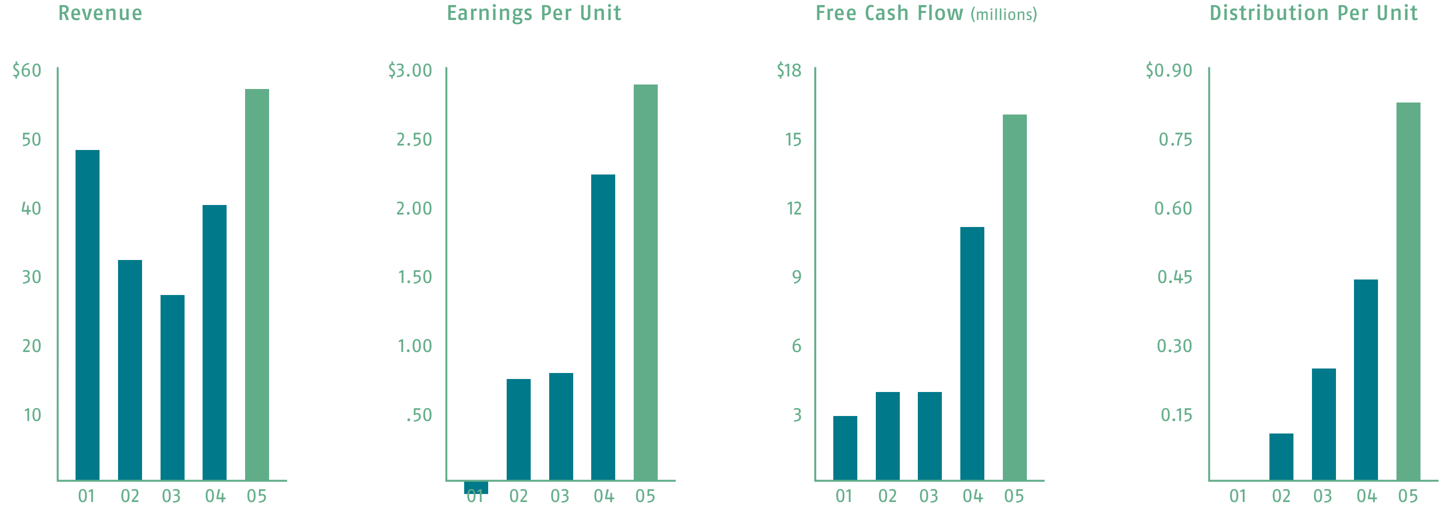

Pope Resources
2005

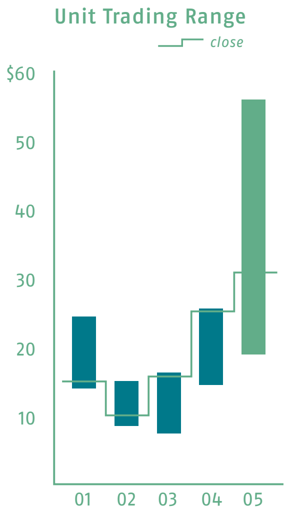
Financial Review



Financial Highlights

(Thousands, except per unit data)

Revenue	**2005**	2004	2003
Fee Timber	$44,424	$33,571	$22,916
Timberland Management & Consulting	7,764	1,601	2,386
Real Estate	4,818	4,476	1,734
Total Revenue	**$57,006**	$39,648	$27,036
Income/(loss) from Operations			
Fee Timber	$16,320	$15,126	$9,669
Timberland Management & Consulting	3,540	(598)	272
Real Estate	1,270	1,586	(476)
Administrative	(3,651)	(2,986)	(2,842)
Total Income/(loss) from Operations	**$17,479**	$13,128	$6,623
Net Income	$13,684	$10,176	$3,528
Net Income per Fully Diluted Unit	$2.88	$2.22	$0.78
Earnings Before Interest, Depreciation, Depletion, and Amortization (EBITDDA)	$28,410	$18,880	$10,122
EBITDDA per Fully Diluted Unit	$5.98	$4.11	$2.24
Free Cash Flow	$16,731	$10,898	$3,595
Free Cash Flow per Fully Diluted Unit	$3.52	$2.37	$0.80
Unit price at Year-End	$31.02	$25.00	$15.43
Distribution per Unit	$0.80	$0.44	$0.24
Units Outstanding	4,646	4,539	4,518
Total Assets	$106,358	$94,868	$86,308
Long-Term Debt, Including Current Portion	$33,883	$35,766	$37,745
Partners' Capital	$66,405	$54,533	$46,036
Partners' Capital per Unit	$14.29	$12.01	$10.19
Fee Timber Owned (thousand acres)	115	115	115
Fee Timber Harvest (MMBF)	74.2	60.3	45.0



To Our Unitholders

Since Pope Resources is a small company with little to no analyst coverage, our annual report is the primary vehicle to communicate with both existing and prospective investors. I appreciate the opportunity to share my perspective on the past year, talk about how we run the company, and describe our strategies for adding value to the 118,000-acre portfolio of timberland and real estate properties that is Pope Resources.

Recognizing that this letter is not reaching you until we are well into the following year, I will try to keep the 2005 review to a pretty high level. In a year in which all three of our operating segments had solid performances, Pope Resources enjoyed one of the strongest years in its 20-year history with a record $57 million in revenue and net income of $13.7 million, or $2.88 per fully diluted unit. These results translated to a strong balance sheet and healthy cash position at the end of the year, which I believe will allow us to grow the company and to increase returns for unitholders.

> "Whether we are growing genetically improved Douglas-fir seedlings or securing entitlements for residential and commercial real estate activities, each of our segments works to add value to our land base and "harvest" that value at the opportune time."

2005 Year in Review

Our largest segment, Fee Timber, had another strong year, with revenue up 32% to $44.4 million. This revenue growth was fueled by harvest volume that grew 23% to 74 million board feet (MMBF) and a 9% lift in log prices. The 2005 harvest level increase was a function of two acquisitions made during 2004, which contributed an incremental 28 MMBF of harvest during 2005. Operating income, which grew 8% to $16.3 million, did not parallel revenue growth in 2005 because 17 MMBF of this incremental harvest volume was from an acquisition with a separate, higher depletion cost pool. However, cash flow, as expressed by EBITDDA, mirrored the growth in revenue from this segment by increasing 33% to $27.0 million in 2005.

Behind a major new third-party client, for whom we are providing timberland management, forestry consulting, and property disposition services, our Timberland Management & Consulting segment enjoyed a nearly five-fold increase in revenue to $7.8 million in 2005, and posted operating income of $3.5 million compared to a modest operating loss in 2004.

Our Real Estate segment, based largely on the strength of a new rural residential land sale program that was able to capitalize on strong markets, generated $4.8 million in revenue, an 8% increase over 2004. While the $1.3 million of operating income in 2005 was lower relative to 2004 because of a higher weighted average cost of land sold, we were encouraged by the progress made in this new land sale program.

Our general and administrative costs increased 22% to $3.7 million in 2005, driven largely by increased costs associated with higher Sarbanes-Oxley compliance and the implementation of Section 404 internal control measures. While we acknowledge this is a significant increase in overhead, our general and administrative costs, as a percentage of total revenue, declined to 6.4%, the lowest level in the partnership's history.

From an overall financial perspective, we ended the year in a very strong position. Free cash flow, which measures how much money we have to either distribute to unitholders or grow the company, after accounting for capital expenditures and servicing both principal and interest payments on our debt, grew to a record $16.7 million. We consider this the most important barometer of our ability to grow the company and unitholder returns. With cash and short-term investments of $18 million at the end of 2005, we expect to comfortably meet our substantial capital expenditure plans for 2006, which entail completion of infrastructure investments in our Gig Harbor and Bremerton projects as well as meeting our timber fund co-investment commitment. We also enjoyed another strong year of unit price performance, registering a 24% increase in the value of our units and a 27% total unitholder return when factoring in the $0.80 per unit distribution paid in 2005.

For a more detailed description of our 2005 results, I encourage readers to review Management's Discussion and Analysis of Financial Condition and Results of Operations from our SEC Form 10-K, which is included in this annual report.

Strategic Direction Focused on Growing Timberland Asset Base

While most people think of Pope Resources as a timber company and some others see us as a Real Estate company, we are fundamentally a land company. Whether we are growing genetically improved Douglas-fir seedlings or securing entitlements for residential and commercial real estate activities, each of our segments works to add value to our land base and "harvest" that value at the opportune time. How we use the cash generated from the harvest of timber and sale of land is at the core of adding value. While we distribute some of that cash to unitholders in the form of tax-free distributions (distributions from a master limited partnership (MLP) such as Pope Resources are treated as a tax-free return of capital), most is retained for growing our timberland asset base. Our flexibility to retain cash flow for reinvestment is a key difference between our MLP structure and timber REITs.

"We are delighted to have closed on our first timber fund in 2005, a $62 million private equity fund specializing in commercial timberland investments in the Northwest."

Fee Timber Strategies

Long-Term Sustainable Harvest and Cash Flows

Our Fee Timber segment, with its 115,000 acres of high-quality commercial timberland in western Washington, is our main "engine" for generating value and cash flow through sustainable long-term harvest levels. Our vision is to add value to this asset base through advanced silvicultural treatments, grow it in absolute terms to gain further economies of scale, and to balance the age-class distribution through active portfolio management. Over the past five years, we made two types of additions to this asset base. In 2001, we acquired 40,000 acres in southwest Washington that filled a "hole" in our age-class distribution. This acquisition, referred to as the Columbia tree farm, had a significant component of 25 to 44 year old age classes, of which we had relatively little on our Hood Canal tree farm. When combining the two tree farms, we were able to increase our sustainable harvest from 27 MMBF to 45 MMBF.

In 2004, at a cost of $21 million, we made two opportunistic acquisitions totaling approximately 4,700 acres that, while not addressing age-class needs, were nevertheless beneficial to our overall asset base. The addition of these lands, along with other silvicultural improvements and continued refinements to our timber inventory system, allowed us to increase our long-term sustainable harvest level from 45 MMBF to 53 MMBF beginning in 2006. These properties, which contained 47 MMBF of merchantable timber volume, also allowed us to increase our short-term harvest level for the years 2004 through 2006. This incremental harvest volume, along with some residual higher-and-better-use land sales, will end up paying for nearly all of the acquisition cost of these two properties, leaving us with approximately 3,800 net acres of productive timberland containing a residual 3 MMBF of merchantable timber at a very low net cost.

We will be working to achieve our vision in this segment by leveraging our internal cash flow generation with outside capital raised by our new timber fund business to add scale to our operations, diversify Pope Resources' timberland base, increase Fee Timber segment cash flows, and generate service fee income in our third-party Timberland Management & Consulting segment.

Timberland Management & Consulting Strategies

Leveraging Our Capabilities

Our Timberland Management & Consulting segment, which operates under the name Olympic Resource Management (ORM), was created to capitalize on our timberland management capabilities by offering those services to other landowners. In doing so, this adds to our economies of scale, generates service fee income, and allows us to attract outstanding talent over and above the level either our own assets or those of our clients could justify alone. Since we launched ORM in 1997, we have managed over 1.5 million acres stretching from British Columbia to northern California for three main clients.

ORM Timber Fund I, LP Closes in 2005

We are delighted to have closed on our first timber fund in 2005, a $62 million private equity fund specializing in commercial timberland investments in the Northwest. The marketing of this fund took an extra year to complete, but we were rewarded with the fund being oversubscribed above our $50 million target. As testament to the importance of this initiative to the company's growth, and in recognition of the strong cash flows being generated by all three of our segments, Pope Resources increased its co-investment from 10% to 20% of the fund, or $12 million, which we expect to place over the next 12 to 18 months.

I would be remiss if I did not mention the risks associated with our timber fund strategy, the largest of which is the ability to place the capital while still generating competitive investment returns. The timberland investment management community is somewhat a victim of its own success in that many new large institutional investors are trying to get into the asset class in order to diversify their portfolios. The asset class is also attracting new sources of capital that often have lower investment return requirements. As a result, timberland investment management organizations (TIMOs) are currently struggling with an overhang of capital relative to the quantity of properties for sale. Recent transactions reflect this capital overhang with elevated purchase prices that translate into lower investment returns for the buyers.

Moreover, with the large quantity of investment capital trying to get into the asset class, we have seen more competition on some larger transactions than we have on smaller transactions, a phenomenon we've dubbed the "wholesale premium". We consciously set our fund size smaller and our acquisition strategy is targeted at timberland properties in the $10 to $20 million range in order to work around this market dynamic.

That said, it remains to be seen how successful this tactic will be as we fear some of our larger competitors may dip down and compete for smaller deals. However, we intend to maintain our disciplined acquisition approach, not only for the benefit of our third-party investors but also in serving our own interests as co-investors in the fund. In the end, the pace with which the timber fund capital is placed will determine the timing and size of subsequent fund offerings.

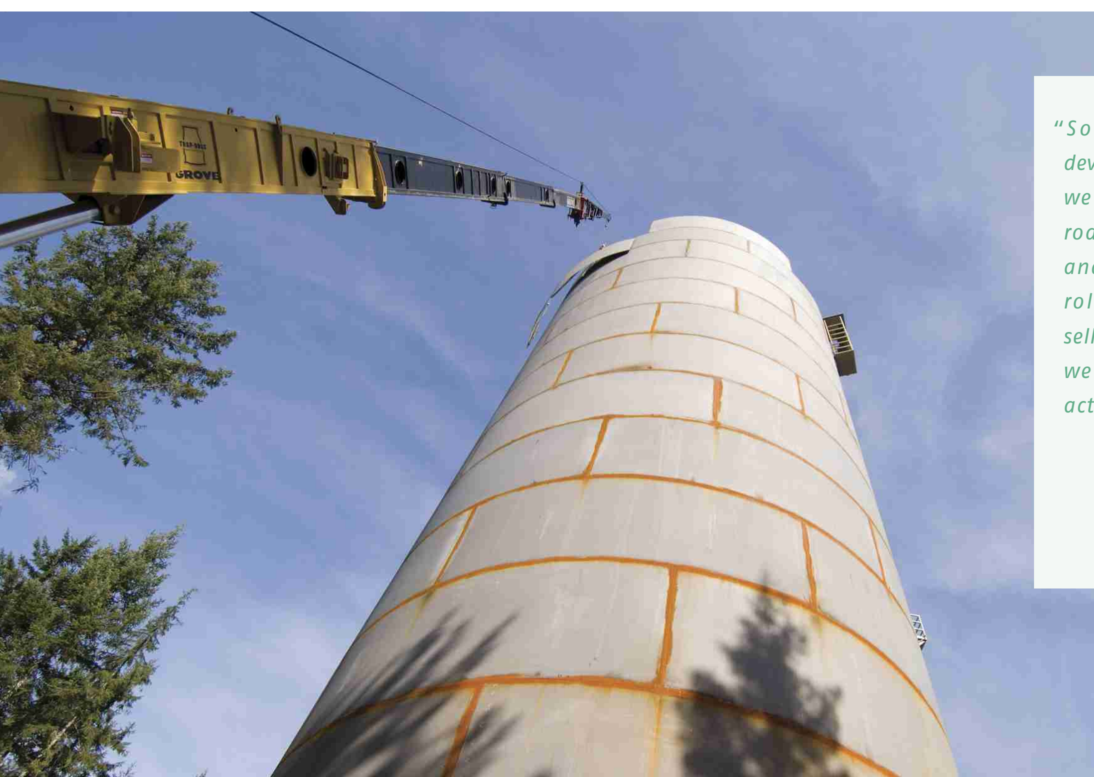
Cascade Timberlands Assignment Dominates 2005 Activities

In addition to our timber fund business, we also perform field forestry consulting work and on occasion take on assignments assisting lenders to distressed timberland companies. We are currently working on one such major assignment where we are providing timberland management, forestry consulting, and property disposition services for Cascade Timberlands, a client with 522,000 acres in Washington and Oregon that was formed out of the bankruptcy of Crown Pacific LP. To date, ORM has successfully sold 228,000 acres of the company's Washington holdings. We expect this assignment, which began in 2004, to conclude by the end of 2006 as the last properties are sold from this portfolio. This assignment, in addition to providing for a meaningful stream of earnings and cash flow that will be plowed back into the company as our timber fund co-investment, has also served as a bridging strategy to span the time it will take to get the timber fund business up and running.

Real Estate Strategies

Adding Value to Generate Growth Capital

Much of the timberland holdings contained in the 71,000-acre Hood Canal tree farm located in the west Puget Sound region are in the path of growing population pressure. As is common with many timberland companies, we have developed a real estate arm of the company to look for ways to add value to our properties as some of this land slowly converts from timberland to real estate use.



