UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2013

or

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

Commission File No. 1-9035

Pope Resources, A Delaware Limited Partnership
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

At June 30, 2013, the aggregate market value of the non-voting equity units of the registrant held by non-affiliates was approximately $223,501,000.

The number of the registrant’s limited partnership units outstanding as of February 17, 2014 was 4,452,511.

Documents incorporated by reference: None

Pope Resources, A Delaware Limited Partnership
Form 10-K
For the Fiscal Year Ended December 31, 2013
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PART I

Item 1. BUSINESS

OVERVIEW

When we refer to the "Partnership," the "Company," "we," "us," or "our," we mean Pope Resources, A Delaware Limited Partnership and its consolidated subsidiaries. References to notes to the financial statements refer to the Notes to the Consolidated Financial Statements of Pope Resources, A Delaware Limited Partnership included in Item 8 of this form. The Partnership was formed in 1985 as a result of the spinoff of certain timberlands and development properties from Pope & Talbot, Inc.

The Partnership currently operates in three primary business segments: (1) Fee Timber, (2) Timberland Management & Consulting (TM&C), and (3) Real Estate. Fee Timber operations consist of growing and harvesting timber from the 201,000 acres that we own or co-own with our timber fund investors as tree farms. Activities in the Timberland Management & Consulting segment are centered on raising and investing capital from third parties for private equity timber funds, and thereafter managing those funds. Our Real Estate segment's operations are focused on a portfolio of approximately 2,900 acres in the west Puget Sound region of Washington. This segment's activities consist of efforts to enhance the value of our land by obtaining the entitlements and, in some cases, building the infrastructure necessary to enable further development. Further segment financial information is presented in Note 10 to our consolidated financial statements included in this report. Copies of the Partnership's reports filed or furnished under the Securities Exchange Act, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, and all amendments to these reports, are available free of charge at www.poperesources.com. The information contained in or connected to our web site is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with or furnished to the Securities and Exchange Commission. The public may read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site at www.sec.gov that also contains our current and periodic reports and all of our other securities filings.

DESCRIPTION OF BUSINESS SEGMENTS

Fee Timber

Operations. As indicated above, our Fee Timber operations consist primarily of growing, harvesting, and marketing timber. Delivered log sales to domestic manufacturers and export brokers represent the overwhelming majority of Fee Timber revenue, but we also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. In addition, our tree farms generate revenue from ground leases for cellular communication towers, gravel mines and quarries. The 201,000 timberland acres that we own or manage under the banner of this segment break down into two categories. The first of these categories consists of the approximately 69,200-acre Hood Canal tree farm, located in the Hood Canal area of Washington, and the 41,300-acre Columbia tree farm located in southwest Washington. Management views the Hood Canal and Columbia tree farms as the Partnership's core holdings, and manages them as a single operating unit. When we refer to these two tree farms we will describe them as the "Partnership's tree farms". We have owned the Hood Canal tree farm, substantially as currently comprised, since our formation in 1985, while we acquired the bulk of the Columbia tree farm in 2001.

This segment also includes as a second category the operations of ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III (REIT), Inc. (Fund III), which are consolidated into our financial statements. When referring to all the Funds collectively, depending on context, we will use the designations "Fund" or "the Funds" interchangeably. The Funds' assets consist of 91,000 acres of timberland located in western Washington, northwestern Oregon and northern California. Fund I acquired 24,000 acres of timberland in 2006, Fund II acquired its 37,000 acres of timberland in 2009 and 2010. Fund III acquired 19,000 acres of northern California timberland in the fourth quarter of 2012 and 11,000 acres in southwest Washington in December 2013. We will refer to tree farms owned by the Funds as "Fund tree farms". The Partnership's ownership interest in both Funds I and II is 20% and is 5% with respect to Fund III.

When referring to the Partnership and Fund tree farms together we will refer to them as the “Combined tree farms”. When referring to the combination of the Partnership’s tree farms and the aggregate proportion of each of the Funds owned by the Partnership, we will refer to the sums as “Look-through totals”. Our Fee Timber segment produced 79%, 84%, and 92% of our consolidated revenue in 2013, 2012, and 2011, respectively.

Inventory. Timber volume is generally expressed in thousand board feet (MBF) or million board feet (MMBF). In the discussion below, merchantable volume, productive acres and projected harvest level data for the Partnership’s tree farms is presented separately from that of the Funds’ tree farms, in addition to presentation of merchantable volume, productive acres and harvest level data on a Look-through basis. On our Washington and Oregon tree farms, we define “merchantable volume” to mean timber inventory in productive stands that are 35 years of age and older. On our California tree farm, which has historically utilized uneven age management wherein stands consist of trees of a variety of age classes, we classify merchantable volume based on the tree’s diameter at breast height (DBH). Trees with a DBH greater than or equal to 16 inches are considered merchantable and less than 16 inches are considered pre-merchantable. Accordingly, merchantable volume from our California tree farm is reflected in the tables below as “16+”.

In addition, volume on the California tree farm is measured using “short-log” scale, as opposed to the “long-log” scale that is used on our Washington and Oregon tree farms. To make aggregate volume data more meaningful and relevant on the following tables, we have converted the California tree farm’s volume from short-log scale to long-log scale by multiplying the short-log volume by 0.87.

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

	2013			
Merch Class	**Sawtimber**	**Pulpwood**	**Total**	2012 Total
35 to 39 yrs.	**93**	**24**	**117**	101
40 to 44 yrs.	**60**	**11**	**71**	68
45 to 49 yrs.	**32**	**6**	**38**	35
50 to 54 yrs.	**4**	**2**	**6**	5
55 to 59 yrs.	**6**	**2**	**8**	12
60 to 64 yrs.	**13**	**1**	**14**	16
65+ yrs.	**30**	**5**	**35**	52
	238	**51**	**289**	289

Total merchantable inventory on the Partnership’s tree farms was unchanged at 289 MMBF for both 2012 and 2013. Decreases related to 2013 harvest volume of 49 MMBF and 9 MMBF of volume from land sold during the year were offset by growth on the merchantable inventory, shifts in age-class layers, and net changes resulting from ongoing cruising.

Fund merchantable volume (in MMBF) as of December 31:

	2013			
Merch Class	**Sawtimber**	**Pulpwood**	**Total**	2012 Total
35 to 39 yrs.	**114**	**9**	**123**	95
40 to 44 yrs.	**105**	**7**	**112**	97
45 to 49 yrs.	**64**	**3**	**67**	53
50 to 54 yrs.	**44**	**1**	**45**	33
55 to 59 yrs.	**26**	**0**	**26**	33
60 to 64 yrs.	**5**	**1**	**6**	5
65+ yrs.	**17**	**1**	**18**	11
16+ inches	**174**	**0**	**174**	149
	549	**22**	**571**	476

Merchantable volume on the Funds' tree farms increased 95 MMBF, or 20%, from 476 MMBF in 2012 to 571 MMBF in 2013. The increase is primarily attributable to an increase of 76 MMBF related to growth on merchantable inventory, age class shifts, and net volume adjustments related to ongoing cruises. In addition, the Fund III acquisition in December 2013 added 60 MMBF of merchantable volume. These additions were partially offset by 41 MMBF of timber harvested in 2013, including timber deed sales.

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

	2013 Volume			2012 Volume		
	Partnership			Partnership		
Merch Class	**100% Owned**	**Share of Funds**	**Look-through**	100% Owned	Share of Funds	Look-through
35 to 39 yrs.	**117**	**23**	**140**	101	19	120
40 to 44 yrs.	**71**	**18**	**89**	68	19	87
45 to 49 yrs.	**38**	**12**	**50**	35	11	46
50 to 54 yrs.	**6**	**8**	**14**	5	7	12
55 to 59 yrs.	**8**	**5**	**13**	12	7	19
60 to 64 yrs.	**14**	**1**	**15**	16	1	17
65+ yrs.	**35**	**3**	**38**	52	2	54
16+ inches	**0**	**9**	**9**	0	7	7
	289	**79**	**368**	289	73	362

Merchantable volume on a Look-through basis increased 6 MMBF, or 2%, from 362 MMBF as of December 31, 2012, to 368 MMBF as of December 31, 2013. Given that the majority of the Funds' inventory increase is attributable to Fund III and that the Partnership only owns 5% of Fund III, on a Look-through basis, the impact of the Funds' inventory increase is heavily muted.

Merchantable volume from the Combined tree farms increased 95 MMBF, or 12%, from 765 MMBF at December 31, 2012, to 860 MMBF at December 31, 2013. The entire increase is attributable to the aforementioned increase in Fund volume during 2013.

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

The dominant timber species on the Partnership's tree farms is Douglas-fir, which has unique structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. A secondary conifer, or softwood, species on the Partnership's tree farms is western hemlock, which is similar in color and structural characteristics to a number of other minor conifer timber species, including Sitka spruce and the true firs. These secondary species are thus purchased and manufactured into lumber generically, and referred to as "whitewoods". There is also a minor amount of another conifer species, western red cedar, which is used in siding and fencing. Hardwood species on the Partnership's tree farms include red alder and minor volumes of other hardwood species.

The merchantable timber inventory on Fund properties contains a greater proportion of whitewoods than do the Partnership's timberlands. With the acquisition of timberland by Fund III in northern California, we added ponderosa pine and white fir to the Combined species inventory mix. Ponderosa pine is used for shelving, lumber, and parts for windows, doors, and furniture. White fir is a member of the whitewood species group and is used primarily for lumber production and for core layers in plywood.

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

Species	**2013 Volume**	**Percent of total**	2012 Volume	Percent of total
Douglas-fir	**207**	**72%**	206	71%
Western hemlock	**34**	**12%**	35	12%
Western red cedar	**14**	**5%**	15	5%
Other conifer	**12**	**4%**	11	4%
Red alder	**19**	**7%**	19	7%
Other hardwood	**3**	**1%**	3	1%
Total	**289**	**100%**	289	100%

Fund merchantable volume (in MMBF) as of December 31:

Species	**2013 Volume**	**Percent of total**	2012 Volume	Percent of total
Douglas-fir	**204**	**36%**	193	41%
Western hemlock	**137**	**24%**	91	19%
Western red cedar	**2**	**0%**	2	0%
Pine	**51**	**9%**	41	9%
Other conifer	**160**	**28%**	135	28%
Red alder	**15**	**3%**	12	3%
Other hardwood	**2**	**0%**	2	0%
Total	**571**	**100%**	476	100%

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

	2013 Volume			
	Partnership			
Species	**100% Owned**	**Share of Funds**	**Look-through**	**Percent of total**
Douglas-fir	**207**	**36**	**243**	**66%**
Western hemlock	**34**	**22**	**56**	**15%**
Western red cedar	**14**	**0**	**14**	**4%**
Pine	**0**	**3**	**3**	**1%**
Other conifer	**12**	**15**	**27**	**7%**
Red alder	**19**	**3**	**22**	**6%**
Other hardwood	**3**	**0**	**3**	**1%**
Total	**289**	**79**	**368**	**100%**

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

	2012 Volume			
	Partnership			
Species	100% Owned	Share of Funds	Look-through	Percent of total
Douglas-fir	206	38	244	67%
Western hemlock	35	18	53	15%
Western red cedar	15	0	15	4%
Pine	0	2	2	1%
Other conifer	11	12	23	6%
Red alder	19	3	22	6%
Other hardwood	3	0	3	1%
Total	289	73	362	100%

The Partnership's tree farms as of December 31, 2013 consist of approximately 110,000 acres. Of this total, approximately 93,000 acres are designated as productive acres, meaning land that is capable of growing merchantable timber and where the harvesting of that timber is not constrained by physical, environmental or regulatory restrictions. The Funds' tree farms as of December 31, 2013 totaled approximately 91,000 acres, of which almost 79,000 were designated as productive acres. Productive acres on a Look-through basis, as of December 31, 2013, were 105,000 acres. Approximately 32% of the Partnership's acreage and 23% of the Funds' Washington and Oregon acreage is in the 25-34 year age classes, much of which will begin moving from pre-merchantable to merchantable timber volume over the next five years. There is no age-class associated with the California tree farm and its productive acres are shown in the following tables under the heading "California." As of December 31, 2013, Combined productive acres are spread by timber age-class as follows:

Age	**12/31/2013 Productive Acres (in thousands)**					
Class	**Partnership**	%	**Funds**	%	**Combined**	**%**
Clear-cut	1.8	2%	2.1	3%	3.9	2%
0 to 4	7.0	8%	4.1	5%	11.1	6%
5 to 9	9.9	11%	4.5	6%	14.4	8%
10 to 14	9.3	10%	4.6	6%	13.9	8%
15 to 19	11.8	13%	3.2	4%	15.0	9%
20 to 24	7.7	8%	6.8	9%	14.5	8%
25 to 29	15.3	16%	7.3	9%	22.6	13%
30 to 34	14.7	16%	6.3	8%	21.0	12%
35 to 39	7.6	8%	8.0	10%	15.6	9%
40 to 44	3.7	4%	6.0	8%	9.7	6%
45 to 49	1.8	2%	3.4	4%	5.2	3%
50 to 54	0.4	0%	1.8	2%	2.2	1%
55 to 59	0.5	1%	0.9	1%	1.4	1%
60 to 64	0.5	1%	0.2	0%	0.7	0%
65+	1.3	1%	0.7	1%	2.0	1%
California	-	0%	18.8	24%	18.8	11%
	93.3		**78.7**		**172.0**	

