secure the Obligations or any portion thereof;

4.1.6 The occurrence of any default (after the expiration of any applicable notice or cure periods thereunder) or event of default (however defined) on the part of Grantor under any other agreement, document or instrument to which Grantor is a party or by which Grantor is bound creating, evidencing or related to any debt, liability or obligation of Grantor (other than Material Contracts subject to Section 4.1.18) in excess of \$50,000;

4.1.7 Any statement, report, financial statement or certificate made or delivered by Grantor, or any of its officers, employees or agents, to the Beneficiary is not true and correct in any material respect;

4.1.8 Grantor (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of the Bankruptcy Code or any other bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes action for the purpose of any of the foregoing;

4.1.9 A court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by Grantor, a custodian, receiver, trustee or other officer with similar powers with respect to Grantor, or with respect to any substantial part of the property of Grantor, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Grantor, or any such petition shall be filed against Grantor and such petition shall not be dismissed within sixty (60) days;

4.1.10 There shall occur any loss or casualty to, or condemnation or expropriation of, all or any material portion of the Collateral that is security for the Loan, and in either case the insurance proceeds or condemnation award, respectively, is insufficient in the reasonable judgment of Beneficiary, unless Grantor shall furnish to Beneficiary substitute Collateral satisfactory in all respects to Beneficiary in a manner acceptable to Beneficiary and in accordance with the Loan Agreement;

4.1.11 A notice of Lien, levy or assessment is filed of record with respect to all or any of Grantor's assets by any Governmental Authority, including, without limitation, the Pension Benefit Guaranty Corporation, or if any taxes or debts owing at any time or times hereafter to any Governmental Authority becomes a lien or encumbrance upon the Collateral or any other of Grantor's assets and the same is not released within thirty (30) days after the same becomes a Lien or encumbrance or, in the case of ad valorem taxes, prior to the last date when payment may be made without penalty, provided, that Grantor may contest any such notice of Lien, levy or assessment or any such lien in accordance herewith and with the Loan Agreement, as long as no foreclosure proceeding has been filed with respect to such Lien, levy or assessment;

4.1.12 A garnishment, summons or a writ of attachment is issued against or served upon Beneficiary for the attachment of any property of Grantor, whether or not in Beneficiary's possession or any indebtedness owing to Grantor, and such garnishment, summons or writ of attachment is not discharged by bond or otherwise, within thirty (30) days after the issuance of service thereof;

4.1.13 If Grantor shall cause or permit an Event of Default under, or default in the performance of or compliance with the Section hereof entitled "Transfer or Further Encumbrance of the Collateral;"

4.1.14 A default or event of default (as defined therein) or commencement of a foreclosure shall exist or occur under any other mortgage, deed of trust or other instrument encumbering all or any portion of the Real Estate, in favor of a party other than Beneficiary, regardless of whether or not the creation of such mortgage, deed of trust or other encumbrance has been previously consented to by Beneficiary;

4.1.15 Without the prior written consent of Beneficiary, Grantor grants any easement or dedication, files any plat, condominium declaration, or restriction, or otherwise encumbers the Collateral, unless such action is expressly permitted by the Loan Documents or does not affect the Collateral;

4.1.16 The dissolution, liquidation or termination of Grantor, or Grantor's failure to maintain good standing in the State(s) of Delaware and Washington, death or legal incapacity of Grantor, or any guarantor of the Loan; or

4.1.17 Any default shall occur by any guarantor under the Guaranty Agreement.

4.1.18 Any material default by grantor under any Material Contract (as defined in the Loan Agreement) or any conservation easement, lease or other encumbrance on the Timberlands.

4.2 Rights and Remedies of the Beneficiary Upon Default.

4.2.1 Acceleration of Indebtedness. Upon the occurrence of an Event of Default, Beneficiary may, at its option and without demand upon or notice to the Grantor, declare all or any part of the Obligations to be immediately due and payable, whereupon all such Obligations shall become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Grantor (provided, that all Obligations shall be automatically due and payable upon an Event of Default described in either subsection 4.1.5 or 4.1.6 above), and the Beneficiary may immediately enforce payment of all such amounts and may exercise any or all of its rights and remedies under this Deed of Trust, the Note, any of the other Loan Documents and applicable law and equity. The Grantor also waives any and all rights the Grantor may have to a hearing before any judicial authority prior to the exercise by the Beneficiary of any of its rights under this Deed of Trust, the Note, any of the other Loan Documents and applicable law, and waives the right to a jury in any litigation arising between Grantor and Beneficiary. In addition, upon the occurrence of an Event of Default Beneficiary may:

(a) In person or by agent or by a receiver appointed by a court, with or without bringing any action or proceeding and without regard to the adequacy of its security, the solvency of Grantor or the existence of waste, enter upon and take possession of the Collateral, or any part thereof, in its own name or in the name of Beneficiary, and do any acts that it deems necessary or desirable to preserve the value, marketability or rentability of the Collateral, or part thereof or interest therein, to increase the income therefrom or to protect the security hereof; and, with or without taking possession of the Collateral, sue for or otherwise collect the Rents, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection including attorneys' fees, upon any indebtedness secured by this Deed of Trust, all in such order as Beneficiary may determine. The entering upon and taking possession of the Collateral, the collection of such Rents and the application thereof, as aforesaid shall not cure or waive any Event of Default or notice of default hereunder or invalidate any act done in response to such Event of Default or pursuant to such notice of default and, notwithstanding the continuance in possession of the Collateral, the collection, receipt and application of Rents, Beneficiary shall be entitled to exercise every right provided for in any of the Loan Documents or by law upon occurrence of any Event of Default, including any right to exercise a power of sale under applicable law;

(b) Institute a foreclosure action in accordance with the law of Oregon, or take any other action as may be allowed, at law or in equity, for the enforcement of the Loan Documents and realization on the Collateral or any other security afforded by the Loan Documents. In the case of a judicial proceeding, Beneficiary may proceed to final judgment and execution for the amount of the Secured Obligations owed as of the date of the judgment, together with all costs of suit, reasonable attorneys' fees and interest on the judgment at the maximum rate permitted by law from the date of the judgment until paid. If Beneficiary is the purchaser at the foreclosure sale of the Collateral, the foreclosure sale price shall be applied against the total amount due Beneficiary;

(c) Institute a non-judicial foreclosure proceeding in compliance with applicable law in effect on the date foreclosure is commenced for the Trustee to sell the Collateral either as a whole or in separate parcels as Beneficiary may determine at public sale or sales to the highest bidder for cash, in order to pay the Secured Obligations. Specifically, upon the occurrence of an Event of Default and written request of the Beneficiary, Trustee shall sell the Collateral or any part thereof in accordance with ORS 86.705 to 86.795 as existing now or hereafter amended) and the UCC, as applicable, at public auction to the highest bidder as statutorily prescribed. If the Collateral is sold as separate parcels, Beneficiary may direct the order in which the parcels are sold. Trustee shall deliver to the purchaser a Trustee's deed or deeds without covenant or warranty, express or implied. Trustee may postpone the sale of all or any portion of the Property by public announcement at the time and place of sale, and from time to time may further postpone the sale by public announcement in accordance with applicable law; and/or

(d) Proceed as to both the real and personal property in accordance with Beneficiary's rights and remedies in respect of the Collateral, or proceed to sell any personal property separately and without regard to the Collateral in accordance with Beneficiary's rights and remedies. Beneficiary shall have all rights and remedies under this Deed of Trust and the other Loan Documents, at law and in equity.

If an Event of Default shall have occurred and be continuing, Beneficiary, as a matter of right and with notice to Grantor given as stated in the Loan Agreement (but irrespective of whether such notice is received), and without regard to the then value of the Collateral or the interest of Grantor herein, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Collateral, and Grantor hereby irrevocably consents to such appointment and waives notice of any application therefor. Any such receiver or receivers shall have all the powers and duties available to receivers under law and all the powers and duties of Beneficiary in case of entry as provided above and shall continue as such and exercise all such powers until the date of confirmation of sale of the Collateral unless such receivership is sooner terminated.

Beneficiary may postpone sale of all or any portion of the Collateral by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement or subsequently noticed sale, and without further notice make such sale at the time fixed by the last postponement; or Beneficiary may, in its discretion, give a new notice of sale. Beneficiary may rescind any such notice of default at any time before Beneficiary's sale. The exercise by Beneficiary of the right of rescission shall not constitute a waiver of any default and demand for sale, or notices of default and of election to cause the Collateral to be sold, nor otherwise affect the Note or this Deed of Trust, or any of the rights, obligations or remedies of Beneficiary hereunder.

In the event the foreclosure sale is not concluded and Beneficiary has allowed Grantor to cure any and all defaults occasioned hereunder, Grantor shall pay to Beneficiary all costs and expenses incurred by Beneficiary as a result of Grantor's default, including reasonable attorneys' fees.

In the event of a sale of the Collateral or any part thereof, and the execution of a deed or deeds therefor, the recital therein of default, and of the giving of notice of sale, and of a demand by Beneficiary, or its successors or assigns, that such sale should be made, shall be conclusive proof of such default, and of the due giving of such notice, and that the sale was regularly and validly made on due and proper demand by Beneficiary, its successors or assigns; and any such deed or deeds with such recitals therein and otherwise conforming with applicable law shall be effectual and conclusive against Grantor, its successors and assigns, and all other persons; and the receipt for the purchase money recited or contained in any deed executed to the purchaser as aforesaid shall be sufficient discharge to such purchaser from all obligations to see to the proper application of the purchase money.

After the date of any trustee's sale at which the Beneficiary or any affiliate of the Beneficiary is the successful bidder, or after the date of the Lender's or such affiliate's acceptance of a deed in lieu thereof (either such date, the "Sale Date"), the Grantor shall remain personally liable to the Lender for the repayment of Indebtedness. Any deficiency for which Grantor is liable hereunder shall bear interest at the Default Rate from the Sale Date to and including the date of payment.

4.2.2 Personal Property Collateral. Without limiting the generality of the foregoing, on the happening of any Event of Default or at any time thereafter, the Beneficiary shall have and may exercise with respect to the personal property and other non-real estate collateral included in the UCC Collateral all rights, remedies and powers of a secured party under the Code with reference to the UCC Collateral or any other items in which a security interest has been granted herein, including without limitation the right and power to sell at public or private sale or sales or otherwise dispose of, lease or utilize the UCC Collateral and any part or parts thereof in any manner to the fullest extent authorized or permitted under the Code after default hereunder, without regard to preservation of the UCC Collateral or its value and without the necessity of a court order. The Beneficiary shall have, among other rights, the right to take possession of the UCC Collateral and to enter upon any premises where the same may be situated for the purpose of repossessing the same without being guilty of trespass and without liability for damages occasioned thereby and to take any action deemed appropriate or desirable by the Beneficiary, at its option and its sole discretion, to repair, restore or otherwise prepare the UCC Collateral for sale, lease or other use or disposition. At the Beneficiary's request, the Grantor, at Grantor's expense, shall assemble the UCC Collateral and make the UCC Collateral available to the Beneficiary at any place designated by the Beneficiary. To the extent permitted by law, the Grantor expressly waives any notice of sale or any other disposition of the Collateral and any rights or remedies of the Beneficiary with respect to, and the formalities prescribed by law relative to, the sale or disposition of the Collateral or to the exercise of any other right or remedy of the Beneficiary existing after default. To the extent that such notice is required and cannot be waived, the Grantor agrees that if such notice is given to the Grantor in accordance with the provisions of Section 5.9 below, at least ten (10) days before the time of the sale or other disposition, such notice shall be deemed reasonable and shall fully satisfy any requirement for giving said notice. The proceeds of any disposition of the Code Collateral, or any part thereof, may be applied by Beneficiary to the payment of the Obligations in such priority and proportions as Beneficiary in its discretion shall deem proper.

4.2.3 Rights of Beneficiary with Respect to Rents and Leases. Without limiting the generality of the foregoing, upon the occurrence of an Event of Default, or at any time thereafter:

(a) The Beneficiary at its option, shall have the right, power and authority to exercise and enforce any or all of the following rights and remedies with respect to Rents and Leases:

(i) to enforce the termination of the license granted to the Grantor hereunder to collect the Rents, and, without taking possession, in the Beneficiary's own name to demand, collect, receive, sue for, attach and levy upon the Rents (including all income received or receivable with respect to any of the Collateral), to give proper receipts, releases and acquittances therefor, and after deducting all necessary and reasonable costs and expenses of collection, including reasonable attorneys' fees, to apply the net proceeds thereof to the Obligations in such order and amounts as the Beneficiary may choose (or hold the same in a cash collateral reserve as security for the Obligations);

(ii) without regard to the adequacy of the security, with or without any action or proceeding, through any person or by agent, or by a receiver or keeper to be appointed by court, to enter upon, take possession of, manage and operate the property or any part thereof for the account of the Grantor; make, modify, enforce, cancel or accept surrender of any Lease; remove and evict any lessee or other occupant of the Real Estate; increase or reduce rents; cut, remove, sell and dispose of timber and exercise all rights under deeds or contracts and otherwise do any act, or incur any cost or expense the Beneficiary shall deem proper to protect the security hereof, as fully and to the same extent as the Grantor could and to apply any funds to the operation and management of the Collateral (including payment of reasonable management, brokerage and attorneys' fees) and payment of any Obligations in such order and amounts as the Beneficiary may choose (or hold the same in cash collateral reserve as security);

(iii) to require Grantor to transfer and pay over to Beneficiary all security deposits and records thereof, together with all original Leases; and

(iv) to take whatever legal proceedings may appear necessary or desirable to enforce any obligation or covenant or agreement of the Grantor under this Deed of Trust.

(b) the collection of the Rents and application thereof (or holding thereof in reserve) as aforesaid or the entry upon and taking possession of the Collateral or both shall not cure or waive any default or waive, modify or affect any notice of default under this Deed of Trust, or invalidate any act done pursuant to such notice, and the enforcement of such right or remedy by the Beneficiary, once exercised, shall continue for so long as the Beneficiary shall elect, notwithstanding that the collection and application aforesaid of the Rents may have cured the original default. If the Beneficiary shall thereafter elect to discontinue the exercise of any such right or remedy, the same or any other right or remedy hereunder may be reasserted at any time and from time to time following any subsequent default.

4.2.4 Application of Proceeds. All payments received by the Beneficiary as proceeds of the Collateral, or any part thereof, as well as any and all amounts realized by the Beneficiary in connection with the enforcement of any right or remedy under or with respect to this Deed of Trust, shall be applied by the Beneficiary as follows (except as otherwise required by law): (i) to the payment of all necessary expenses of the Beneficiary and the Trustee incident to the execution of any foreclosure sale or sales or other remedies under this Deed of Trust, including attorneys' fees, appraisal fees, title search fees, and foreclosure notice costs, (ii) to the payment in full of any of the Obligations that is then due and payable (including without limitation principal, accrued interest and all other sums secured hereby) and to the payment of attorneys' fees as provided herein and in the Note and the other Loan Documents, all in such order as the Beneficiary may elect in its sole discretion, and (iii) the remainder, if any, shall be paid to the Grantor or such other person or persons as may be entitled thereto by law, after deducting therefrom the cost of ascertaining their identity.

4.2.5 Venue. Any other provisions of this Deed of Trust to the contrary notwithstanding, any action to enforce or foreclose this Deed of Trust may be pursued and any judicial or nonjudicial foreclosure sale of the Real Estate may be held in any county in which any portion of the Real Estate is located without a corollary action, proceeding or sale in any other county.

4.2.6 Waiver of Appraisal Laws. The Grantor waives, to the fullest extent permitted by law, the benefit of all laws now existing or hereafter enacted providing for (i) any appraisal before sale of any portion of the Collateral (commonly known as appraisal laws), or (ii) any extension of time for the enforcement of the collection of the Obligations or any creation or extension of a period of redemption from any sale made in collecting the Obligations (commonly known as stay laws and redemption laws).

4.2.7 Prerequisites of Sales. In case of any sale of the Collateral as authorized by this Section 4.2, all prerequisites to the sale shall be presumed to have been performed, and in any conveyance given hereunder all statements of facts, or other recitals therein made, as to the nonpayment of any of the Obligations or as to the advertisement of sale, or the time, place and manner of sale, or as to any other fact or thing, shall be taken in all courts of law or equity as prima facie evidence that the facts so stated or recited are true.

4.2.8 Applicable Maturities. It is specifically understood and agreed that the foregoing acceleration provisions will be applicable not only to the maturities recited in the original Note(s) but also to any substituted maturities created by extension or renewal. The failure of the holder(s) of the secured indebtedness to declare an acceleration of maturities when a ground therefor exists, even though such forbearance may be repeated from time to time, will not constitute a waiver of the right of such holder(s) to accelerate maturities upon a recurrence of the same ground therefor; nor will the act of such holder(s) in remedying any condition resulting from declaring an acceleration of maturities by reason of such default.

4.2.9 Expenses. If Beneficiary shall expend any sum or sums for the protection of any of the Collateral or the lien of this Deed of Trust as a result of Grantor's failure to perform its obligations hereunder (such Beneficiary to have uncontrolled discretion as to the necessity of making any such expenditures), the repayment of such sum or sums on demand (with interest thereon at the highest rate allowed by law from the date of each expenditure) shall be the personal obligation of the Grantor; and such obligation to repay will constitute a part of the indebtedness secured hereby. The expenditures thus made reimbursable will include, without limitation, taxes, special improvement assessments, insurance premiums, repairs and maintenance expenses, security expenditures, sums paid to discharge prior liens, rents on premises in which mortgaged personalty may be situated, etc. The cost of any abstract or supplemental abstract procured by Beneficiary to facilitate foreclosure will also constitute a part of the reimbursable expenses secured hereby.

4.2.10 Indemnification of Trustee. Except for gross negligence and willful misconduct, Trustee shall not be liable for any act or omission or error of judgment. Trustee may rely on any document believed by it in good faith to be genuine. All money received by Trustee shall be held in trust, but need not be segregated (except to the extent required by law), until used or applied as provided in this Deed of Trust. Trustee shall not be liable for interest on the money. Grantor shall protect, indemnify and hold harmless Trustee against all liability and expenses which Trustee may incur in the performance of its duties

4.2.11 Actions of Trustee. At any time, upon written request of Beneficiary and presentation of this Deed of Trust and the Note for endorsement, and without affecting the personal liability of any entity or the Grantor for payment of the Secured Obligations or the effect of this Deed of Trust upon the remainder of the Collateral, Trustee may take such actions as Beneficiary may request which are permitted by this Deed of Trust or by applicable law.

4.2.12 **Substitution of Trustee.** Beneficiary has the power and shall be entitled, at any time and from time to time, to remove Trustee or any successor trustee and to appoint another trustee in the place of Trustee or a successor trustee, by an instrument recorded in the recorder's office of the county or counties where the Collateral is located. The recorded instrument shall be conclusive proof of the proper substitution and appointment of the successor Trustee without the necessity of any conveyance from the predecessor Trustee.

4.3 Advances by Beneficiary. If the Grantor shall fail to comply with the provisions hereof with respect to the securing of insurance, the payment of taxes, assessments and other charges, the keeping of the Collateral in repair, the performance of the Grantor's obligations under any lease, the payment of any prior mortgages, or the protection of any of the Collateral or the lien of this Deed of Trust or the performance of any other term or covenant herein contained, the Beneficiary may (but shall not be obligated to) make such payment or perform such act for the account of and at the expense of Grantor (such Beneficiary to have uncontrolled discretion as to the necessity of making any such expenditures), and shall have the right to enter upon the Collateral for such purpose and to take all such action as it may deem necessary or appropriate. The repayment of any such sum or sums on demand (with interest thereon at the highest rate allowed by law from the date of each expenditure) shall be the personal obligation of the Grantor; and such obligation to repay will constitute a part of the indebtedness secured hereby. The expenditures thus made reimbursable shall include, without limitation, taxes, special improvement assessments, insurance premiums, repairs and maintenance expenses, security expenditures, sums paid to discharge prior liens, and rents on premises in which mortgaged personalty may be situated. The Grantor agrees to repay all such sums advanced upon demand, with interest from the date such advances are made at the Default Rate as provided for and as defined in the Note, or the highest rate permitted by law, whichever shall be less, and all sums so advanced with interest shall constitute Obligations and shall be secured hereby. The cost of any title abstract or report or supplemental abstract or report procured by Beneficiary to facilitate foreclosure will also constitute a part of the reimbursable expenses secured hereby.

4.4 Other Rights. Beneficiary may exercise any and all other rights, remedies and recourses granted under the Loan Documents or now or hereafter existing in equity or at law for the protection and preservation of the Collateral.

4.5 Remedies Cumulative, Concurrent and Nonexclusive. Beneficiary shall have all rights, remedies and recourses granted in the Loan Documents and available at law or equity (including, without limitation, those granted by the Code and applicable to the Collateral, or any portion thereof), and same (1) shall be cumulative and concurrent, (2) may be pursued separately, successively or concurrently against Grantor or others obligated for the Obligations, or any part thereof or against any one or more of them, or against the Collateral, at the sole discretion of Beneficiary, (3) may be exercised as often as occasion therefor shall arise, it being agreed by Grantor that the exercise of or failure to exercise any of same shall in no event be construed as a waiver or release thereof or of any other right, remedy or recourse, and (4) are intended to be, and shall be, nonexclusive.

4.6 General Remedies. If an Event of Default shall have occurred and be then in existence, Beneficiary may take such action, without notice or demand, as it shall deem advisable to protect and enforce its rights against Grantor and in and to the Collateral or any part thereof or interest therein, including, but not limited to, the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Beneficiary may determine, in its sole discretion, without impairing or otherwise affecting the other rights and remedies of Beneficiary: (i) enter into or upon the Collateral, either personally or by its agents, nominees or attorneys and dispossess Grantor and its agents and servants therefrom, and thereupon Beneficiary may (A) use, operate, manage, control, insure, maintain, repair, restore, harvest and sell timber and otherwise deal with all and every part of the Collateral and conduct the business thereat, (B) complete any construction on the Collateral in such manner and form as Beneficiary deems advisable, (C) make alterations, additions, renewals, replacements and improvements to or on the Collateral, (D) exercise all rights and powers of Grantor with respect to the Collateral, whether in the name of Grantor or otherwise, including, without limitation, the right to make, cancel, enforce or modify, timber sales contracts, stumpage sale agreements, leases, and other agreements and demand, sue for, collect and receive all earnings, revenues, rents, issues, profits and other income of the Collateral and every part thereof and (E) receive and collect the receipts from the Collateral, give proper receipts, releases and acquittances therefore, and apply the same to the payment of the Secured Obligations, after deducting therefrom all expenses (including reasonable attorneys' fees and expenses) incurred in connection with the aforesaid operations and all amounts necessary to pay the taxes, assessments, insurance and other charges in connection with the Collateral, as well as just and reasonable compensation for the services of the Beneficiary and its counsel, agents and employees, or (ii) institute proceedings for the complete foreclosure of this Deed of Trust in which case the Collateral may be sold for cash or upon credit in one or more parcels, or (iii) with or without entry, to the extent permitted and pursuant to the procedures provided by applicable law, institute proceedings for the partial foreclosure of this Deed of Trust for the portion of the Secured Obligations then due and payable, subject to the continuing lien of this Deed of Trust for the balance of the Secured Obligations not then due, or (iv) sell for cash or upon credit the Collateral or any part thereof and all or any part of any estate, claim, demand, right, title and interest of Grantor therein and rights of redemption thereof, pursuant to power of sale or otherwise, at one or more sales, as an entirety or in parcels, at such time and place, upon such terms and after such notice thereof as may be required or permitted by law, and in the event of a sale, by foreclosure or otherwise, of less than all of the Collateral, this Deed of Trust shall continue as a lien on the remaining portion of or estate in the Collateral, or (v) institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained herein or in the Note or any other Loan Document, or (vi) recover judgment on the Note or any guaranty either before, during or after any proceedings for the enforcement of this Deed of Trust or (vii) pursue such other remedies as Beneficiary may have under applicable law or equity. Further, once Beneficiary has exercised any of its rights or remedies hereunder, or under the Loan Documents, during the existence of an Event of Default, all actions theretofore or thereafter taken by Beneficiary in pursuit of such rights and remedies shall not be affected by any cure of such Event of Default, unless Beneficiary shall accept the cure and terminate pursuit of any such right or remedy, in which case, the parties shall be restored to their position which existed prior to Beneficiary's exercise of its rights or remedies.