"Sometimes these [master development] plans dictate that we undertake the installation of road and utility infrastructure and at other times take on the role of master developer by selling to other developers when we have completed entitlement activities."

Based on years of experience, we believe we have the potential to add the most value to our land through early stage entitlement efforts, and have built our real estate organization around this strategy. Our entitlement efforts, which often take years to accomplish, have tended to focus on getting properties placed into Urban Growth Areas (UGAs) as defined by Washington State's Growth Management Act and changing zoning from lower density forestry use to higher density commercial or residential standards. For properties like Gig Harbor and Bremerton that have been successfully moved into UGAs, and properties on a trajectory to receive such designation like our Arborwood project in Kingston, our efforts then move to the creation of value adding master development plans. Sometimes these plans dictate that we undertake the installation of road and utility infrastructure and at other times take on the role of master developer by selling to other developers when we have completed entitlement activities.

Our efforts to accomplish major zoning changes in order to increase the value of our real estate portfolio, which usually take many years to complete, often employ a "win-win" approach of first listening to the community's needs and then crafting a solution that ensures that multiple stakeholders benefit. Examples of this approach are the sale of a portion of our Gig Harbor business park property to the YMCA of Pierce County and the sale of land near Kingston to form a regional heritage park. Both sales, in addition to realizing competitive market prices, also served to galvanize public support for our proposed zoning changes.

Rural Residential Lot Program Kicks into Gear

In recognition of the tightening inventory of rural residential lots in west Puget Sound, we began efforts two years ago to develop a larger pipeline of such properties. These consist of a mix of properties that have been in our Real Estate portfolio together with new properties transferred from our Fee Timber portfolio. Efforts have focused on modest entitlement work, improving road access, and bringing utilities to the properties. Part of our 2005 efforts to build this pipeline included the successful rezoning of 230 acres near Port Ludlow from 20-acre to 5-acre minimum-lot-size zoning, thus creating 35 new residential lots. Based on the extent of our current pipeline, we expect to sell approximately 200 to 300 acres of rural residential properties each year over the next several years.

Our Real Estate strategies are complementary to both our Fee Timber and Timberland Management & Consulting strategies by working to pull cash flow "harvests" forward in time, increase investment returns, and provide for new growth capital. For example, much of our rural residential lot program comes from lands where we would not expect to harvest timber for 15 or more years. In addition to pulling cash flow forward, capturing that value now helps to balance out our timber age-class distribution, which is heavily weighted to lands that are 15 to 29 years of age. Some of the 2005 rural residential lot sales were from the recent Quilcene acquisition. These sales have helped to improve the return on this investment and have contributed to recouping the acquisition cost during the initial two-year holding period. We expect that a portion of our timber fund properties will similarly benefit from these rural residential land sale strategies.

Tying it All Together

Linkage of the Three Segment Strategies

While most of our timberland competitors are larger than we are and thus enjoy greater operational economies of scale, I believe our smaller size allows us to be more nimble when it comes to capitalizing on value-adding opportunities. All things being equal, growing larger to gain additional economies of scale is preferable, but not necessarily the only thing that matters. We want to grow the company in absolute terms, but not by forsaking investment returns. We have consciously chosen to pursue a value adding strategy that patiently adds acres and timber volume to our existing land portfolio while opportunistically taking advantage of our timberland management and real estate development capabilities.

Our Timberland Management & Consulting segment strategies are not just about generating service fee income, but are also designed to continuously improve our management processes. To successfully compete for third-party timberland management assignments, our organization has to be both highly capable and cost-competitive. On a more subtle level, we feel that offering third-party services also helps to create more of an *external* focus within our organization, which we believe is critical to maintaining our competitiveness. Ultimately, we see our timber fund strategy, which is where our growth efforts are targeted, benefiting from this external focus. Our Cascade Timberlands assignment, in addition to generating meaningful growth capital, has also enhanced ORM's reputation in the industry while providing opportunities for our foresters and managers to broaden their experience.

The small size of Pope Resources affords us the ability to run our Real Estate segment in tandem with our larger timberland management operations, thus avoiding the "silo" mentality that can characterize larger organizations. We believe this allows us to more quickly capitalize on opportunities as they present themselves, such as with our rural residential lot sale program. Our timberland and real estate personnel work well together to maximize value and pull cash flow "harvests" forward by identifying parcels to place into this sale program. Our timber fund strategy also benefits when we can quickly assess those higher-and-better-use real estate components of timberland parcels we are contemplating acquiring for the fund. In sum, our Real Estate segment both provides growth capital and makes us more competitive.

Pope Resources and the Timber Asset Class

Alternative investments such as timber have attracted a growing amount of attention in the financial press over the last few years. As one of the few pure-play publicly traded timber equities, we are benefiting from this attention. Increasingly, this asset class is being recognized for its portfolio diversification value, based on long-term returns that exceed the S&P 500 as well as being negatively correlated with many other mainstream asset classes. In addition to these correlation attributes, biological growth covers a significant proportion of the investment return and thus helps to lower investment risk because the trees are always growing in volume and value. Combining these attributes, timber has been shown to lower portfolio risk

"We have consciously chosen to pursue a value adding strategy that patiently adds acres and timber volume to our existing land portfolio while opportunistically taking advantage of our timberland management and real estate development capabilities."

without sacrificing return, thus more and more investment managers are adding it to their portfolios. Timber also has been shown to be positively correlated with inflation, so in times of uncertainty regarding future inflationary pressures, timber is seen as an inflation hedge.

Comparing our MLP with Timber REITS and C-Corps

Within the universe of publicly traded companies that own timber, investors have three basic options: vertically integrated forest product companies (C-Corps), timber REITs, or Pope Resources as the last remaining MLP. Forest products companies are disadvantaged from a tax standpoint in that they do not enjoy capital gains tax treatment on their timber harvest income. They also represent more of a manufacturing investment and as such are less of a pure timber play. There are now three publicly traded timber REITs which, because of their high dividend payout requirement, enjoy the benefit of having relatively higher dividend yields and more appeal to large institutional capital sources. However, these same factors also tend to cause them to be more fully valued. These timber REITs also have most of their assets in other regions of the country where timberland returns have historically been lower. Pope Resources represents much more of a pure Pacific Northwest timber play specializing in growing Douglas-fir.

From a tax efficiency standpoint, our MLP vehicle is also slightly more advantageous than a timber REIT. Most of a timber REIT's income is typically taxed at the 15% capital gains rate, while our MLP enjoys greater tax efficiency by having large portions of our cost structure flow through as ordinary loss and thus lowering or eliminating the overall flow-through tax liability. For more information on the tax treatment of owning our units, please refer to our web site www.poperesources.com under the investor relations tab and consult your tax advisor.

Some investors are concerned that forest products and timberland equities will decline in value as interest rates are pushed higher and housing starts begin to decline as a result. While this potential certainly exists, I would argue that our three segments provide for a broader diversified base of earnings support, thus potentially mitigating some of this risk. Anticipated Real Estate sales over the next five years should also help to take pressure off the Fee Timber segment in terms of generating consistent earnings. With our current timberland management contract and anticipated growth of the timber fund business, our Timberland Management & Consulting segment should also help provide for a more stable overall income stream.

Distribution Policy

While we believe in retaining capital to grow the company, we also recognize that providing for a distribution to our unitholders is an important component of delivering unitholder value. We aim to grow our distribution rate over time while setting it at a level that we can maintain both in down markets and without incurring any incremental debt.

We revisit our distribution rate in the third quarter of each year and make changes based on our assessment of current growth initiatives, cash flow generation, and our view of future market conditions. We were delighted to be able to increase our distribution 67% to $0.25 per quarter in the third quarter of 2005, from $0.15 per quarter starting in the third quarter of 2004. We have also retained ample flexibility to increase our distribution rate in the future given the partnership's strong cash position and our relatively low 2005 payout ratio of 27%. At the year-end trading level of $31 per unit, our $0.25 quarterly distribution translates to a distribution yield of 3.2%. We recognize this is lower than the yield paid by timber REITs, but feel our growth initiatives and relatively more tax-efficient ownership structure will produce higher total unitholder returns over time. Since the end of 2002, we have generated, inclusive of distributions paid to unitholders, a total unitholder return of 227%, or 48% per year compounded over this three-year period.

In the early years of the partnership, our distribution policy was primarily guided by the principle of covering the flow-through tax liability for our unitholders, with cash distributions calibrated to offset this cost of unit ownership. However, since 1997 when the differential between the capital gains tax rate and the top marginal tax rate widened to approximately 20%, we have not generated any flow-through tax liability. This is expected to change in 2006 with anticipated real estate sales in Gig Harbor and Bremerton, which we anticipate will generate a meaningful flow-through tax liability and may influence our distribution policy.

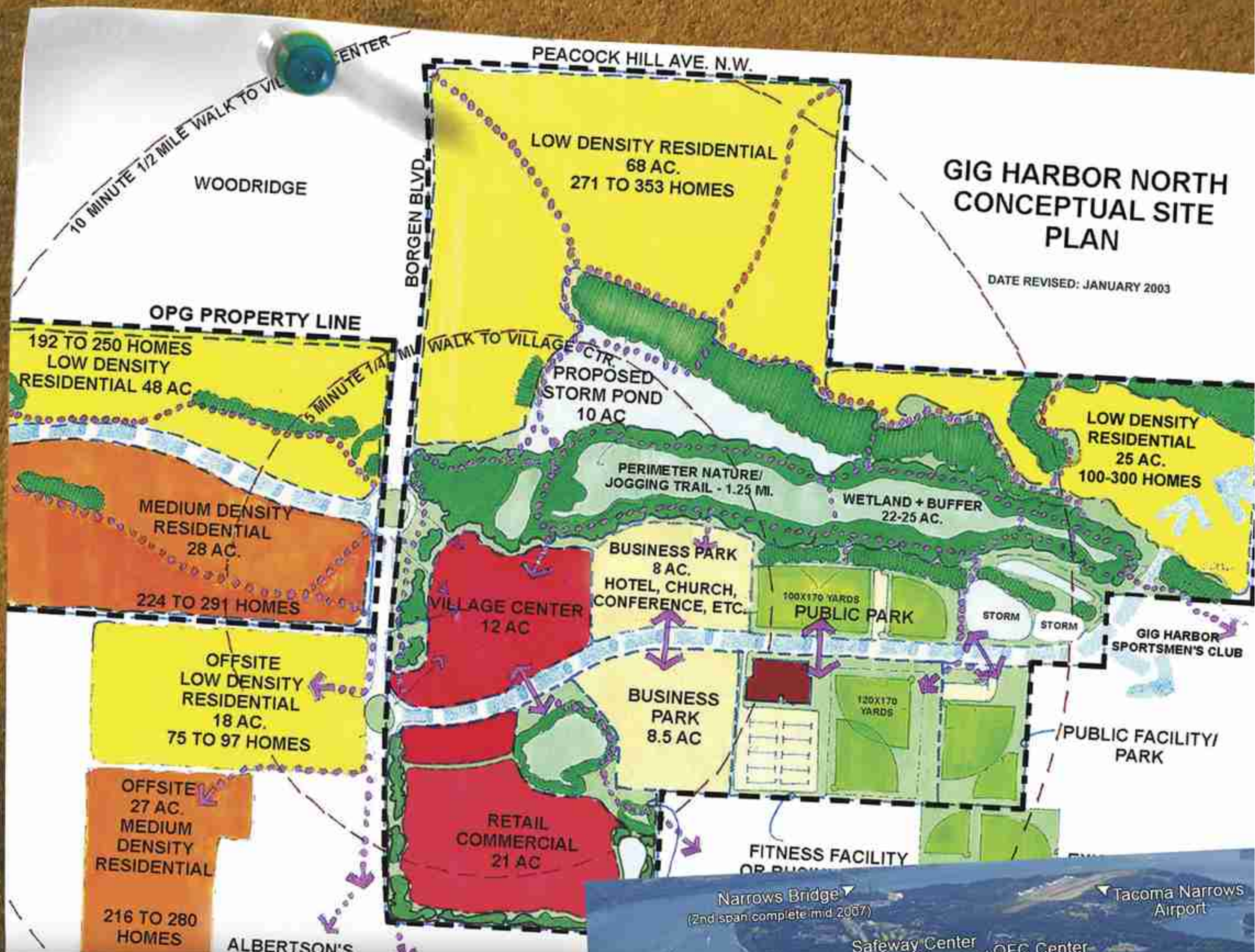
Our distribution policy may also be influenced by the success of our timber fund business. Rapid growth in this business will translate to higher levels of co-investment capital requirements and may impinge on our ability to increase the distribution rate. Alternatively, if we are unsuccessful in placing timber fund capital, there is a potential that the significant real estate cash flows that we expect to generate over the next few years will contribute to higher unitholder distributions in the future.

Reflecting on the Past and Pointing to the Future

As we reflect on the 20th anniversary of the spin-off of Pope Resources from Pope & Talbot in December of 1985, we are reminded of the long-term nature of the timber business. Most of the trees on company lands 20 years ago are still there today, and we are planting hundreds of thousands of new seedlings each year to support our sustainable harvest level in the future. It is also worth noting that for those investors who have stuck with Pope Resources, their patience has been rewarded. An investment of $10,000 made at the time of spin-off in 1985, assuming the re-investment of distributions, would be worth over $200,000 at the end of 2005, representing a compound annual growth rate of 16.2%. While we are proud of this strong historical performance, we are not resting on our laurels. We are entering an exciting period of growth for the company as we reap some substantial real estate "harvests" and work to reinvest those proceeds into growing our timberland asset base.

We will continue to communicate in as transparent a manner as possible to foster greater understanding of the partnership's growth strategies and assets. It is our conviction that executing on these strategies will enhance unitholder returns and further improve the liquidity of our units. As always, we welcome your feedback and thank you for your continued support of our vision, strategies, and team. I would also like to thank our outstanding employees for their dedication to our vision for Pope Resources.

David L. Nunes
President and CEO
March 31, 2006



Retail/Commercial Area Highlights:

Costco
Home Depot
Target
Starbucks

Building Community:
Homes, shopping, offices, walking paths,
YMCA, hospital

EASY ACCESS!!
SR16 Interchange,
14 miles to downtown Tacoma

TABLE OF CONTENTS

Note: This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect our management's estimates based on our current goals, in light of management's 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 "Risks and Uncertainties" below.

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"), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). Pope Resources 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. Operations in this segment consist of growing timber to be harvested as logs for sale to domestic and export 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 providing timberland-related services to third parties. These services may take the form of large-scale timberland management, forestry consulting, or acquisition and disposition services.

As of December 31, 2005, we owned nearly 115,000 acres of timberland in western Washington State plus nearly 3,000 acres of real estate held for sale or development. Our third-party services have historically been conducted in Washington, Oregon, and California.

Macroeconomic factors that have a significant bearing on our business include housing starts in the U.S. (and to a lesser degree in Japan); interest rates; and currency exchange rates – particularly those between the U.S. and Canada, Japan, and Europe. The first two of these factors reflect or influence the health of the U.S. housing market. Currency exchange rates influence the competitiveness of our primary product compared to logs that might be imported from Canada, Europe, or the Southern Hemisphere. Our export logs are sold to domestic intermediaries who then export the logs. A favorable US$/yen exchange rate can help these intermediaries compete in the Japanese market with logs that originate from Canada, Europe, or the Southern Hemisphere, thus increasing the price that we are able to realize from the sale of this export-quality log volume.

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 market factors so that they 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. Log markets will in turn be affected by what is happening in the lumber spot markets, but pricing shifts typically adjust monthly rather than daily. Log price volatility is also moderated because logs are used to produce products besides just lumber (especially pulp).

The market for timberland tends to be less volatile with pricing that lags 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 become stabilized in acquisition modeling. We watch the lumber market because activity there can presage log price changes. We are in the log market constantly 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.

Management's major opportunity and challenge is to grow our revenue base profitably. We have added almost 44,000 acres to our timberland and real estate portfolios over the last five years. 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.

Regarding our third-party timberland services, we entered into a management contract with Cascade Timberlands LLC ("Cascade") in January 2005 to manage that company's 522,000 acres of timberland in Washington and Oregon. Additionally, now that we have obtained commitments for the $61.8 million ORM Timber Fund I, LP we are seeking to add to our timberland ownership, albeit indirectly, through our 20% co-investment in the fund. Successful acquisitions by the fund will also result in additional management fees for the Timberland Management & Consulting segment.