Look-through productive acres are spread by timber age-class as follows as of December 31, 2013:

	12/31/2013 Productive Acres (in thousands)					
Age Class	**100% Owned**	%	**Share of Funds**	%	**Look-through**	**%**
Clear-cut	1.8	2%	0.4	3%	2.2	2%
0 to 4	7.0	8%	0.7	6%	7.7	7%
5 to 9	9.9	11%	0.7	6%	10.6	10%
10 to 14	9.3	10%	0.8	7%	10.1	10%
15 to 19	11.8	13%	0.5	4%	12.3	12%
20 to 24	7.7	8%	1.3	11%	9.0	9%
25 to 29	15.3	16%	1.4	12%	16.7	16%
30 to 34	14.7	16%	1.2	10%	15.9	15%
35 to 39	7.6	8%	1.5	13%	9.1	9%
40 to 44	3.7	4%	1.1	9%	4.8	5%
45 to 49	1.8	2%	0.6	5%	2.4	2%
50 to 54	0.4	0%	0.3	3%	0.7	1%
55 to 59	0.5	1%	0.2	2%	0.7	1%
60 to 64	0.5	1%	-	0%	0.5	0%
65+	1.3	1%	0.1	1%	1.4	1%
California	-	0%	0.9	8%	0.9	1%
	93.3		**11.7**		**105.0**	

Look-through productive acres are spread by timber age-class as follows as of December 31, 2012:

	12/31/2012 Productive Acres (in thousands)					
Age Class	100% Owned	%	Share of Funds	%	Look-through	%
Clear-cut	2.5	3%	0.3	3%	2.8	3%
0 to 4	6.6	7%	0.6	5%	7.2	7%
5 to 9	10.8	11%	0.5	5%	11.3	11%
10 to 14	10.2	11%	0.6	5%	10.8	10%
15 to 19	9.7	10%	0.5	5%	10.2	10%
20 to 24	9.4	10%	1.4	13%	10.8	10%
25 to 29	17.0	18%	1.4	13%	18.4	17%
30 to 34	14.0	15%	1.2	11%	15.2	14%
35 to 39	6.6	7%	1.4	13%	8.0	7%
40 to 44	3.7	4%	1.1	10%	4.8	4%
45 to 49	1.6	2%	0.6	5%	2.2	2%
50 to 54	0.3	0%	0.3	3%	0.6	1%
55 to 59	0.7	1%	0.2	2%	0.9	1%
60 to 64	0.6	1%	-	0%	0.6	1%
65+	1.9	2%	0.1	1%	2.0	2%
California	-	0%	0.9	8%	0.9	1%
	95.6		11.1		106.7	

Long-term Harvest Planning. Long-term harvest plans for the Partnership's tree farms and the Funds' tree farms reflect the different ownership time horizons associated with each group. Plans for the Partnership timberlands are designed to maintain sustainable harvest levels, assuming perpetual ownership. Plans for the Funds' tree farms, on the other hand, reflect the 10-13 year combined investment and drawdown term of each fund, and take into account further the different mix of age classes in each fund. The harvest level for the Funds' tree farms is developed to maximize the total return during each of the Fund's respective investment periods by blending harvest income with the value of the portfolio upon disposition. This will result in more harvest variability between years than is the case with the Partnership's tree farms. The Funds' tree farms also enjoy greater harvest flexibility relative to the Partnership's tree farms due to the fact that they have nearly two times the percentage of merchantable acres (35% of Fund productive acres in Washington and Oregon are 35 years of age and older versus 17% for Partnership tree farms).

As a result of the Global Financial Crisis and commensurate reduction in demand for housing, log prices began to decline in 2008, bottoming out in 2010. During the period of declining log prices, we chose to defer volume from the Combined tree farms, storing the timber on the stump and waiting for stronger prices to emerge at a later date. Since 2010, log prices have recovered due to improved fundamentals in both the domestic housing market as well as the log export market to Asia, particularly China. Beginning in 2011 and continuing through 2013, we have been harvesting portions of the previously deferred volume. Over the next one to two years, assuming a continuation in log market price recovery, we expect to take advantage of spikes in demand and corresponding pricing opportunities to increase the harvest volume from the Partnership's tree farms to meter in the remaining 10 MMBF (see table below) of deferred volume on top of the sustainable harvest level of 44 MMBF per year. Similarly, over the next one to two years, harvest from Fund tree farms will incorporate the remaining 13 MMBF of deferred harvest volume, which will be reduced further to the extent we sell any of the Funds' tree farms during that period. As described above, the base level of harvest from the Funds' tree farms will fluctuate more widely relative to the planned harvest level of 55 MMBF. Assuming full operations on the Funds' existing tree farms, at December 31, 2013 the long-term planned annual harvest level for each ownership and on a Look-through basis, along with cumulative deferred volumes, can be found in the table below:

(amounts in MMBF)	Planned annual harvest volume	Look-through planned annual harvest volume	Accumulated volume deferral	Accumulated Look-through volume deferral
Partnership Properties	44	44	10	10
Fund Properties	55	8	13	3
Total	99	52	23	13

Marketing and Markets. The following marketing and markets discussion applies to the Combined tree farms. We market timber by selling finished logs to wood manufacturers or to export brokers. To do so, we engage independent logging and trucking contractors to harvest the standing timber, manufacture it into logs, and deliver it to our customers on the open market. We retain title to the logs until delivery takes place, which normally occurs at a customer log yard. We sell our logs to international customers and to domestic manufacturers, the former through log exporting intermediaries. While domestic manufacturers historically represent the largest consumer of our sawlogs, they slid behind export markets as a percent of total sawlog production in the fourth quarter of 2010 and have bounced between the primary and secondary market for us since that time.

Historically, Japanese customers have paid a premium for the highest quality logs from which visually appealing beams for residential construction are produced. U.S. mills, on the other hand, manufacture mostly framing lumber requiring structural integrity for wall systems that are concealed by drywall. The logs required by U.S. sawmills for domestic lumber consumption do not have to be of as high a quality and are more of a commodity relative to logs headed for the Japanese market, and thus command a lower price. Beginning in 2010, the reduction in China's log imports from Russia opened up an opportunity for North American log producers to supply a larger portion of the growing Chinese market. Over the course of 2010 and into 2011, log export volumes from the Pacific Northwest to China surged, resulting in the migration of the export market from one focused on Japan to a market that now includes more volume to China.

This evolving export market provided support to log prices during the first half of 2011, despite a weak domestic housing market. Sawlogs sold to China are used chiefly for concrete forms, pallets, and other low-end uses that can be satisfied with the commoditized logs traditionally purchased by domestic sawmills. The lower average sawlog quality and more diverse species mix flowing to China, combined with the limited volume of high-quality Douglas-fir flowing to Japan, resulted in a narrowing of the overall export premium received for sales of logs into these export markets relative to the domestic market. By the second half of 2011, the Chinese government restricted credit in an effort to curb inflation and slow down the pace of building. This resulted in a buildup of inventory and, in turn, a weakening of demand and pricing in 2011's fourth quarter. Subsequently in 2011, the U.S. home building industry was still in a slump, with low lumber demand and pricing making it hard for U.S. mills to compete for logs. Domestic mills, however, were able to sell significant volumes of lumber into the Chinese market, allowing them to better compete for log supply.

During 2012, export log prices for both the China and Japan segments of the export market remained at a diminished premium over the pricing of U.S. domestic sawmills, as domestic lumber markets improved in 2012 in response to improved fundamentals in the housing market. The premium offered for export logs was thin enough to encourage delivery of our logs to domestic customers closer to the point of production, including some specialty mills that produced high-grade lumber for export to Japan and paid prices for export quality logs that were equivalent to those paid by exporters. These modest economic improvements, coupled with spot export markets, helped to form a consistent, yet diverse, sales base in 2012.

During 2013, fundamentals in both the domestic and export market continued to improve, affording the Partnership two viable markets in which to sell manufactured logs. Improving lumber prices allowed mills to compete for logs in the first half of the year, before stronger prices during the second half of the year in the export market once again caused us to deliver more volume into that market.

The logs that we sell to China, Japan, and Korea are actually sold to U.S.-based brokers who in turn sell directly to offshore customers. Our decision to sell through intermediaries is predicated on risk management. Mitigation of foreign exchange risk, loss prevention, and minimizing cash collection risks inform our decision to sell through brokers. For the years 2005 through 2009, the percentage of our annual production sold into export markets ranged from 6% to 15%. For the years 2010 and 2011, however, our export mix surged to 33% and 45%, respectively, as demand from China continued to climb. With the narrowing of the export premium, the percent of logs sold to export customers diminished to 25% in 2012, before climbing again to 36% in 2013. Factors that affect the proportion of our sales to export markets include the net stumpage realization of delivering into that market, maintaining a diverse customer base, and currency exchange rates to the extent they may impact pricing to export markets.

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

The ultimate decision on where to sell logs is based on the net proceeds we receive after taking into account both the delivered log prices paid by a prospective customer and the hauling cost needed to deliver logs to that customer. In instances where harvest operations are closer to a domestic mill than the log yard of an export broker, we may take advantage of a favorable haul cost differential that exceeds the difference in delivered log price that an export broker is willing to pay. The higher net stumpage values earned by selling to the domestic mill will, in such instances, result in lower reported delivered log prices. As such, realized log price movements are influenced by marketing decisions predicated on net stumpage values rather than exclusively focusing on the delivered log price. In such instances our reported log realizations may reflect more of our own proximity to customers rather than the broader market trend.

Weyerhaeuser was the largest customer for our Fee Timber segment in 2013, representing 18% of segment revenue, followed by Formark which represented 15% of segment revenue. The Combined tree farms delivered logs to 41 separate customers during 2013, compared to 45 during 2012.

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

Forestry and Stewardship Practices. Timberland management activities on the Combined tree farms include reforestation, control of competing brush in young stands, thinning of the timber to achieve optimal spacing after stands are established, fertilization, and road maintenance. During 2013, we planted 1.2 million seedlings on 3,300 acres of the Combined tree farms. This compares to the years 2012 and 2011 in which the Partnership planted 1.2 million and 803,000 seedlings on 3,300 and 2,000 acres, respectively, of the Combined tree farms. Seedlings are generally planted from December to April, depending on weather and soil conditions, to restock plantations that were harvested during the preceding twelve months. Planting will vary from year to year based upon harvest level, the timing of harvest, and seedling availability. Management's policy is to return all timberlands to productive status in the first planting season after harvest.

All harvest and road construction activities are conducted in compliance with federal environmental laws and state forest practice laws and regulations. Many of these regulations are programmatic and include, for example; limitations on the size of clearcuts, reforestation following harvest, retention of trees for wildlife and water quality, and sediment management on forest roads. The regulations also require project-specific permits or notifications that govern a defined set of forest operations. An application for harvest or road construction may require more specific guidance to avoid potential impact to public resources. For example, we consult third-party, state-qualified geo-technical consultants for operations that have the potential to impact unstable slopes in order avoid, minimize, or mitigate risks to safety and public resources.

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

Beginning in 2007, SFI third-party audits increased in frequency from every three years to annually. Our certifications are current for all of the Partnership's and Funds' properties. We believe this certification allows us to obtain the broadest market penetration for our logs while protecting the core timberland assets of the Partnership and the Funds.

<u>Timberland Management & Consulting</u>

Background. In 1997, the Partnership formed two wholly owned subsidiaries, ORM, Inc. and Olympic Resource Management LLC ("ORMLLC"), to facilitate the Timberland Management & Consulting activities. Our TM&C segment earns management fees and incurs expenses resulting from managing property on behalf of third-party owners and investors. Since the launch of our timberland private equity fund strategy in 2003, the activities in this segment have consisted primarily of attracting third-party investment capital for the Funds and then acquiring and managing properties on behalf of the Funds. When we discuss the TM&C properties we will refer to either the acquisition values, defined as contractually agreed-upon prices paid for the properties, or the value of assets under management, defined as the current appraised value of the properties. As of December 31, 2013, we manage 91,000 acres of timberland properties in Washington, Oregon, and California in this business segment with combined appraised values of approximately $302 million.

ORMLLC has deployed $213 million of equity capital and $43 million of debt capital for the Funds. Our co-investment in the Funds totals $32 million. In July 2012 we completed our final close of Fund III with commitments totaling $180 million, including our co-investment commitment of $9 million. The following table provides detail behind committed and called capital by the Funds as of December 31, 2013.

(in millions)	Total Fund		Co-investment		
	Commitment	Called Capital	Commitment	Called Capital	Distributions Received
Fund I	$ 62	$ 59	$ 12	$ 12	$ 1
Fund II	$ 84	$ 83	$ 17	$ 17	$ 6
Fund III	$ 180	$ 72	$ 9	$ 4	$ 0
Total	$ 326	$ 213	$ 38	$ 32	$ 7

The Funds afford us greater economies of scale in the management, acquisition, and disposition of timberland than would be possible with the Partnership's investment capital alone. In addition, we earn management fees that are paid by the Funds for managing the Funds and their respective timberland portfolios. Accounting rules require us to consolidate the Funds into our financial statements, based in part on ORMLLC's controlling role as the general partner or managing member of the Funds, resulting in the elimination of $2.8 million, $2.2 million, and $2.4 million of management fee revenue in 2013, 2012, and 2011, respectively. These fees are eliminated in concert with a corresponding elimination of operating expenses for the Fee Timber segment.