5. **MISCELLANEOUS PROVISIONS**

5.1 **Waiver and Election.** The exercise by the Beneficiary of any right, power or remedy given under the terms of this Deed of Trust shall not be considered as a waiver of the right to exercise any other right, power or remedy given herein, and the filing of a suit to foreclose the lien, security interest and assignment granted by this Deed of Trust, either on any matured portion of the Obligations or for the whole of the Obligations, shall not be considered an election so as to preclude foreclosure under power of sale after a dismissal of the suit; nor shall the publication of notices for foreclosure preclude the prosecution of a later suit thereon. No failure or delay on the part of the Beneficiary in exercising any right, power or remedy under this Deed of Trust shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder or thereunder. The remedies provided in this Deed of Trust and in the other Loan Documents are cumulative and not exclusive of any remedies provided by law. No amendment, modification, termination or waiver of any provisions of this Deed of Trust or any of the Loan Documents, nor consent to any departure by the Grantor therefrom, shall be effective unless the same shall be in writing and signed by an executive officer of the Beneficiary, and then such waiver or consent shall be effective only in this specific instance and for the specific purpose for which given. No notice to or demand on the Grantor in any case shall entitle the Grantor to any other or further notice or demand in similar or other circumstances. The Grantor expressly waives the right to any notice of the assignment of the Note or this Deed of Trust and the right to enforce the provisions of any applicable law requiring such notice.

5.2 **Landlord-Tenant Relationship.** Any sale of the Collateral under this Deed of Trust shall, without further notice, create the relationship of landlord and tenant at sufferance between the purchaser and the Grantor.

5.3 **Enforceability.** If any provision of this Deed of Trust is held to be illegal, invalid, or unenforceable under present or future laws effective while this Deed of Trust is in effect, the legality, validity and enforceability of the remaining provisions of this Deed of Trust shall not be affected thereby, and in lieu of each such illegal, invalid or unenforceable provision there shall be added automatically as a part of this Deed of Trust a provision that is legal, valid and enforceable and as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

5.4 **Application of Payments.** If the lien, assignment or security interest created by this Deed of Trust is invalid or unenforceable as to any part of the Obligations or is invalid or unenforceable as to any part of the Collateral, the unsecured or partially secured portion of the Obligations shall be completely paid prior to the payment of the remaining secured or partially secured portion of the Obligations, and all payments made on the Obligations, whether voluntary or under foreclosure or other enforcement action or procedures, shall be considered to have been first paid on and applied to the full payment of that portion of the Obligations that is not secured or not fully secured by said lien, assignment or security interest created hereby.

5.5 **Applicable Law.** This Deed of Trust shall be, and the Loan Agreement provides that it is to be, governed by, construed and enforced in accordance with the laws of the State of Washington, without regard to conflicts-of-law rules and principles. Notwithstanding such provisions, however: (i) matters respecting (a) title to the Real Estate, (b) the creation, perfection and priority of liens against the Real Estate, (c) the procedures for and the effects of the judicial or nonjudicial foreclosure of liens against the Real Estate, (d) the availability of deficiency judgments or other remedies under any of the documents evidencing, securing or guarantying the Loan or any indemnities executed in connection with the Loan or the Real Estate prior to, concurrently with or following a judicial or nonjudicial foreclosure, and (e) the extent to which any rights or equities of redemption of the Real Estate exist shall be governed by, and construed and enforced in accordance with, the internal law of the State of Oregon without giving effect to the conflicts-of-law rules and principles of such state, (ii) Grantor agrees that Beneficiary, its respective successors and assigns shall have the right to seek a deficiency judgment against Grantor in other states or foreign jurisdictions; and (iii) Grantor agrees that, to the extent Beneficiary or any of its successors and assigns obtains a deficiency judgment in any other state or foreign jurisdiction, such party shall have the right to enforce such judgment in Oregon as well as in other states or foreign jurisdictions.

5.6 **Meaning of Particular Terms.** Whenever used, the singular number shall include the plural and the plural, the singular, the pronouns of one gender shall include all genders; and the words "Grantor" and "Beneficiary," shall include their respective heirs, personal representatives, successors and assigns. The term "Grantor" as used in this Deed of Trust refers to each of the undersigned, jointly and severally, whether one or more natural persons, partnerships, limited liability companies, corporations, associations, trusts or other entities or organizations.

5.7 **Release or Extension by Beneficiary.** The Beneficiary, without notice to the Grantor and without in any way affecting the rights of the Beneficiary hereunder as to any part of the Collateral not expressly released, may release any part of the Collateral or any person liable for any of the Obligations and may agree with any party with an interest in the Collateral to extend the time for payment of all or any part of the Obligations or to waive the prompt and full performance of any term, condition or covenant of the Note, any of the Loan Documents, this Deed of Trust or any other instrument evidencing or securing any of the Obligations.

5.8 **Partial Payments.** Acceptance by the Beneficiary of any payment of less than the full amount due on the Obligations shall be deemed acceptance on account only, and the failure of the Grantor to pay the entire amount then due shall be and continue to constitute an Event of Default, and at any time thereafter and until the entire amount due on the Obligations has been paid, the Beneficiary shall be entitled to exercise all rights conferred on it by the terms of this Deed of Trust in case of the occurrence of an Event of Default.

5.9 **Addresses for Notices.** All notices, requests, demands and other communications provided for hereunder shall be in writing and shall be sent either by United States mail, certified with return receipt requested, to the applicable party at its address indicated on the first page of this Deed of Trust, or shall be sent in accordance with the Loan Agreement, and shall be deemed given upon receipt or refusal to accept, and any party may designate another address in accordance with the Loan Agreement.

5.10 **Absence of Obligations of Beneficiary With Respect to Collateral.** Notwithstanding anything in this Deed of Trust to the contrary, (1) to the extent permitted by applicable law, the Collateral is comprised of Grantor's rights, title and interests therein but not its obligations, duties or liabilities pertaining thereto, (2) Beneficiary shall not assume, be deemed to assume or have any obligations, duties or liabilities in connection with any of the items described in connection with the definition of "Collateral" herein, either prior to or after obtaining title to such Collateral, whether by foreclosure sale, the granting of a deed in lieu of foreclosure or otherwise, and this Deed of Trust shall not be deemed to confer on the Beneficiary any duties or obligations that would make the Beneficiary directly or derivatively liable for any person's negligent, reckless or willful conduct related thereto, and (3) Beneficiary may, at any time prior to or after the acquisition of title to any portion of the Collateral, advise any party in writing as to the extent of Beneficiary's interest therein and/or expressly disaffirm in writing any rights, interests, obligations, duties and/or liabilities with respect to such Collateral or matters related thereto. Without limiting the generality of the foregoing, it is understood and agreed that Beneficiary shall have no obligations, duties or liabilities prior to or after acquisition of title to any portion of the Collateral, as lessee under any lease or purchaser or seller under any contract or option unless Beneficiary elects otherwise by written notification. The Grantor agrees to defend, indemnify and save harmless the Beneficiary from and against any and all claims, causes of action and judgments relating to the Grantor's performance of the Grantor's duties, responsibilities and obligations under Leases and with respect to the Real Estate.

5.11 **Expenses.** The Grantor shall pay all costs and expenses incurred by the Beneficiary in connection with preparing and recording this Deed of Trust.

5.12 **Titles.** All section, paragraph, subparagraph or other titles contained in this Deed of Trust are for reference purposes only, and this Deed of Trust shall be construed without reference to said titles.

5.13 **Construction.** This Deed of Trust may be construed as a deed of trust, mortgage, chattel mortgage, conveyance, assignment, security agreement, pledge, financing statement, hypothecation, or contract, or any one or more of them, in order fully to effectuate the lien, security interest and assignment created hereby and the purposes and agreements herein set forth.

5.14 **Collection Costs.** The Grantor agrees to pay all costs, including reasonable attorneys' fees, incurred by the Beneficiary in enforcing the Beneficiary's rights hereunder and in collecting or securing, or attempting to collect or secure, the Obligations, or any part thereof, or in defending or attempting to defend the priority of this Deed of Trust against any lien on the Collateral, or any part thereof, unless this Deed of Trust is herein expressly made subject to any such lien; and all costs incurred in the foreclosure of this Deed of Trust, either under the power of sale contained herein, or by virtue of the decree of any court of competent jurisdiction. The full amount of such costs incurred by the Beneficiary shall be a part of the Obligations, and shall bear interest at the rate provided in the Note or such lesser amount as shall be the maximum amount permitted by law, and shall be secured by this Deed of Trust.

5.15 **Defeasance.** If (1) the Note is no longer in effect and has been terminated by reason of the payment in full of the amounts covered thereby; and (2) the Grantor shall: (a) have paid in full (i) all of the Obligations (as defined herein), including but not limited to all sums (principal, interest, premium and charges) payable under the Note and any and all extensions and renewals of the same; and (ii) all sums becoming due and payable by the Grantor under the terms of this Deed of Trust, including but not limited to advancements made by the Beneficiary pursuant to the terms and conditions of this Deed of Trust and (b) have kept and performed each and every obligation, covenant, duty, condition and agreement herein and in the Note imposed on or agreed to by the Grantor; then this conveyance and the grants and conveyances contained herein shall become null and void, and the Collateral shall revert to the Grantor, and the entire estate, right, title and interest of the Beneficiary will thereupon cease; and the Beneficiary in such case shall, upon the request of the Grantor and at the Grantor's cost and expense, deliver to the Grantor proper instrument(s) acknowledging satisfaction of this instrument; otherwise, this Deed of Trust shall remain in full force and effect. No release or modification of this conveyance, or of the lien, security interest or assignment created and evidenced thereby, shall be valid unless executed by Beneficiary.

5.16 Change in Ownership. If the ownership (legal or beneficial) of the Collateral or any part thereof becomes vested in a person or entity other than Grantor, or in the event of a change of any ownership of Grantor legal or beneficial, Beneficiary may, without notice to Grantor, deal with such successor or successors in interest with reference to this Deed of Trust and to the Obligations in the same manner as with Grantor without in any way vitiating or discharging Grantor's liability hereunder or upon the Obligations and without affecting any default created hereunder by such ownership change, including, without limitation, all of Beneficiary's rights and remedies arising from such default. No sale of the Collateral, and no forbearance on the part of Beneficiary, and no extension of the time for the payment of the Obligations, shall operate to release or affect the original liability of Grantor.

5.17 Partial Release of Lien, Extension, etc. Any part of the Collateral or any other property which is security for the Loan may be released by Beneficiary without affecting the lien, security interest and assignment hereof against the remainder. The lien, security interest and other rights granted hereby shall not affect or be affected by any other security taken for the Obligations. The taking of additional security, or the extension or renewal of the Obligations or any part thereof, shall not release or impair the lien, security interest and other rights granted hereby, or affect the liability of any endorser or guarantor or improve the right of any permitted junior lienholder; and this Deed of Trust, as well as any instrument given to secure any renewal or extension of the Obligations, or any part thereof, shall be and remain a first and prior lien, except as otherwise provided herein, on all of the Collateral not expressly released until the Obligations are satisfied.

5.18 Modification or Termination. The Deed of Trust may only be modified or amended by a written instrument or instruments executed by Grantor and Beneficiary. Any alleged modification or amendment that is not so documented shall not be effective as to any party.

6. **WAIVERS.**

The obligations of Grantor hereunder shall remain in full force and shall not be impaired by: (i) any express or implied modification, renewal, extension or acceleration of or to the Loan Agreement, the Note, any other Loan Document and all environmental indemnity agreements or guaranties executed by Grantor or any other party; (ii) any exercise or non-exercise by Lender of any right or privilege under any of the Loan Documents; (iii) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Grantor, or any member or Affiliate of Grantor, or any guarantor, or any action taken with respect to this Deed of Trust by any trustee or receiver or by any court in any such proceeding, whether or not Grantor shall have had notice or knowledge of any of the foregoing; (iv) any release, waiver or discharge of Grantor or any endorser or guarantor from liability under any of the Loan Documents or any Grantor's grant to Lender of a security interest, lien or encumbrance in any of Grantor's Property; (v) any subordination, compromise, settlement, release (by operation of law or otherwise), discharge, compound, collection, or liquidation of any of the Loan Documents or any Premises described in any of the Loan Documents or otherwise, or any substitution with respect thereto; (vi) any assignment or other transfer of any of the Loan Documents, in whole or in part; (vii) any acceptance of partial performance of any of the obligations of Grantor or any other party under the Loan Documents; (viii) any consent to the transfer of any Premises described in the Loan Documents or otherwise; and (ix) any bid or purchase at any sale of the Premises described in the Loan Documents or otherwise.

Grantor unconditionally waives the following defenses to enforcement of this Deed of Trust: (i) all presentments, demands, demands for performance, notices of nonperformance, protests, notices of protest, dishonor, nonpayment, partial payment, default and protest, notices of acceptance of this Deed of Trust and all other notices and formalities to which the Grantor may be entitled (except for notices which are specifically required by this Deed of Trust and the other Loan Documents); (ii) any right to require Lender to proceed against Grantor or any guarantor or to proceed against or exhaust any Premises or other Collateral described in the Loan Documents; (iii) any defense arising by reason of any invalidity or unenforceability of any of the Loan Documents or any disability of Grantor or any guarantor; (iv) any defense arising by reason of the manner in which Lender has exercised its remedies under the Loan Documents; (v) any defense based upon an election of remedies by Lender; (vi) any duty of Lender to advise Grantor of any information known to Lender regarding the financial condition of Grantor or any guarantor and all other circumstances affecting Grantor's ability to perform its obligations to Lender, it being agreed that Grantor assumes the responsibility for being and keeping informed regarding such condition or any such circumstances; (vii) any right of subrogation and any rights to enforce any remedy which Lender now has or may hereafter have against Grantor or any guarantor and any benefit of, and any right to participate in, any security now or hereafter held by Lender; (viii) any suretyship defenses available under applicable law; and (ix) to the extent permitted by law, any right to assert against Lender any legal or equitable defense, counterclaim, set off, crossclaim or right of contribution which any Grantor may now or at any time or times hereafter have against any other party which is liable to perform any of the obligations of Grantor hereunder.

7. **ADDITIONAL COVENANTS AND AGREEMENTS OF GRANTOR.** The Grantor covenants and agrees that, until the Obligations are paid in full and this Deed of Trust is satisfied in writing by the Beneficiary:

7.1 Additional Security Documents. Grantor has heretofore executed and delivered, and will hereafter execute and deliver, to or for the benefit of Beneficiary certain other mortgages, deeds of trust and other documents and instruments encumbering or relating to certain other property of Grantor located in the State of Washington as additional security for the Obligations (collectively, sometimes, the "Additional Mortgages"). The Additional Mortgages and this Deed of Trust shall each and all constitute security for the Note, the Indebtedness referred to therein and the Obligations. If there should be an Event of Default in any of the terms, conditions or obligations of any of the Additional Mortgages, such default shall constitute an Event of Default under this Deed of Trust. The Beneficiary, whether acting as a fiduciary or otherwise, may foreclose or otherwise enforce such security, enforce its rights, powers and remedies with respect to, and realize upon, such security or such guaranty or otherwise enforce its rights, powers and remedies with respect to, and realize upon, such security, either before or concurrently with or after a foreclosure or other enforcement of this Deed of Trust, any other such security or any of the other Loan Documents (whether or not every aspect of any such foreclosure or other enforcement may be commercially reasonable), all without impairing or being deemed to have waived any rights, benefits, liens or security evidenced by or arising under or in connection with this Deed of Trust, any other such security or any of the other Loan Documents, and without being deemed to have made an election thereby or to have accepted the benefits of such security (or the proceeds thereof) in full settlement of the Obligations and of its rights with respect thereto. No judgment, order or decree rendered against Grantor with respect to any such other security or any of the other Loan Documents, whether rendered in the State in which the Collateral is situated or elsewhere, shall in any manner affect the security of this Deed of Trust, and any deficiency or other debt represented by any such judgment, order or decree shall, to the extent permitted by law, be secured by this Deed of Trust to the same extent that the Obligations shall have been secured by this Deed of Trust prior to the rendering of such judgment, order or decree. Grantor for itself and for any and all persons who may at any time claim through or under Grantor or who hereafter may otherwise acquire any interest in or title to all or any part of the Collateral or any other security for the Obligations, hereby irrevocably waives and releases, to the extent permitted by law, all benefit of any and all laws that would limit or prohibit the effectiveness of anything set forth in this Section.

Notwithstanding anything contained herein to the contrary, Beneficiary shall be under no duty to Grantor or any other person or entity, including, without limitation, any holder of a junior, senior or subordinate mortgage or encumbrance on the Collateral or any part thereof or on any other security held by Beneficiary, to exercise, exhaust or first resort to all or any of the rights, powers and remedies available to Beneficiary, whether under this Deed of Trust, the other Loan Documents or the Additional Mortgages prior to the sale of the Collateral or any other enforcement of this Deed of Trust. Furthermore, Grantor and such other persons and entities waive all rights relating to marshaling and agree that Beneficiary shall not be compelled to release any part of the security of this Deed of Trust, the other Loan Documents or the Additional Mortgages or be prevented from foreclosing or enforcing this Deed of Trust, the other Loan Documents or the Additional Mortgages upon all or any part of such security unless the Obligations shall have been paid in full and that Beneficiary shall not be compelled to accept or allow any apportionment of the Obligations to or among any of the property encumbered by this Deed of Trust, the other Loan Documents or the Additional Mortgages.

7.2 After Acquired Collateral. Grantor covenants and agrees that, if and to the extent that any of its respective rights, titles, estates and interests in any of the Collateral is not acquired until after delivery of this Deed of Trust, this Deed of Trust shall nonetheless apply thereto and the security interest of Beneficiary hereby created shall attach to such Collateral at the same time as Grantor acquires rights therein, without the necessity of any further mortgage, charge, pledge, assignment or assurance and thereafter such Collateral shall be subject to the security interests created under this Deed of Trust.

7.3 Remedies Not Exclusive. Beneficiary shall be entitled to enforce payment and performance of the Obligations and to exercise all rights and powers under this Deed of Trust or under the Note and other Loan Documents or any other agreement executed in connection herewith or any laws now or hereafter in force, notwithstanding some or all of the such indebtedness and Obligations may now or hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Deed of Trust nor its enforcement, whether by court action or other powers herein contained, shall prejudice or in any manner affect Beneficiary's right to realize upon or enforce any other security now or hereafter held by Beneficiary, it being agreed that Beneficiary shall be entitled to enforce this Deed of Trust and any other security now or hereafter held by Beneficiary in such order and manner as Beneficiary may in its sole and absolute discretion determine. No remedy herein conferred upon or reserved to Beneficiary is intended to be exclusive of any other remedy herein or by law provided or permitted, but shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy provided under this Deed of Trust to Beneficiary or to which it may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Beneficiary and Beneficiary may pursue inconsistent remedies, and no action hereunder by Beneficiary shall be deemed to prejudice Beneficiary's right thereafter to foreclose this Deed of Trust. Nothing herein and no action of Beneficiary shall be construed as an election to proceed under any provision to the exclusion of any other provision or as prohibiting Beneficiary from seeking a deficiency judgment against Grantor to the extent such action is permitted by law.

7.4 Waiver of Marshaling and Certain Rights. Grantor agrees, to the extent permitted by law, that neither Grantor nor any person at any time claiming through or under Grantor shall set up, claim or seek to take advantage of any appraisal, valuation, stay, notice of election to accelerate, mature or declare due the Obligations, extension, redemption or moratorium laws, any right of division or discussion, or any exemption from execution or sale, now or hereafter in force, in order to prevent or hinder the enforcement of this Deed of Trust after the occurrence of any Event of Default, the final and absolute sale of all or any part of the Collateral or the final and absolute putting into possession thereof, immediately after any such sale, of the purchaser or purchasers at such sale or the enforcement of any other rights or remedies of Beneficiary under this Deed of Trust or any other Loan Documents. Grantor, for itself and for all who may at any time claim through or under Grantor or who hereafter may otherwise acquire any interest in or title to all or any part of the Collateral, hereby waives, releases and renounces to the extent permitted by law, all benefit of any such law or laws, any and all rights of redemption from sale under any power of sale permitted by law or pursuant to any judgment, order or decree of foreclosure of this Deed of Trust, and any and all right to have the assets constituting the Collateral marshaled upon any foreclosure or other enforcement of this Deed of Trust or to direct the order in which any of the Collateral shall be sold in the event of any sale or sales pursuant hereto, and all homestead and exemption rights under any applicable laws, as well as rights regarding the administration of estates of decedents or any other rights which might defeat, reduce or affect the right of Beneficiary to sell the Collateral for the collection of its obligations. Beneficiary or any court having jurisdiction to exercise or enforce rights with respect to this Deed of Trust may sell the Collateral in part or as an entirety. Beneficiary shall not be required to accept any part or parts of the Collateral in satisfaction of all or any part of the Secured Obligations. Beneficiary shall not be required to accept any apportionment of the Secured Obligations to or among any part or parts of the Collateral. If any law now in force of which Grantor might take advantage despite this Section shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to preclude the application of this Section.

7.5 **Statute of Limitations.** Grantor hereby expressly waives and releases to the fullest extent permitted by law, the pleading of any statute of limitations as a defense to payment of any and all Secured Obligations secured by this Deed of Trust.

7.6 **Time of Essence.** Time is of the essence of the obligations of Grantor in this Deed of Trust and each and every term, covenant and condition made herein by or applicable to Grantor.

7.7 **Timber Management and Release Provisions.** If no Event of Default has occurred and is continuing, Grantor may cut, or allow others to cut, Timber from the Premises on the conditions set forth in the Loan Agreement/

7.8 **Counterparts. Multiple copies of this Deed of Trust may be executed by Grantor for recordation in each county in which any portion of the Real Estate is located, all of which shall constitute but one grant and deed of trust.**

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY GRANTOR'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED TO BE ENFORCEABLE.

THE PROPERTY DESCRIBED IN THIS INSTRUMENT MAY NOT BE WITHIN A FIRE PROTECTION DISTRICT PROTECTING STRUCTURES. THE PROPERTY IS SUBJECT TO LAND USE LAWS AND REGULATIONS THAT, IN FARM OR FOREST ZONES, MAY NOT AUTHORIZE CONSTRUCTION OR SITING OF A RESIDENCE AND THAT LIMIT LAWSUITS AGAINST FARMING OR FOREST PRACTICES, AS DEFINED IN ORS 30.930, IN ALL ZONES. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON'S RIGHTS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, AND SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY THAT THE UNIT OF LAND BEING TRANSFERRED IS A LAWFULLY ESTABLISHED LOT OR PARCEL, AS DEFINED IN ORS 92.010 OR 215.010, TO VERIFY THE APPROVED USES OF THE LOT OR PARCEL, TO VERIFY THE EXISTENCE OF FIRE PROTECTION FOR STRUCTURES AND TO INQUIRE ABOUT THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, AND SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009.

(signatures follow on next page)

IN WITNESS WHEREOF, Grantor has executed this instrument as of the day and year first written above.

GRANTOR:

**ORM TIMBER OPERATING COMPANY
II, LLC**, a Delaware limited liability company

By: Olympic Resource Management LLC,
a Washington limited liability company
Its Manager

By:

David L. Nunes
President & Chief Executive Officer

Signature Page

STATE OF WASHINGTON)

)ss.