Our consolidated revenue in 2005, 2004, and 2003, on a percentage basis by segment, is as follows:

Segment	**2005**	2004	2003
Fee Timber	**78%**	85%	85%
Timberland Management & Consulting	**14%**	4%	9%
Real Estate	**8%**	11%	6%

Further segment financial information is presented in Note 9 to the Partnership's Consolidated Financial Statements included with this report.

Outlook

Management plans to decrease harvest volume from 74.2 MMBF in 2005 to 58.1 MMBF in 2006. The 2006 harvest level anticipates another 7 MMBF of harvest from our 2004 acquisitions with the balance in line with our estimated sustainable harvest level of 52.5 MMBF. We also expect that log prices will soften modestly in 2006 from 2005 to reflect some cooling in U.S. housing markets. In contrast with the resultant decline in Fee Timber revenue due to softer log prices and lower harvests anticipated in 2006, our Real Estate segment expects to close several land sales in 2006 that will boost results compared to prior periods. In particular, we expect to close property sales in both our Gig Harbor and Bremerton development projects in 2006. Successful closings for these planned sales are contingent upon obtaining entitlements and completing infrastructure improvements. Management fees generated by the Timberland Management & Consulting segment are expected to decline as our primary timberland management client disposes of its timberland. We do anticipate, however, that disposition fees earned by this segment will largely offset the decline in management fees in 2006.

RESULTS OF OPERATIONS

The following table reconciles net income for the years ended December 31, 2005 to 2004 and 2004 to 2003. 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 except per unit data)	2005 vs. 2004 Total	2004 vs. 2003 Total
Net income:		
Year ended December 31, 2005	$ 13,684	
Year ended December 31, 2004	10,176	$ 10,176
Year ended December 31, 2003		3,528
Variance	$ 3,508	$ 6,648
Detail of earnings variance:		
Fee Timber		
Log price realizations (A)	$ 3,490	$ 2,972
Log volumes (B)	7,368	5,165
Production costs	(3,653)	(43)
Depletion	(5,506)	(2,206)
Other Fee Timber	(505)	(431)
Timberlands Management & Consulting		
Management fee changes	3,715	547
Disposition fees	1,396	–
Other Timberland Management & Consulting	(973)	(1,417)
Real Estate		
Development property sales	10	2,631
Environmental remediation	268	(466)
Other Real Estate	(594)	(103)
General & administrative costs	(665)	(144)
Interest expense	173	37
Other (taxes, minority interest, interest income)	(1,016)	106
Total change in earnings	$ 3,508	$ 6,648

(A) Price variance allocated based on changes in price using the current period volume.

(B) Volume variance allocated based on change in sales volume and the average log sales price for the prior period less variance in log production costs.

Fee Timber

Revenue and Operating Income

Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 115,000 acres of fee timberland located in western Washington and, to a lesser extent, from the lease of cellular communication towers and the sale of gravel. Revenue from the sale of timberland tracts will also appear periodically in results for this segment. Our Fee Timber revenue is driven primarily by the volume of timber harvested, which we ordinarily express in terms of millions of board feet, or "MMBF", and by the average prices realized on log sales, which we express in dollars per thousand board feet, or "MBF".

Revenue and operating income for the Fee Timber segment for each year in the three-year period ended December 31, 2005, are as follows (all amounts in millions):

Year ended	Timber revenue	Mineral, cell tower, and other revenue	Total segment revenue	Operating income
December 31, 2005	**$42.7**	**$1.7**	**$44.4**	**$16.3**
December 31, 2004	$31.9	$1.7	$33.6	$15.1
December 31, 2003	$21.4	$1.5	$22.9	$9.7

Fiscal Year 2005 compared to 2004. Harvest volume was up 23% during 2005 from 2004. This increase was due to a higher planned harvest in 2005 following two timberland acquisitions in 2004 (one acquired in Q1 and the other in Q4) where each had a sizeable component of merchantable timber that allowed us to convert that volume to cash over a short-term period so as to recoup as much of the acquisition cost as practicable. In addition, average log prices were up $47 per MBF, representing a 9% increase over 2004's log prices. Taken together, these higher volumes and stronger prices resulted in the $10.8 million, or 32%, increase in revenue for 2005 versus 2004. Operating income in 2005 for the Fee Timber segment increased $1.2 million, or 8% from 2004. Notably, the increase in harvest volume did not result in a proportionate increase in operating income due primarily to a $58 per MBF, or $5.5 million, increase in depletion expense when comparing 2004 and 2005.

The increase in depletion expense results from the use of a separate depletion pool for the timberland acquired in the fourth quarter of 2004. The harvest volume from this acquisition has a separate depletion pool because the property has characteristics that are different from the pooled property. Specifically, the timber on this property at the time of acquisition was almost completely merchantable. As a result of accounting for harvests from this particular acreage using the separate depletion pool and its correspondingly high per MBF depletion charge, the incremental harvest from this acquisition generated significant cash flow but had much less impact on operating income. The cash generated through 2005 and into 2006 related to the timber harvested from the fourth quarter 2004 acquisition will serve to offset a large portion of its purchase price.

Fiscal Year 2004 compared to 2003. Fee Timber revenue increased $10.7 million, or 47%, to $33.6 million in 2004 from $22.9 million in 2003. Harvest volume increased to 60 MMBF from 45 MMBF for 2003. This boost in harvest volume combined with a $53 per MBF increase in average price realized resulted in the increase in revenue. Operating income increased $5.4 million, or 56%, to $15.1 million from $9.7 million in 2003. The increase in operating income is due to the increase in revenue, partially offset by the increase in cost of sales and operating expenses.

Log Volume

Log volume sold for each year in the three-year period ended December 31, 2005 is as follows:

Volume (in MMBF)	2005	% Total	2004	% Total	2003	% Total
Sawlogs						
Douglas-fir	**43.7**	**59%**	35.7	59%	29.7	66%
Whitewood	**11.0**	**15%**	10.6	18%	5.5	12%
Cedar	**4.5**	**6%**	1.4	2%	1.0	2%
Hardwoods	**5.1**	**7%**	2.9	5%	1.9	4%
Pulp						
All Species	**9.9**	**13%**	9.7	16%	6.8	15%
Total	**74.2**	**100%**	60.3	100%	44.9	100%

Log volume increased 23% in 2005 from 2004. This increase is due to a timberland acquisition in late 2004 that enabled us to increase our annual harvest in 2005. The portion of total harvest attributable to cedar and hardwood sawlogs increased in 2005 due to the fourth quarter 2004 timberland acquisition. This property contained a relatively high volume of cedar and red alder sawlogs. Pulp log volume as a percentage of total volume decreased to 13% from 16% as a result of the harvest of fewer low-quality timber stands in 2005 compared to 2004.

Log volume in 2004 was 34% higher than 2003 due to a January 2004 timberland acquisition that allowed us to increase our 2004 annual harvest. The relatively high portion of 2004 harvest attributable to pulp logs is due to several "clean up" harvest units that were completed in 2004 in order to replant the acres and improve the quality of the timber growing on those units.

Harvest volume in 2006 is expected to decline to 58.1 MMBF, which is more in line with our estimated sustainable harvest level of 52.5 MMBF.

Log Prices

The following discussion of log prices and volumes is presented in a different format than we have used in the past. A change has been made to present this information in a way that better reflects the drivers of log prices in our current operating environment. We are placing less emphasis on the export market in the discussion below, in part because management believes the domestic market is currently the primary driver of log demand. We continue to sell logs to log brokers that will then export those logs to Japan, Korea, and China, but this portion of the market has declined over the last ten years.

We have categorized our sawlog volume by species, which we believe 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, 2005, is as follows:

Price $/MBF	2005	% Change	2004	% Change	2003
Sawlogs					
Douglas-fir	**$644**	4%	$619	15%	$536
Whitewood	**$472**	12%	$423	25%	$339
Cedar	**$942**	-6%	$999	-7%	$1,075
Hardwoods	**$605**	3%	$587	5%	$559
Pulp					
All Species	**$213**	-5%	$224	2%	$219

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. The price realized on Douglas-fir logs increased 4% in 2005 from 2004. The increase in price realized in 2005 is attributed to a combination of strong housing starts in the U.S. and additional lumber mills opening in the Puget Sound area of Washington. From 2004 to 2003 the price realized on Douglas-fir sawlogs increased by 15%. This increase was due to a combination of strong housing starts in the U.S. and a decline in log volume imported from British Columbia in 2004. The decline in British Columbia import volume was due to hot dry weather and a labor strike in that Canadian province, which resulted in a decline in log volume available for export into the U.S. It is worth noting that log imports from Canada increased again in 2005 but demand for logs was strong enough that this supply increase did not cause a decline in price.

Whitewood: "Whitewood" is a term used to describe several softwood species, but for us primarily refers to western hemlock. Though generally considered to be of a lower quality than Douglas-fir, these logs are also used for manufacturing construction grade lumber and plywood. The average price realized on whitewood increased 12% in 2005 from 2004, and 25% in 2004 from 2003. Whitewood prices have increased more dramatically than Douglas-fir as the market has become more accepting of utilizing whitewood as a less expensive substitute for Douglas-fir. The new lumber mills referenced above in the discussion of Douglas-fir prices are also a factor in whitewood pricing as these mills are buying both log species.

Cedar: Cedar prices have declined from 2003 to 2004 and again from 2004 to 2005. This decline is attributed to a decrease in mills located in the Puget Sound area of Washington that manufacture cedar products. Cedar has become less available in the Pacific Northwest, and as a result cedar mills have been closing which reduces demand and price for cedar logs.

Hardwood: "Hardwood" can refer to many different species, but on our tree farms primarily represents red alder. The price realized from the sale of red alder sawlogs has increased steadily over the last couple years as new red alder mills have opened to take advantage of the relatively high availability of red alder logs in the Pacific Northwest. These mills manufacture lumber for use in furniture construction.

Pulp: Pulp is a lower quality log of any species that is manufactured into wood chips. These chips are used to manufacture many products including oriented strand board, paper, and cardboard. The price realized from the sale of pulp logs is primarily driven by local pulp log inventories. The decline in the realized price for pulp logs in 2005 compared to 2004 is due to an increase in pulp log supplies which are generally a byproduct resulting from logging activities. The increase in log prices generally from 2004 to 2005 resulted in an increase in logging activities that has in turn resulted in an increase in pulp logs available for sale to local pulp mills.

Customers

	2005		2004		2003	
Destination	Volume*	Price/MBF	Volume*	Price/MBF	Volume*	Price/MBF
Lumber Mills	**59.0**	**$632**	40.8	$574	34.3	$514
Export Brokers	**5.3**	**629**	9.8	638	3.8	604
Pulp	**9.9**	**213**	9.7	224	6.8	219
Total	**74.2**	**$576**	60.3	$529	44.9	$476

* Volume in MMBF

Lumber mills represented 80% of our harvest volume sold in 2005 and price realizations were 10% higher than the price realized in 2004. The increase in price realized is due to the strong housing market experienced in 2005. Export brokers represent those log buyers that purchase our logs and then resell them primarily to the export market. Usually these brokers buy high-quality Douglas-fir logs, but in 2005 they were also buying some western hemlock logs for export to Korea. As a result of this sort mix, the average price realized from sales to these brokers declined slightly in 2005 despite a relatively strong export market for logs. Volume sold to pulp log customers represented 13% of total volume sold, a decline from both 2004 and 2003.

In 2004, 16% of total log volume was sold to export brokers. This relatively high proportion of log volume sold to export brokers reflected the high quality of timber stands harvested in 2004.

Harvest Volumes and Seasonality

The Partnership's nearly 115,000 acres of timberland consist of both the 71,000-acre Hood Canal tree farm and the 44,000-acre Columbia tree farm. The Hood Canal tree farm is located in the Hood Canal region of Washington State. Most of this tree farm acreage is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, we are often able to harvest and sell a greater portion of our annual harvest in the first half of the year when the log supply in the marketplace tends to be lower.

The percentage of annual harvest volume harvested by quarter for each year in the three-year period ended December 31, 2005 is as follows:

Year ended	Q1	Q2	Q3	Q4
December 31, 2005	**31%**	**30%**	**28%**	**11%**
December 31, 2004	34%	29%	22%	15%
December 31, 2003	29%	28%	27%	16%

Cost of Sales

Cost of sales for the Fee Timber segment consists of harvest costs and depletion expense. Harvest costs represent the direct cost incurred to convert trees into logs and deliver those logs to their point of sale and associated state excise taxes owed on the harvest of logs. Depletion expense represents the cost of acquiring or growing the timber harvested. This cost is calculated using a depletion rate that is derived as follows:

$$\text{Depletion rate} = \frac{\text{Accumulated cost of timber and capitalized road expenditures}}{\text{Estimated volume of 40-year-old merchantable timber available for harvest}}$$

The depletion rate is then applied to volume harvested to calculate depletion expense.

Fee Timber cost of sales, expressed on a per MBF basis for each year in the three-year period ended December 31, 2005, is as follows:

Year ended	Depletion	Harvest, haul and other	Total cost of sales
December 31, 2005	**$142**	**$179**	**$321**
December 31, 2004	$84	$159	$243
December 31, 2003	$64	$160	$224

As described above, a depletion rate is calculated based upon the historical cost of the timber and related capitalized road expenditures. That calculated rate is then applied to all volume harvested. We are using two separate depletion rates in 2005, one for volume harvested from those timberlands we acquired in the fourth quarter of 2004 (the "Quilcene Timberlands"), and one for volume harvested from all other owned timberlands. Since the Quilcene Timberlands were recently acquired, the cost of the timber is high relative to the cost basis of our existing timber. The increase in 2005's overall depletion rate and in depletion expense over that experienced in 2004 stemmed from harvest activity on the Quilcene Timberlands for which we created a separate depletion pool. We created this separate depletion pool because the property had different characteristics than our other pooled property; specifically, the timber on this property was almost completely merchantable. We harvested a total of approximately 74 MMBF in 2005, with 17 MMBF attributable to this separate depletion pool created for the Quilcene Timberlands. The depletion expense resulting from Quilcene Timberlands log harvests approximated the net stumpage value (delivered log price less harvesting and transportation cost) realized on the sale of this particular timber. As such, the incremental harvest from this acquired property resulted in a negligible net income impact even as it generated significant operating cash flow and EBITDDA.

Depletion expense is generated from the harvest and sale of timber and some minor amount of depletion results from Real Estate sales when land is sold with standing timber. Depletion expense (expressed below in $000's) resulting from timber harvest for each year in the three-year period ended December 31, 2005 was made up of the following:

	Year ended December 31, 2005		
	Pooled	**Separate**	**Total**
Volume harvested (MBF)	**57,194**	**17,051**	**74,245**
Rate/MBF	**$73**	**$374**	**$142**
Depletion expense	**$4,192**	**$6,385**	**$10,577**

	Year ended December 31, 2004		
	Pooled	Separate	Total
Volume harvested (MBF)	57,987	2,329	60,316
Rate/MBF	$72	$377	$84
Depletion expense	$4,192	$879	$5,071

	Year ended December 31, 2003		
	Pooled	Separate	Total
Volume harvested (MBF)	45,005	–	45,005
Rate/MBF	$64	–	$64
Depletion expense	$2,881	–	$2,881

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. Per MBF costs to harvest and haul timber have increased in 2005 relative to 2004 due to a combination of these factors: increased fuel costs; longer-than-average hauls for log transport to customer locations; and the fact that the 2005 harvest schedule includes a higher-than-usual proportion of harvest units characterized by steep slopes that are more expensive to harvest. Per MBF costs to harvest and haul timber did not change significantly between 2004 and 2003 despite a small increase in 2004 due to the fuel cost surcharges. This cost component increase is not transparently reflected in 2004's average harvest, haul and other costs due to the mitigating factor that the 2004 mix of stands harvested were generally easier to access and, thus, less expensive to harvest than the 2003 units.

Fee Timber cost of sales for each year in the three-year period ended December 31, 2005 is as follows (all amounts in $millions):

Year ended	Depletion	Harvest, haul and other	Total cost of sales
December 31, 2005	**$10.6**	**$13.2**	**$23.8**
December 31, 2004	$5.1	$9.6	$14.7
December 31, 2003	$2.9	$7.3	$10.2

Fee Timber cost of sales increased $9.1 million in 2005 from 2004 and $4.5 million in 2004 from 2003. The increase in 2005 and 2004 is due to the combination of increased harvest volume and an increase in depletion rate related to a separate depletion pool used for timber harvested from 2004 acquisitions. The impact of this additional depletion was particularly pronounced in 2005 due to the aforementioned harvest from the Quilcene Timberlands.