Operations. The TM&C segment's key activity is to provide investment and timberland management services to the Funds and to other third-party timberland owners. We anticipate growth in this segment as we continue to manage the Funds, together with any future funds successfully established by the Partnership. The TM&C segment represents less than 1% of consolidated revenue for each of the three years ended December 31, 2011 through 2013, due to the elimination of the fees generated from asset and timberland management of the Funds. Notwithstanding the elimination of fee revenue, the Partnership's bottom line does benefit, however, in a number of ways. First, we benefit through the opportunity to co-invest in each of these funds. In addition to the benefits of deploying additional capital, we are also able to diversify our market exposure across more tree farms than we could by investing only for the Partnership. We benefit from the economies of scale generated through managing these additional acres of timberland, which accrue to both the Partnership and Fund timberlands. The contribution margin from the fees charged to the funds acts to further lower the management costs on the Partnership's timberlands. Lastly, we are able to hire additional expertise that neither the Partnership nor the Funds' timberlands could justify on a stand-alone basis.

We earn annual asset management fees for managing this capital once timberland properties are acquired. We also earn annual timberland management fees on acres owned by the Funds and log marketing fees based on harvest activity from Fund tree farms. At the end of a Fund term, if a Fund achieves threshold return levels, we earn a carried interest incentive fee.

As mentioned earlier, accounting guidance requires that all fees generated from managing the Funds and corresponding operating expenses for the Fee Timber segment are eliminated as a result of consolidation of the Funds into the Partnership's financial statements. The elimination of these fees and corresponding operating expenses results in a decrease in the otherwise reported cost per acre of managing Fund tree farms under our Fee Timber segment as well as eliminating the revenue generated from managing the Funds in the TM&C segment. An effect of these eliminations is to make the Fee Timber results look stronger and the TM&C results look correspondingly weaker.

Marketing. When raising capital for a new Fund, we market these opportunities to accredited investors with an interest in investing alongside a manager with a specific regional specialization and expertise in the timberland asset class. Our Funds fill a unique niche among timberland investment management organizations due to our regional specialization, degree of co-investment, smaller fund sizes, and the targeting of relatively small transactions. Additional marketing and business development efforts include regular contact with forest products industry representatives, non-industry owners, and others who provide key financial services to the timberland sector. Our acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for us to market our management and consulting services.

Customers. The Funds are the primary customers and users of TM&C services.

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

Real Estate

Background. The Partnership's real estate activities are closely associated with the management of its timberlands. Management continually evaluates timberlands in terms of the best economic use, whether this means continuing to grow and harvest timber, seeking a rezone of the property for sale or development, or working with conservation organizations and the public on a sale. After timberland has been logged, management has a choice between four primary alternatives for the underlying land: reforest and continue to use as timberland, sell as undeveloped property, undertake some level of development to prepare the land for sale as improved property, or hold as property slated for later development or sale. Generally speaking, the Real Estate segment's activities consist of investing in and later reselling improved properties, and holding properties for later development and sale. As a result, revenue from this segment tends to fluctuate substantially, and is characterized by relatively long periods in which revenue is relatively low, while expenses incurred to increase the value of the Partnership's development properties may be higher. During periods of diminished demand, entitlement related costs and infrastructure investment are managed so as to minimize negative cash flows, but segment expenses do not trend directly with segment revenues. When improved properties are sold, income is recognized in the form of sale price net of acquisition and development costs. The Partnership has a 2,900-acre portfolio of property for which management believes there to be a higher and better use than timberland.

Operations. Real Estate operations focus on maximizing the value of the Partnership's real estate portfolio. For Real Estate projects, management secures entitlements and/or infrastructure necessary to make development possible and then sells the entitled property to a party who will construct improvements. In addition, this segment works to negotiate conservation easements (CE) that typically encumber Fee Timber properties to preclude land from future development. The third and final area of operations in this segment includes leasing residential and commercial properties in Port Gamble, Washington, and leasing out a portion of a commercial office building in Poulsbo, Washington. The Real Estate segment represents 21%, 16%, and 8% of consolidated revenue in 2013, 2012, and 2011, respectively.

Development Properties

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

Master planned communities in Gig Harbor, Port Gamble, Kingston, Bremerton, Hansville, and Port Ludlow, Washington make up approximately half of the acres in our development property portfolio. Due to each property's size, development complexity, and regulatory environment, the projects are long-term in nature and require extensive time and capital investments to maximize returns.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of Harbor Hill, a mixed-use development project that includes a 13-acre commercial/retail site, 18 acres of business park lots, and 187 acres of land with residential zoning. A 20-year development agreement was approved in late 2010. We received preliminary plat approval in early 2011 for the then 200-acre residential portion of this project that included 554 single-family and 270 multi-family units. Key provisions of the development agreement and plat approval include: (a) extending the project approval from 7 to 20 years; (b) reserving sufficient domestic water supply, sanitary sewer, and traffic trip capacity on behalf of the project's 824 residential units; and (c) waiver of park impact fees in exchange for a 7-acre parcel of land for City park purposes. All components of this project have transportation, water and sewer capacities reserved for full build-out. In December 2012, we sold an 11.5-acre residential land parcel containing 172 multi-family units from our Gig Harbor development and in 2013 sold 14 acres of business park land for a school. Management has entered into agreements for sale of 105 acres of the residential property, consisting of 234 lots, to single-family developers and 17.5 acres of the remaining multi-family units to an extended care facility developer. In January 2014, we sold 40 of the single-family lots and we expect to close on the remaining sales over the next two to three years.

Port Gamble. The Partnership owns and operates the town of Port Gamble, Washington, northwest of Kingston on the Kitsap Peninsula. Port Gamble was designated a "Rural Historic Town" under Washington's Growth Management Act in 1999. This designation allows for substantial new commercial, industrial, and residential development using historic land use patterns and densities while maintaining the town's unique architectural character. In 2012, substantial work was completed toward making a plat application to Kitsap County that, if approved, will allow for between 200 and 240 additional residential units and 200,000 to 260,000 square feet of additional commercial building space. Submission of this master plan for the 114-acre townsite and adjoining 205-acre agrarian district was submitted in January 2013, kicking off what is expected to be a multi-year period of environmental impact review and public comment before any approval is granted and construction can take place. The plan currently calls for development of homes, an inn, a dock, waterfront trails, and an agricultural area with a creamery, garden plots, greenhouses, orchard and winery. The vision is also to bring back the New England-style homes that have slowly disappeared since Port Gamble's heyday in the 1920's. Walking trails along the shoreline, through the adjoining forestlands and along pastoral farmland would contribute to the lifestyle of residents and enhance Port Gamble as a unique tourist attraction.

Kingston. The Partnership owns a 360-acre property in Kingston that is named "Arborwood" with plans for the development of 663 single-family lots and 88 multi-family units. Final approval of a preliminary plat and a 15-year development agreement was completed in February 2010. Further development will not proceed until the local market demonstrates an increased appetite for residential lots. The Partnership owns an additional 366 acres bordering this project, which has zoning for 5-acre lots. This property is currently under contract for sale as conservation open space to be added to the neighboring park owned by Kitsap County.

Bremerton. The West Hills area of Bremerton, Washington is the site of a 46-acre industrial park which is being developed in two phases that will result in a total of 24 lots. Construction on the 9 lots that make up Phase I was completed in 2007. One lot has been sold from Phase I. In 2013, management obtained a comprehensive plan designation change from industrial to residential for the 36-acre Phase II portion of this property. In 2014, it is expected a zoning change will be obtained and marketing of the property for residential use can commence.

Hansville. The Partnership owns a 149-acre residential development project in Hansville called "Chatham", with 19 parcels ranging from 3 to 10 acres in size. Construction was completed in late 2007 and the lots are currently being marketed for sale. To date, only one lot has sold from this project.

Port Ludlow. Port Ludlow represents a 256-acre property located just outside the Master Planned Resort boundary of Port Ludlow, Washington. We currently expect preliminary plat approval in 2014 that, if obtained, will allow for up to 54 lots ranging from 1 to 1.5 acres each, with the balance of the property designated as open space. Development beyond the point of plat approval will not commence until demand for rural residential lots improves.

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

Commercial Properties

Poulsbo. In May 2011, we purchased a 30,000-square-foot commercial office building in Poulsbo, on a 2-acre parcel of land. The building has a long-term tenant with a five-year, triple-net lease with a term that began in late 2010. In November 2012 we moved our headquarters location into the new building, sharing the space with the aforementioned tenant. This new building currently contains square footage that is under lease but not presently occupied, thus providing potential availability for our expansion or alternative rental to other third parties.

Port Gamble. As described above under "*Development Properties*", the Partnership owns and operates the town of Port Gamble where 25 residential buildings and approximately 46,000 square feet of commercial building space are currently rented to third parties. In addition, the Partnership operates a wedding and events business, with another 8,000 square feet in its venues, that leverages the charm of the townsite to attract clientele. These commercial activities serve as placeholders to help offset the costs of maintaining the town until the master plan process (also described above) progresses.

Pope & Talbot, Inc. (P&T), operated a sawmill at Port Gamble from 1853 to 1995. Following the mill shutdown, the Department of Ecology (DOE) expressed interest in the environmental conditions at Port Gamble. In 2002, P&T and Pope Resources entered into a settlement agreement dividing up responsibility for environmental contamination at the townsite and millsite. Under Washington law, both Pope Resources and P&T were considered by DOE to be "potentially liable persons" (PLP) based on their historic ownership and/or operation of the site, which includes the uplands and Port Gamble Bay. The State of Washington's Department of Natural Resources (DNR) is also considered a PLP because of its ownership and operation of the submerged beds in Port Gamble Bay. Washington's environmental laws allow DOE to impose joint and several liability on PLPs at sites where contamination has come to be located, meaning that the agency can assert liability for cleanup costs against any or all such PLPs. Following a series of actions under the U.S. Bankruptcy Code that began in 2007, P&T has been liquidated, leaving the Partnership as one of few remaining potentially liable persons.

Negotiations with DOE during 2012 centered on clean-up action priorities. Notwithstanding the absence of an agreement or conclusion to the negotiations, we accrued an additional $12.5 million for Port Gamble environmental liabilities during the second quarter of 2012. The accrual was heavily informed by elements of an expanded scope of clean-up actions envisioned by DOE. The clean-up action plan was finalized over the course of 2013 after public and regulatory review periods with no material changes from the scope of work contemplated in the second quarter of 2012. In December 2013, a consent decree and the clean-up action plan were filed with Kitsap County Superior Court. The degree of cost participation by each of the PLPs has yet to be determined.

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

Marketing. Marketing efforts for Development Properties in 2013 were focused primarily on our Harbor Hill development and conservation land sales. Marketing efforts for Development Properties in 2012 were centered on residential, commercial, and industrial lands for sale through traditional brokerage and real estate listing services. Efforts were also expended to sell North Kitsap lands for conservation. Commercial Properties marketing in 2012 and 2013 was designed to increase visitation to and exposure of Port Gamble, thereby boosting retail sales, which led to improved lease-up of the townsite's commercial, industrial, and residential spaces.

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

Competition. Development and Commercial Properties compete with local and regional peers that offer land for sale or property for lease.

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

Employees

As of December 31, 2013**,** the Partnership employed 53 full-time, salaried employees and 5 part-time and seasonal personnel, who are distributed among the segments as follows:

Segment	Full-Time	Part-Time/ Seasonal	Total
Fee Timber	20	1	21
Timberland Management & Consulting	4	-	4
Real Estate	17	4	21
General & Administrative	12	-	12
Totals	53	5	58

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

Government Regulation

The timberland and real estate assets owned and managed by the Partnership are subject to federal, state, and local environmental laws and regulations, including extensive permitting or notification processes. Changes in these laws and regulations can significantly affect regional or local harvest levels and market values of timber-based raw materials, and the ability to develop real estate. These include federal, state, and local pollution controls, solid and hazardous waste management, disposal and remediation laws, and regulations in each segment and all geographic regions in which it has operations.

Forest Management Practices. Federal laws and regulations that have the potential to impact forest practices include, for example, the Endangered Species Act (ESA) and the Clean Water Act (CWA). State laws and regulations such as the Washington, Oregon, and California Forest Practice Acts also directly regulate forest management operations. Collectively, these laws and regulations increasingly affect present or future harvest and forest management activities.

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

The following are examples of potential changes to the regulatory climate that could affect forest practices in Washington, Oregon, and California:

Listing of plants and animals under state and federal Endangered Species Acts.

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

Compliance for state and federal endangered species is achieved through a combination of adherence to state regulations and the Partnership's best management practices to preserve endangered species and their habitat.

In June 2006, the U.S. Fish & Wildlife Service and NOAA Fisheries signed a 50 year Forest Practices Habitat Conservation Plan (HCP) covering forestry activities in Washington State. The HCP is supported by the State's forest practice regulatory structure established by the Forests and Fish Law. Together, they provide landowners assurance that forestry activities comply with both the federal Endangered Species Act (ESA) and the Clean Water Act (CWA) to protect Washington's native fish and aquatic species and assure clean water compliance.

Washington State's forest practice rules are monitored for their effectiveness at meeting resource objectives and are designed to change, if needed, based on research. If there is scientific evidence that the rules need to be adjusted, new or modified regulations could result in increased costs, additional capital expenditures, and reduced operating flexibility.

In 2009, the California Board of Forestry adopted the Anadromous Salmonid Protection Rules that were intended to protect, maintain, and improve riparian habitats for state and federally listed anadromous salmonid species. These rules are permanent regulations and replace the interim Threatened or Impaired Watershed Rules which were originally adopted in July 2000 and readopted six times.