COUNTY OF _____)

On this ____ day of August, 2010, before me personally appeared DAVID L. NUNES, to me known to be the President and Chief Executive Officer of Olympic Resource Management, LLC, a Washington limited liability company and the Manager of ORM Timber Operating Company II, LLC, the Delaware limited liability company that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said companies, for the uses and purposes therein mentioned, and on oath stated that (s)he was authorized to execute said instrument on behalf of Olympic Resource Management, LLC, and that it was authorized to do so on behalf of ORM Timber Operating Company II, LLC.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Signature: _____

Name (Print): _____

NOTARY PUBLIC in and for the State
of Washington, residing at _____

My appointment expires: _____

Signature Page

EXHIBIT A

PROPERTY DESCRIPTION

COPPER CREEK:

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 7 SOUTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, CLACKAMAS COUNTY, OREGON:

- Section 1:** That portion of the South half of the Southwest quarter lying South of the centerline of the Table Rock Fork of the Molalla River TOGETHER WITH an easement for Access, Utilities, Storm Water Easement Area and Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 2:** That portion of the South half lying South of the centerline of the Table Rock Fork of the Molalla River TOGETHER WITH an easement for Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 3:** That portion of the Southeast quarter, Southwest quarter, and the South half of the Northwest quarter lying South of the centerline of the Table Rock Fork of the Molalla River TOGETHER WITH an easement for Access, Utilities, Storm Water Easement Area and Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 4:** That portion of the Southeast quarter of the Northeast quarter lying South of the centerline of the Table Rock Fork of the Molalla River, the North half of the Southeast quarter, and the Northeast quarter of the Southwest quarter TOGETHER WITH an easement for Tailhold Easement Area as set forth and more fully described in Easement Exchange agreement recorded July 26, 2010 as Fee No. 2010-044441, Clackamas County Records
- Section 10:** The North half
- Section 11:** All
- Section 12:** All
- Section 13:** All

- Section 14: The East half and the Northwest quarter
- Section 23: The East half
- Section 24: The North half; the North half of the Southwest quarter; the Southeast quarter of the Southwest quarter; and the Southeast quarter
- Section 28: The South half
- Section 29: The Southeast quarter
- Section 30: All
- Section 31: Government Lots 1, 2, 5, 6, 7, 8, 13 and 14; the Northeast quarter; and the East half of the Northwest quarter
- Section 32: All
- Section 33: All
- Section 34: All

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 3 EAST OF THE WILLAMETTE MERIDIAN, CLACKAMAS COUNTY, OREGON:

- Section 12: The Northeast quarter, and the North half of the Southeast quarter

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, CLACKAMAS COUNTY, OREGON:

- Section 4: All
- Section 5: All
- Section 6: All
- Section 8: All

Section 9:

The North half, and the Ogle Mountain Consolidated Mining Claim, comprising the Hillside, Franklin No. 1, Franklin No. 2, Oregon City, Silver Leaf, Russell No. 1, Wildcat and Russell Fraction Lodes, being portions of the North half of the Southwest quarter, the Southeast quarter of the Southwest quarter, and the West half of the Southeast quarter of said Section 9, more particularly described as follows:

Commencing at the South quarter section corner of said section; thence North 88°10' West a distance of 62.5 feet to Corner No. 1 of Hillside Lode, the true point of beginning, said corner being marked by a porphyry stone, 30 x 14 x 7 inches, set 15 inches in the ground, chiseled 1-710, whence a fir, 30 inches in diameter, bears North 35°30' West 28 feet, and a hemlock, 20 inches in diameter, bears South 74° West 24.2 feet, each blazed and scribed BT 1-710; thence South 89°22' West, along the Southerly line of said lode, a distance of 115.00 feet to Corner No.2 therefrom, which is marked by a basalt stone 24 x 9 x 8 inches, set 12 inches in the ground, chiseled 2-710, whence a fir, 48 inches in diameter, bears South 77°20' West 21.6 feet and a hemlock, 16 inches in diameter, bears North 27° West 11.4 feet, each blazed and scribed BT 2-710; thence North 5°49' East, along the Westerly line of said lode, a distance of 280.37 feet to its intersection with the Southeasterly line of Franklin No.1 Lode; thence South 55°50' West, along the Southeasterly line of said Franklin No. 1 Lode, a distance of 290.49 feet to Corner No. 1 thereof, which is marked by a porphyry stone 24 x 15 x 14 inches, set 12 inches in the ground, chiseled 1-710, whence a hemlock, 16 inches in diameter, bears North 68°30' East 9.3 feet, and a hemlock, 18 inches in diameter, bears South 58°45' West 28.0 feet, each blazed and scribed BT 1-710; thence North 34°40' West, along the Southwesterly line of said lode, a distance of 1445.30 feet to Corner No. 2 thereof, which is also Corner No. 1 of Franklin No. 2 Lode, and is marked by a basalt stone 24 x 14 x 10 inches, set 12 inches in the ground, chiseled 2-1-710, whence a hemlock, 18 inches in diameter, bears North 33°10' East 26.0 feet, and a hemlock, 18 inches in diameter, bears South 11°30' East 12.6 feet, each blazed and scribed BT 2-1-710; thence North 30°35' West, along the Southwesterly line of Franklin No. 2 Lode, a distance of 1160.00 feet to Corner No. 2 thereof, which is marked by a cross (x) at the exact corner point and 2-710 chiseled on the East face of a ledge of rock, whence a fir, 30 inches in diameter, bears North 64° East 18.0 feet, and a fir, 36 inches in diameter, bears North 40° West 13.0 feet, each blazed and scribed BT 2-710; thence North 55°50' East, along the Northwesterly line of said lode, a distance of 600.00 feet to Corner No. 3 thereof, which is marked by a basalt stone 26 x 12 x 7 inches, set 13 inches in the ground, chiseled 3-710, whence a hemlock, 18 inches in diameter, bears North 74°30' East 9.3 feet and a hemlock, 18 inches in diameter, bears South 40° West 9.8 feet, each blazed and scribed BT 3-710; thence South 30°35' East, along the Northeasterly line of said lode, a distance of 740.00 feet to Corner No. 3 of the Oregon City Lode, which is marked by a porphyry stone 24 x 14 x 14 inches, set 12 inches in the ground, chiseled 3-710, whence a hemlock, 16 inches in diameter, bears North 83°30' East 22.6 feet, and a hemlock, 36 inches in diameter, bears North 18° East 36.4 feet, each blazed and scribed BT 3-710; thence North 59°25' East, along the Northerly line of said Oregon City Lode, a distance of 365.00 feet to Corner No. 4 thereof, which is marked by a porphyry stone 24 x 16 x 12 inches, set 12 inches in the ground, chiseled 4-710, whence a hemlock, 14 inches in diameter, bears South 52° East 15.3 feet, and a hemlock, 30 inches in diameter, bears South 48°30' West 15.8 feet, each blazed and scribed BT 4-710; thence South 21°15' East, along the Easterly line of said lode, a distance of 449.70 feet to Corner No. 5 thereof, which is also Corner No. 2 of Silver Leaf Lode, and is marked by a porphyry stone 26 x 10 x 6 inches, set 13 inches in the ground, chiseled 2-710, whence a fir, 30 inches in diameter, bears South 15°20' East 8.6 feet, and a hemlock, 18 inches in diameter, bears North 42°25' East 10.7 feet, each blazed and scribed BT 2-5-710; thence North 62°50' East, along the Northerly line of said Silver Leaf Lode, a distance of 537.9 feet to Corner No. 3 thereof, which is also Corner No. 2 of Russell Fraction Lode, and is marked by a basalt stone 26 x 10 x 5 inches, set 14 inches in the ground, chiseled 3-2-710, whence a hemlock, 18 inches in diameter, bears South 44°40' West 24.8 feet, and a hemlock, 18 inches in diameter, bears North 33°45' West 22.8 feet, each blazed and scribed BT 3-710; thence North 15°58' West, along the Westerly line of said Russell Fraction Lode, a distance of 535.50 feet to Corner No. 3 thereof, which is marked by a cross (x) at the exact corner point and 3-710 chiseled on a ledge of rock facing West, whence a hemlock, 20 inches in diameter, bears North 33°30' West 17.5 feet, and a hemlock, 22 inches in diameter, bears South 23° West 18.2 feet, each blazed and scribed BT 3-710; thence North 80°21' East, along the Northerly line of said lode, a distance of 575.00 feet to Corner No. 4 thereof, which is marked by a basalt stone 24 x 10 x 6 inches, set 12 inches in the ground, chiseled 4-710, whence a hemlock, 20 inches in diameter, bears North 3°20' East 10.5 feet, and a hemlock, 16 inches in diameter, bears South 89°30' West 10.3 feet, each blazed and scribed BT 4-710; thence South 0°17' West, along the Easterly line of said lode, a distance of 701.15 feet to its intersection with the Northerly line of Russell No. 1 Lode; thence North 72°13' East, along the Northerly line of said Russell No. 1 Lode, a distance of 306.30 feet to Corner No. 3 thereof, which is also Corner No. 2 of Wildcat Lode, and is marked by a basalt stone 24 x 10 x 8 inches, set 12 inches in the ground, chiseled 3-2-710, whence a larch, 26 inches in diameter, bears South 54°10' West 26.6 feet, and a fir, 30 inches in diameter, bears South 6°30' West 7.0 feet, each blazed and scribed BT 3-2-710; thence South 86°24' East, along the Northerly line of said Wildcat Lode, a distance of 565.90 feet to Corner No. 3 thereof, which is marked by a basalt stone 26 x 12 x 7 inches, set 12 inches in the ground, chiseled 3-710, whence a hemlock, 36 inches in diameter, bears South 30° West 23.3 feet, and a fir, 24 inches in diameter, bears South 38°30' West 45.6 feet, each blazed and scribed BT 3-710; thence South 1°35' West, along the Easterly line of said lode, a distance of 1120.70 feet to Corner No. 4 thereof, which is marked by a basalt stone 24 x 20 x 6 inches, set 12 inches in the ground, chiseled 4-710, whence a fir, 24 inches in diameter, bears South 31°15' West 21.2 feet, and a pine, 18 inches in diameter, bears South 27°30' East 18.5 feet, each blazed and scribed BT 4-710; thence North 86°24' West, along the Southerly line of said lode, a distance of 600.00 feet to Corner No. 1 thereof, which is also Corner No. 4 of said Russell No. 1 Lode, and is marked by a basalt stone 24 x 10 x 6 inches, set 12 inches in the ground, chiseled 1-4-710, whence a fir, 26 inches in diameter, bears North 39°10' East 8.8 feet, and a fir, 26 inches in diameter, bears North 13° West 5.8 feet, each blazed and scribed 1-4-710; thence South 72°13' West, along the Southerly line of said Russell No. 1 Lode, a distance of 466.80 feet to Corner No. 1 thereof, which is also Corner No. 4 of said Hillside Lode, and is marked by a basalt stone, 24 x 14 x 12 inches, set 12 inches in the ground, chiseled 4-1- 710, whence a hemlock, 30 inches in diameter, bears North 40° East 18.9 feet, and a hemlock, 30 inches in diameter, bears South 10°30' West 21.4 feet, each blazed and scribed BT 4-1-710; thence South 20°57' West, along the Easterly line of said Hillside Lode, a distance of 809.00 feet to the true point of beginning.

(The diameters of the bearing trees mentioned herein were measured in the period October 5 to 20, 1908.)

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 3 EAST OF THE WILLAMETTE MERIDIAN, MARION COUNTY, OREGON:

Section 12: The Southeast quarter of the Southeast quarter, and Government Lot 6.

THE FOLLOWING DESCRIBED PROPERTY IN TOWNSHIP 8 SOUTH, RANGE 4 EAST OF THE WILLAMETTE MERIDIAN, MARION COUNTY, OREGON:

Section 16: The North half, the Southwest quarter, and the West half of the Southeast quarter

Section 17: The East half

Section 18: All

Section 20: All

Section 21: The Northwest quarter

EXHIBIT B

RIGHTS AND RESERVATIONS ON PREMISES

1. Table Rock-Bagby Baty Butte Agreement” dated September 1, 2010, among Weyerhaeuser Real Estate Development Company, Alta Rock Energy, Inc., and Grantor, which clarifies and confirms the rights and obligations of Grantor arising under the Geothermal Lease Option Agreement dated December 15, 2008, by and between Weyerhaeuser Company and Alta Rock Energy, Inc., as amended by a First Amendment dated March 1, 2010.

2. Upon its assignment to ORM or replacement for the benefit of ORM, Right-of-Way and Road Use Agreement Number S-975 dated November 2, 1987 (the “BLM Road Agreement”), as amended from time to time, between the United States Department of the Interior Bureau of Land Management and Willamette Industries, Inc. (predecessor in interest to Weyerhaeuser). The BLM Road Agreement was recorded November 3, 1987 in Linn County, Oregon in Volume 547, Page 188.

3. Master Stumpage Agreement dated June 7, 2010, between ORM and Tillamook Log Company, a Delaware limited liability company (“Tillamook”), in which ORM grants to Tillamook rights to sever and remove timber, and Tillamook agrees to pay ORM a stumpage price agreed to by both parties.

Exhibit B

Prepared by, and after recording return to:

Virginia M. Pedreira
Stoel Rives LLP
600 University Street, Suite 3600
Seattle, Washington 98101-4109

Loan No. 194231

ATTENTION: COUNTY RECORDER—THIS INSTRUMENT COVERS GOODS THAT ARE OR WILL BECOME FIXTURES ON THE DESCRIBED REAL PROPERTY AND SHOULD BE FILED FOR RECORD IN THE REAL PROPERTY RECORDS WHERE DEEDS OF TRUST ON REAL ESTATE ARE RECORDED. THIS INSTRUMENT SHOULD ALSO BE INDEXED AS A UNIFORM COMMERCIAL CODE FINANCING STATEMENT COVERING GOODS THAT ARE OR WILL BECOME FIXTURES ON THE DESCRIBED REAL PROPERTY. THE MAILING ADDRESSES OF THE SECURED PARTY AND THE DEBTOR ARE WITHIN.

DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING
(Washington)

GRANTOR:	ORM TIMBER OPERATING COMPANY II, LLC
GRANTEES:	
(1) Beneficiary:	METROPOLITAN LIFE INSURANCE COMPANY
(2) Trustee:	CHICAGO TITLE INSURANCE COMPANY
ABBREVIATED LEGAL DESCRIPTION:	Portions of Sections 4, 8, 9 and 17, Township 11 North, Range 5 East, W.M., in Lewis County, Washington (See <u>Schedule I</u> at the end of the document for complete list of abbreviated legal descriptions) Complete legal description is on <u>Exhibit A</u> of this document.
ASSESSOR'S TAX PARCEL ACCOUNT NO.:	026830-000-000 (TCA 739), 026892-000-000 (TCA 739) (See <u>Schedule II</u> at the end of the document for complete list of tax parcel account numbers)
REFERENCE TO RELATED DOCUMENTS:	None

**DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT
OF LEASES AND RENTS AND FIXTURE FILING**

THIS DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING (hereinafter, together with all amendments thereto, being referred to as this “**Deed of Trust**”), is made and entered into as of September 1, 2010, by **ORM TIMBER OPERATING COMPANY II, LLC**, a Delaware limited liability company, whose address is c/o Olympic Resource Management LLC 19245 Tenth Avenue NE, Poulsbo, Washington 98370 (the “**Grantor**”) to **CHICAGO TITLE INSURANCE COMPANY**, a Nebraska corporation, whose address is 701 Fifth Avenue, Suite 2300, Seattle, Washington 98104 (“**Trustee**”), for the benefit of **METROPOLITAN LIFE INSURANCE COMPANY**, a New York corporation, whose address is 6750 Poplar Avenue, Suite 109, Memphis Tennessee 38138 (the “**Beneficiary**” or the “**Lender**”).

GRANTOR DOES HEREBY IRREVOCABLY TRANSFER, GRANT, BARGAIN, SELL, CONVEY, ASSIGN, WARRANT AND MORTGAGE TO TRUSTEE, ITS SUCCESSORS AND ASSIGNS, IN TRUST, WITH POWER OF SALE AND RIGHT OF ENTRY AND POSSESSION, FOR THE BENEFIT OF BENEFICIARY, all of its right, title and interest, now or hereafter acquired, in and to the property and interests in Collateral described in the following Granting Clauses, which constitute or may constitute an interest in real property or fixtures, and Grantor does hereby grant to the Beneficiary a security interest in and a pledge of the property and interests in Collateral described in the following Granting Clauses, which constitute or may constitute goods or personal property:

(a) All right, title and interest in and to the real estate described on Exhibit A attached hereto and incorporated herein by reference, whether held in fee or leasehold (the “**Premises**”), together with all improvements, buildings, structures, fixtures of every description and appurtenances now or hereafter located thereon or therein (the “**Improvements**”);

(b) All coal, oil, gas and other minerals owned by Grantor and located on, in or under the Premises and extracted or to be extracted, as extracted collateral and all mineral interests and all proceeds, accounts and general intangibles resulting from the sale of such minerals or mineral interests (sometimes collectively referred to herein as the “**Minerals**”), and all farm products, permanent plantings, crops and timber of every kind and description, now or hereafter growing, or to be grown, harvested from, pertaining to and located on the Premises (including owned or leased by Grantor) and proceeds thereof, and including, without limitation all property related to nursery operations or replanting and reforestation, seedlings, nursery stock, trees, growing trees, standing timber, timber cut and to be cut, severed timber, stumpage, forest products, lumber, pulpwood, and all related inventory, products and by-products of any of the foregoing or timber operations conducted or to be conducted on the Premises, and all proceeds, accounts, investment property and general intangibles resulting from the sale of such farm products, crops, timber and timber to be cut and timber interests (sometimes collectively referred to herein as “**Timber**”) (the Premises, the Improvements, the Minerals and the Timber hereinafter sometimes collectively referred to as the “**Real Estate**”);

(c) (i) All of Grantor's rights (but not its obligations except as otherwise expressly agreed in writing by Beneficiary) under any and all leases, subleases, surface leases, licenses, written or oral, and all agreements for use or occupancy, or exploration, drilling, mining, extraction, storage, transportation, processing and handling of Minerals, and all timber sale agreements, log supply agreements, stumpage contracts, timber purchase agreements or stumpage agreements and other contracts and agreements pursuant to which Grantor has agreed to sell any standing or severed timber, pulpwood or other timber products from the Real Estate, affecting all or any portion of the Real Estate with respect to which the Grantor is the landlord or sublandlord, including without limitation the leases and contracts identified in the Loan Agreement and any specifically identified on Exhibit B attached hereto and incorporated herein (the "**Existing Leases**"), any and all extensions and renewals of said leases and agreements and any and all further leases or agreements, now existing or hereafter made including subleases thereunder, upon, covering or affecting all or any part of the Real Estate or the Improvements, together with any and all guaranties of the lessee's, any sublessee's, or contracting party's performance thereunder (all such existing or future leases, subleases, agreements and tenancies heretofore mentioned, including but not limited to the Existing Leases, any use or occupancy arrangements created pursuant to Section 365(h) of Title 11 of the United States Code or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Real Estate being hereinafter collectively referred to as the "**Leases**") and all right, title and interest of Grantor in and to property of any tenant or other person under any such lease or under any other arrangement entered into in connection with any such lease, and any and all cash, security deposits, advance rentals and deposits or payments of a similar nature under any such lease or other arrangement and together with all money payable thereunder or in connection therewith (including, without limitation, any and all cancellation or termination payments), subject, however, to the revocable license given to Grantor to collect and use the rents, income and other benefits arising under any such Lease as provided below;

(ii) All permits, special permits, licenses, access rights, approvals, maps, forest practice approvals, surveys, title records, studies, reports, contracts and other rights, privileges and agreements affecting the operation of the Real Estate now owned or hereafter acquired by Grantor, including without limitation the access rights described in Exhibit B hereto;

(iii) All water and water rights, royalties, coal, oil, gas and other mineral royalties, profits, proceeds, fees, farm products revenue, hunting lease or other recreational lease revenue and other income of Grantor of any kind or manner whatsoever arising from or related to operations on the Real Estate, including income from nursery operations, seedling operations, timber and pulpwood contracts, option agreements, coal, oil, gas or mineral leases, coal tipple leases, option agreements and land sales;

(iv) The immediate and continuing right to collect and receive all of the rents, income, royalties, receipts, revenues, issues and profits now due or which may become due or to which the Grantor may now or shall hereafter (including during the period of redemption, if any) become entitled or may demand or claim, arising or issuing from or out of any timber contracts, log supply agreements, stumpage contracts, leases, licenses, bills of sale or deeds, the Leases or from or out of the Real Estate, or any part thereof, including but not limited to any and all rights and claims of any kind that the Grantor may have against any such lessee under the Leases or against any subtenants, occupants or licenses of the Real Estate or the Improvements, or against the purchaser under any coal lease, oil or gas lease, or any other mineral lease, timber deed, contract or other agreement in any way relating to the coal, oil, gas, Minerals or Timber, (including any payments received pursuant to Section 502(b) of the Bankruptcy Code or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Real Estate and all claims as a creditor in connection with any of the foregoing), all such moneys, rights and claims in this paragraph described being hereinafter referred to as the "**Rents**;" provided, however, so long as no Event of Default has occurred and is continuing under this Deed of Trust, the Grantor shall have the right under a license granted hereby (but limited as provided below) to collect, receive and retain the Rents, but no Rents shall be collected in advance of the due date thereof;

(d) All accounts, general intangibles, payment intangibles, investment property, trade names, trademarks, commercial tort claims, letter of credit rights and proceeds, supporting obligations of every kind and nature, documents, contract rights, construction contracts, and instruments now owned or hereafter acquired by Grantor which relate to the Real Estate, the Leases, the Rents or the proceeds thereof, but not Grantor's obligations thereunder, and all funds and deposit accounts and other accounts into which any funds of the Grantor are now or hereafter deposited to be held by or on behalf of Beneficiary;

(e) All building materials, supplies and other property now or hereafter stored at or delivered to the Premises or the Improvements, and all fixtures, fittings, furnishings, apparatus, machinery, appliances, equipment, goods, inventory and all other articles of personal property of every nature whatsoever now or hereafter located in or on, or attached to, and used or intended to be used in the connection with the Real Estate or any of the Improvements, or in connection with any operations conducted or intended to be conducted on the Real Estate or with respect to the Improvements, including without limitation with respect to coal, oil, gas or mineral extraction, storage, processing or handling, Timber harvesting and management (collectively, the "**Equipment**") (all of the Equipment, so far as permitted by law, shall be deemed to be fixtures and part of the Real Estate and of the Improvements), and any and all title information, opinions, reports, abstracts of title, plans, specifications, drawings, books, records and similar items relating to the Real Estate, the Improvements or the Equipment, the operation thereof, any rights thereto or any interest therein;

(f) All proceeds, products, extensions, additions, improvements, betterments, renewals, reversions, substitutions, replacements, accessions, accretions and relictions of and to all or any part of the Real Estate, Minerals, Timber, Improvements or Equipment and on the other property referenced in these Granting Clauses or encumbered by this Deed of Trust, including, without limitation, all proceeds arising from the sale or other disposition thereof;

(g) All right, title and interest of Grantor, of whatever character (whether vested or contingent and whether now owned or hereafter acquired), in and to (1) all streets, roads, railroad rights of way, riparian rights and public places (whether open or proposed) adjoining or otherwise providing access to the Real Estate, (2) the Real Estate lying in the bed of such streets, roads, railroad rights of way and public places, and (3) all other sidewalks, alleys, ways, passages, vaults, water courses, strips and gores of Real Estate adjoining or used or intended to be used in connection with all or any part of the Real Estate, Minerals, Timber, Improvements or Equipment or appurtenances thereto;

(h) All easements, rights-of-way, gores of land, ways, riparian rights and rights of use or passage (whether public or private), estates, interests, benefits, powers, rights (including, without limitation, any and all lateral support, drainage, slope, sewer, water, air, mineral, oil, gas and subsurface rights), privileges, claims, franchises, licenses, profits, rents, royalties, tenements, hereditaments, reversions, remainders and appurtenances of every nature whatsoever in any way now or hereafter belonging, relating or appertaining to all or any part of Real Estate, Minerals, Timber, Improvements or Equipment, whether legal or equitable ("**Easements**");

(i) All right, title and interest of Grantor (but not its obligations except as otherwise expressly agreed in writing by Beneficiary), whether now owned or hereafter acquired, in and to: (1) each and every policy of insurance now or hereafter in effect which insures the Collateral, or any part thereof, (2) any and all judgments, settlements, claims, awards, insurance proceeds and other proceeds and compensation, and interest thereon, now or hereafter made or payable in connection with any casualty or other damage to all or any part of the Real Estate, Minerals, Timber, Improvements or Equipment or appurtenances thereto, or in connection with any condemnation proceedings affecting any such property or any taking under power of eminent domain (or any conveyance in lieu of or under threat of any such taking) of any such property or any rights thereto or any interest therein, including, without limitation, any and all compensation for change of grade of streets or any other injury to or decrease in the value of such property, (3) all inventory and any and all proceeds of any sales, assignments or other dispositions of any such property or any rights thereto or any interest therein (inventory shall mean and include, without limitation, all goods now owned or hereafter acquired and owned from time to time by Grantor which are held for sale or lease or are to be furnished under contracts of service and all goods, materials, raw materials, work in process, finished goods or materials used or consumed in the business of Grantor, which are products of or related to Timber or Minerals), (4) any credits, claims, rights or benefits arising from or related to the absorption of carbon dioxide by the trees and other organic plants growing on the Real Estate, carbon sequestration, carbon credits, carbon financial instruments or any other benefit by any other name or description, financial or otherwise related to the control or reduction of greenhouse gases, carbon dioxide or any other form of air or atmospheric quality incentives, (5) any and all proceeds of any other conversion (whether voluntary or involuntary) of any such property into cash or any liquidated claim; (6) any and all refunds or rebates of or with respect to any insurance premiums and real estate taxes, impositions or levies, and tax credits or benefits or deposits relating thereto, with respect to such property, and (7) all accounts, accounts receivable, option rights, contract rights, documents, commercial paper, notes, drafts, acceptances, instruments, chattel paper, general intangibles, trademarks, trade names and symbols, permits, licenses, approvals, bonuses, actions and rights in action arising from or relating to any such property (including, without limitation, all rights, benefits and privileges of Grantor under any and all Mineral leases and agreements and stumpage, cutting and Timber sale agreements, all contractual and other indemnities, assurances, guaranties and similar agreements, and all rights, benefits and privileges of Grantor in and to any and all contracts relating to operation, maintenance, management or security of any such property and those rights and reservations as set forth on Exhibit B attached hereto and incorporated herein by reference as the same affect the land described in said Exhibit B to the extent affecting the Real Estate), and (8) all investment property, relating to such property, whether now owned or hereafter acquired, including all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts;

(j) All right, title and interest of Grantor (whether as seller, purchaser or otherwise), but not its obligations, in and to any and all agreements in the nature of options or for the sale or any other transfer of all or any part of the Collateral, together with any and all down payments, earnest money deposits and other sums paid or payable or deposited in connection therewith, and all rights which Grantor now has or may hereafter acquire to be indemnified and/or held harmless from any liability, loss, damage, cost or expense (including, without limitation, attorneys' fees and disbursements) relating to the Real Estate or Collateral or any part thereof;

(k) All rights and reservations held by Grantor and necessary to (i) manage, harvest, cut, remove and sell Timber and trees on the Premises, including rights necessary to permit the removal of same, including ingress and egress for such purposes, and the right to construct roads for such purposes, and (ii) to sell stumpage or cutting rights or standing Timber (and all rights necessary to permit the removal of same) to third parties (which Timber and trees and said rights of access, cutting, removal and road building are herein included in all references to the "**Premises**"), together with all rights therein as described in subsections (b), (c), (f), (g), (h) and (i) above;

(l) All rights, hereditaments and appurtenances pertaining to the foregoing; and all other interests of every kind and character that Grantor now has or at any time hereafter acquires in and to the Premises, Improvements, Equipment or the Timber described herein and all property that is used or useful in connection therewith, including rights of ingress and egress and all reversionary rights or interests of Grantor with respect to such property;

(m) And including all property and rights of the type and nature set forth above hereafter acquired by Grantor, relating to the Real Estate and any and all further or greater estate, right, title, interest, claim and demand of Grantor, of whatever character (whether vested or contingent and whether now owned or hereafter acquired), in and to any of the property described in the foregoing paragraphs or any rights or interests appurtenant thereto; and

(n) All other Collateral defined in the Loan Agreement or in any other Loan Document now or hereafter signed by Grantor in favor of Beneficiary.