Operating Expenses

Fee Timber operating expenses for each of the three years ended December 31, 2005, 2004, and 2003 were $4.3 million, $3.8 million, and $3.1 million, respectively. Operating costs increased in 2005 relative to 2004 due primarily to an increase in road maintenance expenditures. Operating costs increased in 2004 relative to 2003 due to an increase in road maintenance and silviculture costs. The increase in road costs in 2005 resulted primarily from the increase in harvest volume, but also reflects increased costs resulting from the Road Maintenance and Abandonment Plan rules in Washington State. Washington State has enacted new water quality rules, which have resulted in changes to the rules surrounding road maintenance and construction. As a result, culverts that do not comply with the new rules need to be replaced, which has caused an increase in road maintenance costs over the last couple years and is expected to continue into 2007, at which point these expenditures should level out to reflect that necessary remediation has been completed. Silviculture costs represent the cost of projects that are undertaken for the purpose of increasing the quantity or quality of our timber inventory. Examples include eradication of competing vegetation and work performed to improve the seed stock available for us to grow seedlings for future reforestation.

Timberland Management & Consulting

Revenue and Operating Income

The Timberland Management & Consulting segment earns revenue by providing timberland management and forestry consulting services to timberland owners and managers. An additional aspect of this segment's activities is the development of timberland property portfolios on behalf of third-party clients. Management is currently pursuing timberland acquisitions for ORM Timber Fund I, LP.

On January 1, 2005 the Timberland Management & Consulting segment began managing 522,000 acres of timberland for Cascade Timberlands LLC. This new project included management, consulting, and disposition services during 2005. Revenue and operating income for the Timberland Management & Consulting segment for each year in the three-year period ended December 31, 2005 are as follows (all amounts in $millions):

Year ended	Revenue	Operating income (loss)
December 31, 2005	**$7.8**	**$3.5**
December 31, 2004	$1.6	($0.6)
December 31, 2003	$2.4	$ 0.3

Fiscal Year 2005 compared to 2004. Revenue and operating income for 2005 were $6.2 million and $4.1 million higher, respectively, than those amounts for 2004. The increase in revenue and operating income is primarily due to timberland management, property disposition, and consulting services provided to Cascade for its timberland located in Washington and Oregon. Olympic Resource Management LLC ("ORMLLC"), a subsidiary of the Partnership, began providing timberland management and other timberland consulting services to this client in January 2005. Revenue generated in 2004 consisted of fees earned while providing advisory services to the parties that eventually became the owners of Cascade and fees generated through providing miscellaneous consulting and management services to a variety of timberland owners.

On August 1, 2005 the Partnership announced that management had obtained capital commitments of $61.8 million, of which Pope Resources has committed $12.4 million, for the launch of a private equity timber fund, ORM Timber Fund I, LP. ORMLLC is the general partner for the fund and Pope Resources is a limited partner. We are now actively searching for timber properties for the fund to acquire. The Timberland Management & Consulting segment is expected to earn fees from managing the fund once properties have been acquired with the committed capital.

Fiscal Year 2004 compared to 2003. Revenue decreased $785,000, or 33%, to $1.6 million in 2004 from $2.4 million in 2003. Operating income declined $870,000 to a loss of $598,000 in 2004 from income of $272,000 in 2003. The decrease in revenue and operating income was primarily a result of completing a timberland management and disposition project in December 2003. Operations in 2004 were focused on signing up new timberland management clients.

Operating Expenses

Timberland Management & Consulting operating expenses for 2005 were $2.0 million higher than in 2004. The increase in operating expenses is primarily attributable to the opening of two new field office locations in Sedro-Woolley, Washington and Bend, Oregon and the additional staffing necessary to provide services under the timberland management agreement with Cascade. Organization and start-up expenses for the aforementioned private equity timber fund were $559,000 during 2005. These expenses are included in Timberland Management & Consulting operating expenses.

Timberland Management & Consulting operating expenses for 2004 and 2003 were $2.2 million, and $2.1 million, respectively. Notwithstanding that we entered 2004 without a major client for this segment, we decided to maintain our investment in people and operating infrastructure given prospects for new business. Accordingly, operating expenses remained basically flat between 2004 and 2003.

Investor Portfolio Management Business (IPMB)

IPMB operations include timberland management and portfolio development. An example of portfolio development is ORM Timber Fund I, LP. When the fund acquires timberland properties, both timberland management and asset management fees will be earned from administering the fund. These activities are, as well as the development and marketing costs associated with the fund, part of the IPMB.

Limitation on Expenditures: The 1997 amendment to Pope Resources' Limited Partnership Agreement authorizing the IPMB strategy limits our cumulative net expenditures incurred on connection with the IPMB to $5,000,000, including debt guarantees. As of December 31, 2005 cumulative expenditures incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative revenue generated. Therefore, cumulative net expenditures as of December 31, 2005 against the $5,000,000 limit are zero.

Allocation of Income: In addition, the 1997 amendment to Pope Resources' Limited Partnership Agreement further specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to the Partnership's wholly-owned subsidiary, ORM, Inc., and 20% to Pope MGP, Inc., the managing general partner of the Partnership. The sliding scale allocation method will evenly divide IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches $7,000,000 in any given fiscal year.

Real Estate

Revenue and Operating Income

The Partnership's Real Estate segment consists primarily of revenue from the sale of land together with residential and commercial property rents. The Partnership's real estate holdings are located in Pierce, Kitsap, and Jefferson Counties in Washington State.

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, 2005 are as follows (all amounts in $millions):

Year ended	Revenue	Operating income (loss)
December 31, 2005	**$4.8**	**$1.3^**
December 31, 2004	$4.5	$1.6*
December 31, 2003	$1.7	$(0.5)

^ Includes $198,000 of environmental remediation charges related to Port Gamble
* Includes $466,000 of environmental remediation charges related to Port Gamble

Revenue in the Real Estate segment is generated through the sale of raw land, rural residential lots, and the rental of homes and commercial properties at the Port Gamble townsite. Raw land sales generally consist of larger acreage sales rather than single lot sales and are normally completed with very little capital investment prior to sale. Rural Lifestyles lot sales generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale.

Real Estate segment revenue for each of the years ended December 31, 2005, 2004 and 2003 consist of the following:

Description	Revenue	Gross margin	Acres sold	Revenue/acre	Gross margin/acre
Raw land	**$ 890,000**	**$ 848,133**	**390**	**$ 2,282**	**$ 2,175**
Rural Lifestyles	**2,967,000**	**2,275,865**	**524**	**5,662**	**4,343**
Rentals	**914,000**	**NA**	**NA**	**NA**	**NA**
Other	**47,000**	**34,286**	**NA**	**NA**	**NA**
2005 Total	**$4,818,000**	**$3,158,284**	**914**	**4,220**	**3,418**
Raw land	$ 3,605,000	$ 3,083,438	708	$ 5,092	$ 4,355
Rentals	846,000	NA	NA	NA	NA
Other	24,000	22,902	NA	NA	NA
2004 Total	$ 4,476,000	$ 3,106,340	708	5,092	4,355
Raw Land	$ 622,000	$ 438,000	232	$ 2,681	$ 1,888
Rentals	797,000	NA	NA	NA	NA
Other	315,000	109,000	NA	NA	NA
2003 Total	$ 1,734,000	$ 547,000	232	2,681	1,888

At our development property in Gig Harbor, Washington, Costco Wholesale Corporation, Northwest Capital Investors ("NCI"), and a subsidiary of the Partnership, Olympic Property Group ("OPG") submitted detailed applications with the City of Gig Harbor for a 25-acre retail shopping center in OPG's Harbor Hill project. The applications submitted to the City of Gig Harbor are for site plan review and a binding site plan for a proposed Costco store and over five acres of additional multi-tenant retail space. OPG is currently constructing a road, water tank and other infrastructure improvements in anticipation of our first closing on this property during the first half of 2006. In addition to the sale transactions discussed above we expect to close during 2006 on the sale of 11 acres to the YMCA. This 11-acre sale is from the business park portion of the Gig Harbor property, which represents 75 acres of the total project. We are currently projecting to close on approximately 31 acres of the Gig Harbor project during 2006.

The Partnership's Rural Lifestyles lot program produces lots from 5 to 100 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. We anticipate selling 200-300 acres over the next several years in the Rural Lifestyles lot program. We exceeded this target in 2005 due to a very strong market interest in rural lots.

A 264-acre planned development in the City of Bremerton, Washington ("Bremerton West Hills") includes 64 acres of industrial and 200 acres of residential uses. We actively marketed the residential portion of this property in 2005 and this resulted in a number of bids. We are currently under contract to sell this property for $12.0 million and anticipate a closing by the end of 2006. Prior to this closing we are building a road that we are obligated to build under the purchase and sale agreement for the residential portion of the property. This road and related infrastructure will cost $2.5 million to construct and is expected not only to add value to the residential portion we are selling in 2006, but to the industrial portion of the property as well that we plan to begin marketing for sale during 2006.

Fiscal Year 2005 compared to 2004. Revenue increased $342,000, or 8%, to $4.8 million in 2005 from $4.5 million in 2004 while operating income for this segment decreased to $1.3 million in 2005 from $1.6 million in 2004. The increase in revenue is principally due to an increase in Rural Lifestyles acreage sold in 2005 relative to 2004. Land sale revenue in 2005 consists of 17 separate transactions totaling 914 acres, with $3.0 million representing 524 acres coming from 14 Rural Lifestyles lot sales. One of the primary drivers in the price per acre realized from these sales is whether the property is sold with legal access. For example, in 2005 Rural Lifestyles acreage sales included 263 acres sold without first obtaining legal access. These sales grossed an average of $1,683 per acre, while the remaining 261 acres that were sold with legal access grossed an average of $9,672 per acre. The decline in operating income for 2005 from 2004 is due to the mix of properties sold in 2005 versus 2004. Raw land revenue in 2004 included a $1.9 million sale to Kitsap County of 426 acres that the County plans to develop into a park. This property required very little entitlement or other improvements prior to the sale, which generated a relatively high gross margin from the sale.

Raw land revenue realized in 2005 represented a sale of relatively less attractive development property to the Washington State Department of Fish and Wildlife for $890,000 or $2,282 per acre. Additionally, operating expenses for the Real Estate segment have increased as several projects that we have been working on entitling for a number of years have progressed to the point of development or close to that stage. These projects include the Gig Harbor project where we expect to begin generating revenue in 2006, the Bremerton property where the 200-acre residential portion is currently under contract and expected to sell in 2006, the Kingston Arborwood project for which we plan to bring forward plans during the coming year, and finally the Rural Lifestyles land program.

Fiscal Year 2004 compared to 2003. Revenue increased $2.8 million, or 165%, to $4.5 million in 2004 from $1.7 million in 2003. Operating income for this segment also improved from a loss of $476,000 in 2003 to operating income of $1.6 million in 2004. The increase in both revenue and operating income was due to an increase in acres sold and amounts realized per acre for land sales in 2004 relative to 2003. In 2004, we generated land sale revenue of $3.6 million that translated to operating income from land sales of $3.1 million. This compared favorably with 2003 land sale revenue of $622,000 and operating income from land sales of $438,000. The majority of land sale revenue in 2004 came from two transactions. The first transaction was a $1.9 million sale to Kitsap County of 426 acres that the County plans to develop into a park. This sale has the added benefit of enhancing the value of the Partnership's other development properties neighboring the planned park. The second transaction was for $1.6 million and closed in December 2004. This transaction represented 210 acres that had a preliminary plat for 89 lots filed with the County, thus increasing the value of the property to developers.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2005, 2004, and 2003 were $749,000, $497,000, and $390,000, respectively. Cost of sales during 2005 resulted from the aforementioned raw land and Rural Lifestyles lot sales. The increase in cost of sales in 2005 and 2004 is due to the increase in acres sold. Cost of sales in 2005 was further increased by the relatively higher level of entitlement and other improvements made to property sold in 2005 when compared to land sold in 2004.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2005, 2004, and 2003 were $2.8 million, $2.4 million, and $1.8 million, respectively. Real Estate operating expenses in 2005 include an environmental remediation charge of $198,000 while operating expenses for 2004 include environmental remediation charges of $466,000. Operating expenses less environmental remediation charges, the latter discussed in more detail below, increased $633,000 in 2005 compared to 2004. Higher operating expenses in the Real Estate segment are due to an increase in personnel and project costs at the Gig Harbor, Bremerton, and Arborwood projects as well as increased market activity for developable land. This trend is expected to continue in 2006. The increase in operating costs in 2004 relative to 2003 is due to the environmental remediation charge of $466,000 combined with a small increase in repairs and maintenance costs at the Port Gamble townsite.

Environmental Remediation

The Partnership has accrued liabilities for environmental cleanup of $158,000 and $474,000 as of December 31, 2005 and 2004, respectively, for estimated environmental remediation charges in and around the townsite of Port Gamble. Port Gamble is a historic town that was owned by Pope & Talbot, Inc. (P&T) for decades until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite through 1995 and lease the millsite at Port Gamble until January 2002 when a settlement agreement was signed between the Partnership and P&T. This settlement agreement set forth how the two companies would apportion the costs and responsibility for environmental remediation in Port Gamble. The "millsite" is referred to as such because a lumber mill operated on that portion of the property for over one hundred years through 1995 before it was dismantled by the end of 1996.

The environmental liability at December 31, 2005 includes $152,000 that the Partnership expects to expend in the next 12 months and $6,000 thereafter. Current activities at the site include monitoring to determine if prior clean up activities were effective. Activity in the environmental remediation liability is detailed as follows:

Year ended December 31,	Balances at the beginning of the year	Additions to accrual	Expenditures for remediation	Balances at the end of the year
2003	$ 629,000	$ –	$ 337,000	$ 292,000
2004	292,000	466,000	284,000	474,000
2005	**474,000**	**198,000**	**514,000**	**158,000**

As of December 31, 2005 the majority of the clean up work apportioned to the Partnership under the aforementioned settlement agreement was complete. Most of the ongoing expenditures now represent the cost of groundwater monitoring at those specific sites where contaminants were excavated and removed. Test results from this monitoring program since completion of the clean up efforts have been mixed. The consultants engaged by management to assist with the clean up project have informed us that if the test results do not improve, the cost of the clean up project could increase to a level over and above our current estimated cost range that is $158,000 to $208,000.

General and Administrative (G&A)

Fiscal Year 2005 compared to 2004. G&A costs increased $665,000, or 22%, to $3.7 million from $3.0 million in 2004. The increase in general and administrative expenses experienced in 2005 is due to an increase in compensation cost following strong financial performance in 2004 and 2005, as well as costs associated with new audit requirements under the Sarbanes Oxley Act. G&A costs represented 6% of revenue in 2005 as compared to 8% of revenue in 2004.

Fiscal Year 2004 compared to 2003. G&A costs increased $144,000, or 5%, to $3.0 million from $2.8 million in 2003. The modest increase in G&A costs is due to an increase in the accrual for Supplemental Employee Retirement

Plan (SERP) liabilities of $80,000 combined with an increase in compensation cost. The beneficiary of the SERP is a retired CEO. G&A costs represented 8% of revenue for the year ended December 31, 2004 as compared to 11% of revenue for the comparable period in 2003.

Interest Income and Expense

Interest income for 2005 increased $302,000 to $402,000 compared to $100,000 in 2004 and $283,000 in 2003. The increase in interest income is due to higher cash and short-term investments balances. In January 2004 our then-available cash balance was used to complete a timberland acquisition such that relatively little interest income accrued over the balance of 2004. Our combined cash and short-term investments balance in 2005 has grown from $757,000 at December 31, 2004 to $18.4 million at December 31, 2005. We have invested cash in excess of immediate operating cash requirements in auction rate securities. The maturities on these securities are long-term while the interest rate earned resets every 28 days.

Interest expense for 2005 was $2.9 million as compared to $3.1 million in 2004 and 2003. The Partnership's debt consists primarily of mortgage debt with a fixed interest rate and amortization schedule. The terms of the timberland mortgages include a "make whole" premium paid to the lender for unscheduled principal payments. The decrease in interest expense is the result of our annual $1.5 million principal payment on these timberland mortgages made at the end of each year's first quarter.

Income Taxes

Pope Resources is a limited partnership and is, therefore, not subject to income tax at the entity level. 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 for the Partnership even though the Partnership itself pays no income tax. The corporate tax-paying entities are utilized for the Partnership's third-party service fee businesses.

Fiscal Year 2005 compared to 2004. The Partnership has recorded a provision for income taxes of $1.0 million in 2005, as compared to no tax expense for the corresponding period of 2004. The increase in tax expense is due to improved results in our Timberland Management & Consulting segment.