Changes in state water quality regulations such as water quality standards, total maximum daily loads, new permitting requirements, and herbicide use.

A 2011 lawsuit in Oregon resulted in a ruling by the 9th Circuit Court of Appeals that water channeling structures such as culverts on logging roads are, in fact, point sources of pollution, with the potential impact of requiring the Environmental Protection Agency (EPA) to issue discharge permits under the National Pollutant Discharge Elimination System (NPDES), numbering millions of such permits across the nation. On December 12, 2011 the U.S. Supreme Court issued an order calling for the views of the U.S. Solicitor General on certiorari petitions filed by the state of Oregon and by the Oregon Forest Industry Council. The petitions asked the Supreme Court to review and reverse the 9th Circuit's decision that storm water runoff from forest roads is a "point source" pollutant requiring a federal pollution discharge permit. On March 20, 2013, the U.S. Supreme Court ruled that an EPA rule exempts stormwater discharges on logging roads from requiring NPDES permits. In late 2012, just as the U.S. Supreme Court was to begin deliberations on whether to hear the appeal, EPA issued new stormwater rules that excluded logging road discharges from discharges associated with industrial activity, thus those activities would not require a NPDES permit. A lawsuit was filed in January 2013 by the plaintiff in the original lawsuit, the Northwest Environmental Defense Center (NEDC), challenging the new EPA rule. In light of the favorable ruling in Decker v. NEDC, the likelihood that NEDC's new challenge to EPA's 2012 amendment to the stormwater rules would result in additional permitting requirements is unlikely. In 2013, the U.S. House of Representatives passed a law that would place EPA's rule upheld by the U.S. Supreme Court into statute, but was not acted on in the Senate. In February 2014, Congress included language in the Farm Bill which will prevent NPDES permitting of forest roads and silvicultural activities, prevent citizen enforcement suits for other regulatory measures related to forest roads, and remove additional legal ambiguity regarding runoff on forest roads.

The U.S. Environmental Protection Agency also promulgated regulations in 2000 requiring states to develop total maximum daily load ("TMDL") allocations for pollutants in water bodies that have been determined to be "water quality impaired". The TMDL requirements set limits on pollutants that may be discharged to a body of water or set additional requirements, such as best management practices for nonpoint sources, including timberland operations, to reduce the amounts of pollutants in water quality impaired bodies of water. These requirements have impacted tree farming principally through rules requiring tree farms to better minimize siltation of streams caused by roads, harvest operations and other management activities. TMDL targets will be established for specific water bodies in the states where the Partnership operates and these targets will be set so as to achieve water quality standards within 10 years, when practicable.

The Forest Practices HCP in Washington State also contains federal assurances with respect to the Clean Water Act. Changes to water quality regulations on forestland must be promulgated through the adaptive management program, and as such must be based on scientific information. Additionally, TMDLs for forested watersheds are given a low priority for development based on the existing regulatory structure. TMDL implementation plans in mixed use watersheds reference the existing regulatory structure for implementation plan recommendations on forestlands.

In December 2013, the Environmental Protection Agency and the National Oceanic and Atmospheric Administration disapproved Oregon’s coastal non- point source pollution control program, in part to specific forestry issues including; temperature impacts on medium and small fish bearing streams, high-risk landslide areas, current and legacy road operation and maintenance. The Oregon Board of Forestry is currently contemplating a range of regulatory actions in response to a study that indicated in that the buffer strategy applied on certain types of watercourses did not meet state anti-degradation standards for water temperature. Oregon will also be providing additional information to the federal agencies to document the effectiveness of Oregon’s overall regulatory structure and specific information related to measures addressing landslide risk and forest roads.

The California Board of Forestry in 2013 adopted a substantial revision to their rules governing the construction and maintenance of forest roads. Additionally, Regional Water Boards condition forest practice permits in order for them to be eligible for a waiver of a Report of Waste Discharge.

Changes in state permitting processes for timber harvest.

Washington, Oregon, and California all have a permitting or notification system as part of their forest practice rules. Changes in the permitting or notification processes can cause additional administrative expenses and/or delay project implementation.

California has as many as three separate permits that are required for conducting timber harvests including the Timber Harvest Plan (THP) administered by Cal Fire, Lake and Streambed Alteration Permit administered by the California Department of Fish and Wildlife for crossing watercourses, and various waivers of Reports of Waste Discharge administered by Regional Water Quality Control Boards. Timber Harvest Plans may have multiple operations spanning several years. Review of such plans is more comprehensive, with archaeological, botanical, biological and other disciplines involved. The public is allowed to review the plans and make comment. Only a Registered Professional Forester can sign a THP, a status that requires multidisciplinary training and testing. Once approved, a THP has a seven-year life.

Washington has a Forest Practice Application, a permit administered by the Department of Natural Resources.   Forest practices that cross watercourses are also subject to regulations administered by the Department of Fish and Wildlife and until the end of 2013, subject to a permit called a Hydraulic Project Approval (HPA). As a result of legislation in 2012, these regulations have been integrated into the Forest Practice Rules, negating the need for a HPA.

Oregon does not have a permit system, but does require landowners to provide a Forest Practice Notification to the Department of Forestry. For certain activities, the Department does require a written plan describing specifically how certain elements of the regulations are to be met.

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

Real Estate Development. Many of the federal laws (ESA and CWA) that impact forest management can in a more limited circumstance also apply to real estate development. Additionally, there are also state and local land use regulations that have additional permitting requirements and that limit development opportunities. For example, in Washington development rights are affected by the Growth Management Act, which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated. The purposes of the GMA include: (1) direction of population growth to population centers (Urban Growth Areas), (2) reduction of “suburban sprawl”, and (3) protection of historical sites. The Partnership works with local governments within the framework of the GMA to develop its real estate holdings to their highest and best use. Oregon also has growth management provisions in its land use laws which served as a model for Washington’s growth management provisions. Oregon's land use laws are generally more stringent outside of urban areas, especially in commercial forest lands where residential conversions are often outright disallowed without statutory action by the State legislature.

Item 1A. RISK FACTORS

We are subject to statutory and regulatory risks that currently limit, and may increasingly limit, our ability to generate income. Our ability to grow and harvest timber can be significantly impacted by legislation, regulations or court rulings that restrict or stop forest practices. For example, events that focus media attention upon natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Additional regulations, whether or not adopted in response to such events, may make it more difficult or expensive for us to harvest timber and may reduce the amount of harvestable timber on our properties. These and other restrictions on logging, planting, road building, fertilizing, managing competing vegetation, and other activities can significantly increase the cost or reduce available inventory thereby reducing income. Any such additional restrictions likely would have a similar effect on our Timberland Management & Consulting operations, particularly in the case of the Funds.

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

We are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets. We generate Fee Timber revenue primarily by selling softwood logs to domestic mills and to third-party intermediaries who resell them to the export market. The domestic market for logs in our operating area depends heavily on U.S. housing starts. Recently, the U.S. housing market has started to improve but, to the extent the recovery in the housing market should stall, such a turn of events could have a negative impact on our operating results. The export markets for Pacific Northwest logs are significantly affected by fluctuations in United States, Japanese and, increasingly, Chinese and Korean economies, as well as by the foreign currency exchange rate between these Asian currencies and the U.S. dollar, as well as ocean transportation costs.

We have certain environmental remediation liabilities associated with our Port Gamble and former Port Ludlow resort properties, and those liabilities may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula and, up until mid-2001, owned real estate property within the resort community of Port Ludlow in Jefferson County in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations occurring prior to our acquisition of the properties, which occurred at the time of our spinoff from Pope & Talbot, Inc. in 1985. However, as current owner of Port Gamble and based on conditions of our sale of the Port Ludlow assets, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). We recently reached an agreement with the Washington State Department of Ecology ("DOE") on a consent decree ("CD") and clean-up action plan ("CAP") for the cleanup environmental remediation effort in Port Gamble Bay. Together, these documents outline the terms under which the Partnership will conduct environmental remediation as well as the specific clean-up activities to be performed. The CD and CAP were filed with the Kitsap County Superior Court in December 2013. We are also negotiating with the other "potentially liable person", the Washington State Department of Natural Resources ("DNR"), regarding its allocation of liability and its contribution towards cleanup costs.

While these negotiations are ongoing, management continues to monitor the Port Gamble and Port Ludlow cleanup processes closely. The $13.2 million remediation accrual as of December 31, 2013 represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies within both locations. These estimates are predicated upon a variety of factors, including the proportion of costs that would be allocated to us in comparison to those allocable to DNR or other parties, the actual amount of the ultimate cleanup costs, the cost of any litigation if we cannot reach a settlement with DNR, and the outcome of any such litigation. These liabilities are based upon a number of estimates and judgments that are subject to change as the project progresses. We have used mathematical simulations to estimate the liability for the aforementioned matters and suggest a potential aggregate range of $11.4 million to $15.3 million, which represents a two-standard-deviation range from the mean of possible outcomes generated by the modeling process used to estimate the liability. However, changes in any one or more of the factors upon which our estimates are based may have the effect of increasing the amount of our actual financial exposure or may require us to increase the amount of our remediation accrual, either of which would adversely affect our net income in the period in which the adjustment is made. The filing of the CD limits our legal exposure substantially, but does not eliminate it entirely. Any litigation ensuing from this matter may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income and operations.

We have entered into real estate purchase and sale agreements that may not close on the projected timeline or at all. The Partnership has certain real estate purchase and sale arrangements that are subject to risk of delayed closing, cancellation, or expiration before closing. While we expect the agreements to come to fruition as agreed, including a number of transactions that are slated to conclude in 2014, a variety of factors may cause us to experience delays in closing, a change in sale proceeds, or a failure to close. These factors include delays in the entitlement process, change in buyer strategy, buyer access to funding, failure to reach consensus on deal points, or any number of risks could either preclude or delay closing. The sale of finished lots in our Gig Harbor project to homebuilders carries some incremental risk to closing based on either our ability to produce finished lots due to final permitting process, construction delays, or the buyer's ability to sell homes.

We rely on contract loggers and truckers who are in short supply and seeking consistent work at increasing rates. We rely on contract loggers and truckers for the production and transportation, respectively, of our products to customers. During the economic downturn of 2008 and 2009 most industrial forestry firms deferred harvest, which resulted in a shortfall in demand for the contract logging and trucking work force. Many private logging and trucking companies did not survive the protracted economic downturn. As the economy has improved and companies return to harvesting, a shortage of logging contractors and truckers has developed. The remaining contractors who survived did so by reducing their workforce or, in the case of log truckers, converting their trucks to configurations suitable for highway freight hauling. This decline in the pool of available contractors has resulted in a steady increase in harvest and haul costs and market forces that are stressing continuity of work when soliciting contractor bids for a job. The commitment to more continuous work could preclude our ability to time markets, affecting total returns.

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

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

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

We may incur losses as a result of natural disasters that may occur, or that may be alleged to have occurred, on our properties. Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects and disease, flooding and landslides. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. While our timberlands are managed under the auspices of the Sustainable Forestry Initiative and management believes we follow sound forest management and risk mitigation procedures, and all forest operations meet or exceed the rules and regulations governing forest practices in Washington, Oregon and California, we cannot be certain that we will not be the subject of claims based on allegations that we acted improperly in managing our property. These claims may take the form of individual or class action litigation, regulatory or enforcement proceedings, or both. Any such claims could result in substantial defense costs and divert management's attention from the ongoing operation of our business, and if any such claims were successful, may result in substantial damage awards, fines or civil penalties. Consistent with the practices of other large timber companies, we do not maintain insurance against loss of standing timber on our timberlands due to natural disasters.

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

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. Because a portion of our cost of sales in our Fee Timber segment, which encompasses the Combined tree farms, consists of transportation costs for delivery of logs to domestic sawmills, it becomes increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Fee Timber revenue or income and, as that segment has traditionally represented our largest business unit, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue and income as a result of regional mill consolidations will also indirectly affect our Timberland Management & Consulting segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

Item 1B. UNRESOLVED SECURITIES AND EXCHANGE COMMISSION COMMENTS

None

Item 2. PROPERTIES

The following table reconciles acreage owned as of December 31, 2013 to acreage owned as of December 31, 2012. As noted previously, we own 20% of Funds I and II and 5% of Fund III. This table includes the entire 91,000 acres of timberland owned by the Funds and also presents the acreage on a look-through basis. Properties are typically transferred from Fee Timber to the Real Estate segment at the point in time when the Real Estate segment takes over responsibility for managing the properties with the goal of maximizing the properties' value upon disposition.