SUBJECT, HOWEVER, to the exceptions described in the Loan Agreement as Permitted Encumbrances.

All of the property described in the foregoing Granting Clauses is herein sometimes collectively referred to as the “**Collateral.**” That portion of the Collateral which constitutes real property or fixtures is referred to as the “**Real Property Collateral**” and all other Collateral is referred to as the “**UCC Collateral**” or the “**Code Collateral.**” and Grantor does hereby grant, convey and pledge the Code Collateral to Beneficiary as security for the Obligations, as that term is hereinafter defined. For purposes of the UCC Collateral, the name of the Debtor and the owner of the Real Estate is ORM Timber Operating Company II, LLC, a Delaware limited liability company, and the name of the Secured Party is Metropolitan Life Insurance Company, a New York corporation, each of which has an address as indicated in the introductory paragraph of this Deed of Trust.

TO HAVE AND TO HOLD the Real Property Collateral, together with the rights, privileges and appurtenances thereto belonging, unto Beneficiary and its successors and assigns, forever, and Grantor hereby binds itself and its heirs, executors, administrators, personal representatives, successors and assigns to warrant and forever defend the Real Property Collateral unto Beneficiary and its successors and assigns, against the claim or claims of all persons claiming or to claim the same or any part thereof, except those claiming under Permitted Encumbrances, and the Code Collateral, together with the rights, privileges and appurtenances thereto belonging, unto the Beneficiary and its successors and assigns, forever, and Grantor hereby binds itself and its heirs, executors, administrators, personal representatives, successors and assigns to warrant and forever defend the Code Collateral unto the Beneficiary, its successors and assigns, against the claim or claims of all persons claiming or to claim the same or any part thereof, except those claiming under Permitted Encumbrances.

1. LOAN AGREEMENT; NOTE. This Deed of Trust is being executed pursuant to the terms of the Loan Agreement of even date herewith, between Grantor and Beneficiary (as amended, restated or supplemented from time to time, the “**Loan Agreement**”). Any capitalized terms used in this Deed of Trust and not otherwise defined shall have the meanings assigned in the Loan Agreement. Pursuant to the Loan Agreement, Grantor is or hereafter shall be justly indebted in the original principal amount of Eleven Million and 00/100 US Dollars (US\$11,000,000) (the “**Loan**”), as evidenced by a promissory note from Grantor to Beneficiary in the amount of \$11,000,000 of even date herewith, bearing a fixed rate of interest as set forth therein, and all successive extensions and renewals of the indebtedness represented thereby (said note, as presently constituted and as it may hereafter be amended, extended, renewed or consolidated, together with any and all notes that may hereafter be given in substitution therefor, being hereinafter referred to as the “**Note**”).

1.1 Obligations. This Deed of Trust is made for the following uses and purposes, and is given to secure and shall secure the prompt payment and performance of the following, which Grantor agrees to pay and perform (hereinafter sometimes referred to collectively as the “**Obligations**” or “**Secured Obligations**”):

1.1.1 Payment and performance of all of Grantor's indebtedness and obligations pursuant to the Loan Agreement, including without limitation, payment of the principal indebtedness evidenced by the Note, together with interest thereon at the rate or rates specified in the Note, including without limitation interest at the Default Rate, as applicable, in accordance with the terms of the Note, and all premiums payable thereon and all other indebtedness evidenced by the Note, all of which indebtedness is payable in lawful money of the United States of America;

1.1.2 Any and all sums now or hereafter becoming due and payable by the Grantor to the Beneficiary under the terms of this Deed of Trust, including but not limited to advancements made by the Beneficiary pursuant to the terms and conditions of this Deed of Trust with interest as herein provided and any debt or obligation arising as a result of the breach of any warranty or representation set forth in this Deed of Trust;

1.1.3 All renewals and extensions of any or all of the obligations described in 1.1.1 and 1.1.2 above, whether or not any renewal or extension agreement is executed in connection therewith;

1.1.4 Performance and discharge of each and every obligation, promise and agreement of Grantor contained in this Deed of Trust, the Note, the Loan Agreement and in any and all assignments of rents and leases, security agreements, collateral assignments, cash collateral agreements, supplemental agreements and any and all other Loan Documents, other than any obligations evidenced by the Environmental Indemnity Agreement which are stated to be unsecured;

1.1.5 The Obligations as defined in the Loan Agreement, other than any obligations evidenced by the Environmental Indemnity Agreement which are stated to be unsecured; and

1.1.6 The payment of all future and additional indebtedness, direct or indirect, created after the date of this Deed of Trust, pursuant to the terms hereof or of the Loan Documents, which may be owing by Grantor to the holder of the Note at any time prior to the payment in full with interest of the Indebtedness or the foreclosure of this Deed of Trust therefor (the event occurring first to be controlling);

and also to secure the full and complete performance of each and every obligation, covenant, duty and agreement of the Grantor contained in this Deed of Trust.

1.2 Future Advances and Other Debts. It is expressly understood that this Deed of Trust is intended to and does secure, not only the indebtedness herein specifically mentioned, but also future advances and any and all other indebtedness and other obligations and liabilities, direct or contingent, of Grantor to said Beneficiary, whether now existing or hereafter arising, and any and all extensions, renewals and modifications of same, or any part thereof, at any time before actual cancellation of this instrument on the land records of the county or counties where the Collateral is located, and whether the same be evidenced by note, open account, assignment, endorsement, guaranty, pledge or otherwise (all of which future advances and other indebtedness shall be deemed to be included in the definition of “**Obligations**” and “**Secured Obligations**” hereunder). Notwithstanding anything to the contrary set forth herein, this Deed of Trust does not secure the obligations of Grantor arising under the Environmental Indemnity Agreement.

2. GRANTOR’S REPRESENTATIONS, COVENANTS AND WARRANTIES

Grantor represents, covenants and warrants to the Beneficiary that:

2.1 Valid Title, etc. The Grantor has good and marketable title and is lawfully seized of an indefeasible estate in fee simple in and to the Real Estate and other property set forth on Exhibit A, and good and marketable title to personal property in which a security interest is granted under the Loan Documents, subject to Permitted Encumbrances. Grantor further has a good right to sell, convey, encumber and mortgage, grant a security interest in, and assign, the Collateral. The Collateral is subject to no deeds of trust, mortgages, liens, encumbrances, assignments or security interests other than Permitted Encumbrances, and the Grantor will forever warrant and defend the title to the Collateral unto the Beneficiary against the claims of all persons whomsoever, except those claiming under Permitted Encumbrances.

2.2 Maintenance of Lien Priority. The Grantor shall take all steps necessary to preserve and protect the validity and priority of the perfected first lien on, security interests in, and assignments of, the Collateral created hereby (subject to the Permitted Encumbrances). The Grantor shall execute, acknowledge and deliver such additional instruments as the Beneficiary may deem necessary in order to preserve, protect, continue, extend or maintain the liens, security interests and assignments created hereby as first liens on, security interests in, and assignments of, the Collateral, except as otherwise permitted under the terms of this Deed of Trust. All costs and expenses incurred in connection with the protection, preservation, maintaining of the liens, security interests and assignments hereby created, including without limitation costs, fees and expenses incurred in correcting, reforming or altering this Deed of Trust, shall be paid by the Grantor.

2.3 Representations and Warranties Specifically Relating to Rents and Leases. Except for any Permitted Encumbrances:

2.3.1 The Grantor has good title to the Rents and Leases here assigned and good right to assign the same, and no other person, corporation or entity has any right, title or interest therein..

2.3.2 The Grantor has duly and punctually performed all and singular the terms, covenants, conditions and warranties of the Leases on the Grantor's part to be kept, observed and performed.

2.3.3 The Grantor has not previously sold, assigned, transferred, mortgaged or pledged the Leases or the Rents, whether now or hereafter to become due. No Rents due for any period subsequent to the month next succeeding the date of this Deed of Trust have been collected, and no payment of any of the Rents has otherwise been anticipated waived released, discounted, set off or otherwise discharged or compromised, except in the ordinary course of the Grantor's business.

2.3.4 The Grantor has not paid any funds to any lessor in excess of one month's rent for which credit has not already been made on account of accrued rents.

2.3.5 To the best of the Grantor's knowledge, the lessors under the Leases are not in default under any of the terms thereof.

2.4 Hazardous Substances. With respect to Hazardous Substances (as such term is defined in the Loan Agreement), the Grantor represents, agrees and warrants as follows:

2.4.1 The Grantor has not caused or permitted any Hazardous Substance to be placed, held, located or disposed of on, under or at the Real Estate or any part thereof, nor, to the best of Grantor's knowledge following diligent inquiry and except as disclosed in the Phase I Report (defined in the Loan Agreement), has the Real Estate or any part thereof ever been used as a dump site or storage site (whether permanent or temporary) for any Hazardous Substance;

2.4.2 The Grantor hereby agrees to indemnify the Beneficiary and hold the Beneficiary harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind whatsoever paid, incurred or suffered by, or asserted against the Beneficiary for, with respect to, or as a direct or indirect result of, the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission, or release from, the Collateral of any Hazardous Substance, including, without limitation, any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under any Environmental Protection Law (as such term is defined in the Loan Agreement), regardless of whether or not caused by, or within the control of, the Grantor.

2.4.3 If the Grantor receives any notice of (i) the happening of any event involving the use, spill, discharge or cleanup of any Hazardous Substance (a "**Hazardous Discharge**") affecting the Grantor or the Real Estate or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, noise emissions or any other environmental, health or safety matter affecting the Grantor or the Collateral (an "**Environmental Complaint**") from any person or entity, including, without limitation, the United States Environmental Protection Agency ("**EPA**"), then the Grantor will give, within seven (7) business days, oral and written notice of same to the Beneficiary.

2.4.4 Upon the request of Beneficiary, Grantor agrees to provide Beneficiary with copies of all emergency and hazardous chemical inventory forms (hereinafter "**Notices**") given by Grantor to any Governmental Authority as required pursuant to the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C., Section 11001 et seq. Copies of such Notices shall be sent to Beneficiary concurrently with their being mailed to any such Governmental Authority.

2.4.5 Grantor, promptly upon any request of Beneficiary, given from time to time during the existence of an Event of Default or upon a Hazardous Discharge or Environmental Complaint or upon the reasonable determination of Beneficiary that Hazardous Substances are present on the Real Estate, shall provide Beneficiary with an environmental site assessment or environmental audit report, or an update of such an assessment or report, including the results of any additional testing recommended by an environmental professional or determined to be necessary by Beneficiary based upon such audits or reports, all in scope, form, content, and prepared and certified by an environmental professional satisfactory to Beneficiary at Grantor's expense. In the event Grantor shall fail to so provide any such assessment, audit or update or shall fail to remove or remediate any Hazardous Substances required to be removed or remediated under any Environmental Protection Law, Grantor grants Beneficiary and its employees and agents an irrevocable and non-exclusive license, subject to the rights of tenants, to enter the Collateral to conduct testing and to remove or remediate such Hazardous Substances, and the costs of such testing and removal shall immediately be due and payable by the Grantor upon demand by Beneficiary together with interest at the Default Rate and shall be secured by this Deed of Trust.

2.4.6 Grantor covenants and agrees that it shall comply with all Environmental Protection Laws which are applicable to the Collateral, and it shall not permit (A) the Collateral to be used for a mine, a landfill, a dump, or other disposal facility, (B) any underground storage tanks of any kind or character, whether empty or containing substances of any nature to be located on the Collateral, (C) the location, production, treatment, transportation, incorporation, discharge, emission, release, deposit or disposal of any Hazardous Substances in violation of any Environmental Protection Law in, upon, under, over or from the Collateral, or (D) any Hazardous Substances to be located, produced, treated, transported, incorporated, discharged, emitted, released, deposited, disposed of on the Collateral or to escape therein, thereupon, thereunder, thereover or therefrom in violation of any Environmental Laws.

2.4.7 Grantor's liability under this Section 2.4 shall not terminate until the earlier of (i) the sale of the Real Estate pursuant to the enforcement of the lien of this Deed of Trust, the proceeds of which are applied to the indebtedness secured hereby, or (ii) the payment in full of the indebtedness. This Deed of Trust does not secure any of the obligations stated to be unsecured in the Environmental Indemnity Agreements, including those obligations arising following the enforcement of this Deed of Trust; provided, however that all losses, damages and costs incurred by Lender prior to such foreclosure as a result of a breach of this Section 2.4 shall be secured hereunder.

2.5 Commercial Purpose. The loan or extension of credit secured by this Deed of Trust is made exclusively for commercial, investment, or business purposes, and no portion thereof shall be used for any consumer, personal, family, or household purpose.

2.6 **No Agricultural Property. The Collateral is not used principally or primarily for agricultural or farming purposes within the meaning of RCW 61.24.030.**

3. **COVENANTS AND AGREEMENTS OF GRANTOR**

The Grantor covenants and agrees that, until the Obligations are paid in full and this Deed of Trust is satisfied in writing by the Beneficiary:

3.1 Payment of Taxes and Other Assessments. The Grantor will pay or cause to be paid all taxes, assessments and other governmental, municipal or other public dues, charges, fines or impositions imposed or levied upon the Collateral or on the interests created by this Deed of Trust or with respect to the filing of this Deed of Trust, and any tax or excise on Grantor's rents or other tax, however described, assessed or levied by any state, federal or local taxing authority as a substitute, in whole or in part, for taxes assessed or imposed on the Collateral, including, without limitation, timber, coal or mineral severance taxes, taxes on the value of unmined or unextracted coal, oil, gas or other minerals, or any other taxes related to mining, drilling, extracting, producing, transporting, storing or processing coal, oil, gas or other minerals, or any royalty interest therein, and all excise, privilege or license taxes that may be levied against or upon coal, oil, gas or other minerals located on or produced from the Real Estate, or on the lien and other interests created by this Deed of Trust, and the Grantor will deliver receipts therefor or other evidence of payment in accordance with the Loan Agreement. The Grantor may, at the Grantor's own expense, in good faith contest any such taxes, assessments and other governmental charges and, in the event of any such contest, may permit the taxes, assessments or other governmental charges so contested to remain unpaid during the period of such contest and any appeal therefrom, provided that during such period Grantor shall be in compliance with the Loan Agreement. If any tax or assessment (other than state and federal income taxes) is levied, assessed or imposed by any Governmental Authority on the Deed of Trust as a legal holder of the Note, any interest in this Deed of Trust or any of the other Loan Documents, then unless all such taxes and assessments are paid by the Grantor as they become due and payable, but in any case before they become delinquent (and in the opinion of counsel for the Beneficiary, such payment by Grantor is lawful and does not place the Beneficiary in violation of any law, or subject Beneficiary to any penalty), the Beneficiary may, at its option, declare an Event of Default under this Deed of Trust, subject to the terms of the Loan Agreement.

3.2 Insurance. The Grantor shall keep or cause to be kept insurance with respect to the Collateral in accordance with the Loan Agreement.

3.3 Compliance with Law. The Grantor shall comply with all applicable laws, ordinances, regulations, covenants, conditions and restrictions affecting the Collateral, and shall obtain any and all licenses, permits, franchises or other governmental authorizations necessary to the ownership of the Collateral or the conduct of its business, and Grantor shall not suffer nor permit any act to be done in or upon the Collateral in violation thereof.

3.4 Waste, Demolition, Alteration or Replacement and Preservation and Use of Collateral. The Grantor shall cause the Collateral and every part thereof to be maintained, preserved and kept in safe and good repair, working order and condition, normal wear and tear excepted (subject to damage by casualties) shall not commit or permit waste thereon, shall not remove, demolish or alter the design or structural character of any building now or hereafter erected on the Real Estate without the express prior written consent of the Beneficiary, shall manage and conserve all coal, oil, gas and minerals and Timber located on the Real Estate in accordance with sound and prudent management practices, shall not remove or authorize the cutting or removal of any of the Timber on the Real Estate, other than in accordance with and pursuant to the Loan Agreement and the relevant provisions of this Deed of Trust, not do or permit any act to be done that would result in the creation of a lien, other than Permitted Encumbrances, upon the Collateral or any portion thereof, shall comply with all laws and regulations of any Governmental Authority with reference thereto and the manner and use of the same, and shall from time to time make all necessary and proper repairs, renewals, additions and restorations thereto so that the value and efficient use thereof shall be fully preserved and maintained. The Grantor agrees not to remove any of the fixtures or personal property included in the Collateral without the express prior written consent of the Beneficiary and unless the same is immediately replaced with like property of at least equal value and utility, other than the severance of Timber in accordance with the Loan Agreement. Upon any material failure to maintain the Collateral in accordance with the provisions of the Loan Agreement and this Deed of Trust, and after notice to Grantor of such failure, which is not cured by Grantor within thirty (30) days of receipt of such notice, Beneficiary, at its option, may cause reasonable repair and maintenance work to be performed at the cost of Grantor.

3.5 Protection of Security.

Beneficiary may appear in and defend any action or proceeding purporting to affect the security hereof and may bring any action or proceeding, in its own name or in the name of and on behalf of Grantor, which Beneficiary, shall decide should be brought to protect its interests in the Collateral, including, without limitation, any material title defect or claim.

3.6 Timber Management and Harvest Provisions.

Grantor shall comply with all of the covenants and restrictions regarding the management and harvesting of Timber and the management, extraction, processing and handling of coal, oil, gas or other minerals located on the Collateral in accordance with the terms and conditions of the Loan Agreement.

3.7 Assignment of Rents and Profits.

3.7.1 Grantor does hereby absolutely and unconditionally assign to Beneficiary all of its right, title and interest in all Leases and Rents and all proceeds from the sale, cancellation, surrender or other disposition of the Leases, it being intended by Grantor that this assignment constitutes a present, absolute assignment and not an assignment for additional security only. Such assignment to Beneficiary shall not be construed to bind Beneficiary to the performance of any of the covenants, conditions or provisions contained in any such Lease or otherwise to impose any obligation upon Beneficiary. Grantor agrees to execute and deliver to Beneficiary such additional instruments in form and substance satisfactory to Beneficiary, as may hereafter be reasonably requested by Beneficiary to further evidence and confirm such assignment. Nevertheless, subject to the terms of this Section, Beneficiary grants to Grantor a revocable license to collect the Rents. Upon the occurrence of an Event of Default, the license granted to Grantor herein shall be automatically revoked and Beneficiary shall immediately be entitled to receive all Rents, whether or not Beneficiary enters upon or takes control of the Collateral. Beneficiary is hereby granted and assigned by Grantor the right, at its option, upon the revocation of the license granted herein to enter upon the Collateral in person, by agent or by court-appointed receiver to collect the Rents and to take any other action permitted by law to collect the Rents. Any Rents collected after the revocation of the license herein granted may be applied toward payment of the Obligations in such priority and proportion as Beneficiary, acting reasonably, shall deem proper. Delivery of written notice of Beneficiary's exercise of the rights granted herein to any tenant or other contract party under a Lease shall be sufficient to require said tenant or other contract party to pay all Rent to Beneficiary until further notice, and upon such payment any such tenant or other contract party shall be relieved of all duty, liability or obligation to Grantor in respect of all payments so made. It is further the intent of Grantor and Beneficiary that the Rents hereby absolutely assigned are no longer, during the term of this Deed of Trust, property of Grantor or property of any estate of Grantor as defined in Section 541 of the Bankruptcy Code and shall not constitute collateral, cash or otherwise, of Grantor. The term "Rents" as used herein shall mean the gross rents without deduction or offsets of any kind.

3.7.2 All Leases executed after the date of this Deed of Trust, except as provided in the Loan Agreement, shall provide that they are subordinate to this Deed of Trust and that the lessee or other contract party agrees to attorn to Beneficiary; provided, however, that nothing herein shall affect Beneficiary's right to designate from time to time any one or more Leases as being superior to this Deed of Trust and Grantor shall execute and deliver to Beneficiary and shall cause to be executed and delivered to Beneficiary from each tenant or other contract party under such Lease any instrument or agreement as Beneficiary may deem necessary to make such Lease superior to this Deed of Trust.

3.7.3 Grantor shall not, without the prior written consent of Beneficiary, enter into any Lease for all or any significant portion of the Real Estate other than leases, contracts or licenses permitted under the Loan Agreement.

3.7.4 With respect to any Lease (other than as provided in the Loan Agreement), (x) Grantor shall not, without the prior consent of Beneficiary, which shall not be unreasonably withheld, (i) alter or change the terms of any such Lease or cancel or terminate, abridge or otherwise modify the terms of any such Lease, (ii) consent to any assignment of or subletting under any such Lease (except where consent may be required under the terms of the Lease), (iii) cancel, terminate, abridge or otherwise modify any guaranty of any such Lease or the terms thereof, or (iv) collect or accept prepayments of installments of Rents in advance of the due date thereof, and (y) Grantor shall not, without the prior consent of Beneficiary, further assign the whole or any part of any such Lease or the Rents therefrom.

3.7.5 With respect to each Lease (other than as provided in the Loan Agreement), Grantor shall (i) observe and perform each and every provision thereof on the lessor's part to be fulfilled or performed under each Lease and not do or permit to be done anything to impair the value of the Lease as security for the Loan, including surrender or voluntary termination of any Lease, (ii) promptly send to Beneficiary copies of all notices of default which Grantor shall send or receive thereunder, (iii) enforce all of the terms, covenants and conditions contained in such Lease upon the lessee's or other contract party's part to be performed, short of termination thereof, (iv) execute and deliver, at the request of Beneficiary, all such further assurances, confirmations and assignments in connection with the Collateral as Beneficiary shall, from time to time, require and (v) upon request, furnish Beneficiary with executed copies of all Leases. Grantor shall from time to time upon request of Beneficiary, deliver to Beneficiary a Rent Roll showing all leases and licenses, with terms, rent, tenant information and other information required by Beneficiary and certified as true and correct by Grantor.