Fiscal Year 2004 compared to 2003. Tax expense in 2004 was zero compared with $242,000 in 2003, and these amounts reflected the divergent level of third-party management business activity that ORMLLC engaged in each of these two years.

Minority Interest

Minority interest represents that share of income earned from the Investor Portfolio Management Business (IPMB) allocated to Pope MGP, Inc., the Managing General Partner of the Partnership. The 1997 amendment to the Limited Partnership Agreement authorizing the Partnership to pursue the IPMB further specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to the Partnership's wholly-owned subsidiary, ORM, Inc., and 20% to Pope MGP, Inc. The sliding scale allocation method evenly divides IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches $7,000,000 in a given fiscal year. The share of IPMB income allocated to Pope MGP is further split between Pope MGP and a management incentive plan referred to as the Long-term Incentive Plan. This latter portion of Pope MGP's share of IPMB income is $242,000 in 2005 and is included in Timberland Management & Consulting operating expenses.

Current activities of the IPMB are contained in the Timberland Management & Consulting segment, which includes timberland consulting, management and disposition services, and expenses associated with the launch of a private equity timber fund

Fiscal Year 2005 compared to 2004. The charge or expense that is the allocation of income to a minority interest increased from zero in 2004 to $321,000 in 2005. The increase in minority interest allocation is due to improved Timberland Management & Consulting results related to our work on behalf of Cascade.

Fiscal Year 2004 compared to 2003. The charge or expense that is the allocation of income to a minority interest decreased to zero in 2004 from $47,000 in 2003. The decline in minority interest is due to completion of our timberland management and disposition project in 2003 such that there was no income from activities in 2004.

Analysis of Operating Income

The following table sets forth expenses as a percentage of revenue for each year in the three-year period ended December 31, 2005 as follows:

	2005	2004	2003
Revenue	**100%**	100%	100%
Cost of sales	**(43)**	(38)	(39)
Operating expenses	**(20)**	(21)	(26)
General and administrative expenses	**(6)**	(8)	(11)
Operating income	**31%**	33%	24%

Cost of sales includes the cost of purchasing and producing tangible goods for sale. In addition to depletion associated with timber production levels, cost of sales for the Partnership will fluctuate due to the mix of revenue between the sale of tangible goods and revenue generated from providing services. Cost of sales as a percentage of revenue increased five percentage points in 2005 compared to 2004. This increase is primarily attributable to the increase in depletion expense resulting from timber harvested from the Partnership's separate depletion pool, which carries a higher depletion rate, offset somewhat by the increase in revenue generated by the Timberland Management & Consulting segment which does not have related cost of sales. Cost of sales as a percentage of revenue decreased one percentage point in 2004 from 2003. This decrease is due to a large Real Estate sale in 2004. This land was formerly timberland and was sold to Kitsap County for use as a park. This property had a very low cost basis, thus serving to decrease cost of sales as a percentage of revenue.

Operating expenses consist of salary and other costs directly attributable to revenue-generating activity. As a percentage of revenue, operating expenses decreased one percentage point in 2005 compared to 2004. This decrease is due to an increase in revenue in 2005 from all segments, but primarily from Fee Timber. Operating expenses in 2005 for the Timberland Management & Consulting segment increased over 2004 levels, but not enough to offset the revenue increase across all segments. Operating expense as a percentage of revenue declined five percentage points in 2004 from 2003. Operating expense as a percentage of revenue declined in 2004 despite completing a timberland management and disposition project in 2003 that left this segment without a major timberland management client for the first time since 1997. During 2004 the Timberland Management &

Consulting segment continued to generate operating expenses while management pursued timberland management opportunities. The increase, however, in Fee Timber and Real Estate revenue in 2004 over 2003 made up for the decline in revenue generated by the Timberland Management & Consulting segment over those two periods.

General and administrative expenses as a percentage of revenue declined two percentage points in 2005 from 2004 due to the Partnership's significant increase in revenue. Similarly, general and administrative expense as a percentage of revenue decreased three percentage points in 2004 from 2003 due to an increase in revenue. On a raw dollar basis, general and administrative expenses for 2005 increased $665,000 from 2004, and in 2004 increased $144,000 from 2003.

Supplemental Segment Information

The following table provides quarterly comparative operating information for our segments:

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
(all amounts in $000's)	**2005**	2004	**2005**	2004
Revenue:				
Fee Timber	**$5,194**	$ 5,576	**$44,424**	$ 33,571
Timberland Management & Consulting (TM&C)	**2,641**	602	**7,764**	1,601
Real Estate	**1,072**	1,799	**4,818**	4,476
Total	**$8,907**	$ 7,977	**$57,006**	$ 39,648
EBITDDA (1):				
Fee Timber	**$2,544**	$ 2,960	**$27,034**	$ 20,319
TM&C	**1,508**	(10)	**3,644**	(510)
Real Estate	**(10)**	904	**1,449**	1,719
General & administrative and minority interest	**(1,115)**	(801)	**(3,717)**	(2,648)
Total	**$2,927**	$ 3,053	**$28,410**	$ 18,880
Depreciation, depletion and amortization:				
Fee Timber	**$ 950**	$ 1,395	**$10,714**	$ 5,193
TM&C	**23**	22	**97**	88
Real Estate	**43**	19	**178**	133
General & administrative	**65**	69	**263**	338
Total	**$1,081**	$ 1,505	**$11,252**	$ 5,752
Operating income/(loss):				
Fee Timber	**$1,594**	$ 1,565	**$16,320**	$ 15,126
TM&C	**1,485**	(32)	**3,540**	(598)
Real Estate	**(53)**	885	**1,270**	1,586
General & administrative	**(1,134)**	(870)	**(3,651)**	(2,986)
Total	**$1,892**	$ 1,548	**$17,479**	$ 13,128

(1) EBITDDA represents earnings before interest, taxes, depletion, depreciation and amortization.

RECONCILIATION BETWEEN NET INCOME AND EBITDDA	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
(all amounts in $000's)	**2005**	2004	**2005**	2004
Net income	**$ 872**	$ 820	**$ 13,684**	$ 10,176
Added back:				
Interest, net	**539**	728	**2,477**	2,952
Income tax provision	**435**	–	**997**	–
Depletion	**922**	1,353	**10,611**	5,092
Depreciation and amortization	**159**	152	**641**	660
EBITDDA	**$2,927**	$ 3,053	**$ 28,410**	$ 18,880

RECONCILIATION BETWEEN CASH FLOW FROM OPERATIONS AND EBITDDA

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
(all amounts in $000's)	**2005**	2004	**2005**	2004
Cash from operations	**$6,656**	$ 3,595	**$ 28,909**	$ 17,854
Added back:				
Interest, net	**539**	728	**2,477**	2,952
Deferred profit	**–**	–	**614**	–
Income tax expense	**435**	–	**997**	–
Other	**–**	1	**–**	–
Less:				
Changes in working capital	**(4,456)**	(827)	**(4,075)**	(902)
Unit compensation	**(76)**	–	**(76)**	–
Deferred profit	**(81)**	(275)	**–**	(815)
Cost of land sold	**(90)**	(169)	**(434)**	(209)
Other	–	–	**(2)**	–
EBITDDA	**$2,927**	$ 3,053	**$28, 410**	$ 18,880

LOG SALE DATA

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	2005	2004	**2005**	2004
Logs sale volumes (MBF):				
Export conifer	**952**	1,153	**5,732**	8,885
Domestic conifer	**5,373**	5,414	**53,442**	38,869
Pulp conifer	**1,338**	1,422	**9,928**	9,648
Hardwoods	**677**	1,111	**5,143**	2,914
Total	**8,340**	9,100	**74,245**	60,316
Average price realizations (per MBF):				
Export conifer	**$ 641**	$ 676	**$ 660**	$ 658
Domestic conifer	**620**	590	**631**	571
Pulp conifer	**223**	209	**213**	224
Hardwoods	**561**	617	**605**	588
Overall	**554**	544	**576**	529

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We ordinarily finance our business activities using funds from operations and, where appropriate in management's assessment, bank lines of credit. We generate operating cash flow through the sale of timber products, by providing timberland management, disposition, and consulting services, and by selling land for development. Significant recurring uses of cash include the following: replanting and fertilizing trees; maintaining an adequate road system on our tree farms; investing in our development properties; funding annual debt payments on timber mortgages and local improvement district debt; funding quarterly cash distributions; and funding general and administrative expenses.

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 book value of equity was 34% at December 31, 2005, versus 40% at December 31, 2004. Management considers capital resources to be adequate for its current plans and does not have specific plans that would trigger a significant change in its debt-to-total-capitalization ratio over the next 12 months. The Partnership's debt consists primarily of a timberland mortgage with a fixed amortization schedule and loan terms that include a prepayment penalty. In view of a cash and short-term investment balance of approximately $18.4 million at December 31, 2005, we elected not to renew a $10.0 million line of credit, which expired on October 31, 2005. We will continue to monitor and forecast our expected cash requirements and re-establish a line of credit if need for the additional liquidity should arise.

On August 1, 2005 we announced the closing of ORM Timber Fund I, LP (the "Fund") with committed equity of $61.8 million, of which Pope Resources has committed to invest $12.4 million. Now that the Fund is fully subscribed we are actively searching for suitable timber properties for the Fund to acquire. Pope Resources and the other limited partners in the Fund are required to contribute committed capital as properties are purchased by the Fund.

The Partnership made two significant timberland acquisitions in 2004 by investing a total of $21.2 million. The first transaction was for 3,300 acres of timberland acquired from Plum Creek Timber Company, Inc. in January 2004. This property is being managed as part of the Columbia tree farm inasmuch as these acquired acres are intermingled with that larger holding. The second acquisition totaled 1,346 acres and closed during fourth quarter 2004 and was an opportunity to acquire timberland tracts adjacent to the Partnership's existing Hood Canal tree farm. We have termed these the Quilcene Timberlands and these properties were forested with ready-to-harvest, merchantable timber. These acquisitions were funded primarily by cash reserves supplemented by draws on a bank line of credit. The January acquisition had an impact on 2004 and 2005 harvest levels (and cash flows). The Quilcene Timberlands acquisition had a small impact on 2004 harvest levels and a major impact on 2005 harvest levels and cash flows. Harvest-related cash flows resulting from these acquisitions have served to offset a large portion of each of the respective purchase prices, as indicated by the Partnership's $18.4 million cash and short term investment balance at December 31, 2005.

The annual harvest target for 2006 is expected to be approximately 58 MMBF as compared to 74 MMBF in 2005, as we complete harvest activities on 2004 timberland acquisitions. For 2007 and beyond, absent new acquisitions or major dispositions, we expect an annual harvest level of approximately 53 MMBF. The planned decrease in harvest volume in 2006 relative to 2005 will result in a decline in Fee Timber revenue and cash flow. We expect this decline to be offset on a consolidated basis as a result of planned Real Estate sales, particularly on the Gig Harbor and Bremerton West Hills projects.

During the year ended December 31, 2005, overall cash and cash equivalents increased $2.6 million and we invested an additional $15.0 million in short term investments versus a decrease in cash and cash equivalents of $9.6 million experienced during the prior year.

Operating Cash Flows

The table below provides the components of operating cash flows for each of the three years 2005, 2004, and 2003. 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 finally, the sale and management of our development properties.

Operating cash activities (in thousands):	12/31/2005	12/31/2004	12/31/2003
Cash received from customers	**$ 56,730**	$ 40,513	$ 29,582
Cash paid to suppliers and employees	**(25,232)**	(19,693)	(17,961)
Interest received	**377**	105	306
Interest paid	**(2,892)**	(3,058)	(3,117)
Income taxes paid	**(74)**	(13)	(169)
Total	**$ 28,909**	$ 17,854	$ 8,641

Cash generated by operating activities increased to $28.9 million in 2005 from $17.9 million in 2004. The increase in cash generated by operating activities primarily resulted from the Fee Timber segment increase in timber volume harvested from 60 MMBF in 2004 to 74 MMBF in 2005 combined with a $47 per MBF, or 9%, increase in realized prices on log volume sold in 2005 compared to 2004. Additionally, the Timberland Management & Consulting segment's $4.2 million increase in EBITDDA also contributed to the increase in operating cash flows in 2005. Cash provided by the Fee Timber segment is expected to decline in 2006 due to a decrease in harvest level, but this is expected to be offset by an increase in Real Estate sales from the Gig Harbor project and a portion of the Bremerton West Hills property.

In 2004, cash provided by operations increased $9.2 million to $17.9 million from $8.6 million in 2003. The majority of this increase was produced by the Fee Timber segment due to an increase in timber volume harvested from 45 MMBF in 2003 to 60 MMBF in 2004 combined with a $53 per MBF, or 11%, increase in 2004 realized prices on log volume sold compared to 2004. The Real Estate segment also contributed to improved operating cash flow with an increase in cash provided by land sales of $2.1 million.

Cash Used in Investing Activities

The table below represents the components of cash used in investing activities for the three years 2005, 2004, and 2003. Recurring investing activities consist primarily of tree planting, road building, and investment in our development properties to build infrastructure and acquire the entitlements necessary to make further development of the properties possible. In 2004, we invested $21.2 million to purchase timberlands with $20.8 million of that total directed at two separate transactions that added nearly 4,700 acres to our timberland holdings.

Investing activities (in thousands):	12/31/2005	12/31/2004	12/31/2003
Land, buildings and equipment	**$ (784)**	$ (701)	$ (624)
Development properties	**(4,960)**	(957)	(613)
Timber and roads	**(1,012)**	(1,075)	(780)
Timberland & real estate acquisitions	**-**	(21,767)	-
Purchase of short-term investments	**(15,000)**	-	-
Proceeds from the sale of fixed assets	**6**	-	17
Cash used in investing activities	**$(21,750)**	$ (24,500)	$ (2,000)

Cash used in investing activities decreased to $21.8 million in 2005 from $24.5 million in 2004. Investing activities in 2005 consisted primarily of the purchase of $15.0 million of auction rate securities and $6.8 million of capital expenditures. Cash used to purchase short-term investments represents the acquisition of auction rate securities. These securities are being used as a vehicle for investing cash balances in excess of cash required for immediate operating needs. We incurred capital expenditures in 2005 for the following items: $3.7 million of development costs at the Gig Harbor site; $1.3 million of development costs on the Partnership's other development properties; $1.0 million of reforestation and road building costs on the owned timberlands; $440,000 of miscellaneous items at the Port Gamble townsite and $344,000 of other miscellaneous expenditures. The small decline in timber and road investing activities in 2005 versus 2004 is due to delaying fertilization until 2006. We plan to fertilize the acres that were planned for 2005 along with 2006 acres at an estimated cost of $400,000. By fertilizing more acres at one time we reduce the average cost per acre of the fertilization. Investing activities at the Gig Harbor and Bremerton West Hill projects are expected to increase significantly in 2006 as we continue construction of infrastructure at both properties.

Cash used in investing activities increased $22.5 million in 2004 over 2003. The increase is primarily due to the acquisition of 4,700 acres of timberland in 2004. The timberlands acquired in these transactions were forested with a large component of merchantable timber that enabled the Partnership to increase its annual harvest in 2004 to 60 MMBF from 45 MMBF in 2003. These timberland acquisitions and related increased harvest activities also resulted in an increase in investments in timber and roads (higher replanting and road building expenditures). Investments in development properties increased in 2004 to $1.0 million from $613,000 in 2003. This increase correlates to our heightened intensity of activity on our 327-acre property at Gig Harbor, Washington, given the expectation of land sales at this parcel beginning in 2006. The $1.0 million spent on development property additions includes $411,000 for a land acquisition bordering the Gig Harbor site and $116,000 for a parcel bordering the Port Gamble townsite. These acquisitions represent strategic opportunities to acquire acres bordering our existing properties where management expects such acquisitions will add value to the Partnership's holdings.

Cash Used in Financing Activities

The table below represents the components of cash used in financing activities for the three years 2005, 2004, and 2003. Our financing activities primarily reflect payments made on timber mortgages and other debt, unitholder distributions, and payments to the Managing General Partner, Pope MGP, for its minority interest allocation of IPMB income. These payments and outflows are partially offset by cash received from the exercise of unit options issued to employees and directors.