	Timberland Acres (in thousands) by Tree Farm				
Description	2012	Acquisitions	Sales	Transfer	**2013**
Hood Canal tree farm (1)	69.5	-	(0.3)	-	**69.2**
Columbia tree farm (1)	43.6	-	(2.3)	-	**41.3**
Subtotal Partnership Timberland	113.1	-	(2.6)	-	**110.5**
Fund I tree farms	23.9	-	-	-	**23.9**
Fund II tree farms (2)	37.2	-	-	-	**37.2**
Fund III tree farms (2)	18.9	10.7	-	-	**29.6**
Subtotal Funds' Timberland	80.0	10.7	-	-	**90.7**
Total Fee Timber acres	193.1	10.7	(2.6)	-	**201.2**
Partnership share of Funds	13.2	0.5	-	-	**13.7**
Total Real Estate acres (see detail below)	2.9	-	-	-	**2.9**
Combined Look-through total acres	129.2	0.5	(2.6)	-	**127.1**

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

Project Location	Real Estate Acres Detail 2012	Acquisitions	Sales	Transfer	2013
Bremerton	46				**46**
Gig Harbor	232		(14)		**218**
Hansville	149				**149**
Kingston - Arborwood	360				**360**
Kingston - 5-acre zoning	366				**366**
Port Gamble LAMIRD townsite (a)	114				**114**
Port Gamble Agrarian District (b)	205				**205**
Port Ludlow	256				**256**
Poulsbo	2				**2**
Other Rural Residential	1,188				**1,188**
Total	2,918	-	(14)	-	**2,904**

The following table provides dwelling unit (DU) per acre zoning for the Partnership's owned timberland and development properties as of December 31, 2013 and land sold during 2013. The table does not include sales of development rights or small timberland sales from tree farms properties:

Current Real Estate Land Inventory by Zoning Category		2013 Sales from RE Portfolio		
Zoning Designation	Acres	Acres	$/Acre	Total Sales
Urban zoning - residential	488			$ 1,628 *
Historic Rural Town	114			
Commercial/retail	13			
Business park/industrial	64	14	314,286	4,400
1 DU per 5 acres	726			
1 DU per 10 acres	131			
1 DU per 20 acres	861			
1 DU per 40 acres	5			
1 DU per 80 acres	251			
Agrarian District	205			
Forest Resource Lands	26			
Open Space	20			
Total	2,904			$ 6,028

*Property was sold in 2012, but accounting rules require us to recognize revenue on a percentage of completion basis as we satisfy construction-related post-closing obligations. This property was 11.5 acres with total revenue per acre of $135,004.

Item 3. **LEGAL PROCEEDINGS**

None.

Item 4. **MINE SAFETY DISCLOSURES**

Not applicable.

PART II

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

Market Information

The Partnership's equity securities are listed on NASDAQ and traded under the ticker symbol "POPE". The following table sets forth the 2011 to 2013 quarterly ranges of low and high prices, respectively, for the Partnership's units together with per unit distribution amounts by the period in which they were paid:

	High	Low	Closing	Distributions
Year Ended December 31, 2011				
First Quarter	$ 48.00	$ 35.02	$ 46.75	$ 0.25
Second Quarter	49.00	40.81	45.51	0.25
Third Quarter	50.29	39.02	41.00	0.35
Fourth Quarter	47.50	38.00	42.99	0.35
Year Ended December 31, 2012				
First Quarter	$ 45.78	$ 41.19	$ 43.70	$ 0.35
Second Quarter	60.39	42.50	55.07	0.45
Third Quarter	57.13	50.71	52.15	0.45
Fourth Quarter	56.49	51.25	55.68	0.45
Year Ended December 31, 2013				
First Quarter	$ 66.49	$ 56.15	$ 61.50	$ 0.45
Second Quarter	74.99	59.97	70.00	0.45
Third Quarter	73.07	60.07	67.69	0.55
Fourth Quarter	69.65	63.01	67.00	0.55

Unitholders

As of January 31, 2014, there were 4,452,511 outstanding units, representing 243 holders of record. Units outstanding include 64,188 that are currently restricted from trading and that were granted to 17 holders of record who are either management employees or members of the managing general partner's board of directors. The trading restriction for these units is lifted as the units vest. These restricted units vest over a four-year vesting schedule, either ratably over four years for management or 50% on the third anniversary of the grant date and the remaining 50% upon reaching the fourth anniversary for non-management Board members.

Distributions

All cash distributions are at the discretion of the Partnership's managing general partner, Pope MGP, Inc. (the "Managing General Partner"). During 2013, the Partnership made two quarterly distributions of 45 cents per unit and two of 55 cents per unit that totaled $8.9 million in the aggregate. In 2012, we made one distribution of 35 cents per unit and three of 45 cents per unit, totaling $7.5 million in the aggregate.

Confidence in our ability to generate cash flow in 2013 and continued improvement in all of our markets served to inform a $0.10, or 22% increase in quarterly distribution in the third quarter of 2013. This increase was in addition to a $0.10, or 29%, increase in quarterly distribution in the second quarter of 2012. The Managing General Partner, in its discretion, determines the amount of the quarterly distribution and regularly evaluates distribution levels. The Partnership recognizes that current economic conditions warrant continued sensitivity to the stewardship of cash balances. As such, the quarterly determination of distribution amounts, if any, will reflect the expectations of management and the Managing General Partner for the Partnership's liquidity needs.

Equity Compensation Plan Information

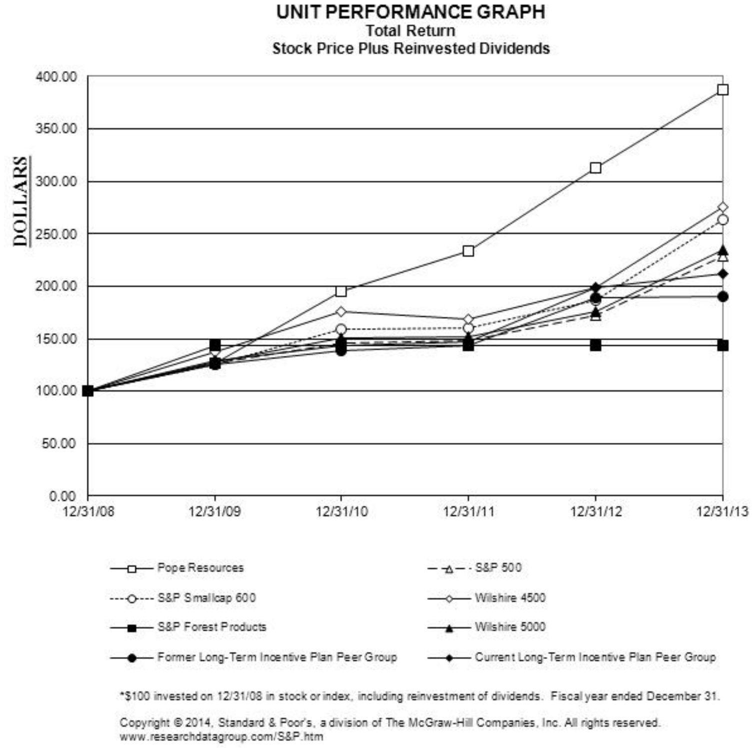
The Partnership maintains the Pope Resources 2005 Unit Incentive Plan, which authorizes the granting of nonqualified equity compensation in order to provide incentives to align the interests of management with those of unitholders. Pursuant to the plan, the Partnership issues restricted unit grants that vest over four years. As of December 31, 2013 there were 70,758 unvested and outstanding restricted units of which 24,036 units are scheduled to vest during 2014, and 915,994 limited partnership units remained issuable under the plan. Additional information regarding equity compensation arrangements is set forth in Note 6 to Consolidated Financial Statements and Item 11 - Executive Compensation. Such information is incorporated herein by reference.

Repurchase of Equity Securities

In December 2008 we announced a unit repurchase plan pursuant to which the Partnership was authorized to repurchase limited partner units with an aggregate value of up to $2.5 million. We subsequently increased the aggregate value of units authorized for repurchase to $5 million and extended the repurchase plan to allow for repurchases through December 2013. There were no Partnership unit repurchases under this 2008 plan during 2011, 2012 or 2013. The unit repurchase plan has been terminated as of December 31, 2013.

Performance Graph

The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's 500 Index, the Standard and Poor's Smallcap 600 Index, the Standard and Poor’s Fores Products Index, the Wilshire 4500, and the Wilshire 5000 for the five years ended December 31, 2013. The total unitholder return assumes $100 invested at the beginning of the period in the Partnership’s units, the Standard and Poor's 500 Index, the Standard and Poor's Smallcap 600 Index, the Standard and Poor’s Forest Products Index, the Wilshire 4500, the Wilshire 5000, Former Long-Term Incentive Plan Peer Group and Current Long-Term Incentiv Plan Peer Group. The graph assumes distributions are reinvested.



	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Pope Resources	**100.00**	**126.98**	**194.64**	**233.62**	**312.77**	**387.76**
S & P 500	**100.00**	**126.46**	**145.51**	**148.59**	**172.37**	**228.19**
S & P Smallcap 600	**100.00**	**125.57**	**158.60**	**160.22**	**186.37**	**263.37**
Wilshire 4500	**100.00**	**136.99**	**175.94**	**168.73**	**199.08**	**275.50**
S & P Forest Products	**100.00**	**143.51**	**143.01**	**143.01**	**143.01**	**143.01**
Wilshire 5000	**100.00**	**128.30**	**150.33**	**151.79**	**176.17**	**234.42**
Former Long-Term Incentive Plan Peer Group	**100.00**	**125.39**	**138.76**	**143.60**	**189.56**	**190.42**
Current Long-Term Incentive Plan Peer Group	**100.00**	**129.09**	**143.72**	**146.93**	**198.74**	**211.87**

Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2011, 2012, or 2013.

Item 6. SELECTED FINANCIAL DATA

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

(In thousands, except per unit data)	Year Ended December 31,				
Statement of operations data	**2013**	2012	2011	2010	2009
Revenue:					
Fee Timber	**$ 56,035**	$ 45,539	$ 52,729	$ 27,674	$ 14,847
Timberland Management & Consulting	-	7	-	31	601
Real Estate	**14,657**	8,497	4,545	3,487	5,030
Total revenue	**70,692**	54,043	57,274	31,192	20,478
Operating income/(loss):					
Fee Timber	**16,168**	11,853	16,899	9,703	3,724
Timberland Management & Consulting	**(1,950)**	(1,568)	(1,515)	(1,250)	(375)
Real Estate (1)	**3,276**	(11,099)	(349)	(829)	1,616
General and Administrative	**(4,562)**	(4,170)	(4,188)	(4,711)	(3,686)
Total operating income (loss)	**12,932**	(4,984)	10,847	2,913	1,279
Net income (loss) attributable to unitholders	**$ 13,135**	$ (4,709)	$ 8,754	$ 2,038	$ (272)
Earnings (loss) per unit – diluted	**$ 2.96**	$ (1.11)	$ 1.94	$ 0.43	$ (0.07)
Distributions per unit	**$ 2.00**	$ 1.70	$ 1.20	$ 0.70	$ 0.70
Balance sheet data					
Total assets	**$ 310,908**	$ 267,499	$ 230,408	$ 235,837	$ 187,080
Long-term debt, net of current portion	**75,581**	43,710	45,793	50,468	28,659
Partners' capital	**69,445**	64,223	75,759	70,990	83,126

(1) Real Estate operating results in 2013, 2012, 2011, 2010, and 2009 included $0, $12.5 million, $977,000, $875,000, and $30,000, respectively, of environmental remediation charges.

Management uses adjusted cash available for distributions, a non-GAAP measure, as a meaningful indicator of liquidity for purposes of calibrating our distribution payout rate to unitholders and, as such, has provided this information in addition to the generally accepted accounting principle-based presentation of cash provided by operating activities. Management recognizes that there are varying methods of calculating cash flow and has provided the information below to give transparency to this particular metric's calculation.

(In thousands)	Year Ended December 31,				
Adjusted cash available for distribution:	**2013**	2012	2011	2010	2009
Cash provided by operations	**$ 17,949**	$ 16,209	$ 21,660	$ 8,950	$ 662
Less: Maintenance capital expenditures (1)	**(1,352)**	(1,284)	(1,353)	(858)	(1,118)
Less: Required debt service	**(98)**	(3)	(6)	(1,015)	(1,357)
Less: Noncontrolling portion of Funds cash from operations (2)	**(5,656)**	(3,270)	(7,405)	(733)	543
Plus: Financed debt extinguishment costs (3)	**-**	-	-	1,250	1,137
Adjusted cash available for distribution (ACAD)	**$ 10,843**	$ 11,652	$ 12,896	$ 7,594	$ (133)
Other data					
Acres owned/managed (thousands)	**204**	**196**	178	175	150
Fee timber harvested (MMBF) (4)	**90**	**84**	90	53	32

(1) Capital expenditures from the cash flow statement less costs incurred to purchase and make leasehold improvements to the new corporate building less non-controlling interest share of Fund capital expenditures.
(2) Share of Funds' operating income (loss), interest, tax, amortization, depreciation, and depletion expense, cost of land sold, change in working capital accounts, and cash from operations that are attributable to noncontrolling interests. That share is 80% in the case of Funds I and II and 95% in the case of Fund III.
(3) Make-whole payments owed to prior lender that were added to total amount borrowed from new lender.
(4) Includes 2.3 MMBF sold as a timber sale in 2013 and 4.4 MMBF in 2012.

The following table presents Fee Timber revenue, operating income, and harvest volume on a look-through basis for each year in the three-year period ended December 31, 2013. This depiction reflects an adjustment to these GAAP financial items to reflect our proportionate ownership of each of the Funds, which for GAAP purposes are consolidated into our financial statements.