3.7.6 Grantor hereby indemnifies and holds Beneficiary harmless from and against any all liability, loss, cost, damage, or expense which Beneficiary may incur by reason of this assignment of rents and leases, or for any action taken by Beneficiary hereunder, or by reason or in defense of any and all claims and demands whatsoever which may be asserted against Beneficiary arising out of the leases or with respect to the rents regardless of whether the claims or causes of action of whatever nature are founded in whole or in part upon the negligence (either act or omission) of Beneficiary except to the extent they arise out of the gross negligence or willful misconduct of Beneficiary. In the event Beneficiary incurs any such liability, loss, cost, damage, or expense, the amount thereof, together with all reasonable attorneys' fees will be payable by Grantor immediately without demand and will be deemed a part of the obligations secured hereby.

3.7.7 Beneficiary's acceptance of this assignment shall not, prior to entry upon and taking possession of the Collateral by Beneficiary, be deemed to constitute Beneficiary a "mortgagee in possession," nor obligate Beneficiary to appear in or defend any proceeding relating to any of the Leases or to the Collateral, take any action hereunder, expend any money, incur any expenses, or perform any obligation or liability under the Leases, or assume any obligation for any deposits delivered to Grantor by any lessee and not delivered to Beneficiary. Beneficiary shall not be liable for any injury or damage to person or property in or about the Collateral.

3.7.8 Upon the occurrence of an Event of Default, Grantor hereby authorizes and directs the tenants under the Leases to pay Rents to Beneficiary upon written demand by Beneficiary, without further consent of Grantor and regardless of whether Beneficiary has taken possession of any other portion of the Collateral, and the tenants may rely upon any written statement delivered by Beneficiary to the tenants. Any such payment to Beneficiary shall constitute payment to Grantor under the Leases, and Grantor hereby appoints Beneficiary as Grantor's lawful attorney-in-fact for giving, and is hereby empowered to give, acquittances to any tenants for such payments to Beneficiary after an Event of Default.

3.8 Transfer or Further Encumbrance of the Collateral.

3.8.1 Grantor acknowledges that Beneficiary has examined and relied on the creditworthiness and experience of Grantor and its constituent members and manager in owning and operating properties such as the Collateral in agreeing to make the Loan, and that Beneficiary will continue to rely on Grantor's ownership of the Collateral as a means of maintaining the value of the Collateral as security for repayment of the Secured Obligations. Grantor acknowledges that Beneficiary has a valid interest in maintaining the value of the Collateral so as to ensure that, should Grantor default in the repayment of the Obligations, Beneficiary can recover the Obligations by a sale of the Collateral. Grantor shall not, without the prior written consent of Beneficiary, or in accordance with the Loan Agreement, sell, convey, alienate, mortgage, encumber, pledge or otherwise transfer the Collateral or any part thereof, or permit or suffer the Collateral or any part thereof to be sold, conveyed, alienated, mortgaged, encumbered, pledged or otherwise transferred. Beneficiary's consent shall be within its sole and absolute discretion, and Beneficiary specifically reserves the right to condition its consent upon (by way of illustration but not by way of limitation) its approval of the financial and/or management ability of the purchaser, transferee, lessee, pledgee or assignee, upon an agreement to increase the interest rate of the Note to Beneficiary's then current interest rate for similarly situated properties, upon the assumption of the Obligations and liabilities of the Note, this Deed of Trust and any or all of the other Loan Documents by the purchaser, transferee, lessee, pledgee or assignee, upon the receipt of guarantees of the Obligations satisfactory to Beneficiary and/or additional collateral satisfactory to Beneficiary and upon payment to Beneficiary of a reasonable assumption fee.

3.8.2 A sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral within the meaning of this Section shall be deemed to include (i) an installment sales agreement wherein Grantor agrees to sell the Collateral or any part thereof for a price to be paid in installments, (ii) an agreement by Grantor leasing all or a substantial part of the Collateral or a sale, assignment or other transfer of, or the grant of a security interest in, Grantor's right, title and interest in and to any Leases or any Rents, or (iii) the voluntary or involuntary sale, conveyance, encumbrance, pledge, hypothecation, dilution or transfer of ownership or beneficial interest in Grantor, or a change in management or control of Grantor, that is not permitted under the Loan Agreement.

3.8.3 Beneficiary shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Secured Obligations immediately due and payable upon Grantor's sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral without Beneficiary's consent. This provision shall apply to every sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral regardless of whether voluntary or not, or whether or not Beneficiary has consented to any previous sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral. Any sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Collateral made in contravention of this Section shall constitute an Event of Default and, at the option of Beneficiary, shall be null and void and of no force and effect.

3.8.4 Grantor agrees to bear and shall pay or reimburse Beneficiary on demand for all reasonable expenses (including, without limitation, reasonable attorneys' fees and disbursements, title search costs and title insurance endorsement premiums) incurred by Beneficiary in connection with the review, approval and documentation of any such sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer.

3.8.5 Any purchaser, transferee or future ground lessee of a substantial portion of the Collateral pledged and assigned herein shall be deemed to have assumed and agreed to pay the Secured Obligations and to have assumed and agreed to be bound by and to keep, observe, perform and comply with all covenants, agreements, conditions and provisions of this Deed of Trust (including, without limitation, the terms of this Section) unless Beneficiary specifically agrees in writing to the contrary. Without limiting the generality of the foregoing, each such purchaser, transferee, lessee, pledgee and assignee shall be deemed to have made and agreed to each waiver, consent, authorization, direction and appointment made by or agreed to by Grantor under this Deed of Trust. Grantor agrees that, in the event ownership of all or any part of the Collateral becomes vested in a person other than Grantor, Beneficiary may, without notice to Grantor, deal in any way with such successor or successors in interest with reference to this Deed of Trust, the other Loan Documents and the Obligations, without in any way vitiating or discharging Grantor's liability with respect thereto. Any such purchaser, transferee, lessee, pledgee or assignee shall confirm the above in writing at the request of Beneficiary and shall furnish any other performance or documentation required by Beneficiary. No sale, conveyance, transfer, pledge, encumbrance, assignment or lease referred to in the immediately preceding Section, and no forbearance, extension or assumption by or to any person with respect to the Obligations or any of the Loan Documents, shall operate to release, discharge, modify, change or affect the liability of Grantor, either in whole or in part, unless Beneficiary specifically agrees in writing to the contrary.

3.8.6 Sale of Timber of Grantor pursuant to Section 7.7 shall not be within the scope of this Section 3.8.

3.9 Inspection.

Grantor agrees that Beneficiary and/or its agents and independent contractors, shall have the right to the extent permitted hereunder to enter the Collateral at reasonable times and intervals, to inspect and test the Collateral, for the purpose of determining whether Grantor is in compliance with the provisions of this Deed of Trust and the other Loan Documents. Any reasonable costs or expenses incurred in connection with this inspection shall be borne by Grantor.

3.10 Security Agreement, Financing Statements and Fixture Filing.

3.10.1 Security Agreement. This Deed of Trust is a real property deed of trust and a “security agreement” within the meaning of the Uniform Commercial Code governing this transaction (the “Code”). The Collateral includes both real and personal property, including timber to be cut, as-extracted collateral and goods, including goods which are or are to become fixtures, and all other rights and interests, whether tangible or intangible in nature, of Grantor in the Collateral. Grantor, by executing and delivering this Deed of Trust, grants to Beneficiary, as security for the Obligations, a security interest in and lien upon the Code Collateral and in all other Collateral to the full extent that the Code Collateral and such other Collateral may be subject to the Code. Beneficiary, by accepting this Deed of Trust, agrees to and enters into this Security Agreement. Grantor authorizes Beneficiary to prepare and file such financing statements and further assurances as Beneficiary may, from time to time, deem necessary in order to create, perfect, and preserve the security interest(s) and lien(s) granted in this Section. This Deed of Trust shall also constitute a financing statement covering goods and inventory, including goods that are to become fixtures and a financing statement covering timber to be cut and as-extracted collateral, for the purposes of the Code. Information concerning the security interest(s) herein granted in the Code Collateral may be obtained from Beneficiary upon request at the address given herein. The mailing address of the Grantor, as debtor, and the Beneficiary as secured party, are as stated in the opening paragraph hereof. Proceeds and products of the portion of the Collateral constituting fixtures or timber are also covered by the security interest granted hereby.

3.10.2 Grantor’s Status. The Grantor has made certain representations to the Beneficiary in the Loan Agreement regarding information necessary to assure compliance with the Code and Grantor represents and warrants to the Beneficiary that all such information pertaining to the Grantor is accurate and complete in all material respects. The Grantor covenants with the Beneficiary as follows: (a) without providing at least 30 days prior written notice to the Beneficiary, the Grantor will not change its name, its place of business or, if more than one, chief executive office or principal place of business, its mailing address or organizational identification number if it has one and (b) the Grantor will not change its type of organization, jurisdiction or organization or other legal structure.

3.10.3 Other Actions. Further to insure the attachment, perfection and first priority of, and the ability of the Beneficiary to enforce, the Beneficiary's security interest in the Collateral, the Grantor agrees, in each case at the Grantor's own expense, to take the following actions with respect to the following types of property which may be acquired by Grantor and which constitute Collateral hereunder.

(a) If the Grantor shall at any time hold or acquire any promissory notes or tangible chattel paper, the Grantor shall forthwith endorse, assign and deliver the same to the Beneficiary, accompanied by such instruments of transfer or assignment duly executed in blank as the Beneficiary may from time to time specify.

(b) For each deposit account that the Grantor at any time opens or maintains, the Grantor shall, at the Beneficiary's request and option, pursuant to an agreement in form and substance reasonably satisfactory to the Beneficiary, either (a) cause the depository bank to agree to comply at any time with instructions from the Beneficiary to such depository bank directing the disposition of funds from time to time credited to such deposit account, without further consent of the Grantor, or (b) arrange for the Beneficiary to become the customer of the depository bank with respect to the deposit account, with the Grantor being permitted only with the consent of the Beneficiary to exercise rights to withdraw funds from such deposit account.

(c) If the Grantor shall at any time hold or acquire any certificated securities, the Grantor shall forthwith endorse, assign and deliver the same to the Beneficiary, accompanied by such instruments of transfer or assignment duly executed in blank as the Beneficiary may from time to time specify. If any securities now or hereafter acquired by the Grantor are uncertificated and are issued to the Grantor or its nominee directly by the issuer thereof, the Grantor shall immediately notify the Beneficiary thereof and, at the Beneficiary's request and option, pursuant to an agreement in form and substance satisfactory to the Beneficiary, either (a) cause the issuer to agree to comply with instructions from the Beneficiary as to such securities, without further consent of the Grantor or such nominee, or (b) arrange for the Beneficiary to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by the Grantor are held by the Grantor or its nominee through a securities intermediary or commodity intermediary, the Grantor shall immediately notify the Beneficiary thereof and, at the Beneficiary's request and option, pursuant to an agreement in form and substance satisfactory to the Beneficiary, either (i) cause such securities intermediary or (as the case may be) commodity intermediary to agree to comply with entitlement orders or other instructions from the Beneficiary to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Beneficiary to such commodity intermediary, in each case without further consent of the Grantor or such nominee, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Beneficiary to become the entitlement holder with respect to such investment property, with the Grantor being permitted, only with the consent of the Beneficiary, to exercise rights to withdraw or otherwise deal with such investment property.

(d) If any Code Collateral is at any time in the possession of a bailee, the Grantor shall promptly notify the Beneficiary thereof and, if requested by the Beneficiary, shall promptly obtain an acknowledgement from the bailee, in form and substance satisfactory to the Beneficiary, that the bailee holds such Collateral for the benefit of the Beneficiary and shall act upon the instructions of the Beneficiary, without the further consent of the Grantor.

(e) If the Grantor at any time holds or acquires an interest in any electronic chattel paper or any "transferable record," as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in § 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, the Grantor shall promptly notify the Beneficiary thereof and, at the request of the Beneficiary, shall take such action as the Beneficiary may reasonably request to vest in the Beneficiary control, under § 9-105 of the Uniform Commercial Code, of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, § 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record.

(f) If the Grantor is at any time a beneficiary under a letter of credit now or hereafter issued in favor of the Grantor, the Grantor shall promptly notify the Beneficiary thereof and, at the request and option of the Beneficiary, the Grantor shall, pursuant to an agreement in form and substance satisfactory to the Beneficiary, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Beneficiary of the proceeds of any drawing under the letter of credit or (ii) arrange for the Beneficiary to become the transferee beneficiary of the letter of credit, with the Beneficiary agreeing, in each case, that the proceeds of any drawing under the letter of credit are to be applied in accordance with the Loan Agreement.

(g) If the Grantor shall at any time hold or acquire a commercial tort claim with respect to the Collateral, the Grantor shall immediately notify the Beneficiary in a writing signed by the Grantor of the brief details thereof and grant to the Beneficiary in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Beneficiary.

(h) The Grantor further agrees to take any other action reasonably requested by the Beneficiary to insure the attachment, perfection and first priority of, and the ability of the Beneficiary to enforce, the Beneficiary's security interest in any and all of the Collateral including, without limitation, (i) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the Uniform Commercial Code, to the extent, if any, that the Grantor's signature thereon is required therefor, (ii) causing the Beneficiary's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Beneficiary to enforce, the Beneficiary's security interest in such Collateral, (iii) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Beneficiary to enforce, the Beneficiary's security interest in such Collateral, (iv) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other person obligated on Collateral, (v) obtaining waivers from Beneficiaries and landlords in form and substance satisfactory to the Beneficiary, and (vi) taking all actions required by any earlier versions of the Uniform Commercial Code or by other law, as applicable in any relevant Uniform Commercial Code jurisdiction, or by other law as applicable in any foreign jurisdiction.

(i) The Beneficiary agrees with the Grantor that the Beneficiary shall not give any such instructions or take any of the actions set forth in clauses (a) through (f), unless an Event of Default has occurred and is continuing, or, after any distribution of any such asset withdrawal not otherwise permitted by the Loan Documents occurs.

(j) The provisions of this paragraph shall not apply to deposit accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of the Grantor's salaried employees.

3.10.4 Remedies. If an Event of Default shall occur Beneficiary, in addition to any other rights and remedies which it may have, including, without limitation, all rights and remedies with respect to the Code Collateral under the foreclosure or non-judicial foreclosure procedures of this Deed of Trust in lieu of proceeding under the Code, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Code, including, without limiting the generality of the foregoing, the right to take possession of the Code Collateral or any part thereof, and to take such other measures as Beneficiary may deem necessary for the care, protection and preservation of the Code Collateral. Upon request or demand of Beneficiary, to the extent reasonably practicable, Grantor shall at its expense assemble the Collateral and make it available to Beneficiary at a convenient place acceptable to Beneficiary. Grantor shall pay to Beneficiary on demand any and all reasonable expenses, including reasonable legal expenses and outside attorneys' fees and disbursements, incurred or paid by Beneficiary in protecting its interest in the Code Collateral and in enforcing its rights hereunder with respect to the Code Collateral. Any notice of sale, disposition or other intended action by Beneficiary with respect to the Code Collateral sent to Grantor in accordance with the provisions hereof at least ten (10) days prior to such sale, disposition or action shall constitute reasonable notice to Grantor. The proceeds of any disposition of the Code Collateral, or any part thereof, may be applied by Beneficiary to the payment of the Obligations in such priority and proportions as Beneficiary in its discretion shall deem proper.

3.10.5 Filing. The Grantor hereby irrevocably authorizes the Beneficiary at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral as being assets of the Grantor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction, or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the Uniform Commercial Code of the state where this Deed of Trust is recorded for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Grantor is an organization, the type of organization and any organization identification number issued to the Grantor and, (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. The Grantor agrees to furnish any such information to the Beneficiary promptly upon request. The Grantor also ratifies its authorization for the Beneficiary to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof. Grantor shall promptly execute, file and record, at its sole cost and expense, such Code forms as are necessary to maintain the validity and priority of the lien of Beneficiary upon and security interest in the Code Collateral. In addition, Grantor shall promptly execute, file and record such additional Code forms or continuation statements and further assurances as Beneficiary shall deem necessary and shall pay all expenses and fees in connection with the filing and recording thereof, provided that no such additional documents shall increase the Obligations of Grantor under the Note, this Deed of Trust or the other Loan Documents. In addition, in the event Grantor shall acquire motor vehicles or rolling stock that are to comprise part of the Collateral, Grantor shall promptly provide Beneficiary upon request with vehicle identification numbers and, if applicable, certificates or other evidence of title with respect thereto, and shall take such action as may be necessary to create and perfect Beneficiary's lien and security interest therein. Grantor hereby grants to Beneficiary an irrevocable power of attorney, coupled with an interest, to file with the appropriate public office on its behalf any financing or other statements signed only by Beneficiary, as secured party, in connection with the Code Collateral covered by this Deed of Trust.

3.10.6 Certain Representations, Warranties and Covenants. The Grantor has made certain representations, including but not limited to the following information and covenants, to the Beneficiary in the Loan Agreement regarding information necessary to assure compliance with the Code and Grantor represents and warrants to the Beneficiary that all such information pertaining to the Grantor is accurate and complete in all respects.

(a) The address of Grantor's chief executive office and principal place of business is 19425 Tenth Avenue NE, Poulsbo, Washington 98370, and the location of Grantor under the Code is the State of Delaware.

(b) With the exception of inventory in transit, all tangible (corporeal) assets comprising the Code Collateral are situate on the Real Estate.

(c) Grantor shall prevent any Code Collateral from being or becoming an accession to any property not subject to security interests created by this Deed of Trust.

(d) From time to time hereafter at the request of Beneficiary, Grantor shall deliver to Beneficiary up to date schedules of any items of Code Collateral.

3.10.7 Description of Collateral. For avoidance of doubt it is expressly understood and agreed that any terms included in the description of Collateral shall refer to any definitions thereof in the Code, as the same may be revised from time to time, it being the intention of the parties hereto that the description of Collateral set forth herein be construed to include the broadest possible range of property and assets.

3.11 Personal Property. Except as permitted by the Loan Agreement and the other Loan Documents, that portion of the Collateral consisting of personal property and equipment, shall be owned by Grantor and shall not be the subject matter of any capital lease or other transaction whereby the ownership or any beneficial interest in any of such property is held by any person or entity other than Grantor nor shall Grantor create or suffer to be created any security interest, other than a Permitted Encumbrance, covering any such Collateral as it may from time to time be replaced, other than the security interest created herein.

3.12 Subrogation. To the extent permitted by law and the provisions of the Loan Agreement, Beneficiary shall be subrogated, notwithstanding their release of record, to any mechanic's or vendor's lien or liens, superior titles, mortgages, deeds of trust, liens, encumbrances, rights, equities, and charges of all kinds heretofore or hereafter existing on the Real Estate to the extent that the same are paid or discharged by Beneficiary whether or not from the proceeds of the Note; provided, however, this Section shall not be deemed or construed to obligate Beneficiary to pay or discharge the same.

4. DEFAULT AND REMEDIES.

4.1 Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default:"

4.1.1 (i) Failure to make payment of any scheduled installment of interest or principal under the Note on or before the date which is four (4) days after the due date, (ii) failure to make payment of any partial prepayment of principal under the Note and any premium thereon on or before the date due, or (iii) failure to make payment of the entire indebtedness under the Note and any premiums thereon on or before the applicable maturity or due date;

4.1.2 Grantor shall fail to make payment on or before the due date of any other amount payable to Beneficiary hereunder or under the Note, the Loan Agreement or any other Loan Document (after any applicable grace or notice period, or if no grace or notice period is specified, within ten (10) days of written notice thereof), or Grantor shall be in default of payment in respect of any Taxes or Other Charges (except to the extent contested in accordance herewith and with the Loan Agreement) or with respect to any insurance premiums or payments;

4.1.3 Any warranty, representation, certificate, schedule or other statement or written information made or furnished to Beneficiary in writing by or on behalf of Grantor or any other party under the Loan in any instrument delivered in connection with the Loan was false or misleading in any material respect when made or furnished;

4.1.4 Grantor fails or neglects to perform, keep or observe any other term, provision, condition or covenant contained in this Deed of Trust which is required to be performed, kept or observed by Grantor (other than those referred to in any of the other paragraphs of this Section) and the same is not cured to Beneficiary's satisfaction within thirty (30) days after written notice thereof by Beneficiary; provided, that if (i) such failure cannot be cured within such thirty (30) day period, (ii) such failure is susceptible of cure, (iii) Grantor commences to cure such failure within such thirty (30) day period and thereafter continuously proceeds with diligence and in good faith to cure such failure and (iv) Beneficiary shall receive an officer's certificate of Grantor to the effect of clauses (i), (ii), and (iii) above and specifying the action Grantor is taking to cure such failure, then such thirty (30) day cure period shall be extended by any additional period of time necessary to effect the cure not to exceed ninety (90) days;

4.1.5 There shall occur a default (after the expiration of any applicable notice or cure periods thereunder, or if no grace or notice period is specified, within ten (10) days of written notice thereof) or Event of Default (however defined), under the Loan Agreement or any other Loan Document, including without limitation deeds of trust or security documents granted by any party to secure the Obligations or any portion thereof;

4.1.6 The occurrence of any default (after the expiration of any applicable notice or cure periods thereunder) or event of default (however defined) on the part of Grantor under any other agreement, document or instrument to which Grantor is a party or by which Grantor is bound creating, evidencing or related to any debt, liability or obligation of Grantor (other than Material Contracts subject to Section 4.1.18) in excess of \$50,000;

4.1.7 Any statement, report, financial statement or certificate made or delivered by Grantor, or any of its officers, employees or agents, to the Beneficiary is not true and correct in any material respect;

4.1.8 Grantor (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of the Bankruptcy Code or any other bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes action for the purpose of any of the foregoing;

4.1.9 A court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by Grantor, a custodian, receiver, trustee or other officer with similar powers with respect to Grantor, or with respect to any substantial part of the property of Grantor, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Grantor, or any such petition shall be filed against Grantor and such petition shall not be dismissed within sixty (60) days;

4.1.10 There shall occur any loss or casualty to, or condemnation or expropriation of, all or any material portion of the Collateral that is security for the Loan, and in either case the insurance proceeds or condemnation award, respectively, is insufficient in the reasonable judgment of Beneficiary, unless Grantor shall furnish to Beneficiary substitute Collateral satisfactory in all respects to Beneficiary in a manner acceptable to Beneficiary and in accordance with the Loan Agreement;

4.1.11 A notice of Lien, levy or assessment is filed of record with respect to all or any of Grantor's assets by any Governmental Authority, including, without limitation, the Pension Benefit Guaranty Corporation, or if any taxes or debts owing at any time or times hereafter to any Governmental Authority becomes a lien or encumbrance upon the Collateral or any other of Grantor's assets and the same is not released within thirty (30) days after the same becomes a Lien or encumbrance or, in the case of ad valorem taxes, prior to the last date when payment may be made without penalty, provided, that Grantor may contest any such notice of Lien, levy or assessment or any such lien in accordance herewith and with the Loan Agreement, as long as no foreclosure proceeding has been filed with respect to such Lien, levy or assessment;

4.1.12 A garnishment, summons or a writ of attachment is issued against or served upon Beneficiary for the attachment of any property of Grantor, whether or not in Beneficiary's possession or any indebtedness owing to Grantor, and such garnishment, summons or writ of attachment is not discharged by bond or otherwise, within thirty (30) days after the issuance of service thereof;

4.1.13 If Grantor shall cause or permit an Event of Default under, or default in the performance of or compliance with the Section hereof entitled "Transfer or Further Encumbrance of the Collateral;"

4.1.14 A default or event of default (as defined therein) or commencement of a foreclosure shall exist or occur under any other mortgage, deed of trust or other instrument encumbering all or any portion of the Real Estate, in favor of a party other than Beneficiary, regardless of whether or not the creation of such mortgage, deed of trust or other encumbrance has been previously consented to by Beneficiary;

4.1.15 Without the prior written consent of Beneficiary, Grantor grants any easement or dedication, files any plat, condominium declaration, or restriction, or otherwise encumbers the Collateral, unless such action is expressly permitted by the Loan Documents or does not affect the Collateral;

4.1.16 The dissolution, liquidation or termination of Grantor, or Grantor's failure to maintain good standing in the State(s) of Delaware and Washington, death or legal incapacity of Grantor, or any guarantor of the Loan; or

4.1.17 Any default shall occur by any guarantor under the Guaranty Agreement.

4.1.18 Any material default by grantor under any Material Contract (as defined in the Loan Agreement) or any conservation easement, lease or other encumbrance on the Timberlands.