Financing activities (in thousands):	12/31/2005	12/31/2004	12/31/2003
Mortgage/LID payments	**$ (1,883)**	$ (1,979)	$ (1,662)
Net (paydown) draw on line of credit	**(758)**	758	–
Cash distributions to unitholders	**(3,701)**	(1,989)	(1,084)
Cash received from unit option exercises	**1,813**	310	–
Minority interest distributions	**(26)**	(58)	(161)
Cash used by financing activities	**$ (4,555)**	$ (2,958)	$ (2,907)

Cash used in financing activities increased to $4.6 million for 2005 from $3.0 million for the corresponding period in 2004. Cash used for financing activities in 2005 consisted of $1.9 million of payments on long-term debt, $758,000 of paydowns of the line of credit, four unitholder distributions totaling $3.7 million and $26,000 in minority interest distributions. These cash outflows were partially offset by $1.8 million received from the exercise of unit options. The increase in cash used for financing activities in 2005 compared to 2004 is due primarily to an increase in our quarterly distributions. In the third quarter of 2005 we increased our quarterly distribution rate from $0.15 to $0.25 per unit as a result of the increase in cash generated from operations in 2005.

Cash used in financing activities increased $51,000 in 2004 compared to 2003. This increase is due to an unscheduled paydown of our timber mortgage of $347,000, an increase in cash payments on Local Improvement District (LID) debt, and an increase in our quarterly distributions. The unscheduled mortgage payment was made following the sale of 426 acres to Kitsap County. These acres were included as collateral under the timber mortgage and the partial deed release required some incremental debt repayment. In addition, the Partnership began making payments on a $623,000 LID in 2004 that represents the Partnership's share of new road costs at the Gig Harbor property that has had a positive impact on the value of that property. In the third quarter of 2004 we increased our quarterly distribution rate from $0.07 to $0.15 per unit.

Expected Future Changes to Cash Flows

Operating Activities

As discussed above, we plan to decrease the Partnership's annual harvest volume from 74 MMBF in 2005 to 58 MMBF in 2006. This decrease is due to completion in 2005 of the bulk of incremental merchantable timber harvest from the two timberland acquisitions in 2004. The decreased harvest level will translate to lower cash flow from Fee Timber operations in 2006. However, planned land sales at our project in Gig Harbor and a portion of the Bremerton property are expected to offset the decline in operating cash flow from the Fee Timber segment. Assuming we do not acquire any additional timberland in 2006, the annual harvest in 2007 is expected to return to our sustainable harvest level of 53 MMBF. As we wind down our Cascade management and disposition services role, fees generated from disposition services are expected to offset the decline in management fees in 2006.

Investing Activities

We have secured a committed equity balance of $61.8 million for ORM Timber Fund I LP, of which Pope Resources has committed to invest $12.4 million. Now that the Fund is closed we are actively searching for suitable timber properties for the Fund to acquire. Pope Resources and the other limited partners in the Fund are required to contribute committed capital as properties are purchased by the Fund. In addition to the Fund, capital infrastructure expenditures on our projects at Gig Harbor and Bremerton are expected to total $6.3 million and

$2.5 million, respectively, in 2006. The majority of Gig Harbor capital expenditures in 2006 are expected to reflect completion of a water tank and a new access road on the property. Capital expenditures on the Bremerton property in 2006 will primarily relate to a storm water retention facility together with a road and sewer extension.

Financing Activities

The capital required for Gig Harbor and Bremerton is expected to be funded through our current cash and short-term investment balances as well as operations. We anticipate that cash generated from property sales will quickly result in positive cash flow that will offset this short-term capital requirement. Management is currently projecting that cash on hand, short-term investments, and cash generated from operating activities will be sufficient to bridge the front-loading of this capital need. This point of view reflects management's rationale for not renewing our bank line of credit, which has been utilized by the Partnership at various times in its history.

Our debt-to-total-capitalization ratio as of December 31, 2005, as measured by the book and market value of our equity, was 34% and 24%, respectively. Should a financing need arise, management is comfortable that there is room to take on some incremental debt with the ratios at these levels, since our loan covenant which limits debt-to-total-capitalization to 50% is measured against the lower of these two calculations. The Hood Canal tree farm secures the Partnership's current timberland mortgages while the Columbia tree farm is not currently used as collateral for any debt obligations. The Partnership's strong financial position has, to date, enabled fairly easy access to credit at reasonable terms when needed.

Seasonality

Fee Timber

The Partnership owns nearly 115,000 acres of timberland in Washington State. Our timber acreage is concentrated in two non-contiguous tree farms: the 71,000-acre Hood Canal tree farm located in Kitsap, Jefferson, and Mason Counties on the eastern side of Washington's Olympic Peninsula, and the 44,000-acre Columbia tree farm located in Cowlitz, Clark, Lewis, Skamania, and Pierce Counties on the western side of Washington's Cascade mountain range.

The Hood Canal tree farm is concentrated at low elevations, which permits us to harvest trees year-round. Generally, we concentrate our harvests from this tree farm in the winter and spring when supply, and thus competition, is typically lower and, accordingly, when we can expect to receive higher prices. With the acquisition of the Columbia tree farm in 2001, management expected a decrease in the seasonality of Fee Timber operations, as the Columbia tree farm is at higher elevations where harvest activities are generally possible only in the late spring and summer months. In practice, over the last two years our harvest has tended to be more front-loaded, as log prices have been relatively strong in the first half of the year and winter weather has been relatively benign, enabling management to front-load the harvest plan. In future periods, management expects quarterly harvest volume to be affected by both local market conditions for logs and weather conditions.

Timberland Management & Consulting

Timberland Management & Consulting operations are not 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, 2005 consist of operating leases, and purchase obligations entered into in the normal course of business.

		Payments Due By Period/ Commitment Expiration Period			
Obligation or Commitment (in '000s)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Total debt	$33,883	$1,602	$2,712	$2,712	$26,857
Operating leases	55	37	17	1	-
Unconditional purchase obligations	6,800	6,800			
Other long term obligations	370	175	52	46	97
Total contractual obligations	$41,108	$8,614	$2,781	$2,759	$26,954

We have debt totaling $33.9 million with the contractual maturities described in Note 2 of the Partnership's Consolidated Financial Statements included with this report. Our $10.0 million revolving line of credit expired on October 31, 2005 and was not renewed. The Partnership has committed to invest 20% of the total equity capital in ORM Timber Fund I, LP once a timberland acquisition is closed by the fund. Committed capital for this fund is $61.8 million so the Partnership's commitment, accordingly, is $12.4 million. The Partnership and other limited partners will make this investment once timberland properties have been acquired.

Unconditional purchase obligations represent contracted infrastructure construction at the Gig Harbor property. Other long-term obligations include the Partnership's $158,000 contingent liability for environmental remediation in and around the Port Gamble townsite and $212,000 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 to 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 and does not hold any variable interests in unconsolidated entities.

Capital Expenditures and Commitments

Projected capital expenditures in 2006 are $13.8 million excluding the planned investment in ORM Timber Fund I, LP. Projected capital expenditures are currently expected to include $6.3 million for the Gig Harbor site and $2.5

million for the Bremerton site. The Partnership also expects to make over half of its planned investment in the Timber Fund of $12.4 million in 2006. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures at the Gig Harbor and Bremerton sites 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 the United States or Canadian 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, ESA 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

In December 2004, the FASB released its revised standard, SFAS No. 123R (SFAS 123R), *Share-Based Payment*. SFAS 123R requires that a public entity measure the cost of equity-based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. A public entity will initially measure the cost of liability based service awards based on its current fair value and the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal years beginning after June 15, 2005. The Partnership is evaluating SFAS 123R and believes it will likely result in recognition of additional non-cash equity-based compensation expense and accordingly would decrease net income in amounts, which likely will be considered material.

The Partnership has obtained commitments of $61.8 million for ORM Timber Fund I, LP (the Fund), which includes Pope Resources' commitment to invest $12.4 million of that capital. These capital commitments are not actually paid until a timberland acquisition is completed. The Fund is now seeking suitable timberland investments. In accordance with EITF 04-5, *Determining When General Partners are Required to Consolidate Limited Partners* we presently expect the Fund to be consolidated into the Partnership's financial statements since an indirect subsidiary of the Partnership (Olympic Resource Management LLC) will act as manager and general partner of the Fund. The limited partners' interest in the Fund, excluding Pope Resources, is expected to be presented as minority interest in the Partnership's consolidated balance sheet and, furthermore, the profit or loss allocated to the limited partners is expected to be presented as minority interest in the Partnership's consolidated statement of operations.

Critical Accounting Policies and Estimates

Management believes its most critical accounting policies and estimates relate to management's calculation of timber depletion and liabilities for matters such as environmental remediation, and potential asset impairments. In relation to liabilities, potential impairments and other estimated charges, it is management's policy to conduct ongoing reviews of significant accounting policies and assumptions used in the preparation of the financial results of the Partnership. The assumptions used are tested against available and relevant information and reviewed with subject-matter experts for consistency and reliability. During the preparation of financial results, tests are conducted to ascertain that the net book carrying values of assets are not in excess of estimated future cash flows. These tests use current market information, if available, or other generally accepted valuation methods, such as future cash flows. When the use of estimates is necessary, an exact answer is unlikely, and therefore, the range of likely outcomes is used in the preparation of the financial statements. Tests are also applied in order to be reasonably assured that liabilities are properly reflected on the records of the Partnership and that the notes to the financial statements are prepared in a fashion that informs readers of possible outcomes and risks associated with the conduct of business.

Purchased Timberland Cost Allocation

When the Partnership acquires timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, premerchantable timber, and land based upon the relative fair values pertaining to each of the categories. When timberland is acquired, the land is evaluated for current value. To the extent the land has value under current market conditions as something other than timberland, we assign a value greater than that typically associated with timberland.

Depletion

Depletion represents the cost of timber harvested and the amortized cost of the permanent road system and is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 40 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. Prior to the fourth quarter of 2004, all of the Partnership's timberlands were aggregated into one depletion cost pool. The Partnership acquired approximately 1,400 acres of timberland in the last quarter of 2004 that was accounted for in two separate depletion pools. These acquisitions were almost entirely merchantable timber, which made the inventory characteristics of these acquisitions sufficiently different from our existing timber pool to indicate separate depletion pools were warranted under our accounting policy. Harvest activities for one of these separate depletion pools were completed in 2004. The other was harvested in 2004 and 2005 with a remainder expected to be harvested in 2006. We expect to harvest approximately 7 MMBF from the latter of these separate pools in 2006 resulting in depletion cost of $2.8 million. The depletion cost on this harvest is expected to approximate the net stumpage realized on the sale, which will result in relatively little net income impact from the harvest but will generate operating cash flow. As a result of this additional depletion in 2006 we expect the overall weighted average depletion rate in 2006 will be approximately $107/MBF which represents a decline from $142/MBF in 2005 as the Partnership plans to harvest less timber in 2006 from the separate depletion pool. The depletion rate on the Partnership's pooled timber in 2006 is expected to be $69 per MBF.

Timber inventory volumes take into account the applicable state and Federal regulatory limits on timber harvests as applied to the Partnership's properties, including the Forests and Fish law that supplements Washington State's forest practice regulations to provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions. 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 volume actually extracted by harvest to 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 represented 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 cruised 16% of its productive acres with 20-year-old or greater timber in 2005 and 20% in 2004 and 2003 and plans to cruise 20% of productive acres in 2006. 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 (approximately 4.5 feet from the ground) diameter of at least 6 inches are measured for inclusion in the inventory.

A 5% change in estimated timber inventory volume would have changed 2005 depletion expense by $211,000.

Environmental Remediation

The environmental remediation liability represents estimated payments to be made to monitor (and remedy if necessary) certain areas in and around the townsite and millsite of Port Gamble, Washington. Port Gamble is a historic town that was owned and operated by P&T, a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite until 1996 and leased the millsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

The environmental remediation liability on the Partnership's books is based upon an estimate of the Partnership's portion of the clean-up costs under this agreement with P&T. While the majority of the Partnership's portion of the clean up efforts is complete, there remains the possibility that the remaining remediation or monitoring activities may exceed estimates, resulting in an additional environmental remediation charge. Management will continue to monitor the remaining liability against estimates to complete to determine if an adjustment to the environmental remediation liability is necessary to accurately represent management's estimate of remaining cost to complete the project.

Land Held for Development

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. These entitlement costs are evaluated for capitalization based upon the expected value derived from the efforts. For example, costs incurred to change Urban Growth Area boundaries, as defined by Washington State's Growth Management Act, are expensed as incurred due to the difficulty of successfully changing these boundaries but the cost of applying for a preliminary plat is generally capitalized as these efforts have a high likelihood of success and thus increase the value of the property. Those properties that are either under contract or where the Partnership is planning to sell within the next 12 months are classified as a current asset under Land Held for Sale.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(IN THOUSANDS)

ASSETS	2005	2004
Current assets:		
Cash and cash equivalents	$ 3,361	$ 757
Short-term investments	15,000	-
Accounts receivable	1,049	1,120
Land held for sale	4,371	152
Current portion of contracts receivable	14	606
Prepaid expenses and other	336	195
Total current assets	24,131	2,830
Properties and equipment, at cost:		
Land held for development	9,661	9,074
Land	15,542	13,958
Roads and timber, net of accumulated depletion of $37,030 and $26,418	53,019	64,485
Buildings and equipment, net of accumulated depreciation of $6,488 and $6,034	3,340	3,166
Total properties and equipment, at cost	81,562	90,683
Other assets:		
Contracts receivable, net of current portion	483	158
Other	182	1,197
Total other assets	665	1,355
Total assets	$ 106,358	$ 94,868

LIABILITIES AND PARTNERS' CAPITAL	2005	2004
Current Liabilities:		
Accounts payable	$ 1,147	$ 597
Accrued liabilities	$3,865	1,492
Environmental remediation	152	468
Current portion of long-term debt	1,602	1,602
Minority interest	325	30
Operating line of credit	-	758
Deposits	59	70
Deferred profit	304	918
Total current liabilities	7,454	5,935
Long-term debt	32,281	34,164
Other long-term liabilities	218	236
Commitments and contingencies		
Partners' capital (units outstanding: 4,646 and 4,539)	66,405	54,533
Total liabilities and partners' capital	$ 106,358	$ 94,868

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2005	2004	2003
Revenue:			
Fee Timber	$ 44,424	$ 33,571	$ 22,916
Timberland Management & Consulting	7,764	1,601	2,386
Real Estate	4,818	4,476	1,734
Total revenue:	57,006	39,648	27,036
Costs and expenses:			
Cost of sales:			
Fee Timber	(23,847)	(14,687)	(10,150)
Real Estate	(748)	(497)	(390)
Total costs of sales	(24,595)	(15,184)	(10,540)
Operating expenses:			
Fee Timber	(4,257)	(3,758)	(3,097)
Timberland Management & Consulting (TM&C)	(4,224)	(2,199)	(2,114)
Real Estate	(2,602)	(1,927)	(1,820)
Real Estate environmental remediation	(198)	(466)	-
General & Administrative (G&A)	(3,651)	(2,986)	(2,842)
Total operating expenses	(14,932)	(11,336)	(9,873)
Operating income (loss):			
Fee Timber	16,320	15,126	9,669
Timberland Management & Consulting	3,540	(598)	272
Real Estate	1,270	1,586	(476)
Unallocated G&A	(3,651)	(2,986)	(2,842)
Total operating income	17,479	13,128	6,623
Other income (expense):			
Interest expense	(2,879)	(3,052)	(3,089)
Interest income	402	100	283
Total other expense	(2,477)	(2,952)	(2,806)
Income before income taxes and			
Minority interest	15,002	10,176	3,817
Income tax expense	(997)	-	(242)
Income before minority interest	14,005	10,176	3,575
Minority interest	(321)	-	(47)
Net income	$ 13,684	$ 10,176	$ 3,528
Earnings per unit:			
Basic	$ 2.97	$ 2.25	$ 0.78
Diluted	$ 2.88	$ 2.22	$ 0.78

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(IN THOUSANDS)

	General Partners	Limited Partners	Total
December 31, 2002	$ 849	$ 42,749	$ 43,598
Net income	47	3,481	3,528
Translation loss	-	(6)	(6)
Comprehensive income	47	3,475	3,522
Distributions	(14)	(1,070)	(1,084)
December 31, 2003	882	45,154	46,036
Net income and comprehensive income	135	10,041	10,176
Distributions	(26)	(1,963)	(1,989)
Proceeds from option exercises	-	310	310
December 31, 2004	991	53,542	54,533
Net income and comprehensive income	**178**	**13,506**	**13,684**
Distributions	**(48)**	**(3,653)**	**(3,701)**
Equity based compensation	**-**	**76**	**76**
Proceeds from option exercises	**-**	**1,813**	**1,813**
December 31, 2005	**$ 1,121**	**$ 65,284**	**$ 66,405**

Weighted average units outstanding:	**12/31/2005**	12/31/2004	12/31/2003
Basic	**4,605**	4,522	4,518
Diluted	**4,753**	4,594	4,522