(in millions) Year ended	Revenue: Log Sale	Revenue: Mineral, Cell Tower & Other	Revenue: Total Fee Timber	Operating Income	Harvest Volume (MMBF)
Partnership	**$ 30.7**	**$ 1.5**	**$ 32.2**	**$ 14.1**	**48.5**
Share of Funds	**4.6**	**0.1**	**4.7**	**0.5**	**7.8**
Look-through 2013	**$ 35.3**	**$ 1.6**	**$ 36.9**	**$ 14.6**	**56.3**
Partnership	$ 26.3	$ 2.5	$ 28.8	$ 11.6	47.6
Share of Funds	3.3	-	3.3	0.0	6.4
Look-through 2012	$ 29.6	$ 2.5	$ 32.1	$ 11.6	54.0
Partnership	$ 29.5	$ 1.5	$ 31.0	$ 13.6	50.7
Share of Funds	4.3	0.0	4.3	-	7.9
Look-through 2011	$ 33.8	$ 1.5	$ 35.3	$ 13.6	58.6

The following table presents log volume sold by species on a Look-through basis for each year in the three-year period ended December 31, 2013 as follows:

Volume (in MMBF)	2013	% Total	2012	% Total	2011	% Total
Sawlogs						
Douglas-fir	**36.6**	**65%**	38.8	72%	40.9	70%
Whitewood	**8.0**	**14%**	6.2	11%	6.4	11%
Cedar	**1.4**	**2%**	0.6	1%	0.9	2%
Hardwoods	**1.7**	**3%**	1.4	3%	1.6	1%
Pulpwood						
All Species	**8.6**	**15%**	7.0	13%	8.8	15%
Total	**56.3**	**100%**	54.0	100%	58.6	100%

The following table presents log price realized by species on a Look-through basis for each year in the two-year periods ended December 31, 2013 as follows:

		Fiscal Year						
			Δ from 2012 to 2013			Δ from 2011 to 2012		
		2013	$/MBF	%	2012	$/MBF	%	2011
Sawlogs	Douglas-fir	**$ 695**	$ 108	18%	$ 587	$ (27)	-4%	$ 614
	Whitewood	**$ 616**	118	24%	498	(49)	-9%	547
	Cedar	**$ 1,162**	145	14%	1,017	86	9%	930
	Hardwood	**$ 553**	(35)	-6%	588	16	3%	572
Pulpwood	All Species	**$ 272**	(58)	-18%	330	(63)	-16%	393
Overall		**$ 627**	79	14%	548	(29)	-5%	577

Annual harvest volume and average price paid on a Look-through basis for each year in the three-year period ended December 31, 2013 was as follows:

	2013			2012			2011		
Destination	**Volume**	**%**	**Price**	Volume	%	Price	Volume	%	Price
Export brokers	**31.2**	**36%**	**$ 707**	20.2	25%	$ 591	40.6	45%	$ 628
Domestic mills	**43.5**	**50%**	**$ 650**	49.5	62%	560	36.4	40%	565
Pulpwood	**12.6**	**14%**	**$ 265**	10.2	13%	318	13.2	15%	383
Total	**87.3**	**100%**	**$ 614**	79.9	100%	$ 537	90.2	100%	$ 567

The percentage of annual harvest volume on a Look-through basis by quarter for each year in the three-year period ended December 31, 2013 was as follows:

Year ended	Q1	Q2	Q3	Q4
2013	34%	28%	16%	22%
2012	23%	39%	21%	17%
2011	36%	22%	13%	29%

Fee Timber cost of sales on a Look-through basis for each year in the three-year period ended December 31, 2013 was as follows:

(in thousands)	**Harvest, Haul and Other**	**Depletion**	**Total Fee Timber Cost of Sales**	**Harvest Volume (MMBF)**
Partnership tree farms	**$ 10,850**	**$ 2,704**	**$ 13,554**	**48.5**
Share of Funds' tree farms	**2,143**	**1,542**	**3,685**	**7.8 ***
Look-through Fee Timber 2013	**$ 12,993**	**$ 4,246**	**$ 17,239**	**56.3 ***
Partnership tree farms	$ 10,032	$ 3,083	$ 13,115	52.0 **
Share of Funds' tree farms	1,509	1,387	2,896	6.4
Look-through Fee Timber 2012	$ 11,541	$ 4,470	$ 16,011	58.4 **
Partnership tree farms	$ 9,871	$ 3,171	$ 13,042	50.7
Share of Funds' tree farms	1,588	1,717	3,305	7.9
Look-through Fee Timber 2011	$ 11,459	$ 4,888	$ 16,347	58.6

* Volume includes 0.1 MMBF from timber deed sale on a look-through basis.
** Volume includes 4.4 MMBF from timber deed sale.

Fee Timber cost of sales, expressed on a per MBF and Look-through basis for each year in the three-year period ended December 31, 2013 was as follows:

(Amounts per MBF)	Harvest, Haul and Other *	Depletion *	Total Fee Timber Cost of Sales *
Partnership tree farms	**$ 224**	**$ 56**	**$ 279**
Share of Funds' tree farms	**388**	**198**	**472**
Look-through Fee Timber 2013	**$ 238**	**$ 75**	**$ 306**
Partnership tree farms	$ 211	$ 59	$ 252
Share of Funds' tree farms	236	217	453
Look-through Fee Timber 2012	$ 214	$ 77	$ 274
Partnership tree farms	$ 195	$ 63	$ 257
Share of Funds' tree farms	201	217	418
Look-through Fee Timber 2011	$ 196	$ 83	$ 279

* Timber deed sale volumes are excluded in the per MBF computation for harvest, haul and other costs but included in the per MBF computation for depletion and total cost of sales.

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

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect management's estimates based upon our current goals, in light of management's knowledge of existing circumstances and expectations about future developments. Statements about expectations and future performance are "forward looking statements" within the meaning of applicable securities laws, which describe our goals, objectives and anticipated performance. These statements can be identified by words such as "anticipate," "believe," "expect," "intend" and similar expressions. These statements are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, you should not interpret these statements as promises that we will perform at a given level or that we will take any or all of the actions we currently expect to take. Our future actions, as well as our actual performance, will vary from our current expectations, and under various circumstances these variations may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled "Risk Factors" in Item 1A above. Some of the issues that may have an adverse and material impact on our business, operating results and financial condition include economic conditions that affect consumer demand for our products and the prices we receive for them both domestically and overseas, particularly in certain parts of Asia; government regulation that affects our ability to access our timberlands and harvest logs from those lands; factors that affect the timing and amounts realized from the sales, if any, of our real estate holdings; the implications of significant indirect sales to overseas customers, including regulatory and tax matters; the effect of financial market conditions on our investment portfolio and related liquidity; environmental and land use regulations that limit our ability to harvest timber and develop property; access to debt financing by our customers as well as ourselves; the impacts of climate change and natural disasters on our timberlands and on surrounding areas; and the potential impacts of fluctuations in foreign currency rates as they affect demand for our products. From time to time we identify other risks and uncertainties in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates and expectations as of the date of the report, and unless required by law, we do not undertake to update these statements as our business operations and environment change.

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

EXECUTIVE OVERVIEW

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

Our current strategy for adding timberland acreage is centered on our private equity timber fund business model. We have closed and invested capital from three timber funds, with assets under management totaling approximately $302 million in value based on appraisals as of December 31, 2013. Our 20% co-investments in Funds I and II, and our 5% co-investment in Fund III, which collectively totaled $32 million as of December 31, 2013, afford us a share of the Funds' operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. Management also believes that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management more cost-effectively than could be maintained for the Partnership's timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective investors by demonstrating that we have both an operational and a financial commitment to the Funds' success.

We have closed on $180 million of committed capital for Fund III, $9 million of which represents our co-investment commitment. In the fourth quarter of 2012 we acquired a property in northern California which represented our first acquisition with this committed capital. In the fourth quarter of 2013, we acquired property in southwest Washington. As of December 31, 2013, $108 million of undrawn capital commitment remains including a commitment to Fund III by the Partnership of over $5 million.

The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is removed from consolidated results in our Condensed Consolidated Statements of Comprehensive Income (Loss) under the caption "Net loss attributable to non-controlling interests-ORM Timber Funds" to arrive at comprehensive income (loss) attributable to unitholders of the Partnership.

Land held for development in western Washington by our Real Estate segment represents property that has been deemed suitable for residential and commercial building sites. The markets for these resources suffered during the global financial crisis along with regional and national markets, producing a decline in real estate segment sales. Land held for sale represents those properties in the development portfolio that we expect to sell in the next year. In the fourth quarter of 2013 and thus far in the first quarter of 2014, we have closed on the sale of a number of properties and although we expect to close on several more during 2014, the timing and success of those transactions cannot be assured. The challenge for our Real Estate segment centers around how and when to "harvest" a parcel of land and optimize value realization by selling the property, balancing the long-term risks and costs of carrying and developing a property against the potential for income and positive cash flows upon sale.

Currency exchange rates and ocean freight rates influence the competitiveness of our logs in Asian export markets as well as the competitiveness of our domestic sawmill customers with lumber exports to Asia relative to lumber exported from Canada or Australia. We sell our export logs to domestic intermediaries who then export the logs. Exchange rates impact the ability of these intermediaries to compete in Asian markets with logs that originate from Canada, Russia, or the Southern Hemisphere. In 2013, the U.S. dollar strengthened against most major currencies. The U.S. dollar strengthening against the Japanese yen and Korean won was not significant enough to affect demand for our logs, owing both to the relatively small fluctuations and to our sales volume into those countries.

Our consolidated revenue in 2013, 2012, and 2011, on a percentage basis by segment, was as follows:

Segment	**2013**	2012	2011
Fee Timber	**79%**	84%	92%
Timberland Management & Consulting	**-%**	-%	-%
Real Estate	**21%**	16%	8%

Additional segment financial information is presented in Note 11 to the Partnership's Consolidated Financial Statements included with this report.

Highlights for the year ended December 31, 2013

- Harvest volume for the year 2013 was 87 MMBF compared to 80 MMBF for 2012, a 9% increase. These harvest volume figures do not include timber deed sales, 2 MMBF sold by one of our timber funds in 2013 and 4 MMBF from a Partnership tree farm in 2012.

- Average realized log price per MBF was $614 for 2013 compared to $537 per MBF for 2012, a 14% increase.

- As a percentage of total harvest, volume sold to export markets in 2013 increased to 36% from 25% in 2012, while the mix of volume sold to domestic markets decreased to 46% in 2013 from 59% in 2012. Hardwood and pulp log sales make up the balance of total harvest volume.

- The percentage of total harvest comprised of Douglas-fir sawlogs decreased to 60% in 2013 from 64% in 2012, while the whitewood component increased slightly to 20% in 2013 from 19% in 2012. This shift in species mix is consistent with the higher weighting of total harvest volume coming from Fund properties, which increased to 44% in 2013 from 40% in 2012.

- In December 2013 our third private equity timber fund closed on a purchase of nearly 10,700 acres of timberland in southwest Washington for $43 million. The property was purchased with a combination of $18 million of debt and the balance with the fund's equity. The Partnership contributed $1.3 million, or 5%, of the equity as part of its co-investment in this fund.

- In Q4 2013, we closed on a 14-acre sale for $4.4 million for a school site in our Gig Harbor project and a 348-acre sale for $1.6 million for a conservation land sale in Jefferson County, Washington. In Q2 2013, we closed on a 2,330-acre conservation land sale for $5.7 million.

- We invested $10.8 million in our Gig Harbor project over the course of 2013 to both complete infrastructure obligations stemming from a Q4 2012 multi-family parcel sale and to prepare for a series of single-family lot sales expected to close in 2014 and beyond.

Outlook

In 2014, we expect our harvest level to be between 95-103 MMBF. Log prices early in 2014 are comparing positively to those realized in Q4 2013, but it is early in the year and we are cognizant that macroeconomic headwinds have the potential to dampen global trade and the domestic housing recovery, either of which could weaken results for the coming year.

In the first two months of 2014, we closed on the sale of 40 single-family lots from our Gig Harbor project and on 535 acres of timberland in Port Gamble, Washington. Furthermore, two sales totaling 67 single-family lots from our Gig Harbor project are expected to close by the end of the first quarter of 2014 and several other land sales are expected to close this year, all of which will bolster Real Estate results for 2014.

General & Administrative costs in 2014 are currently expected to remain relatively flat compared to 2013.

RESULTS OF OPERATIONS

The following table reconciles net income (loss) attributable to unitholders for the years ended December 31, 2013 to 2012 and 2012 to 2011. 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
(in thousands)

	2013 vs. 2012 Total	2012 vs. 2011 Total
Net income (loss) attributable to Pope Resources' unitholders:		
2013 period	**$ 13,135**	
2012 period	**(4,709)**	$ (4,709)
2011 period		8,754
Variance	**$ 17,844**	$ (13,463)
Detail of earnings variance:		
Fee Timber		
Log volumes (A)	**$ 3,957**	$ (5,815)
Log price realizations (B)	**6,723**	(2,401)
Timber deed sales	**(538)**	1,026
Production costs	**(3,996)**	674
Depletion	**(734)**	1,739
Other Fee Timber	**(1,096)**	(269)
Timberland Management & Consulting	**(382)**	(53)
Real Estate		
Land sales	**3,690**	2,375
Conservation easesement sales	**(985)**	-
Timber depletion on HBU sale	**(529)**	150
Other Real Estate	**(300)**	(1,752)
Environmental remediation costs	**12,500**	(11,523)
General & administrative costs	**(394)**	18
Net interest expense	**(68)**	224
Taxes	**659**	(116)
Noncontrolling interest	**(663)**	2,260
Total variances	**$ 17,844**	$ (13,463)

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

Fee Timber

Revenue and Operating Income

Fee Timber results include operations from 110,000 acres of timberland owned by the Partnership and 91,000 acres of timberland owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington, western Oregon, and northern California. Fee Timber revenue, to a lesser extent, is also derived from ground leases for cellular communication towers and royalties from gravel mines and quarries. Our Fee Timber revenue is driven primarily by the volume of timber harvested and the average log price realized on the sale of that harvested timber. Our volume harvested is typically based on manufactured log sales to domestic mills or export brokers. We also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. During the second quarter of 2012, we executed a timber deed sale from the Partnership's timberland, and in the second, third and fourth quarters of 2013, we sold volume under the terms of a much smaller timber deed sale from the Funds' timberland. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude the timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF). Fee Timber cost of sales, which consist predominantly of harvest, haul and depletion costs, vary directly and roughly proportionately with harvest volume and the resulting revenues. Revenue and cost data related to harvest activities on timberland owned by Funds are consolidated into this discussion of operations.