4.2 Rights and Remedies of the Beneficiary Upon Default.

4.2.1 Acceleration of Indebtedness. Upon the occurrence of an Event of Default, Beneficiary may, at its option and without demand upon or notice to the Grantor, declare all or any part of the Obligations to be immediately due and payable, whereupon all such Obligations shall become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Grantor (provided, that all Obligations shall be automatically due and payable upon an Event of Default described in either subsection 4.1.5 or 4.1.6 above), and the Beneficiary may immediately enforce payment of all such amounts and may exercise any or all of its rights and remedies under this Deed of Trust, the Note, any of the other Loan Documents and applicable law and equity. The Grantor also waives any and all rights the Grantor may have to a hearing before any judicial authority prior to the exercise by the Beneficiary of any of its rights under this Deed of Trust, the Note, any of the other Loan Documents and applicable law, and waives the right to a jury in any litigation arising between Grantor and Beneficiary. In addition, upon the occurrence of an Event of Default Beneficiary may:

(a) In person or by agent or by a receiver appointed by a court, with or without bringing any action or proceeding and without regard to the adequacy of its security, the solvency of Grantor or the existence of waste, enter upon and take possession of the Collateral, or any part thereof, in its own name or in the name of Beneficiary, and do any acts that it deems necessary or desirable to preserve the value, marketability or rentability of the Collateral, or part thereof or interest therein, to increase the income therefrom or to protect the security hereof; and, with or without taking possession of the Collateral, sue for or otherwise collect the Rents, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection including attorneys' fees, upon any indebtedness secured by this Deed of Trust, all in such order as Beneficiary may determine. The entering upon and taking possession of the Collateral, the collection of such Rents and the application thereof, as aforesaid shall not cure or waive any Event of Default or notice of default hereunder or invalidate any act done in response to such Event of Default or pursuant to such notice of default and, notwithstanding the continuance in possession of the Collateral, the collection, receipt and application of Rents, Beneficiary shall be entitled to exercise every right provided for in any of the Loan Documents or by law upon occurrence of any Event of Default, including any right to exercise a power of sale under applicable law;

(b) Institute a foreclosure action in accordance with the law of Washington, or take any other action as may be allowed, at law or in equity, for the enforcement of the Loan Documents and realization on the Collateral or any other security afforded by the Loan Documents. In the case of a judicial proceeding, Beneficiary may proceed to final judgment and execution for the amount of the Secured Obligations owed as of the date of the judgment, together with all costs of suit, reasonable attorneys' fees and interest on the judgment at the maximum rate permitted by law from the date of the judgment until paid. If Beneficiary is the purchaser at the foreclosure sale of the Collateral, the foreclosure sale price shall be applied against the total amount due Beneficiary;

(c) Institute a non-judicial foreclosure proceeding in compliance with applicable law in effect on the date foreclosure is commenced for the Trustee to sell the Collateral either as a whole or in separate parcels as Beneficiary may determine at public sale or sales to the highest bidder for cash, in order to pay the Secured Obligations. Specifically, upon the occurrence of an Event of Default and written request of the Beneficiary, Trustee shall sell the Collateral or any part thereof in accordance with the Deed of Trust Act of the State of Washington (RCW Chapter 61.24 as existing now or hereafter amended) and the UCC, as applicable, at public auction to the highest bidder as statutorily prescribed. If the Collateral is sold as separate parcels, Beneficiary may direct the order in which the parcels are sold. Trustee shall deliver to the purchaser a Trustee's deed or deeds without covenant or warranty, express or implied. Trustee may postpone the sale of all or any portion of the Property by public announcement at the time and place of sale, and from time to time may further postpone the sale by public announcement in accordance with applicable law; and/or

(d) Proceed as to both the real and personal property in accordance with Beneficiary's rights and remedies in respect of the Collateral, or proceed to sell any personal property separately and without regard to the Collateral in accordance with Beneficiary's rights and remedies. Beneficiary shall have all rights and remedies under this Deed of Trust and the other Loan Documents, at law and in equity.

If an Event of Default shall have occurred and be continuing, Beneficiary, as a matter of right and with notice to Grantor given as stated in the Loan Agreement (but irrespective of whether such notice is received), and without regard to the then value of the Collateral or the interest of Grantor herein, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Collateral, and Grantor hereby irrevocably consents to such appointment and waives notice of any application therefor. Any such receiver or receivers shall have all the powers and duties available to receivers under law and all the powers and duties of Beneficiary in case of entry as provided above and shall continue as such and exercise all such powers until the date of confirmation of sale of the Collateral unless such receivership is sooner terminated.

Beneficiary may postpone sale of all or any portion of the Collateral by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement or subsequently noticed sale, and without further notice make such sale at the time fixed by the last postponement; or Beneficiary may, in its discretion, give a new notice of sale. Beneficiary may rescind any such notice of default at any time before Beneficiary's sale. The exercise by Beneficiary of the right of rescission shall not constitute a waiver of any default and demand for sale, or notices of default and of election to cause the Collateral to be sold, nor otherwise affect the Note or this Deed of Trust, or any of the rights, obligations or remedies of Beneficiary hereunder.

In the event the foreclosure sale is not concluded and Beneficiary has allowed Grantor to cure any and all defaults occasioned hereunder, Grantor shall pay to Beneficiary all costs and expenses incurred by Beneficiary as a result of Grantor's default, including reasonable attorneys' fees.

In the event of a sale of the Collateral or any part thereof, and the execution of a deed or deeds therefor, the recital therein of default, and of the giving of notice of sale, and of a demand by Beneficiary, or its successors or assigns, that such sale should be made, shall be conclusive proof of such default, and of the due giving of such notice, and that the sale was regularly and validly made on due and proper demand by Beneficiary, its successors or assigns; and any such deed or deeds with such recitals therein and otherwise conforming with applicable law shall be effectual and conclusive against Grantor, its successors and assigns, and all other persons; and the receipt for the purchase money recited or contained in any deed executed to the purchaser as aforesaid shall be sufficient discharge to such purchaser from all obligations to see to the proper application of the purchase money.

After the date of any trustee's sale at which the Beneficiary or any affiliate of the Beneficiary is the successful bidder, or after the date of the Lender's or such affiliate's acceptance of a deed in lieu thereof (either such date, the "**Sale Date**"), the Grantor shall remain personally liable to the Lender for the repayment of Indebtedness. Any deficiency for which Grantor is liable hereunder shall bear interest at the Default Rate from the Sale Date to and including the date of payment.

4.2.2 Personal Property Collateral. Without limiting the generality of the foregoing, on the happening of any Event of Default or at any time thereafter, the Beneficiary shall have and may exercise with respect to the personal property and other non-real estate collateral included in the UCC Collateral all rights, remedies and powers of a secured party under the Code with reference to the UCC Collateral or any other items in which a security interest has been granted herein, including without limitation the right and power to sell at public or private sale or sales or otherwise dispose of, lease or utilize the UCC Collateral and any part or parts thereof in any manner to the fullest extent authorized or permitted under the Code after default hereunder, without regard to preservation of the UCC Collateral or its value and without the necessity of a court order. The Beneficiary shall have, among other rights, the right to take possession of the UCC Collateral and to enter upon any premises where the same may be situated for the purpose of repossessing the same without being guilty of trespass and without liability for damages occasioned thereby and to take any action deemed appropriate or desirable by the Beneficiary, at its option and its sole discretion, to repair, restore or otherwise prepare the UCC Collateral for sale, lease or other use or disposition. At the Beneficiary's request, the Grantor, at Grantor's expense, shall assemble the UCC Collateral and make the UCC Collateral available to the Beneficiary at any place designated by the Beneficiary. To the extent permitted by law, the Grantor expressly waives any notice of sale or any other disposition of the Collateral and any rights or remedies of the Beneficiary with respect to, and the formalities prescribed by law relative to, the sale or disposition of the Collateral or to the exercise of any other right or remedy of the Beneficiary existing after default. To the extent that such notice is required and cannot be waived, the Grantor agrees that if such notice is given to the Grantor in accordance with the provisions of Section 5.9 below, at least ten (10) days before the time of the sale or other disposition, such notice shall be deemed reasonable and shall fully satisfy any requirement for giving said notice. The proceeds of any disposition of the Code Collateral, or any part thereof, may be applied by Beneficiary to the payment of the Obligations in such priority and proportions as Beneficiary in its discretion shall deem proper.

4.2.3 Rights of Beneficiary with Respect to Rents and Leases. Without limiting the generality of the foregoing, upon the occurrence of an Event of Default, or at any time thereafter:

(a) The Beneficiary at its option, shall have the right, power and authority to exercise and enforce any or all of the following rights and remedies with respect to Rents and Leases:

(i) to enforce the termination of the license granted to the Grantor hereunder to collect the Rents, and, without taking possession, in the Beneficiary's own name to demand, collect, receive, sue for, attach and levy upon the Rents (including all income received or receivable with respect to any of the Collateral), to give proper receipts, releases and acquittances therefor, and after deducting all necessary and reasonable costs and expenses of collection, including reasonable attorneys' fees, to apply the net proceeds thereof to the Obligations in such order and amounts as the Beneficiary may choose (or hold the same in a cash collateral reserve as security for the Obligations);

(ii) without regard to the adequacy of the security, with or without any action or proceeding, through any person or by agent, or by a receiver or keeper to be appointed by court, to enter upon, take possession of, manage and operate the property or any part thereof for the account of the Grantor; make, modify, enforce, cancel or accept surrender of any Lease; remove and evict any lessee or other occupant of the Real Estate; increase or reduce rents; cut, remove, sell and dispose of timber and exercise all rights under deeds or contracts and otherwise do any act, or incur any cost or expense the Beneficiary shall deem proper to protect the security hereof, as fully and to the same extent as the Grantor could and to apply any funds to the operation and management of the Collateral (including payment of reasonable management, brokerage and attorneys' fees) and payment of any Obligations in such order and amounts as the Beneficiary may choose (or hold the same in cash collateral reserve as security);

(iii) to require Grantor to transfer and pay over to Beneficiary all security deposits and records thereof, together with all original Leases; and

(iv) to take whatever legal proceedings may appear necessary or desirable to enforce any obligation or covenant or agreement of the Grantor under this Deed of Trust.

(b) the collection of the Rents and application thereof (or holding thereof in reserve) as aforesaid or the entry upon and taking possession of the Collateral or both shall not cure or waive any default or waive, modify or affect any notice of default under this Deed of Trust, or invalidate any act done pursuant to such notice, and the enforcement of such right or remedy by the Beneficiary, once exercised, shall continue for so long as the Beneficiary shall elect, notwithstanding that the collection and application aforesaid of the Rents may have cured the original default. If the Beneficiary shall thereafter elect to discontinue the exercise of any such right or remedy, the same or any other right or remedy hereunder may be reasserted at any time and from time to time following any subsequent default.

4.2.4 Application of Proceeds. All payments received by the Beneficiary as proceeds of the Collateral, or any part thereof, as well as any and all amounts realized by the Beneficiary in connection with the enforcement of any right or remedy under or with respect to this Deed of Trust, shall be applied by the Beneficiary as follows (except as otherwise required by law): (i) to the payment of all necessary expenses of the Beneficiary and the Trustee incident to the execution of any foreclosure sale or sales or other remedies under this Deed of Trust, including attorneys' fees, appraisal fees, title search fees, and foreclosure notice costs, (ii) to the payment in full of any of the Obligations that is then due and payable (including without limitation principal, accrued interest and all other sums secured hereby) and to the payment of attorneys' fees as provided herein and in the Note and the other Loan Documents, all in such order as the Beneficiary may elect in its sole discretion, and (iii) the remainder, if any, shall be paid to the Grantor or such other person or persons as may be entitled thereto by law, after deducting therefrom the cost of ascertaining their identity.

4.2.5 Venue. Any other provisions of this Deed of Trust to the contrary notwithstanding, any action to enforce or foreclose this Deed of Trust may be pursued and any judicial or nonjudicial foreclosure sale of the Real Estate may be held in any county in which any portion of the Real Estate is located without a corollary action, proceeding or sale in any other county.

4.2.6 Waiver of Appraisal Laws. The Grantor waives, to the fullest extent permitted by law, the benefit of all laws now existing or hereafter enacted providing for (i) any appraisal before sale of any portion of the Collateral (commonly known as appraisal laws), or (ii) any extension of time for the enforcement of the collection of the Obligations or any creation or extension of a period of redemption from any sale made in collecting the Obligations (commonly known as stay laws and redemption laws).

4.2.7 Prerequisites of Sales. In case of any sale of the Collateral as authorized by this Section 4.2, all prerequisites to the sale shall be presumed to have been performed, and in any conveyance given hereunder all statements of facts, or other recitals therein made, as to the nonpayment of any of the Obligations or as to the advertisement of sale, or the time, place and manner of sale, or as to any other fact or thing, shall be taken in all courts of law or equity as prima facie evidence that the facts so stated or recited are true.

4.2.8 Applicable Maturities. It is specifically understood and agreed that the foregoing acceleration provisions will be applicable not only to the maturities recited in the original Note(s) but also to any substituted maturities created by extension or renewal. The failure of the holder(s) of the secured indebtedness to declare an acceleration of maturities when a ground therefor exists, even though such forbearance may be repeated from time to time, will not constitute a waiver of the right of such holder(s) to accelerate maturities upon a recurrence of the same ground therefor; nor will the act of such holder(s) in remedying any condition resulting from declaring an acceleration of maturities by reason of such default.

4.2.9 Expenses. If Beneficiary shall expend any sum or sums for the protection of any of the Collateral or the lien of this Deed of Trust as a result of Grantor's failure to perform its obligations hereunder (such Beneficiary to have uncontrolled discretion as to the necessity of making any such expenditures), the repayment of such sum or sums on demand (with interest thereon at the highest rate allowed by law from the date of each expenditure) shall be the personal obligation of the Grantor; and such obligation to repay will constitute a part of the indebtedness secured hereby. The expenditures thus made reimbursable will include, without limitation, taxes, special improvement assessments, insurance premiums, repairs and maintenance expenses, security expenditures, sums paid to discharge prior liens, rents on premises in which mortgaged personalty may be situated, etc. The cost of any abstract or supplemental abstract procured by Beneficiary to facilitate foreclosure will also constitute a part of the reimbursable expenses secured hereby.

4.2.10 Indemnification of Trustee. Except for gross negligence and willful misconduct, Trustee shall not be liable for any act or omission or error of judgment. Trustee may rely on any document believed by it in good faith to be genuine. All money received by Trustee shall be held in trust, but need not be segregated (except to the extent required by law), until used or applied as provided in this Deed of Trust. Trustee shall not be liable for interest on the money. Grantor shall protect, indemnify and hold harmless Trustee against all liability and expenses which Trustee may incur in the performance of its duties.

4.2.11 Actions of Trustee. At any time, upon written request of Beneficiary and presentation of this Deed of Trust and the Note for endorsement, and without affecting the personal liability of any entity or the Grantor for payment of the Secured Obligations or the effect of this Deed of Trust upon the remainder of the Collateral, Trustee may take such actions as Beneficiary may request which are permitted by this Deed of Trust or by applicable law.

4.2.12 **Substitution of Trustee.** Beneficiary has the power and shall be entitled, at any time and from time to time, to remove Trustee or any successor trustee and to appoint another trustee in the place of Trustee or a successor trustee, by an instrument recorded in the recorder's office of the county or counties where the Collateral is located. The recorded instrument shall be conclusive proof of the proper substitution and appointment of the successor Trustee without the necessity of any conveyance from the predecessor Trustee.

4.3 **Advances by Beneficiary.** If the Grantor shall fail to comply with the provisions hereof with respect to the securing of insurance, the payment of taxes, assessments and other charges, the keeping of the Collateral in repair, the performance of the Grantor's obligations under any lease, the payment of any prior mortgages, or the protection of any of the Collateral or the lien of this Deed of Trust or the performance of any other term or covenant herein contained, the Beneficiary may (but shall not be obligated to) make such payment or perform such act for the account of and at the expense of Grantor (such Beneficiary to have uncontrolled discretion as to the necessity of making any such expenditures), and shall have the right to enter upon the Collateral for such purpose and to take all such action as it may deem necessary or appropriate. The repayment of any such sum or sums on demand (with interest thereon at the highest rate allowed by law from the date of each expenditure) shall be the personal obligation of the Grantor; and such obligation to repay will constitute a part of the indebtedness secured hereby. The expenditures thus made reimbursable shall include, without limitation, taxes, special improvement assessments, insurance premiums, repairs and maintenance expenses, security expenditures, sums paid to discharge prior liens, and rents on premises in which mortgaged personalty may be situated. The Grantor agrees to repay all such sums advanced upon demand, with interest from the date such advances are made at the Default Rate as provided for and as defined in the Note, or the highest rate permitted by law, whichever shall be less, and all sums so advanced with interest shall constitute Obligations and shall be secured hereby. The cost of any title abstract or report or supplemental abstract or report procured by Beneficiary to facilitate foreclosure will also constitute a part of the reimbursable expenses secured hereby.

4.4 **Other Rights.** Beneficiary may exercise any and all other rights, remedies and recourses granted under the Loan Documents or now or hereafter existing in equity or at law for the protection and preservation of the Collateral.

4.5 **Remedies Cumulative, Concurrent and Nonexclusive.** Beneficiary shall have all rights, remedies and recourses granted in the Loan Documents and available at law or equity (including, without limitation, those granted by the Code and applicable to the Collateral, or any portion thereof), and same (1) shall be cumulative and concurrent, (2) may be pursued separately, successively or concurrently against Grantor or others obligated for the Obligations, or any part thereof or against any one or more of them, or against the Collateral, at the sole discretion of Beneficiary, (3) may be exercised as often as occasion therefor shall arise, it being agreed by Grantor that the exercise of or failure to exercise any of same shall in no event be construed as a waiver or release thereof or of any other right, remedy or recourse, and (4) are intended to be, and shall be, nonexclusive.

4.6 General Remedies. If an Event of Default shall have occurred and be then in existence, Beneficiary may take such action, without notice or demand, as it shall deem advisable to protect and enforce its rights against Grantor and in and to the Collateral or any part thereof or interest therein, including, but not limited to, the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Beneficiary may determine, in its sole discretion, without impairing or otherwise affecting the other rights and remedies of Beneficiary: (i) enter into or upon the Collateral, either personally or by its agents, nominees or attorneys and dispossess Grantor and its agents and servants therefrom, and thereupon Beneficiary may (A) use, operate, manage, control, insure, maintain, repair, restore, harvest and sell timber and otherwise deal with all and every part of the Collateral and conduct the business thereat, (B) complete any construction on the Collateral in such manner and form as Beneficiary deems advisable, (C) make alterations, additions, renewals, replacements and improvements to or on the Collateral, (D) exercise all rights and powers of Grantor with respect to the Collateral, whether in the name of Grantor or otherwise, including, without limitation, the right to make, cancel, enforce or modify, timber sales contracts, stumpage sale agreements, leases, and other agreements and demand, sue for, collect and receive all earnings, revenues, rents, issues, profits and other income of the Collateral and every part thereof and (E) receive and collect the receipts from the Collateral, give proper receipts, releases and acquittances therefore, and apply the same to the payment of the Secured Obligations, after deducting therefrom all expenses (including reasonable attorneys' fees and expenses) incurred in connection with the aforesaid operations and all amounts necessary to pay the taxes, assessments, insurance and other charges in connection with the Collateral, as well as just and reasonable compensation for the services of the Beneficiary and its counsel, agents and employees, or (ii) institute proceedings for the complete foreclosure of this Deed of Trust in which case the Collateral may be sold for cash or upon credit in one or more parcels, or (iii) with or without entry, to the extent permitted and pursuant to the procedures provided by applicable law, institute proceedings for the partial foreclosure of this Deed of Trust for the portion of the Secured Obligations then due and payable, subject to the continuing lien of this Deed of Trust for the balance of the Secured Obligations not then due, or (iv) sell for cash or upon credit the Collateral or any part thereof and all or any part of any estate, claim, demand, right, title and interest of Grantor therein and rights of redemption thereof, pursuant to power of sale or otherwise, at one or more sales, as an entirety or in parcels, at such time and place, upon such terms and after such notice thereof as may be required or permitted by law, and in the event of a sale, by foreclosure or otherwise, of less than all of the Collateral, this Deed of Trust shall continue as a lien on the remaining portion of or estate in the Collateral, or (v) institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained herein or in the Note or any other Loan Document, or (vi) recover judgment on the Note or any guaranty either before, during or after any proceedings for the enforcement of this Deed of Trust or (vii) pursue such other remedies as Beneficiary may have under applicable law or equity. Further, once Beneficiary has exercised any of its rights or remedies hereunder, or under the Loan Documents, during the existence of an Event of Default, all actions theretofore or thereafter taken by Beneficiary in pursuit of such rights and remedies shall not be affected by any cure of such Event of Default, unless Beneficiary shall accept the cure and terminate pursuit of any such right or remedy, in which case, the parties shall be restored to their position which existed prior to Beneficiary's exercise of its rights or remedies.

5. MISCELLANEOUS PROVISIONS

5.1 **Waiver and Election.** The exercise by the Beneficiary of any right, power or remedy given under the terms of this Deed of Trust shall not be considered as a waiver of the right to exercise any other right, power or remedy given herein, and the filing of a suit to foreclose the lien, security interest and assignment granted by this Deed of Trust, either on any matured portion of the Obligations or for the whole of the Obligations, shall not be considered an election so as to preclude foreclosure under power of sale after a dismissal of the suit; nor shall the publication of notices for foreclosure preclude the prosecution of a later suit thereon. No failure or delay on the part of the Beneficiary in exercising any right, power or remedy under this Deed of Trust shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder or thereunder. The remedies provided in this Deed of Trust and in the other Loan Documents are cumulative and not exclusive of any remedies provided by law. No amendment, modification, termination or waiver of any provisions of this Deed of Trust or any of the Loan Documents, nor consent to any departure by the Grantor therefrom, shall be effective unless the same shall be in writing and signed by an executive officer of the Beneficiary, and then such waiver or consent shall be effective only in this specific instance and for the specific purpose for which given. No notice to or demand on the Grantor in any case shall entitle the Grantor to any other or further notice or demand in similar or other circumstances. The Grantor expressly waives the right to any notice of the assignment of the Note or this Deed of Trust and the right to enforce the provisions of any applicable law requiring such notice.

5.2 **Landlord-Tenant Relationship.** Any sale of the Collateral under this Deed of Trust shall, without further notice, create the relationship of landlord and tenant at sufferance between the purchaser and the Grantor.

5.3 Enforceability. If any provision of this Deed of Trust is held to be illegal, invalid, or unenforceable under present or future laws effective while this Deed of Trust is in effect, the legality, validity and enforceability of the remaining provisions of this Deed of Trust shall not be affected thereby, and in lieu of each such illegal, invalid or unenforceable provision there shall be added automatically as a part of this Deed of Trust a provision that is legal, valid and enforceable and as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

5.4 Application of Payments. If the lien, assignment or security interest created by this Deed of Trust is invalid or unenforceable as to any part of the Obligations or is invalid or unenforceable as to any part of the Collateral, the unsecured or partially secured portion of the Obligations shall be completely paid prior to the payment of the remaining secured or partially secured portion of the Obligations, and all payments made on the Obligations, whether voluntary or under foreclosure or other enforcement action or procedures, shall be considered to have been first paid on and applied to the full payment of that portion of the Obligations that is not secured or not fully secured by said lien, assignment or security interest created hereby.

5.5 Applicable Law. This Deed of Trust shall be, and the Loan Agreement provides that it is to be, governed by, construed and enforced in accordance with the laws of the State of Washington, without regard to conflicts-of-law rules and principles. Notwithstanding such provisions, however: (i) matters respecting (a) title to the Real Estate, (b) the creation, perfection and priority of liens against the Real Estate, (c) the procedures for and the effects of the judicial or nonjudicial foreclosure of liens against the Real Estate, (d) the availability of deficiency judgments or other remedies under any of the documents evidencing, securing or guarantying the Loan or any indemnities executed in connection with the Loan or the Real Estate prior to, concurrently with or following a judicial or nonjudicial foreclosure, and (e) the extent to which any rights or equities of redemption of the Real Estate exist shall be governed by, and construed and enforced in accordance with, the internal law of the State of Washington without giving effect to the conflicts-of-law rules and principles of such state, (ii) Grantor agrees that Beneficiary, its respective successors and assigns shall have the right to seek a deficiency judgment against Grantor in other states or foreign jurisdictions; and (iii) Grantor agrees that, to the extent Beneficiary or any of its successors and assigns obtains a deficiency judgment in any other state or foreign jurisdiction, such party shall have the right to enforce such judgment in Washington as well as in other states or foreign jurisdictions.