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(IN THOUSANDS)

	2005	2004	2003
Cash flows from operating activities:			
Cash received from customers	**$ 56,730**	$ 40,513	$ 29,582
Cash paid to suppliers and employees	**(25,232)**	(19,693)	(17,961)
Interest received	**377**	105	306
Interest paid	**(2,892)**	(3,058)	(3,117)
Income taxes paid	**(74)**	(13)	(169)
Net cash provided by operating activities	**28,909**	17,854	8,641
Cash flows from investing activities:			
Capital expenditures	**(6,756)**	(3,260)	(2,017)
Proceeds from sale of fixed assets	**6**	-	17
Purchase of short-term investments	**(15,000)**	-	-
Timberland acquisition	**-**	(21,240)	-
Net cash used in investing activities	**(21,750)**	(24,500)	(2,000)
Cash flows from financing activities:			
Cash distributions to unitholders	**(3,701)**	(1,989)	(1,084)
Net draw (repayment) on line of credit	**(758)**	758	-
Repayment of long-term debt	**(1,883)**	(1,979)	(1,662)
Proceeds from option exercises	**1,813**	310	-
Minority interest distribution	**(26)**	(58)	(161)
Net cash used in financing activities	**(4,555)**	(2,958)	(2,907)
Net increase (decrease) in cash and cash equivalents	**2,604**	(9,604)	3,734
Cash and cash equivalents:			
Beginning of year	**757**	10,361	6,627
End of year	**$ 3,361**	$ 757	$ 10,361
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$ 13,684**	$ 10,176	$ 3,528
Cost of land sold	**434**	209	200
Cost of art sold	**-**	-	175
Minority interest	**321**	-	47
Depreciation and amortization	**640**	660	658
Depletion	**10,612**	5,092	2,888
Deferred tax expense	**890**	-	242
Unit based compensation	**76**	-	-
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	**71**	(255)	903
Work in progress	**-**	-	40
Contracts receivable	**267**	304	1,676
Other current assets	**(141)**	336	(384)
Accounts payable and accrued liabilities	**2,923**	228	(424)
Restructuring	**-**	-	(466)
Environmental remediation	**(316)**	182	(337)
Deposits	**81**	38	(1)
Deferred profit	**(614)**	815	(32)
Other long-term liabilities	**(18)**	80	(50)
Other, net	**(1)**	(11)	(22)
Net cash provided by operating activities	**$ 28,909**	$ 17,854	$ 8,641

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations:

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged principally in managing timber resources on its own properties as well as those owned by others. 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 town and mill sites and land that is classified as development property; and OPG Properties LLC, which owns land that is held as development property.

The managing general partner is Pope MGP, Inc. 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 timberlands. 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 and residential properties in Kitsap County, Washington.

Principles of consolidation:

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

Minority interest:

Minority interest represents Pope MGP, Inc.'s interest in the Investor Portfolio Management Business (IPMB) (see Note 8) and has been classified as a current liability since the minority interest's share in income is generally distributed on an annual basis.

Use of estimates in financial statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the 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, 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 does not maintain an allowance for doubtful accounts, as losses from accounts receivable have historically been minimal.

Contracts receivable:

The Partnership sells land parcels under contracts requiring a minimum cash down payment of 20% and having financing terms of up to 15 years at interest rates between 6% and 10% per annum. The Partnership reduces credit risk on contracts through down payment requirements and utilizing the underlying land as collateral.

At December 31, 2005, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows:

2006	$14,000
2007	97,000
2008	65,000
2009	11,000
2010	155,000
Thereafter	155,000

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, equipment, and roads:

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. 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.

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 consist of the following as of December 31, 2005 and 2004:

Description	12/31/2005	12/31/2004
Buildings	**$ 6,303,000**	$ 5,833,000
Equipment	**2,948,000**	2,792,000
Furniture and fixtures	**577,000**	575,000
Total	**9,828,000**	9,200,000
Accumulated depreciation	**(6,488,000)**	(6,034,000)
Net buildings and equipment	**$ 3,340,000**	$ 3,166,000

Timber:

The depletion rate is calculated by dividing estimated 40-year old merchantable timber inventory into the cost basis of merchantable inventory as of the beginning of the year. 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 Partnership acquired approximately 1,400 acres of timberland in the last quarter of 2004 that was accounted for as a separate depletion pool. This acquisition was almost entirely merchantable timber, which made the inventory characteristics of the acquisition sufficiently different from our existing timber pool to indicate a separate depletion pool was warranted under our accounting policy. The cost of replanting acres harvested is initially capitalized as a part of pre-merchantable timber. Then, after 40 years such costs are reclassified from pre-merchantable to merchantable timber and are then incorporated into the cost basis for purposes of calculating the depletion rate. A depletion rate is calculated for each depletion pool and that rate is applied to timber volume harvested from that depletion pool.

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 department works with these properties to establish entitlements with city and county officials that allow for further development. These entitlement costs are evaluated for capitalization based upon the expected value derived from the efforts. For example, costs incurred to change Urban Growth Area boundaries are expensed as incurred due to the difficulty of successfully changing these boundaries but the cost of applying for a preliminary plat is generally capitalized as these efforts have a high likelihood of success and thus increase the value of the property. Those properties that are either under contract or where the Partnership is planning to sell within the next 12 months are classified as a current asset under Land Held for Sale.

Deferred profit:

Deferred profit represents the unearned portion of revenue collected. The balance at December 31, 2005 includes $106,000 collected on one real estate transaction where a portion of the revenue was deferred. The remainder of the balance represents the unearned portion of the amounts received on annual cell tower leases and $50,000 of a non-refundable deposit to be credited towards the Gig Harbor sale of land to Costco. The balance at December 31, 2004 includes $803,000 collected on an interim services agreement that was credited against revenue earned on a long-term management agreement in 2005. The remainder of the balance in 2004 represents the unearned portion of amounts received on annual cell tower leases.

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 continuing payments towards purchase of the property. The Partnership does not currently sell real estate with less than a 20% down payment. Management fees and consulting service revenue is recognized as the related services are provided. Accounts receivable includes earned but unbilled services of $9,000 and $29,000 at December 31, 2005 and 2004, respectively.

Timberland sales:

The Partnership considers the sale of tracts of timberland to be part of its normal operations and therefore recognizes revenue from the sale and cost of sales for the Partnership's basis in the property sold. Cash generated from these sales are included in cash flow from operations on the Partnership's statements of cash flows.

Stock based compensation:

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation expense for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit. Unit options granted have an exercise price not less than the fair value of the Partnership's unit price on the date of the grant. Had compensation expense for unit option grants been recognized based on the fair value at the grant date consistent with the Black-Scholes method described in Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, the Partnership's net income for the years ended December 31 would have been adjusted to the pro forma amounts indicated below:

	Year ended December 31,		
(In thousands except per unit data)	2005	2004	2003
Net income as reported	**$ 13,684**	$ 10,176	$ 3,528
Add back employee unit based			
compensation expense recognized	**76**	-	-
Subtract proforma compensation			
expense under SFAS No. 123	**(218)**	(222)	(285)
Proforma net income			
under SFAS No. 123	**$ 13,542**	$ 9,954	$ 3,243
Earnings per unit as reported:			
Basic	**$ 2.97**	$ 2.25	$ 0.78
Diluted	**$ 2.88**	$ 2.22	$ 0.78
Proforma:			
Basic	**$ 2.94**	$ 2.20	$ 0.72
Diluted	**$ 2.85**	$ 2.17	$ 0.72

Unit options used in the calculation of proforma SFAS 123 compensation expense for 2005, 2004, and 2003 were 276,912, 215,605, and 60,835, respectively. The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	Year ended December 31,		
	2005	2004	2003
Expected life	**5 years**	5 years	5 years
Risk free interest rate	**4.00% - 4.56%**	3.97% - 4.75%	3.70% - 4.46%
Dividend yield	**1.2% - 2.3%**	1.2% - 1.8%	1.6% - 2.1%
Volatility	**25.0% - 31.7%**	20.7% - 25.4%	19.4% - 20.4%
Weighted average value	**$8.59**	$4.46	$2.14

Comprehensive income:

Comprehensive income consists of net income and foreign currency translation adjustments. The Consolidated Statements of Partners' Capital and Comprehensive Income contain the disclosure and calculation of comprehensive income.

Income per partnership unit:

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

	Year Ended December 31,		
	2005	2004	2003
Weighted average units outstanding (in thousands):			
Basic	**4,605**	4,522	4,518
Dilutive effect of unit options	**148**	72	4
Diluted	**4,753**	4,594	4,522

As of each year-end date in the table above, a certain number of unit options outstanding were not included in the calculation of earnings per partnership unit as they were anti-dilutive. These unit option totals were 1,100, 148,086, and 316,251 in 2005, 2004, and 2003, respectively.

Statements of cash flows:

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

Supplemental disclosure of non-cash investing activities:

During 2003, the Partnership incurred local improvement district debt of $168,000, which also represents capitalized improvements to the properties.

Reclassifications:

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

Accounting Standards Not Yet Implemented

In December 2004, the FASB released its revised standard, SFAS No. 123R (SFAS 123R), *Share-Based Payment*. SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. A public entity will initially measure the cost of liability based service awards based on its current fair value and the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal years beginning after June 15, 2005. The Company is evaluating SFAS 123R and believes it will likely result in recognition of additional non-cash unit-based compensation expense and accordingly would decrease net income in amounts, which likely will be considered material.

The Partnership has obtained commitments of $61.8 million for ORM Timber Fund I, LP (the Fund), which includes Pope Resources' commitment to invest $12.4 million of that capital. The Fund is now seeking suitable timberland investments. In accordance with EITF 04-5, *Determining When General Partners are Required to Consolidate Limited Partners* the Fund is presently expected to be consolidated into the Partnership's financial statements since an indirect subsidiary of the Partnership (Olympic Resource Management LLC) will act as manager and general partner of the Fund. The limited partners' interest in the Fund, excluding Pope Resources, is expected to be presented as minority interest in the Partnership's consolidated balance sheet and, furthermore, the profit or loss allocated to the limited partners is expected to be presented as minority interest in the Partnership's consolidated statement of operations.

2. LONG-TERM DEBT

Long-term debt at December 31 consists of (in thousands):	2005	2004
Mortgage note payable to an insurance company, with interest at 9.65%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**$ 10,638**	$ 11,179
Mortgage note payable to an insurance company, with interest at 7.63%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**22,555**	23,800
Local improvement district assessments, with interest ranging from 5.03% to 6.5%, due through 2013	**690**	787
	33,883	35,766
Less current portion	**(1,602)**	(1,602)
Total long-term debt	**$ 32,281**	$ 34,164

The Partnership had a $10 million revolving term loan facility, which was not renewed upon expiration in October 2005. The balance outstanding on the facility as of December 31, 2004 was $758,000. Interest on the facility was charged at a rate reflecting a spread over LIBOR, which was 5.25% as of December 31, 2004.

The Partnership's debt agreements contain covenants which require the Partnership to maintain a required debt service coverage ratio and a debt to market capitalization ratio. As of December 31, 2005, the Partnership was in compliance with its debt covenants.

At December 31, 2005, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2006	$ 1,602
2007	1,356
2008	1,356
2009	1,356
2010	1,356
Thereafter	26,857

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, short term investments, accounts receivable, contracts receivable, accounts payable, and accrued liabilities, for which the carrying amount of each approximates fair value based on current market interest rates or their short-term nature. The fair value of fixed rate debt having a carrying value of $33.9 million and $35.8 million has been estimated based on current interest rates for similar financial instruments to be approximately $36.1 million and $39.7 million as of December 31, 2005 and 2004, respectively.

4. 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 is subject to income taxes through operations in several of its taxable subsidiaries. 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:

	Year Ended December 31,		
(In thousands)	2005	2004	2003
Consolidated Partnership income before income taxes (less minority interest)	**$14,681**	$10,176	$3,770
Less: Income earned in entities that pass-through pre-tax earnings to the partners	**(12,006)**	(10,335)	(3,348)
Total income (loss) subject to income taxes	**$2,675**	($159)	$422

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

	Year Ended December 31,		
(In thousands)	2005	2004	2003
Current	**$(107)**	$ –	$ –
Deferred	**(890)**	–	(242)
Total	**$(997)**	$ –	($242)

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

	2005	2004	2003
Statutory tax on income	**34%**	34%	34%
Income (loss) earned in entities that pass-through pre-tax earnings to the partners	**(27%)**	(34%)	(28%)
Effective income tax rate	**7%**	-%	6%

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

(In thousands)	2005	2004
Current (included in prepaid expenses and other)	**$108**	$16
Non-current (included in other assets)	**8**	990
Total	**$116**	$1,006

The deferred tax assets are comprised of the following as of December 31:

(In thousands)	2005	2004
Net operating loss carryforward	**$ -**	$671
Employee-related accruals	**32**	16
Depreciation	**8**	44
Other	**76**	275
Total	**$116**	$1,006

The Partnership's taxable subsidiaries had carryforward operating losses generated in the U.S. from liquidation of the Canadian subsidiary. This net operating loss was fully utilized in 2005.

5. UNIT INCENTIVE PLAN

The Partnership's 2005 Unit Incentive Plan (New 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 New Plan of which there are 1,085,815 units authorized but unissued as of December 31, 2005. The Partnership has issued 20,000 restricted units under the New Plan in 2005. These units vest over four years with 50% vesting after three years and the remaining 50% vesting after the fourth year from date of grant provided the grantee is still an employee as of the vesting date. The grantee may not transfer restricted units until the holder fulfills the vesting requirements, which last for four years.

Unit options were granted under the Partnership's 1997 Unit Option Plan (Old Plan) and were granted at prices not less than the fair value of the limited partnership units on the date of the grant. Upon authorization of the New Plan the Old Plan was terminated and no units are reserved for issuance under the Old Plan. Previously issued options under the Old Plan generally become exercisable annually over a four or five year period and have a maximum term of ten years. Unit options vested were 200,482, 233,441 and 199,965 at December 31, 2005, 2004, and 2003, respectively. Vested unit options had weighted average exercise prices of $16.57, $15.65, and $18.71 at December 31, 2005, 2004, and 2003, respectively. Unit options outstanding were as follows:

	Number of units (in thousands)	Weighted average price per unit
Balance, December 31, 2002	323.8	$17.28
Granted	40.4	10.07
Exercised	–	–
Expired	(9.5)	(14.94)
Balance, December 31, 2003	354.7	$16.52
Granted	29.5	17.90
Exercised	(20.5)	(15.12)
Balance, December 31, 2004	363.7	16.71
Granted	**2.1**	**32.51**
Exercised	**(87.8)**	**(20.66)**
Balance, December 31, 2005	**278.0**	**15.58**

The following table summarizes information about unit options outstanding at December 31, 2005:

Price range	Options outstanding	Weighted average exercise price options outstanding	Options exercisable	Weighted average exercise price options exercisable	Weighted average remaining contractual life (yrs)
$9 – $14	174,904	$12.22	113,499	$12.21	6.5
$15 – $19	32,535	$17.55	16,410	$17.69	7.3
$20 – $24	56,477	$22.18	56,477	$22.18	4.7
$25 – $29	12,434	$27.18	12,434	$27.18	2.9
$30 – $34	735	$31.29	735	$31.29	9.7
$35 – $38	927	$36.09	927	$36.09	9.5
Total	278,012	$15.58	200,482	$16.57	5.9

6. EMPLOYEE BENEFITS

As of December 31, 2005, all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During 2005, 2004 and 2003 the Partnership matched 50% of the employees' contributions up to 8% of compensation. The Partnership's contributions to the plan amounted to $116,000, $90,000, and $82,000, for the years ended December 31, 2005, 2004, and 2003, respectively.

7. COMMITMENTS AND CONTINGENCIES

Environmental remediation:

The Partnership has an accrual for estimated environmental remediation costs of $158,000 and $474,000 as of December 31, 2005 and 2004, respectively. The accrual represents estimated payments to be made to remedy and monitor certain areas in and around the townsite and millsite of Port Gamble. Port Gamble is a historic town that was owned and operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite, millsite and other assets were spun off to the Partnership. P&T continued to operate the millsite until 1996 and leased the millsite and townsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Port Gamble townsite, millsite and surrounding area to applicable State standards is between $158,000 and $208,000. This cost range includes an assumption that monitoring results currently being conducted result in an indication that clean up activities completed to date were adequate. In the event that current monitoring activities indicate that additional site clean up is required, the estimate of environmental remediation costs will increase above the current accrual. The environmental remediation liability at December 31, 2005 is based upon an estimate of the Partnership's portion of the clean up and monitoring costs that remain to be completed under this agreement.