Revenue and operating income for the Fee Timber segment for each year in the three-year period ended December 31, 2013, are as follows:

(in millions) Year ended	Revenue Log Sale	Mineral, Cell Tower & Other	Total Fee Timber	Operating Income	Harvest Volume (MMBF)
Partnership	**$ 30.7**	**$ 1.5**	**$ 32.2**	**$ 14.1**	**48.5**
Funds	**22.9**	**0.9**	**23.8**	**2.1**	**38.8**
Total Fee Timber 2013	**$ 53.6**	**$ 2.4**	**$ 56.0**	**$ 16.2**	**87.3**
Partnership	$ 26.3	$ 2.5	$ 28.8	$ 11.6	47.6
Funds	16.6	0.1	16.7	0.2	32.3
Total Fee Timber 2012	$ 42.9	$ 2.6	$ 45.5	$ 11.8	79.9
Partnership	$ 29.5	$ 1.5	$ 31.0	$ 13.6	50.7
Funds	21.6	0.1	21.7	3.3	39.5
Total Fee Timber 2011	$ 51.1	$ 1.6	$ 52.7	$ 16.9	90.2

Fiscal Year 2013 compared to 2012. Fee Timber revenue for 2013 increased by $10.5 million, or 23%, to $56.0 million from $45.5 million during 2012. The increase is attributable to increased log sale revenue due to stronger export and domestic log markets in 2013 relative to 2012 leading to a 7.4 MMBF, or 9%, increase in harvest volume, combined with a $77/MBF, or 14%, increase in realized log price. Partially offsetting the increased log sale revenue was a $538,000 decrease in revenue from timber deed sales from $1.0 million on 4.4 MMBF from a Partnership tree farm in 2012 to $488,000 on 2.3 MMBF from a Fund tree farm in 2013. Timber deed sale revenue is included in the "Mineral, Cell Tower & Other Revenue" column in the above table.

Operating income increased $4.4 million, or 36%, from $11.8 million in 2012 to $16.2 million in 2013 due to the aforementioned 9% increase in harvest volume and 14% increase in realized log price. Cost of sales increased by 17% due not only to increased volume, but also due to a 12% increase in harvest, haul, and other costs on a per MBF basis due primarily to more expensive logging systems. Further lifting cost of sales was the increase in the Funds' share of harvest volume from 40% in 2012 to 44% in 2013, which led to an increase in depletion expense on a per MBF basis. The Funds' tree farms have a higher basis and higher depletion rate as they were acquired more recently than the Partnership's tree farms.

Fee timber revenue from the Funds increased $7.1 million, or 43%, from $16.7 million in 2012 to $23.8 million in 2013 due to a 6.5 MMBF, or 20%, increase harvest volume and a $77/MBF, or 15%, increase in realized log price. Also adding to the increase in revenue was $488,000 from a timber deed sale in 2013 of 2.3 MMBF, which had no counterpart in 2012. These same factors caused operating income for the Funds to increase $1.9 million, or nine-fold, from $245,000 in 2012 to $2.1 million in 2013.

Fiscal Year 2012 compared to 2011. Fee Timber revenue and operating income decreased by $7.2 million and $5.1 million, respectively, from 2011 to 2012. The decreases were driven by the combined effect of a 10.3 MMBF, or 11%, drop in harvest volume from 2011 to 2012 coupled with a $30/MBF, or 5%, decrease in average realized log price. The harvest volume decrease reflects our response to a drop in 2012 log prices from 2011 levels when surging exports to China resulted in price spikes across numerous log sorts. The operating income decrease was accentuated by higher harvest and haul costs across the Combined tree farms, offset in part by a 4.4 MMBF timber deed sale in 2012 which provided $765,000 of operating income. We saw harvest and haul costs rise in 2011 primarily due to high demand for qualified loggers and truckers, many of whom went out of business or converted trucks to haul general freight during the depths of the recent economic downturn. These log and haul cost increases continued in 2012, eroding operating income of both the Partnership and the Funds.

Revenue and operating income for the Funds decreased $5.0 million and $3.1 million, respectively, from 2011 to 2012. A 7.2 MMBF, or 18%, decline in Fund harvest volume coupled with a $34/MBF, or 6%, decrease in log price were the factors responsible for the decreases. The percentage of Combined harvest coming from Fund properties dropped from 44% in 2011 to 40% in 2012.

Log Volume

Log volume sold for each year in the three-year period ended December 31, 2013 were as follows, exclusive of the aforementioned timber deed sales:

Volume (in MMBF)						
Sawlogs	**2013**	**% Total**	2012	% Total	2011	% Total
Douglas-fir	**52.5**	**60%**	51.1	64%	55.2	61%
Whitewood	**17.4**	**20%**	15.4	19%	18.0	20%
Cedar	**1.7**	**2%**	0.8	1%	1.4	2%
Hardwoods	**3.1**	**4%**	2.3	3%	2.4	3%
Pulpwood						
All Species	**12.6**	**14%**	10.2	13%	13.2	15%
Total	**87.3**	**100%**	79.9	100%	90.2	100%

Fiscal Year 2013 compared to 2012. Harvest volume increased 7.4 MMBF, or 9%, to 87.3 MMBF in 2013 versus 79.9 MMBF in 2012. The increase in volume is in response to a stronger domestic market that was manufacturing lumber for the improving U.S. housing market, as well as improved demand and pricing for logs from Asian export markets. We took advantage of these stronger markets by recapturing volume that was deferred in the 2008-2010 period when log markets were significantly weaker. The shift in mix from Douglas-fir in 2012 to whitewood and other species in 2013 is attributable to the decline in relative harvest volume off the Partnership's timberland from 60% in 2012 to 56% in 2013 and commensurate increase in relative harvest volume off the Funds' timberland from 40% in 2012 to 44% in 2013.

Fiscal Year 2012 compared to 2011. Harvest volume decreased by 10.3 MMBF, or 11%, from 2011 to 2012, with 7.2 MMBF, or 70%, of that decrease attributable to a reduction in Fund harvest. We experienced weaker demand from the China log export market in 2012 relative to 2011. This market softening prompted us to slow the pace of harvest, particularly in the Fund's coastal Oregon hemlock region, which was heavily dependent on the China log export market in 2011. There was very little shift in year-to-date Combined species mix from 2011 to 2012. The most notable shift saw Douglas-fir sawlog volumes increase from 61% in 2011 to 64% in 2012, primarily at the expense of pulpwood volumes, which declined to 13% in 2012 from 15% in 2011.

Log Prices

For each year in the three-year period ended December 31, 2013, the table below shows the average realized log price by species, as well as the dollar and percentage change in price from 2012 to 2013 and 2011 to 2012.

		Fiscal Year						
			Δ from 2012 to 2013			Δ from 2011 to 2012		
		2013	$/MBF	%	2012	$/MBF	%	2011
Sawlogs	Douglas-fir	**$ 684**	$ 102	18%	$ 582	$ (27)	-4%	$ 609
	Whitewood	**$ 618**	118	24%	500	(46)	-8%	546
	Cedar	**$ 1,165**	145	14%	1,020	97	11%	923
	Hardwood	**$ 541**	(40)	-7%	581	8	1%	573
Pulpwood	All Species	**$ 265**	(53)	-17%	318	(65)	-17%	383
Overall		**$ 614**	77	14%	537	(30)	-5%	567

Our average overall delivered log price increased $77/MBF, or 14%, from 2012 to 2013. The overall average is heavily influenced by price movements for Douglas-fir and whitewood where we saw significant increases due to stronger markets in 2013 for export and domestic logs compared to 2012. The significant changes in the prices for cedar and hardwood had only a small impact on the overall price because of their low share of our production mix, while a decrease in the price for pulpwood logs served to offset a portion of the increases realized on Douglas-fir and whitewood sawlogs.

Our average overall delivered log price decreased $30/MBF, or 5%, from 2011 to 2012. This was due primarily to a $37/MBF, or 6%, year-over-year decrease in export price (blend of Douglas-fir and whitewood) in addition to a $65/MBF, or 17%, decrease in pulpwood prices. The significant change in the price for cedar had only a small impact on the overall price because of its low share of our production mix.

Douglas-fir: Douglas-fir is noted for its structural characteristics that make it generally preferable to other softwoods for manufacturing construction grade lumber and plywood. Demand and price for Douglas-fir sawlogs have historically been driven largely by the level of new home construction in the United States. Since late 2010 the correlation between Douglas-fir sawlog prices and domestic housing starts has weakened with surging demand from China. This increased export demand served to offset the weak domestic housing market in 2011, elevating log prices. In late 2011, however, the export market softened, a trend that continued through the first half of 2012, while at the same time the domestic housing market began to pick up. These two factors served to close the differential between export prices and rising domestic prices during 2012. The end result was that realized log prices decreased $27/MBF, or 4%, from $609/MBF in 2011 to $582/MBF in 2012. Late in 2012, log inventories were drawn down in China as demand increased, causing the export and domestic markets to compete for the same logs. The trends of increased demand from both the domestic and export markets continued into 2013, combining to cause the realized price to increase $102/MBF, or 18%, from $582/MBF in 2012 to $684/MBF in 2013.

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. Historically, there has been a modest export market for whitewood logs, with most of this volume going to Korea. Beginning in 2010 this changed as the China log export market demonstrated an appetite for softwood logs with little apparent express preference as to species. As with the discussion of Douglas-fir markets above, whitewood markets experienced similar characteristics from 2011 to 2013, though with an increased emphasis on changes in export demand. As a result, whitewood prices decreased $46/MBF, or 8%, from $546/MBF in 2011 to $500/MBF in 2012. Whitewood prices increased $118/MBF, or 24%, form $500/MBF in 2012 to $618/MBF in 2013.

Cedar: Cedar is a minor component in most upland timber stands and is generally used for outdoor applications such as fencing, siding and decking. Although there is a link between demand for these products and housing starts, this link is not as strong as with most other softwood species. Cedar prices increased $97/MBF, or 11%, from $923/MBF in 2011 to $1,020/MBF in 2012 in response to a small spike in demand from buyers. Cedar prices increased $145/MBF, or 14%, from $1,020/MBF in 2012 to $1,165/MBF in 2013 due to improved domestic housing starts.

Hardwood: Hardwood is an ancillary product of Pacific Northwest log harvest volume, and at times this product's pricing will vary inversely to harvest volume in the region as the market demand for it has been stable over time. Hardwood can refer to many different species, but on our tree farms primarily consists of red alder. The local mills that process red alder sawlogs are using the resource to manufacture lumber for use in furniture and cabinet construction. Given the relatively small volume of hardwood logs that we produce, the quality and species attributes of the volume can have a large impact on our price realizations. Hardwood prices increased $8/MBF, or 1%, from $573/MBF in 2011 to $581/MBF in 2012. Hardwood prices decreased $40/MBF, or 7%, from $581/MBF in 2012 to $541/MBF in 2013.

Pulpwood: Pulpwood is a lower quality conifer or hardwood log unsuitable for the manufacture of lumber, but useful to produce wood chips for the pulp and paper industry. During the recession, many timberland owners deferred harvest for several years as domestic mills had severely curtailed operations and export market demand was at very low levels. Since pulp mills rely on sawmill residuals and pulpwood logs for their raw material, and both were in short supply during the recession, they were forced to raise pulpwood prices to levels not seen since the 1990's. With the 2012 closure of a major pulp mill in our operating area, and the increased production at local sawmills reflective of the rising domestic housing market, the purchasers of pulpwood have become less dependent on raw material from whole logs. Pricing for pulpwood has softened accordingly as less expensive woodchips from sawmill residuals were substituted for woodchips from logs. As a result, pulpwood prices decreased $65/MBF, or 17%, from $383/MBF in 2011 to $318/MBF in 2012. Pulpwood prices decreased $53/MBF, or 17%, from $318/MBF in 2012 to $265/MBF in 2013. With the return in 2012 of more traditional pricing for pulpwood, our harvest planning reverted to a more customary log sort mix rather than emphasizing timber stands with a higher pulpwood mix.