5.6 Meaning of Particular Terms. Whenever used, the singular number shall include the plural and the plural, the singular, the pronouns of one gender shall include all genders; and the words "Grantor" and "Beneficiary," shall include their respective heirs, personal representatives, successors and assigns. The term "Grantor" as used in this Deed of Trust refers to each of the undersigned, jointly and severally, whether one or more natural persons, partnerships, limited liability companies, corporations, associations, trusts or other entities or organizations.

5.7 **Release or Extension by Beneficiary.** The Beneficiary, without notice to the Grantor and without in any way affecting the rights of the Beneficiary hereunder as to any part of the Collateral not expressly released, may release any part of the Collateral or any person liable for any of the Obligations and may agree with any party with an interest in the Collateral to extend the time for payment of all or any part of the Obligations or to waive the prompt and full performance of any term, condition or covenant of the Note, any of the Loan Documents, this Deed of Trust or any other instrument evidencing or securing any of the Obligations.

5.8 **Partial Payments.** Acceptance by the Beneficiary of any payment of less than the full amount due on the Obligations shall be deemed acceptance on account only, and the failure of the Grantor to pay the entire amount then due shall be and continue to constitute an Event of Default, and at any time thereafter and until the entire amount due on the Obligations has been paid, the Beneficiary shall be entitled to exercise all rights conferred on it by the terms of this Deed of Trust in case of the occurrence of an Event of Default.

5.9 **Addresses for Notices.** All notices, requests, demands and other communications provided for hereunder shall be in writing and shall be sent either by United States mail, certified with return receipt requested, to the applicable party at its address indicated on the first page of this Deed of Trust, or shall be sent in accordance with the Loan Agreement, and shall be deemed given upon receipt or refusal to accept, and any party may designate another address in accordance with the Loan Agreement.

5.10 **Absence of Obligations of Beneficiary With Respect to Collateral.** Notwithstanding anything in this Deed of Trust to the contrary, (1) to the extent permitted by applicable law, the Collateral is comprised of Grantor's rights, title and interests therein but not its obligations, duties or liabilities pertaining thereto, (2) Beneficiary shall not assume, be deemed to assume or have any obligations, duties or liabilities in connection with any of the items described in connection with the definition of "Collateral" herein, either prior to or after obtaining title to such Collateral, whether by foreclosure sale, the granting of a deed in lieu of foreclosure or otherwise, and this Deed of Trust shall not be deemed to confer on the Beneficiary any duties or obligations that would make the Beneficiary directly or derivatively liable for any person's negligent, reckless or willful conduct related thereto, and (3) Beneficiary may, at any time prior to or after the acquisition of title to any portion of the Collateral, advise any party in writing as to the extent of Beneficiary's interest therein and/or expressly disaffirm in writing any rights, interests, obligations, duties and/or liabilities with respect to such Collateral or matters related thereto. Without limiting the generality of the foregoing, it is understood and agreed that Beneficiary shall have no obligations, duties or liabilities prior to or after acquisition of title to any portion of the Collateral, as lessee under any lease or purchaser or seller under any contract or option unless Beneficiary elects otherwise by written notification. The Grantor agrees to defend, indemnify and save harmless the Beneficiary from and against any and all claims, causes of action and judgments relating to the Grantor's performance of the Grantor's duties, responsibilities and obligations under Leases and with respect to the Real Estate.

5.11 **Expenses.** The Grantor shall pay all costs and expenses incurred by the Beneficiary in connection with preparing and recording this Deed of Trust.

5.12 **Titles.** All section, paragraph, subparagraph or other titles contained in this Deed of Trust are for reference purposes only, and this Deed of Trust shall be construed without reference to said titles.

5.13 **Construction.** This Deed of Trust may be construed as a deed of trust, mortgage, chattel mortgage, conveyance, assignment, security agreement, pledge, financing statement, hypothecation, or contract, or any one or more of them, in order fully to effectuate the lien, security interest and assignment created hereby and the purposes and agreements herein set forth.

5.14 **Collection Costs.** The Grantor agrees to pay all costs, including reasonable attorneys' fees, incurred by the Beneficiary in enforcing the Beneficiary's rights hereunder and in collecting or securing, or attempting to collect or secure, the Obligations, or any part thereof, or in defending or attempting to defend the priority of this Deed of Trust against any lien on the Collateral, or any part thereof, unless this Deed of Trust is herein expressly made subject to any such lien; and all costs incurred in the foreclosure of this Deed of Trust, either under the power of sale contained herein, or by virtue of the decree of any court of competent jurisdiction. The full amount of such costs incurred by the Beneficiary shall be a part of the Obligations, and shall bear interest at the rate provided in the Note or such lesser amount as shall be the maximum amount permitted by law, and shall be secured by this Deed of Trust.

5.15 **Defeasance.** If (1) the Note is no longer in effect and has been terminated by reason of the payment in full of the amounts covered thereby; and (2) the Grantor shall: (a) have paid in full (i) all of the Obligations (as defined herein), including but not limited to all sums (principal, interest, premium and charges) payable under the Note and any and all extensions and renewals of the same; and (ii) all sums becoming due and payable by the Grantor under the terms of this Deed of Trust, including but not limited to advancements made by the Beneficiary pursuant to the terms and conditions of this Deed of Trust and (b) have kept and performed each and every obligation, covenant, duty, condition and agreement herein and in the Note imposed on or agreed to by the Grantor; then this conveyance and the grants and conveyances contained herein shall become null and void, and the Collateral shall revert to the Grantor, and the entire estate, right, title and interest of the Beneficiary will thereupon cease; and the Beneficiary in such case shall, upon the request of the Grantor and at the Grantor's cost and expense, deliver to the Grantor proper instrument(s) acknowledging satisfaction of this instrument; otherwise, this Deed of Trust shall remain in full force and effect. No release or modification of this conveyance, or of the lien, security interest or assignment created and evidenced thereby, shall be valid unless executed by Beneficiary.

5.16 Change in Ownership. If the ownership (legal or beneficial) of the Collateral or any part thereof becomes vested in a person or entity other than Grantor, or in the event of a change of any ownership of Grantor legal or beneficial, Beneficiary may, without notice to Grantor, deal with such successor or successors in interest with reference to this Deed of Trust and to the Obligations in the same manner as with Grantor without in any way vitiating or discharging Grantor's liability hereunder or upon the Obligations and without affecting any default created hereunder by such ownership change, including, without limitation, all of Beneficiary's rights and remedies arising from such default. No sale of the Collateral, and no forbearance on the part of Beneficiary, and no extension of the time for the payment of the Obligations, shall operate to release or affect the original liability of Grantor.

5.17 Partial Release of Lien, Extension, etc. Any part of the Collateral or any other property which is security for the Loan may be released by Beneficiary without affecting the lien, security interest and assignment hereof against the remainder. The lien, security interest and other rights granted hereby shall not affect or be affected by any other security taken for the Obligations. The taking of additional security, or the extension or renewal of the Obligations or any part thereof, shall not release or impair the lien, security interest and other rights granted hereby, or affect the liability of any endorser or guarantor or improve the right of any permitted junior lienholder; and this Deed of Trust, as well as any instrument given to secure any renewal or extension of the Obligations, or any part thereof, shall be and remain a first and prior lien, except as otherwise provided herein, on all of the Collateral not expressly released until the Obligations are satisfied.

5.18 Modification or Termination. The Deed of Trust may only be modified or amended by a written instrument or instruments executed by Grantor and Beneficiary. Any alleged modification or amendment that is not so documented shall not be effective as to any party.

6. WAIVERS.

The obligations of Grantor hereunder shall remain in full force and shall not be impaired by: (i) any express or implied modification, renewal, extension or acceleration of or to the Loan Agreement, the Note, any other Loan Document and all environmental indemnity agreements or guaranties executed by Grantor or any other party; (ii) any exercise or non-exercise by Lender of any right or privilege under any of the Loan Documents; (iii) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Grantor, or any member or Affiliate of Grantor, or any guarantor, or any action taken with respect to this Deed of Trust by any trustee or receiver or by any court in any such proceeding, whether or not Grantor shall have had notice or knowledge of any of the foregoing; (iv) any release, waiver or discharge of Grantor or any endorser or guarantor from liability under any of the Loan Documents or any Grantor's grant to Lender of a security interest, lien or encumbrance in any of Grantor's Property; (v) any subordination, compromise, settlement, release (by operation of law or otherwise), discharge, compound, collection, or liquidation of any of the Loan Documents or any Premises described in any of the Loan Documents or otherwise, or any substitution with respect thereto; (vi) any assignment or other transfer of any of the Loan Documents, in whole or in part; (vii) any acceptance of partial performance of any of the obligations of Grantor or any other party under the Loan Documents; (viii) any consent to the transfer of any Premises described in the Loan Documents or otherwise; and (ix) any bid or purchase at any sale of the Premises described in the Loan Documents or otherwise.

Grantor unconditionally waives the following defenses to enforcement of this Deed of Trust: (i) all presentments, demands, demands for performance, notices of nonperformance, protests, notices of protest, dishonor, nonpayment, partial payment, default and protest, notices of acceptance of this Deed of Trust and all other notices and formalities to which the Grantor may be entitled (except for notices which are specifically required by this Deed of Trust and the other Loan Documents); (ii) any right to require Lender to proceed against Grantor or any guarantor or to proceed against or exhaust any Premises or other Collateral described in the Loan Documents; (iii) any defense arising by reason of any invalidity or unenforceability of any of the Loan Documents or any disability of Grantor or any guarantor; (iv) any defense arising by reason of the manner in which Lender has exercised its remedies under the Loan Documents; (v) any defense based upon an election of remedies by Lender; (vi) any duty of Lender to advise Grantor of any information known to Lender regarding the financial condition of Grantor or any guarantor and all other circumstances affecting Grantor's ability to perform its obligations to Lender, it being agreed that Grantor assumes the responsibility for being and keeping informed regarding such condition or any such circumstances; (vii) any right of subrogation and any rights to enforce any remedy which Lender now has or may hereafter have against Grantor or any guarantor and any benefit of, and any right to participate in, any security now or hereafter held by Lender; (viii) any suretyship defenses available under applicable law; and (ix) to the extent permitted by law, any right to assert against Lender any legal or equitable defense, counterclaim, set off, crossclaim or right of contribution which any Grantor may now or at any time or times hereafter have against any other party which is liable to perform any of the obligations of Grantor hereunder.

7. **ADDITIONAL COVENANTS AND AGREEMENTS OF GRANTOR.** The Grantor covenants and agrees that, until the Obligations are paid in full and this Deed of Trust is satisfied in writing by the Beneficiary:

7.1 **Additional Security Documents.** Grantor has heretofore executed and delivered, and will hereafter execute and deliver, to or for the benefit of Beneficiary certain other mortgages, deeds of trust and other documents and instruments encumbering or relating to certain other property of Grantor located in the State of Oregon as additional security for the Obligations (collectively, sometimes, the “**Additional Mortgages**”). The Additional Mortgages and this Deed of Trust shall each and all constitute security for the Note, the Indebtedness referred to therein and the Obligations. If there should be an Event of Default in any of the terms, conditions or obligations of any of the Additional Mortgages, such default shall constitute an Event of Default under this Deed of Trust. The Beneficiary, whether acting as a fiduciary or otherwise, may foreclose or otherwise enforce such security, enforce its rights, powers and remedies with respect to, and realize upon, such security or such guaranty or otherwise enforce its rights, powers and remedies with respect to, and realize upon, such security, either before or concurrently with or after a foreclosure or other enforcement of this Deed of Trust, any other such security or any of the other Loan Documents (whether or not every aspect of any such foreclosure or other enforcement may be commercially reasonable), all without impairing or being deemed to have waived any rights, benefits, liens or security evidenced by or arising under or in connection with this Deed of Trust, any other such security or any of the other Loan Documents, and without being deemed to have made an election thereby or to have accepted the benefits of such security (or the proceeds thereof) in full settlement of the Obligations and of its rights with respect thereto. No judgment, order or decree rendered against Grantor with respect to any such other security or any of the other Loan Documents, whether rendered in the State in which the Collateral is situated or elsewhere, shall in any manner affect the security of this Deed of Trust, and any deficiency or other debt represented by any such judgment, order or decree shall, to the extent permitted by law, be secured by this Deed of Trust to the same extent that the Obligations shall have been secured by this Deed of Trust prior to the rendering of such judgment, order or decree. Grantor for itself and for any and all persons who may at any time claim through or under Grantor or who hereafter may otherwise acquire any interest in or title to all or any part of the Collateral or any other security for the Obligations, hereby irrevocably waives and releases, to the extent permitted by law, all benefit of any and all laws that would limit or prohibit the effectiveness of anything set forth in this Section.

Notwithstanding anything contained herein to the contrary, Beneficiary shall be under no duty to Grantor or any other person or entity, including, without limitation, any holder of a junior, senior or subordinate mortgage or encumbrance on the Collateral or any part thereof or on any other security held by Beneficiary, to exercise, exhaust or first resort to all or any of the rights, powers and remedies available to Beneficiary, whether under this Deed of Trust, the other Loan Documents or the Additional Mortgages prior to the sale of the Collateral or any other enforcement of this Deed of Trust. Furthermore, Grantor and such other persons and entities waive all rights relating to marshaling and agree that Beneficiary shall not be compelled to release any part of the security of this Deed of Trust, the other Loan Documents or the Additional Mortgages or be prevented from foreclosing or enforcing this Deed of Trust, the other Loan Documents or the Additional Mortgages upon all or any part of such security unless the Obligations shall have been paid in full and that Beneficiary shall not be compelled to accept or allow any apportionment of the Obligations to or among any of the property encumbered by this Deed of Trust, the other Loan Documents or the Additional Mortgages.

7.2 After Acquired Collateral. Grantor covenants and agrees that, if and to the extent that any of its respective rights, titles, estates and interests in any of the Collateral is not acquired until after delivery of this Deed of Trust, this Deed of Trust shall nonetheless apply thereto and the security interest of Beneficiary hereby created shall attach to such Collateral at the same time as Grantor acquires rights therein, without the necessity of any further mortgage, charge, pledge, assignment or assurance and thereafter such Collateral shall be subject to the security interests created under this Deed of Trust.

7.3 Remedies Not Exclusive. Beneficiary shall be entitled to enforce payment and performance of the Obligations and to exercise all rights and powers under this Deed of Trust or under the Note and other Loan Documents or any other agreement executed in connection herewith or any laws now or hereafter in force, notwithstanding some or all of the such indebtedness and Obligations may now or hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Deed of Trust nor its enforcement, whether by court action or other powers herein contained, shall prejudice or in any manner affect Beneficiary's right to realize upon or enforce any other security now or hereafter held by Beneficiary, it being agreed that Beneficiary shall be entitled to enforce this Deed of Trust and any other security now or hereafter held by Beneficiary in such order and manner as Beneficiary may in its sole and absolute discretion determine. No remedy herein conferred upon or reserved to Beneficiary is intended to be exclusive of any other remedy herein or by law provided or permitted, but shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy provided under this Deed of Trust to Beneficiary or to which it may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Beneficiary and Beneficiary may pursue inconsistent remedies, and no action hereunder by Beneficiary shall be deemed to prejudice Beneficiary's right thereafter to foreclose this Deed of Trust. Nothing herein and no action of Beneficiary shall be construed as an election to proceed under any provision to the exclusion of any other provision or as prohibiting Beneficiary from seeking a deficiency judgment against Grantor to the extent such action is permitted by law.

7.4 Waiver of Marshaling and Certain Rights. Grantor agrees, to the extent permitted by law, that neither Grantor nor any person at any time claiming through or under Grantor shall set up, claim or seek to take advantage of any appraisal, valuation, stay, notice of election to accelerate, mature or declare due the Obligations, extension, redemption or moratorium laws, any right of division or discussion, or any exemption from execution or sale, now or hereafter in force, in order to prevent or hinder the enforcement of this Deed of Trust after the occurrence of any Event of Default, the final and absolute sale of all or any part of the Collateral or the final and absolute putting into possession thereof, immediately after any such sale, of the purchaser or purchasers at such sale or the enforcement of any other rights or remedies of Beneficiary under this Deed of Trust or any other Loan Documents. Grantor, for itself and for all who may at any time claim through or under Grantor or who hereafter may otherwise acquire any interest in or title to all or any part of the Collateral, hereby waives, releases and renounces to the extent permitted by law, all benefit of any such law or laws, any and all rights of redemption from sale under any power of sale permitted by law or pursuant to any judgment, order or decree of foreclosure of this Deed of Trust, and any and all right to have the assets constituting the Collateral marshaled upon any foreclosure or other enforcement of this Deed of Trust or to direct the order in which any of the Collateral shall be sold in the event of any sale or sales pursuant hereto, and all homestead and exemption rights under any applicable laws, as well as rights regarding the administration of estates of decedents or any other rights which might defeat, reduce or affect the right of Beneficiary to sell the Collateral for the collection of its obligations. Beneficiary or any court having jurisdiction to exercise or enforce rights with respect to this Deed of Trust may sell the Collateral in part or as an entirety. Beneficiary shall not be required to accept any part or parts of the Collateral in satisfaction of all or any part of the Secured Obligations. Beneficiary shall not be required to accept any apportionment of the Secured Obligations to or among any part or parts of the Collateral. If any law now in force of which Grantor might take advantage despite this Section shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to preclude the application of this Section.

7.5 Statute of Limitations. Grantor hereby expressly waives and releases to the fullest extent permitted by law, the pleading of any statute of limitations as a defense to payment of any and all Secured Obligations secured by this Deed of Trust.

7.6 Time of Essence. Time is of the essence of the obligations of Grantor in this Deed of Trust and each and every term, covenant and condition made herein by or applicable to Grantor.

7.7 **Timber Management and Release Provisions.** If no Event of Default has occurred and is continuing, Grantor may cut, or allow others to cut, Timber from the Premises on the conditions set forth in the Loan Agreement.

7.8 **Counterparts. Multiple copies of this Deed of Trust may be executed by Grantor for recordation in each county in which any portion of the Real Estate is located, all of which shall constitute but one grant and deed of trust.**

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.

(signatures follow on next page)

IN WITNESS WHEREOF, Grantor has executed this instrument as of the day and year first written above.

GRANTOR:

**ORM TIMBER OPERATING
COMPANY II, LLC**, a Delaware
limited liability company

By: Olympic Resource Management
LLC, a Washington limited
liability company
Its Manager

By: _____
David L. Nunes
President & Chief Executive Officer

Signature Page

STATE OF WASHINGTON)
)ss.
COUNTY OF _____)

On this ____ day of August, 2010, before me personally appeared DAVID L. NUNES, to me known to be the President and Chief Executive Officer of Olympic Resource Management, LLC, a Washington limited liability company and the Manager of ORM Timber Operating Company II, LLC, the Delaware limited liability company that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said companies, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of Olympic Resource Management, LLC, and that he was authorized to do so on behalf of ORM Timber Operating Company II, LLC.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Signature: _____

Name (Print): _____

NOTARY PUBLIC in and for the State
of Washington, residing at _____
My appointment expires: _____

Signature Page

EXHIBIT A

PROPERTY DESCRIPTION

RIFFE LAKE:

THE FOLLOWING DESCRIBED PROPERTY IS SITUATED IN LEWIS COUNTY WASHINGTON:

PARCEL 1

South half of the northwest quarter; the southwest quarter; the west half of the southeast quarter of Section 4, Township 11 North, Range 5 East, W.M., Lewis County, Washington.

PARCEL 2

ALL of Section 8, Township 11 North, Range 5 East, W.M., Lewis County, Washington.
EXCEPT the southeast quarter of said Section 8.

PARCEL 3

ALL of Section 9, Township 11 North, Range 5 East, W.M., Lewis County, Washington.

PARCEL 4

ALL of Section 17, Township 11 North, Range 5 East, W.M., Lewis County, Washington.

PARCEL 5

Southwest quarter of the northeast quarter; the west half of the southwest quarter; the north half of the southeast quarter; Government Lots 5-11 inclusive in Section 3, Township 11 North, Range 6 East, W.M., Lewis County, Washington.
TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

PARCEL 6

Government Lots 1-4 inclusive, 8 and 9 in Section 4, Township 11 North, Range 6 East, W.M., Lewis County, Washington.
EXCEPT that portion of the northwest quarter of Section 4, Township 11 North, Range 6 East, W.M., Lewis County, Washington, described as follows:

BEGINNING at the northwest corner of said Section; thence south 02°58'30" west along the west line of said Section a distance of 346.61 feet to the true point of beginning; thence south 66°45'18" east a distance of 445.73 feet; thence south 78°47'35" east a distance of 175.48 feet; thence north 77°41'25" east a distance of 1374.99 feet; thence south 81°27'58" east a distance of 202.86 feet; thence south 04°10'13" west to the right bank of the Cispus River; thence continuing southerly and westerly along the top bank of said River to the intersection of said west line and the northerly top bank of said River; thence continuing north 02°58'30" east along said west line to the true point of beginning.

TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

PARCEL 7

ALL of Section 14, Township 11 North, Range 6 East, W.M., Lewis County, Washington.

TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

PARCEL 8

ALL of Section 1, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT Government Lot 1 and the southeast quarter of the northeast quarter.

TOGETHER WITH easement rights as disclosed by that document recorded May 15, 1989, under Auditor's File No. 8903952.

PARCEL 9

ALL of Section 3, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT the south half of the southeast quarter.

PARCEL 10

ALL of Section 4, Township 12 North, Range 3 East, W.M., Lewis County, Washington. EXCEPT that portion of the southwest quarter of said Section, described as follows: BEGINNING at the southwest corner of said southwest quarter; thence north 400 feet along the west line of said southwest quarter; thence east 270 feet to the true point of beginning; thence west 270 feet to the west line of said southwest quarter; thence north 1613 feet along said west line; thence east 60 rods; thence south 42 rods; thence southwesterly to the true point of beginning.

PARCEL 11A

North half of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington. EXCEPT the southeast quarter of the northwest quarter thereof.

PARCEL 11B

South half of the southeast quarter of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT a tract of land in the northeast quarter of the southeast quarter of the southeast quarter described as follows:

BEGINNING at the northeast corner of said southeast quarter of the southeast quarter; thence 170 feet west along the north line of said southeast quarter of the southeast quarter to a point; thence south approximately 15 feet to the north boundary of the Lewis County Road; thence southeasterly along the east boundary of said County Road to a point where it intersects the east line of said southeast quarter of the southeast quarter; thence north along the east line of said southeast quarter of the southeast quarter approximately 514 feet to the point of beginning.

ALSO EXCEPT the Young County Road.

PARCEL 11C

The southeast quarter of the northwest quarter and the northeast quarter of the southwest quarter of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT that portion of the northeast quarter of the southwest quarter of Section 5, Township 12 North, Range 3 East, W.M., Lewis County, Washington, more particularly described as follows:

BEGINNING at the southwest corner of said Subdivision; thence north 2°26'56" east along the west line of said Subdivision a distance of 441.49 feet; thence south 88°36'56" east a distance of 1280.20 feet to the east line of said Subdivision; thence south 1°45'11" west along the east line of said Subdivision a distance of 441.42 feet to the southeast corner of said Subdivision; thence north 88°36'56" west along the south line of said Subdivision a distance of 1285.56 feet to the point of beginning.

PARCEL 12

Government Lots 1 and 2 of Section 6, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 13

Northeast quarter of the northeast quarter of the northeast quarter of Section 8, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 14

North half of the north half of Section 9, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 15

The north half of the north half of Section 10, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 16

All of Section 11, Township 12 North, Range 3 East, W.M., Lewis County, Washington, EXCEPT that part of the south half of the southwest quarter lying southwesterly of the following described line:

Beginning at the northwest corner of the southwest quarter of the southwest quarter; thence southeasterly to the south one-quarter corner and the terminus of said line. ALSO EXCEPT Primary State Highway No. 5.

PARCEL 17

South half of Section 12, Township 12 North, Range 3 East, W.M., Lewis County, Washington.

EXCEPT that part lying southeasterly and south of a line described as follows:

BEGINNING at the southeast corner of the northeast quarter of the southeast quarter; thence northerly along the east line of said Section a distance of 400.0 feet; thence westerly parallel to the south line of said northeast quarter of the southeast quarter to a point on the west line of said Subdivision; thence southwesterly to the southwest corner of the southeast quarter of the southeast quarter of the southwest quarter and the terminus of said line.

ALSO EXCEPT Primary State Highway No. 5.

ALSO EXCEPT Rife-Morton Highway.

PARCEL 18

That portion of the north half of the northwest quarter of Section 13, Township 12 North, Range 3 East, W.M., Lewis County, Washington, lying northwesterly of the following described line:

BEGINNING at the southwest corner of the north half of the northwest quarter; thence north 58°57'36" east to the northwest corner of the northeast quarter of the northeast quarter of the northwest quarter and the terminus of said line.