Capital improvements:

The Partnership is committed to build infrastructure including water, sewer, and roads at the Gig Harbor and Bremerton properties subject to the purchaser acquiring the land. The current estimated cost of those improvements at Gig Harbor is $6.3 million. Infrastructure costs at the Bremerton property are expected to be $3.0 million. The timing of these expenditures is dependent upon the timing of completion of each land sale.

Investment in Timber Fund:

The Partnership has committed to invest 20%, or $12.4 million of equity capital in ORM Timber Fund I, LP. The Partnership successfully obtained commitments for the $61.8 million private equity fund in the third quarter of 2005. The Partnership will make this investment coincident to the timing of Fund closings for timberland acquisitions.

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 $1,930,000 and $68,000 outstanding at December 31, 2005 and 2004, 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 $111,000, $95,000, and $57,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

At December 31, 2005, future minimum rental payments required by year under non-cancelable operating leases are as follows:

Year	Amount
2006	$37,000
2007	14,000
2008	3,000
2009	1,000

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 $80,000 in 2004 and an additional $7,000 in 2005 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, 2005 and 2004 was $212,000 and $230,000, 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.

8. RELATED PARTY TRANSACTIONS AND MINORITY INTEREST

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

The minority interest represents Pope MGP, Inc.'s profit-sharing interest in the IPMB. The 1997 amendment to the Limited Partnership Agreement authorizing management to pursue the IPMB specifies that annual net income from the IPMB will be split using a sliding scale allocation method, commencing with 80% to ORM, Inc., a subsidiary of Pope Resources, and 20% to Pope MGP, Inc. The sliding scale allocation method will allocate income evenly between ORM, Inc. and Pope MGP, Inc. once net income from the IPMB reaches $7.0 million in a fiscal year. The share of IPMB allocated to Pope MGP is further split between Pope MGP and a management incentive plan referred to as the Long-term Incentive Plan. This portion of Pope MGP's share of the IPMB is $242,000 in 2005 and is included in Timberland Management & Consulting operating expenses. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to $5.0 million. As of December 31, 2005, cumulative revenue from the IPMB exceeds cumulative IPMB expenditures.

In October 2003, the Partnership sold an art collection to a director and shareholder of Pope MGP, Inc. The proceeds from the sale were $315,000 in cash and this amount is included in Real Estate segment revenue. The sale price was based upon an independent appraisal of the collection. Prior to the sale, P&T leased the art collection from the Partnership through October 2003. Lease payments received in 2003 were $12,239.

9. 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 the Partnership's nearly 115,000 acres of fee timberland in Washington State.

The Timberland Management & Consulting segment began providing management, disposition, and technical forestry services to a client owning 522,000 acres of timberland on January 1, 2005. During 2004 Timberland Management & Consulting was not serving a significant timberland management client. In 2003 Olympic Resource Management LLC successfully completed a timberland management and disposition project for a significant client representing 76% of segment revenue.

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 is working with nearly 3,000 acres of early stage development properties as of December 31, 2005. All of the Partnership's real estate activities are in Washington State.

For the year ended December 31, 2005, the Partnership had three major customers that represented 13%, 10% and 10% of consolidated revenue, respectively. For the year ended December 31, 2004, the Partnership had two major customers that represented 15% and 12% of consolidated revenue, respectively. For the year ended December 31, 2003, there was one major customer representing 30% of consolidated revenue. No other customer represents 10% or greater of consolidated revenue during 2005, 2004, or 2003.

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)	2005	2004	2003
Revenue:			
Fee Timber	**$44,427**	$33,629	$22,988
Elimination of intersegment amounts	**(3)**	(58)	(72)
Fee Timber (External)	**$44,424**	$33,571	$22,916
Timberland Management & Consulting	**$7,786**	$2,018	$2,860
Elimination of intersegment amounts	**(22)**	(417)	(474)
Timberland Management & Consulting (External)	**$7,764**	$1,601	$2,386
Real Estate	**$4,854**	$4,512	$1,833
Elimination of intersegment amounts	**(36)**	(36)	(99)
Real Estate (External)	**$4,818**	$4,476	$1,734
Total revenue	**$57,067**	$40,159	$27,681
Elimination of intersegment amounts	**(61)**	(511)	(645)
Total revenue (External)	**$57,006**	$39,648	$27,036
Operating income/(loss):			
Fee Timber	**$16,290**	$14,784	$9,171
Elimination of intersegment amounts	**30**	342	498
Fee Timber (External)	**$16,320**	$15,126	$9,669
Timberland Management & Consulting	**$3,538**	($284)	$686
Elimination of intersegment amounts	**2**	(314)	(414)
Timberland Management & Consulting (External)	**$3,540**	($598)	$272
Real Estate	**$1,302**	$1,614	($386)
Elimination of intersegment amounts	**(32)**	(28)	(90)
Real Estate (External)	**$1,270**	$1,586	($476)
Unallocated General & Administrative	**($3,651)**	($2,986)	($2,848)
Elimination of intersegment amounts	**-**	-	6
Unallocated General & Admin (External)	**($3,651)**	($2,986)	($2,842)
Operating income	**$17,479**	$13,128	$6,623
Elimination of intersegment amounts	**-**	-	-
Operating income (External)	**$17,479**	$13,128	$6,623
Depreciation, amortization, and depletion:			
Fee Timber	**$10,714**	$5,193	$3,007
Timberland Management & Consulting	**97**	88	69
Real Estate	**178**	133	85
Unallocated General & Administrative	**263**	338	385
Total	**$11,252**	$5,752	$3,546

(In thousands)	2005	2004	2003
Identifiable assets:			
Fee Timber	**$74,596**	$82,159	$63,118
Timberland Management & Consulting	**174**	169	187
Real Estate	**10,144**	6,084	5,894
Unallocated General & Administrative	**21,444**	6,456	17,109
Total	**$106,358**	$94,868	$86,308
Capital and land expenditures:			
Fee Timber	**$1,159**	$22,358	$809
Timberland Management & Consulting	**133**	73	50
Real Estate	**5,400**	2,006	1,117
Unallocated General & Administrative	**64**	63	41
Total	**$6,756**	$24,500	$2,017

Revenue by product line for the years ended December 31, 2005, 2004, and 2003 is as follows (in thousands):

	2005	2004	2003
Sales of forest products:			
Domestic	**$38,972**	$27,727	$20,489
Export, indirect	**3,784**	5,844	2,427
Sales of homes, lots, and undeveloped acreage	**3,898**	3,630	613
Fees for service	**10,352**	2,447	3,507
Total revenue	**$57,006**	$39,648	$27,036

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except per unit amounts)	Revenue	Income from operations	Net income	Earnings per Partnership unit Basic	Earnings per Partnership unit Diluted
2005					
First quarter	**$16,656**	**$5,671**	**$4,606**	**$1.01**	**$.97**
Second quarter (1)	**16,131**	**5,095**	**4,069**	**.89**	**.86**
Third quarter	**15,312**	**4,821**	**4,137**	**.90**	**.87**
Fourth quarter (2)	**8,907**	**1,892**	**872**	**.17**	**.18**
2004					
First quarter	$11,732	$4,748	$3,998	$.88	$.87
Second quarter (3)	11,888	4,773	3,997	.88	.87
Third quarter (4)	8,051	2,059	1,361	.31	.30
Fourth quarter	7,977	1,548	820	.18	.18

(1) Includes $108,000 (or $0.02 per diluted unit) increase in the environmental remediation liability in Port Gamble.

(2) Includes $90,000 (or $0.02 per diluted unit) increase in the environmental remediation liability in Port Gamble.

(3) Includes $295,000 (or $0.06 per diluted unit) increase in the environmental remediation liability in Port Gamble.

(4) Includes $171,000 (or $0.04 per diluted unit) increase in the environmental remediation liability in Port Gamble.

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, 2005 and 2004, and the related consolidated statements of operations, partners' capital and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the index at Item 15. These consolidated financial statements and 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related 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 effectiveness of the Partnership's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 8, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

/s/KPMG LLP

Seattle, Washington
March 8, 2006

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that Pope Resources, A Delaware Limited Partnership maintained effective internal control over financial reporting as of December 31, 2005, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Pope Resources, A Delaware Limited Partnership maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Pope Resources, A Delaware Limited Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on 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, 2005 and 2004, and the related consolidated statements of operations, partners' capital and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 8, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

/s/KPMG LLP

Seattle, Washington
March 8, 2006

(Dollar amounts are in thousands except per unit data)	**2005**	2004	2003	2002
Results of operations				
Revenue				
Fee Timber	**$ 44,424**	$33,571	$22,916	$23,298
Timberland Management & Consulting	**7,764**	1,601	2,386	7,295
Real Estate	**4,818**	4,476	1,734	1,599
Total revenue	**57,006**	39,648	27,036	32,192
Costs and expenses:				
Cost of sales	**24,595**	15,184	10,540	11,354
Operating expenses	**11,083**	7,884	7,031	10,074
General and administrative expenses	**3,651**	2,986	2,842	3,774
Impairment, exit, and environmental remediation costs	**198**	466	-	1,403
Total operating costs and expenses	**39,527**	26,520	20,413	26,605
Income from operations	**17,479**	13,128	6,623	5,587
Depreciation, depletion, and amortization	**11,252**	5,752	3,546	3,864
Net interest expense	**2,477**	2,952	2,806	2,894
Income tax expense/(benefit)	**997**	-	242	(788)
Minority interest	**321**	-	47	147
Net income/(loss)	**13,684**	10,176	3,528	3,334
Per unit results				
Net income/(loss)	**$ 2.88**	$ 2.22	$ 0.78	$ 0.74
Distributions	**0.80**	0.44	0.24	0.10
Partners' capital	**13.97**	11.87	10.18	9.65
Weighted average units outstanding (000)	**4,753**	4,594	4,522	4,520
Cash Flow				
Net cash provided by operating activities	**$ 28,909**	$17,854	$ 8,641	$ 9,005
Investing activities (excluding short term investments)	**6,750**	24,500	2,000	1,676
Distributions to unitholders	**3,701**	1,989	1,084	452
Payment/(issuance) of long-term debt	**1,883**	1,979	1,662	1,110
EBITDDA #	**28,410**	18,880	10,122	9,304
Free cash flow #	**16,731**	10,898*	3,595	4,119
Financial position				
Working capital	**$ 16,677**	$ (3,105)	$ 8,962	$ 3,792
Land and timber, net of depletion	**78,222**	87,517	69,003	70,495
Total assets	**106,358**	94,868	86,308	86,788
Long-term debt, including current portion	**33,883**	35,766	37,745	39,239
Partners' capital	**66,405**	54,533	46,036	43,598
Financial Ratios #				
Total Debt to Total Capitalization	**34%**	40%	45%	47%
Debt to EBITDDA	**1.2**	1.9	3.7	4.2
EBITDDA to Interest Expense	**9.9**	6.2	3.3	2.8
Return on Assets	**14%**	11%	4%	4%
Return on Equity	**23%**	20%	8%	8%
Enterprise value / EBITDDA	**5.4**	6.5	8.7	9.9
Unit Trading Prices #				
High	**$ 56.85**	$ 25.25	$ 15.99	$ 15.50
Low	**19.35**	15.00	7.00	9.30
Year-end close	**31.02**	25.00	15.43	10.11
Market capitalization (year end - $millions)	**144**	113	70	46
Enterprise value (year end - $millions)	**160**	148	97	78
Fee timber harvest (MMBF)	**74.2**	60.3	45.0	45.1
Employees at December 31, (full time equivalent) #	**65**	49	48	79

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

2001	2000	1999	1998	1997	1996	1995
$ 24,999	$ 21,444	$ 23,467	$ 20,985	$ 19,694	$ 21,772	$ 26,604
9,703	11,011	11,705	8,906	-	-	-
13,143	18,202	15,681	13,061	10,415	11,241	9,558
47,845	50,657	50,853	42,952	30,109	33,013	36,162
20,431	16,970	15,799	12,120	10,937	12,160	13,437
17,998	20,209	20,092	13,355	9,773	7,275	-
5,110	7,254	8,282	7,105	4,545	3,760	6,367
1,250	12,101	-	-	-	-	-
44,789	56,534	44,173	32,580	25,255	23,195	19,804
3,056	(5,877)	6,680	10,363	4,854	9,818	14,799
7,698	2,899	2,683	2,053	1,647	1,458	1,559
2,961	700	1,039	788	1,008	1,106	1,326
356	(326)	259	310	-	-	-
171	-	316	256	-	-	-
(432)	(6,251)	5,066	8,792	3,509	8,334	13,090
$ (0.10)	$ (1.38)	$ 1.11	$ 1.94	$ 0.78	$ 1.84	$ 2.90
-	0.40	0.40	0.40	0.49	0.82	1.06
8.99	9.12	10.90	10.16	8.61	8.32	7.30
4,526	4,528	4,548	4,534	4,526	4,519	4,520
$ 11,237	$ 9,973	$ 8,347	$ 9,152	$ 5,820	$ 12,330	$ 17,040
46,392	2,539	3,764	5,582	3,515	2,581	3,564
-	1,811	1,810	2,260	1,763	3,706	4,790
(26,540)	424	497	2,594	333	3,289	7,663
10,583	(2,978)	9,047	11,943	6,164	10,898	15,975
2,588*	(6,603)	5,983	3,805	2,069	5,469	2,840
$ (979)	$ 26,642	$ 15,720	$ 12,685	$ 13,816	$ 14,635	$ 12,297
71,549	25,411	28,002	27,973	26,095	26,077	27,068
84,187	60,857	66,880	62,706	56,319	54,599	54,147
39,667	13,127	13,688	14,200	14,674	15,003	18,292
40,673	41,280	49,302	45,896	38,911	37,616	32,988
49%	24%	22%	24%	27%	29%	36%
3.7	(4.4)	1.5	1.2	2.4	1.4	1.1
3.1	(2.3)	7.0	8.5	4.3	7.9	9.3
-1%	-10%	8%	15%	6%	15%	24%
-1%	-14%	11%	21%	9%	24%	45%
10.4	(42.8)	16.5	12.8	20.1	9.8	6.7
$ 24.50	$ 25.75	$ 35.00	$ 32.50	$ 31.00	$ 23.40	$ 21.80
14.00	18.88	27.88	24.06	17.40	15.80	15.25
14.75	24.50	29.25	32.50	30.00	20.00	20.80
67	111	132	147	136	90	94
105	114	141	158	147	102	111
36.3	37.3	42.0	38.9	33.2	31.6	37.9
123	241	257	157	88	56	62

Enterprise value / EBITDDA = Average of beginning and ending enterprise value divided by EBITDDA
Weighted average units outstanding = Weighted average units outstanding for the year plus the effect of dilutive unit options outstanding
Free cash flow = Net income plus depreciation, depletion, and cost of land sold less principal payments and capital expenditures excluding timberland acquisitions
Enterprise value = Market capitalization less cash plus total debt outstanding
Footnotes
* Timberland acquisitions are excluded from the calculation of free cash flow
# Unaudited

HEADQUARTERS

Pope Resources
19245 Tenth Avenue NE
Poulsbo, Washington 98370
Phone: (360) 697-6626
Fax: (360) 697-1156
Website: www.poperesources.com
E-mail: investors@orminc.com

DIRECTORS

John E. Conlin
Co-Founder
Education Partners
San Francisco, California

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

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

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

J. Thurston Roach
Private Investor
Seattle, Washington

OFFICERS

David L. Nunes
President and Chief Executive Officer

Thomas M. Ringo
Vice President and Chief Financial Officer

Stock Exchange Listing
Pope Resources' units trade on the NASDAQ Stock Market® under the symbol POPEZ.

Investor Contact
Any questions or information requests can be referred to:

Thomas M. Ringo
Vice President and Chief Financial Officer
Phone: 360.697.6626
E-mail: investors@orminc.com

Unit Transfer Agent and Registrar
Mellon Investor Services, LLC
85 Challenger Road
Ridgefield Park, NJ 07660
800.356.2017 www.melloninvestor.com

Annual Meeting
No annual meeting is required for the partnership.

Form 10-K
This report and Pope Resources' Report on Form 10-K are available on the Partnership's website (www.poperesources.com) by clicking on "Investor Relations" and then scrolling to either "Financial Information" or "SEC Filings" on the left-side navigation bar. Additionally, copies of this report and the Form 10-K are available without charge upon request to:

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

Independent Accountants
KPMG LLP
801 Second Avenue, Suite 900
Seattle, WA 98104

Pope Resources
19245 10th Avenue NE
Poulsbo, WA 98370