PARCEL 19

That part of the northwest quarter of the northeast quarter of Section 14, Township 12 North, Range 3 East, W.M., Lewis County, Washington, lying northerly of a line beginning at the north quarter corner; thence on a bearing south 60°54'03" east to the northeast corner of the southeast quarter of the northwest quarter of the northeast quarter.

ALSO that part of the northeast quarter of the northeast quarter of Section 14, Township 12 North, Range 3 East, W.M., Lewis County, Washington, lying northerly of a line beginning at the northwest corner of the southwest quarter of the northeast quarter of the northeast quarter; thence south 60°37'52" east to the southeast corner of the northeast quarter of the northeast quarter.

PARCEL 20

Government Lots 1, 2, and 3, and the southwest quarter of the northeast quarter all in Section 6, Township 12 North, Range 4 East, W.M., Lewis County, Washington.

PARCEL 21

Northeast quarter of the southwest quarter and the southeast quarter of the northwest quarter, Section 32, Township 12 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT that portion described as follows: Beginning at the northwest corner of said southeast quarter of the northwest quarter; thence south 88°10'29" east 1333.79 feet; thence south 1°22'58" west 971.98 feet; thence north 52°14'46" west 1656.44 feet to the point of beginning.

PARCEL 22

That portion of Section 33, Township 12 North, Range 6 East, W.M., Lewis County, Washington, lying southeasterly of Line "A":

BEGINNING at the northwest corner of said Section; thence south 01°11'41" west a distance of 276.50 feet to a point on the west line of said Section; thence south 04°45'45" east along said west line a distance of 344.18 feet; thence north 35°39'51" east a distance of 597.29 feet; thence north 84°34'31" east a distance of 521.07 feet; thence south 69°21'42" east a distance of 963.53 feet; thence north 87°37'09" east a distance of 470.73 feet; thence south 75°09'24" east a distance of 662.91 feet; thence south 58°55'09" east a distance of 358.49 feet; thence north 47°52'15" east a distance of 628.57 feet; thence north 30°10'05" east a distance of 435.77 feet to the north line of said Section; thence north 89°26'00" east along said north line a distance of 1072.76 feet to the true point of beginning of Line "A"; thence south 05°41'23" west a distance of 1053.06 feet; thence south 37°40'05" west a distance of 1589.65 feet; thence south 68°35'31" west a distance of 1361.82 feet; thence north 29°14'23" west a distance of 665.42 feet; thence south 65°23'29" west a distance of 1657.40 feet; thence south 87°41'13" west a distance of 580.65 feet to the west quarter corner of said Section and the terminus of said Line "A".

ALSO that portion of the north half of Section 33, Township 12 North, Range 6 East, W.M., Lewis County, Washington, lying northerly of the following described property: That portion of the north half of Section 33, Township 12 North, Range 6 East, W.M., Lewis County Washington, described as follows: BEGINNING at the northwest corner of said Section; thence south 01°11'41" west a distance of 276.50 feet to a point on the west line of said Section; thence south 04°45'45" east along said west line a distance of 344.18 feet to the True Point of Beginning; thence north 35°39'51" east a distance of 597.29 feet; thence north 84°34'31" east a distance of 521.07 feet; thence south 69°21'42" east a distance of 963.53 feet; thence north 87°37'09" east a distance of 470.73 feet; thence south 75°09'24" east a distance of 662.91 feet; thence south 58°55'09" east a distance of 358.49 feet; thence north 47°52'15" east a distance of 628.57 feet; thence north 30°10'05" east a distance of 435.77 feet to the north line of said Section; thence north 89°26'00" east along said north line a distance of 1072.76 feet; thence south 05°41'23" west a distance of 1053.06 feet; thence south 37°40'05" west a distance of 1589.65 feet; thence south 68°35'31" west a distance of 1361.82 feet; thence north 29°14'23" west a distance of 665.42 feet; thence south 65°23'29" west a distance of 1657.40 feet; thence south 87°41'13" west a distance of 580.65 feet to the west one quarter corner of said Section; thence north 04°45'45" west along the west line a distance of 2275.51 feet to the True Point of Beginning.

EXCEPTING THEREFROM the Cowlitz River.

TOGETHER WITH those easement rights as disclosed by that document recorded June 17, 1968, under Auditor's File No. 724363.

ALSO TOGETHER WITH those easement rights as disclosed by those documents recorded August 3, 2010, under Auditor's File Nos. 3348832 and 3348833.

PARCEL 23

The southwest quarter of the northeast quarter and Government Lot 6 (fractional southwest quarter of the northwest quarter) and the south half of Government Lot 7 (fractional southeast quarter of the northwest quarter) and that portion of the east half of Government Lot 2 (fractional northwest quarter of the northeast quarter), lying south of Bennett County Road, all in Section 24, Township 12 North, Range 7 East, W.M., Lewis County, Washington.

ALSO that portion of Government Lot 5 (fractional northwest quarter of the northwest quarter) in Section 24, Township 12 North, Range 7 East, W.M., Lewis County, Washington, described as follows:
BEGINNING at the northwest corner of said Section 24; thence south 1020 feet; thence north 63° east 630 feet; thence north 17° east 225 feet; thence north 43° east to the north line of the said Section; thence west along the Section line to the point of beginning.

PARCEL 24

The northeast quarter of the southeast quarter of Section 31, Township 13 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 25

The south half of Section 34, Township 13 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 26

South half of the northwest quarter; the east half of the southeast quarter; the east half of the west half of the southeast quarter all in Section 35, Township 13 North, Range 3 East, W.M., Lewis County, Washington.

PARCEL 27

The south half of the southwest quarter of Section 24, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

ALSO the northeast quarter of Section 24, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT the southwest quarter of the northeast quarter.

TOGETHER WITH those easement rights as disclosed by those documents recorded August 4, 2010, under Auditor's File Nos. 3348881, and December 2, 2008, under Auditor's File No. 3317340.

PARCEL 28

That portion of Section 25, Township 13 North, Range 4 East, W.M., Lewis County, Washington, lying westerly of the North Fork of the Tilton River.

TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.

PARCEL 29A

The north half of the south half of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT the east half of the northeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

ALSO, the south half of the southeast quarter and the southeast quarter of the southwest quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT the east half of the southeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.

PARCEL 29B

The east half of the northeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

ALSO, the east half of the southeast quarter of the southeast quarter of Section 26, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.

PARCEL 30

West half of Section 31, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

PARCEL 31

The northwest quarter of the northeast quarter of Section 35, Township 13 North, Range 4 East, W.M., Lewis County, Washington.

EXCEPT State Road No. 7, as described in Warranty Deed recorded November 9, 1971, under Auditor's File No. 760141.

ALSO that part of the west half of the northeast quarter of Section 35, Township 13 North, Range 4 East, W.M., Lewis County, Washington, described as follows:

BEGINNING at Highway Engineer's Station (hereinafter referred to as HES) 80+00 on the SR 7 Line Survey of SR 7, Morton to Elbe; thence southeasterly to a point opposite said HES and 125 feet southeasterly therefrom; thence northeasterly parallel with said SR 7 Line Survey to a point opposite HES 90+00 thereon; thence northeasterly to a point opposite HES 92+00 on said SR 7 Line Survey and 140 feet southeasterly therefrom; thence northeasterly (along a line drawn from said point opposite HES 92+00 and 140 feet southeasterly therefrom northeasterly to a point opposite HES 97+00 on said SR 7 Line Survey and 110 feet southeasterly therefrom) to a point on the east line of said west half of the northeast quarter; thence northerly along said east line to a point on a line drawn parallel with and 190 feet northwesterly, when measured radially, from said SR 7 Line Survey; thence southwesterly along said parallel line to a point opposite HES 89+00 thereon; thence southwesterly to a point opposite HES 88+00 on said SR 7 Line Survey and 100 feet northwesterly therefrom; thence southwesterly parallel with said SR 7 Line Survey to a point opposite said HES 80+00 thereon; thence southeasterly to the point of beginning.

TOGETHER WITH those easement rights as disclosed by that document recorded December 2, 2008, under Auditor's File No. 3317340.

EXHIBIT B

RIGHTS AND RESERVATIONS ON PREMISES

1. Upon the City of Tacoma's approval of assignments or replacements for the benefit of ORM and Metropolitan Life Insurance Company, Road Use Permit No. 1641 dated July 23, 2001, between the City of Tacoma, Department of Public Utilities, Light Division, as Permitter, and Rayonier Timberlands Operating Company, L.P., as Permittee, recorded under Lewis County Auditor's File No. 3120122, as assigned to ORM (prior to City of Tacoma approval of such assignment) by that certain Assignment and Assumption Agreement dated August 11, 2010.

2. Master Stumpage Agreement dated June 7, 2010, between ORM Timber Operating Company II, LLC ("ORM") and Tillamook Log Company, a Delaware limited liability company ("Tillamook"), in which ORM grants to Tillamook rights to sever and remove timber, and Tillamook agrees to pay ORM a stumpage price agreed to by both parties.

Exhibit B-1

SCHEDULE I

ABBREVIATED LEGAL DESCRIPTIONS

Portions of Sections 4, 8, 9 and 17, Township 11 North, Range 5 East, W.M.;

Portions of Government Lots 1-4, 8 and 9 in Section 4, and all of Section 14, Township 11 North, Range 6 East, W.M.;

Portions of Sections 1, 3, 4, 5, 8, 9, 10, 11, 12, 13 and 14, and Government Lots 1 and 2 of Section 6, Township 12 North, Range 3 East, W.M.;

Government Lots 1, 2 and 3 and the SW 1/4 of NW1/4 in Section 6, and portion of Section 32, Township 12 North, Range 4 East, W.M.;

Portions of Section 33, Township 12 North, Range 6 East, W.M.;

Portions of Government Lots 2, 5, 6 and 7 in Section 24, Township 12 North, Range 7 East, W.M.;

Portions of Sections 31, 34 and 35, Township 13 North, Range 3 East, W.M.;

Portions of Sections 24, 25, 26, 31 and 35, Township 13 North, Range 4 East, W.M.;

All situated in Lewis County, Washington.

SCHEDULE II

TAX PARCEL NUMBERS

026830-000-000 (TCA 739)
026892-000-000 (TCA 739)
026912-000-000 (TCA 739)
027015-000-000 (TCA 739)
027248-000-000 (TCA 741F)
027264-003-000 (TCA 741F)
027427-000-000 (TCA 741F)
029010-000-000 (TCA 260)
029016-000-000 (TCA 260)
029018-000-000 (TCA 260)
029019-000-000 (TCA 260)
029040-000-000 (TCA 219F)
029056-001-000 (TCA 219F)
029071-000-000 (TCA 219F)
029078-002-000 (TCA 219F)
029089-001-000 (TCA 219F)
029091-000-000 (TCA 219F)
029137-000-000 (TCA 219F)
029162-000-000 (TCA 219F)
029178-000-000 (TCA 219F)
029192-001-000 (TCA 260)
029192-002-000 (TCA 219F)
029216-000-000 (TCA 260)
029230-000-000 (TCA 260)
029243-000-000 (TCA 219F)
029819-000-000 (TCA 260)
029824-000-000 (TCA 260)
030256-000-000 (TCA 219F)
030257-000-000 (TCA 219F)
031436-002-000 (TCA 741F)
031437-002-000 (TCA 741F)
031957-001-000 (TCA 741F)
031959-000-000 (TCA 741F)
031965-002-000 (TCA 741F)
033864-000-000 (TCA 219F)
033906-000-000 (TCA 260)
033913-000-000 (TCA 260)
033921-000-000 (TCA 260)
034015-000-000 (TCA 250)
034019-000-000 (TCA 250)
034024-001-001 (TCA 260F)
034025-000-000 (TCA 260F)
034026-000-000 (TCA 260F)
034028-000-000 (TCA 260F)
034032-000-000 (TCA 260F)
034042-000-000 (TCA 250)
034046-002-000 (TCA 250)
034046-003-000 (TCA 250)
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**POPE RESOURCES
INCENTIVE COMPENSATION PROGRAM SUMMARY
Revised February 2011**

GENERAL PROGRAM INFORMATION

In 2010 Pope Resources (“POPE”) implemented a new incentive compensation program (the “Program”) to reward selected management employees who provide services to POPE and certain related entities for performance that builds long-term unitholder value. While POPE had a previous incentive compensation program that was also focused on building long-term unitholder value, this new Program improves both transparency and alignment with POPE’s unitholders, while simplifying the administration of the Program.

POPE’s Managing General Partner, Pope MGP, Inc. (the “General Partner”), intends that the Program be continuing and permanent for participants but can suspend and or terminate the Program at any time, as long as previously earned awards are not forfeited. The Human Resources Committee of the Board of Directors of the General Partner (the “HR Committee”) will act as the manager of the Program and, as such, has the authority, in its discretion, to determine all matters relating to Awards to be granted hereunder. With respect to the Program, the HR Committee has the sole authority to interpret its provisions and any applicable rule or regulation. The HR Committee’s interpretation shall be conclusive and binding on all interested parties. It is anticipated that the HR Committee will present Awards to participants in individualized annual letters that spell out POPE’s obligations and participant’s rights under the Award. Subsequent to the grant of any Award, however, the HR Committee may not unilaterally modify any of a participant’s rights under previously tendered Award letters, except as spelled out in the Award letter.

The Program has two components – the Performance Restricted Unit (“PRU”) plan and the Long-Term Incentive Plan (“LTIP”). Both components have a long-term emphasis, with the PRU plan focused on annual decision making and performance, and the LTIP focused on 3-year performance of POPE’s publicly traded units relative to a group of peer companies to be determined at the beginning of each plan cycle. The Program was developed after considerable deliberation by the HR Committee and its compensation consultant. This Program is unusual in its exclusive emphasis on long-term decision making. The HR Committee believes this focus is appropriate for the nature of POPE’s assets and for strengthening the alignment with unitholders. Each of these two Program components is described in more detail below. Participants in the Program may obtain additional information about the Program from either POPE’s CEO or CFO.

PERFORMANCE RESTRICTED UNIT PLAN (“PRU”)

Key Design Features of PRU

- The sum of target awards for participants will form a target award pool with the initial target awards (starting in 2010) set at:
 - m 6,000 PRU’s for the CEO
 - m 20,000 PRU’s for all other plan participants combined
 - m The pool may be adjusted upward or downward if participants move in or out of the plan during the year

- PRU targets will generally be held constant over time, and recalibrated only infrequently based on significant capital or talent market changes
- Most participants will earn 100% of PRU targets most years, however, participants will earn:
 - m 0% when a notable negative situation occurs due to either:
 - Poor decisions and/or performance which leave POPE vulnerable to erosion of long-term value (internal factors), or
 - Financial challenges, despite good decisions, that put POPE in a vulnerable position (external factors)
 - m Up to 200% only when exceptional value has been added, which is directly attributable to game-changing ideas generated and/or implemented by an individual or group of individuals

Mechanics of the PRU

- Immediately following the end of each year:
 - m The HR Committee will determine:
 - The size of the PRU pool based on their assessment of the quality of decision-making and performance for the year
 - If there are any game changer events that merit a special award for either individuals or groups and, if so, decide who to make awards to and in what amount and form (up to 1x each individual's target PRU grant paid either in POPE units or cash)
 - m Each participant's award is converted into a value based on a 60-trading-day (ending at December 31) average POPE unit price with actual award values fluctuating from year to year with the unit price
- Some participants will receive their payout entirely in POPE restricted units, some entirely in cash and others a blend of the two with the mix predetermined by participant position
- PRUs that are paid in POPE units will vest 25% per year over 4 years
- For PRUs paid in POPE units, a grant agreement executed by POPE and the participant will set forth the terms and conditions of vesting

Specific drivers of PRU grants by business unit

The determination of PRU grants to individuals within each business unit will reference different metrics for gauging performance across POPE's business lines. The following is a summary of those key metrics grouped by business unit:

Corporate Increase in net asset value, debt-to-total-capital ratio, working capital optimization, growth in distributions, profit, and free cash flow.

Fee Timber Allowable cut, stumpage realizations (\$ per MBF), cost/MBF harvested (harvest, haul and other), SFI audit results, and segment free cash flow.

TM&C Total committed (and not placed) capital at end of year, capital placed during year, cumulative assets under management, IRR of funds, and operating income for segment.

Real Estate Estimated impact of entitlements and/or land improvements on market value, sales price as a percent of book value, and segment free cash flow.

Participants in the PRU

Participants in the PRU include the following: CEO and direct management reports, Tree Farm Managers, Acquisitions Manager, Planning Manager, Investment Analyst, VP OPG, Gig Harbor and Port Gamble Project Managers, Port Gamble Property Manager, Controller, Financial Reporting Manager, and IT Manager. As titles and/or job descriptions change, this list of participants may be modified by the HR Committee.

3-YEAR CASH LONG-TERM INCENTIVE PLAN (“LTIP”)

Key Design Features of the LTIP

- POPE’s total shareholder return (TSR) is calculated for rolling 3-year increments starting with the period 2008 – 2010 and each succeeding year the TSR for POPE is calculated for the next 3-year period (2009 - 2011, 2010 – 2012, et seq.)
- Essentially, TSR is a computation that measures unit price appreciation over the relevant return period (in this case, three years) and factors in unitholder distributions as an additional component of return
- The beginning and end-of-period unit price used to calculate POPE’s TSR is a 60-trading-day average unit price as of each of those dates
- POPE’s TSR is then compared to the TSR’s of a group of “peer” companies, identified at the beginning of each performance cycle, for the same period, each calculated in the same way as POPE, using a 60-trading-day average share price as of the beginning and end of the period
- The peer companies for the 2008-10 2009-11 and 2010-12 periods (with trading symbols so indicated) include a mix of timber REITs, other forest products, real estate, agriculture, and metals & mining as detailed below:

Forest Products	Real Estate	Agriculture	Metals & Mining
Deltic (DEL)	Amer. Realty Inv. (ARL)	Alico (ALCO)	China Direct (CDII)
Plum Creek (PCL)	Amer. Spectrum (AQQ)	Griffin Land (GRIF)	Jaguar Mining (JAG)
Potlatch (PCH)	Avatar Holdings (AVTR)	Limoneira (LMNR)	Royal Gold (RGLD)
Rayonier (RYN)	EastGroup Properties (EGP)		
St. Joe (JOE)	First Potomac (FPO)		
Weyerhaeuser (WY)	InterGroup Corp. (INTG)		
	Maui Land & Pineapple (MLP)		
	Monmouth RE Investment (MNR)		
	NTS Realty (NLP)		
	Tejon Ranch (TRC)		
	Thomas Properties Group (TPGI)		

- POPE’s TSR is expressed as a percentile of the range of TSRs within the other peer companies with “target performance level” pegged at the 50th percentile
- At target performance (50th percentile) the LTIP award payout is 100% of target
- Maximum LTIP award payout of 200% of target for any single 3-year performance period is reached if POPE’s relative TSR is at the 80th percentile or higher
- Below the 20th percentile, there is no LTIP award payout
- If POPE’s relative TSR ranking vs. the peer group is between the 20th and 80th percentiles, the award payout is derived by interpolation between discrete points on the 0-200% of target payout
- The target LTIP award for each year is expressed in a cash amount that varies by participant
- Awards, if performance warrants, will be paid out in cash early in the year following the close of each 3-year performance cycle
- Award levels may be altered by +/- 20% at the discretion of the HR Committee

Participants in the LTIP

Participation in the LTIP is comprised of the CEO and his direct management reports.

PARTICIPANTS ENTERING AND EXITING THE PRU AND THE LTIP

The following table outlines the treatment for varying entries and exits to the incentive plans.

Situation	PRU ⁽¹⁾	LTIP
General conditions for awards	Participant needs to be employed by POPE through the last day of the calendar year and be an employee in good standing in order to receive an award (except as provided below)	Participant needs to be employed by POPE through the last day of the performance cycle and be an employee in good standing in order to receive an award (except as provided below)
New hire	- If person joins prior to September 30, participant receives a pro-rated annual PRU award opportunity - If person joins after September 30, participant receives PRU award opportunity when next year begins	- If person joins prior to September 30, participant receives a pro-rated award opportunity for percentage of year employed for current cycle - If person joins after September 30, participant will receive an award opportunity for cycle which begins in following year ⁽²⁾
Promotion into plan	Same as new hire	Same as new hire
Demotion out of plan	HR Committee may make a downward adjustment to annual PRU award on a subjective basis at year-end	Participant's cash opportunity is pro-rated for time in eligible position
Termination for normal retirement	PRU award at end of year is pro-rated for time served, with any PRU grant delivered in units vesting immediately upon grant	Participant's cash opportunity is pro-rated for time in performance cycle
Voluntary termination	Participant forfeits PRU award opportunity	Participant forfeits cash opportunity

Involuntary termination for cause (including non-performance)	Participant forfeits PRU award opportunity	Participant forfeits cash opportunity
Change in control (CIC)	<ul style="list-style-type: none"> - No change if plan is continued and participant is not terminated within one year of the CIC - If plan is discontinued and/or if participant is terminated within one year of the CIC, the participant earns target PRU award and immediately vests in all outstanding PRU grants - No gross ups 	<ul style="list-style-type: none"> - No change if plan is continued and participant is not terminated within one year of the CIC - If plan is discontinued and/or if participant is terminated within one year of the CIC, the participant is paid cash award at accrued performance level at time of termination, prorated for length of cycle completed - No gross ups
Leave of absence	PRU grant can be prorated for time on leave during each year at discretion of HR Committee or CEO	Participant's cash opportunity is prorated for time on leave during cycle, as long as participant is in cycle for at least two of the three years; otherwise forfeited
Death	Prorated PRU award is paid to estate at time of death, based on most recent quarter-end unit price	Prorated cash award is paid to estate at time of death, based on accrued relative TSR performance through most recently completed quarter
Termination due to permanent disability	<ul style="list-style-type: none"> -Prorated PRU award paid based on year-end unit price - Payout occurs at normal time at end of year 	<ul style="list-style-type: none"> -Participant's cash opportunity is prorated for time served during cycle - Payout occurs at normal time at end of cycle

- (1) Once PRUs are granted, any grants of restricted units will vest 25% per year on the anniversary date of the grant
- (2) In select situation, RUs may be granted as part of recruitment package to recognize that participant will only be eligible for performance cycles that begin in the year of hire

FEDERAL INCOME TAX CONSEQUENCES

As discussed above, Awards paid under the Program may be in the form of cash and/or POPE units. Cash awards are taxable upon receipt and the participant's employer will withhold the appropriate taxes from any cash compensation so due.

Grants of POPE units as part of the PRU will be subject to a vesting schedule and, as such, the tax consequences are delayed until the units vest, at which time the fair market value of the vested units (determined at the time of vesting) constitutes taxable income to the recipient. The HR Committee will institute procedures to ensure that sufficient funds are available for POPE (or the participant's employer) to satisfy its tax withholding obligations.

Recipients of unit grants will receive distributions paid by POPE in connection with the units. Distributions paid in connection with unvested units will be paid to the participant and treated as compensation, taxed at ordinary income rates and subject to income tax withholding. When the participant satisfies the applicable vesting schedule, from that point forward distributions in connection with the units will have the same treatment as that afforded to other limited partners receiving distributions.

CLAWBACKS

The HR Committee acknowledges that POPE's incentive compensation program will be subject to the clawback provisions of the recently passed Dodd-Frank Act. In the meantime, the HR Committee reserves the right and option to require the return of incentive compensation paid pursuant to this program in any instances of fraudulent employee misconduct or a restatement of the company financial reports affecting the calculation of the payout amounts.

Subsidiary	State of Formation
ORM, Inc.	Washington
Olympic Resource Management LLC	Washington
Olympic Property Group I LLC	Washington
OPG Properties LLC	Washington
ORM Timber Fund I, LP	Delaware
ORM Timber Fund II, Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Pope Resources, A Delaware Limited Partnership:

We consent to the incorporation by reference in the registration statement No. 333-128245 on Form S-8 of Pope Resources, A Delaware Limited Partnership, of our reports dated March 9, 2011, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows, for each of the years in the three-year period ended December 31, 2010, and the related consolidated financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010, annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership.

/s/ KPMG LLP

Seattle, Washington
March 9, 2011

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David L. Nunes, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2011

/s/ David L. Nunes
David L. Nunes
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2011

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Nunes, 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/ David L. Nunes

David L. Nunes
Chief Executive Officer

March 9, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, 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/ Thomas M. Ringo

Thomas M. Ringo
Chief Financial Officer

March 9, 2011