Customers

Annual harvest volume and average price paid for each year in the three-year period ended December 31, 2013 was as follows:

	2013			2012			2011		
Destination	**Volume**	**%**	**Price**	Volume	%	Price	Volume	%	Price
Export brokers	**31.2**	**36%**	**$ 707**	20.2	25%	$ 591	40.6	45%	$ 628
Domestic mills	**43.5**	**50%**	**$ 650**	49.5	62%	560	36.4	40%	565
Pulpwood	**12.6**	**14%**	**$ 265**	10.2	13%	318	13.2	15%	383
Total	**87.3**	**100%**	**$ 614**	79.9	100%	$ 537	90.2	100%	$ 567

Fiscal Year 2013 compared to 2012. Volume sold to export brokers as a percentage of total harvest in 2013 increased to 36% compared to 25% during 2012. Conversely, volume sold to domestic mills declined to 50% in 2013 compared to 62% during 2012. This shift in mix is attributable to a stronger export market in 2013 versus 2012, and reduced impact in the domestic market from a niche opportunity that existed in 2012 wherein we sold high quality logs to a domestic customer cutting lumber for Japan. Prices in the export market increased $116/MBF, or 20%, from 2012 to 2013. Domestic prices were also up, increasing by $90/MBF, or 16%, from 2012 to 2013. In both cases, prices are higher due to improved demand in each of those markets. The market share of pulpwood logs increased nominally from 2012 to 2013 due to the mix of stands selected for harvest, despite a $53/MBF, or 17%, decrease in price from 2012 to 2013. The pulpwood price decline is attributable to the increased supply of wood chips available from sawmill residuals.

Fiscal Year 2012 compared to 2011. Export brokers purchased 25% of 2012 volume compared to 45% during 2011. The loss of volume was made up entirely by the domestic mills that purchased 62% of the 2012 volume versus 40% of the 2011 volume. This swing in product destination was due principally to a weaker China export log market with far less demand in 2012 compared to 2011, which in turn resulted in a $37/MBF, or 6%, decline in export log prices. Notwithstanding gradually improving housing starts and some spot markets for lumber bound for export markets that provided much needed life support to domestic mills, domestic log prices declined slightly, losing $5/MBF, or 1%, from 2011 to 2012. Closure of a regional pulp mill and added lumber production served to bring down pulpwood mix from 15% in 2011 to 13% in 2012. Pulpwood prices also decreased $65/MBF, or 17%, between 2011 and 2012.

Harvest Volumes and Seasonality

The Partnership owns 110,000 acres of timberland in western Washington and the Funds own 91,000 acres of timberland in western Washington, northwestern Oregon, and northern California. We are able to conduct year-round harvest activities on the Partnership's Hood Canal tree farm and on 23,000 acres of the Funds' properties because these tree farms are concentrated at low elevations. In contrast, the Partnership's Columbia tree farm and the 68,000-acre balance of Fund properties are at a higher elevation where harvest activities are generally not possible during the winter months when snow precludes access to the lands. Generally, we concentrate our harvests from lower-elevation tree farms in those months when weather limits operations on other properties, thus taking advantage of reduced competition for log supply to our customers and improved realized prices. As such, when these various tree farms are combined, we can operate so that the pattern of quarterly volumes harvested is flatter than would be the case if looking at one tree farm in isolation.

The percentage of annual harvest volume by quarter for each year in the three-year period ended December 31, 2013 was as follows:

Year ended	Q1	Q2	Q3	Q4
2013	34%	28%	16%	22%
2012	23%	39%	21%	17%
2011	36%	22%	13%	29%

Entering 2013, we recognized that both the domestic and export markets were simultaneously improving causing us to pull forward volume into Q1 2013 that was planned for later in the year. These strong markets and prices continued into Q2 2013, combined with typical seasonal patterns associated with better access to higher elevation timberlands. Taking advantage of strong markets in the first half of 2013 allowed us to throttle back operations in Q3 2013 when log supply is generally at its highest of the year due to favorable weather, and log prices are commensurately lower. Prices improved to their highest levels of the year in Q4 2013, causing a slight increase in volume.

Harvest activities in early 2012 were approached with caution due to lukewarm demand from the China market during the first quarter of the year and relatively high inventories at domestic customers' log yards resulting from the heavy Q4 2011 production. Q2 2012 harvest reflects a seasonal bump in spring harvest that was more pronounced than usual due to withholding volume during Q1 2012 and a decision to advance some of the Q3 2012 volume to take advantage of favorable pricing. This resulted in slightly lower Q3 2012 harvest volume, a level we maintained during Q4 2012 due to favorable log prices.

We entered 2011 with momentum from the burgeoning Chinese export market that began in earnest in the second half of 2010. As Q1 2011 progressed, we moved quickly to further ramp up harvest activity to meet the demand from our export customers. We were poised for a seasonal Q2 2011 slow-down that did not come to fruition until Q3 2011. We experienced another spike in demand during Q4 2011, wherein we cut nearly a third of the annual volume in response to that demand.

Cost of Sales

Cost of sales for the Fee Timber segment consists of harvest, haul, and harvest excise tax costs along with depletion expense. These costs all vary directly with harvest volume. Harvest costs will vary by terrain, with steeper slopes requiring more expensive cable systems and a high labor component, while more moderate slopes can be harvested utilizing mechanized equipment resulting in lower relative costs. Haul costs will also vary directly in proportion to the distance traveled from the logging site to the log-buying customer, and will reflect the impact of fuel cost variability. Taken together, harvest and haul costs represent by far the most significant direct costs incurred to convert standing timber into manufactured logs and deliver those logs to the point of sale. Harvest excise tax costs vary by state, and our typical volume weighted average ranges from $10-14/MBF.

Depletion expense represents the cost of acquiring and growing the harvested timber. The applicable depletion rate is derived each year by dividing the sum of a) the aggregate cost of merchantable (age 35 and older) stands of timber and b) capitalized road expenditures by c) the estimated volume of merchantable timber available for harvest at the beginning of that year. The depletion rate, so derived and expressed in $/MBF terms, is then multiplied by the volume harvested in a given period to calculate depletion expense for that period. Because of the relatively recent acquisition dates of the Funds' tree farms, the depletion rates associated with harvests from those properties are considerably higher than for harvests from the Partnership's tree farms. Partnership depletion consists primarily of historical timber cost that has been owned by the Partnership for many decades, as well as the Columbia tree farm property that was acquired in 2001.

We use a pooled depletion rate for volume harvested from the Partnership's tree farms that divides the combined book basis of the merchantable timber for both tree farms by the combined merchantable volume for both tree farms. On the other hand, for the Funds we calculate separate depletion rates for each of the Fund tree farms and then present them as a blended aggregate rate based on actual harvest volume from each of the tree farms.

Fee Timber cost of sales for each year in the three-year period ended December 31, 2013 is as follows:

(in thousands)	Harvest, Haul and Other	Depletion	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)
Partnership tree farms	**$ 10,850**	**$ 2,704**	**$ 13,554**	**48.5**
Funds' tree farms	**10,723**	**8,049**	**18,772**	**41.0 ***
Total Fee Timber 2013	**$ 21,573**	**$ 10,753**	**$ 32,326**	**89.5**
Partnership tree farms	$ 10,032	$ 3,083	$ 13,115	52.0 **
Funds' tree farms	7,546	6,935	14,481	32.3
Total Fee Timber 2012	$ 17,578	$ 10,018	$ 27,596	84.3 **
Partnership tree farms	$ 9,871	$ 3,171	$ 13,042	50.7
Funds' tree farms	7,939	8,587	16,526	39.5
Total Fee Timber 2011	$ 17,810	$ 11,758	$ 29,568	90.2

* Volume includes 2.3 MMBF from timber deed sale.
** Volume includes 4.4 MMBF from timber deed sale.

Fiscal Year 2013 compared to 2012. Cost of sales increased $4.7 million, or 25%, from $27.6 million in 2012 to $32.3 million in 2013 partly due to a $34/MBF, or 10%, increase in per MBF cost of sales due to several factors including higher per MBF harvest, haul, and other costs due to more expensive logging systems and hauling costs; and a higher mix of Fund harvest volume in 2013 (46%) versus 2012 (38%) magnifying the Funds' higher depletion rate. Also contributing to the increase was a 5.2 MMBF, or 6%, increase in harvest volume, including the timber deed sale volumes.

Fiscal Year 2012 compared to 2011. Cost of sales declined $2.0 million, or 6.7%, from $29.6 million in 2011 to $27.6 million in 2012 principally as a result of a $1.8 million decline in depletion expense. The decline in depletion expense is a result of an 11% reduction in Combined harvest volume coupled with a shift away from harvest from the Funds' tree farms, which carry a higher per unit depletion rate, partially offset by the depletion expense from the 4.4 MMBF timber deed sale. The Partnership tree farms have a lower historic cost and attendant depletion rate, while the Funds' tree farms have a higher depletion rate reflective of their more recent acquisition dates. In 2012, harvest volumes, including the 4.4 MMBF timber deed sale, were weighted 62% and 38% from Partnership and Fund tree farms, respectively. In 2011, volumes were weighted 56% and 44% from Partnership and Fund tree farms, respectively.

Fee Timber cost of sales for each year in the three-year period ended December 31, 2013 on a per MBF basis is as follows:

(Amounts per MBF)	Harvest, Haul and Other *	Depletion *	Total Fee Timber Cost of Sales *
Partnership tree farms	**$ 224**	**$ 56**	**$ 279**
Funds' tree farms	**277**	**196**	**458**
Total Fee Timber 2013	**$ 247**	**$ 120**	**$ 361**
Partnership tree farms	$ 211	$ 59	$ 252
Funds' tree farms	234	215	448
Total Fee Timber 2012	$ 220	$ 119	$ 327
Partnership tree farms	$ 195	$ 63	$ 257
Funds' tree farms	201	217	418
Total Fee Timber 2011	$ 197	$ 130	$ 328

* Timber deed sale volumes are excluded in the per MBF computation for harvest, haul and other costs but included in the per MBF computation for depletion and total cost of sales.

Fiscal Year 2013 compared to 2012. Cost of sales per MBF increased $34/MBF, or 10%, from $327/MBF in 2012 to $361/MBF in 2013. The increase is due to increases in the per MBF costs of both depletion and harvest, haul, and other. Depletion costs per MBF increased $1/MBF, or 1%, from $119/MBF in 2012 to $120/MBF in 2013 due to an increase in the Funds' share of harvest volume from 38% in 2012 to 46% in 2013, offset partially by a decrease of $19/MBF in the Funds' blended depletion rate. Harvest, haul, and other costs increased $27/MBF, or 12%, from $220/MBF in 2012 to $247/MBF in 2013, due to more expensive logging systems resulting from an increase in the percentage of cable acres from 31% in 2012 to 37% in 2013, increased per MBF haul costs, and increases in prices for both harvest and hauling services due to continued low supply of contractors.

Fiscal Year 2012 compared to 2011. Costs of sales per MBF decreased $1/MBF, or nil %, from $328/MBF in 2011 to $327/MBF in 2012. The slight decrease is due to an $11/MBF, or 9%, decline in per MBF depletion costs from $130/MBF in 2011 to $119/MBF in 2012 which was almost entirely offset by a $23/MBF, or 11%, increase in per MBF harvest, haul, and other costs from $197/MBF in 2011 to $220/MBF in 2012. The decline in per MBF depletion costs was due to a decrease in the Fund's share of harvest volume from 44% in 2011 to 38% in 2012. The increase in per MBF harvest, haul, and other costs was reflective of increases in harvest from units requiring higher cost cable logging accentuated by competition to hire and retain scarce logging contractors. Cable logging costs in particular experienced a sharp increase in 2011 when demand for experienced contractors exceeded contractor capacity, allowing contractors to demand higher prices for their services that carried over into 2012. Haul costs were also up slightly due to a shrinking contract trucking pool and longer haul distances.

Operating Expenses

Fee Timber operating expenses include the cost of both maintaining existing roads and building temporary roads for harvesting, management expenses, and silviculture expenditures.

Fiscal Year 2013 compared to 2012. Operating expenses for the Fee Timber segment increased 24% in 2013 to $7.5 million from $6.1 million in 2012 primarily due to a 52% increase in road building and maintenance costs to prepare for future harvest activity, particularly on recently acquired Fund tree farms. As a result, road building and maintenance costs increased from 31% of total operating expenses in 2012 to 38% in 2013.

Fiscal Year 2012 compared to 2011. Operating expenses for the Fee Timber segment declined 3% in 2012 to $6.1 million from $6.3 million in 2011 primarily due to a 21% reduction in road building and maintenance costs which spiked during 2011 to support higher harvest activity. This resulted in road building and maintenance costs decreasing from 33% of total operating expenses in 2011 to 31% in 2012.

Timberland Management & Consulting

The Timberland Management & Consulting (TM&C) segment develops timberland investment portfolios on behalf of the Funds. As of December 31, 2013, the TM&C segment managed our three private equity timber funds, which own a combined 91,000 acres of commercial timberland in western Washington, northwestern Oregon, and northern California with total assets under management of $302 million. Fund III is currently in the drawdown period to invest its $180 million of committed capital, which includes $9 million from the Partnership for its co-investment. As of December 31, 2013, Fund III had $108 million of committed capital remaining to invest, which includes over $5 million from the Partnership. The drawdown period for Fund III commenced on July 31, 2012, and will last for three years or until all of the committed capital is invested, whichever occurs first.

Invested Capital

The following table provides detail behind committed and called capital by the Funds as of December 31, 2013.

	Total Fund		Co-investment		
(in millions)	Commitment	Called Capital	Commitment	Called Capital	Distributions Received
Fund I	$ 62	$ 59	$ 12	$ 12	$ 1
Fund II	$ 84	$ 83	$ 17	$ 17	$ 6
Fund III	$ 180	$ 72	$ 9	$ 4	$ 0
Total	$ 326	$ 213	$ 38	$ 32	$ 7

The Partnership received combined distributions from Funds I and II of $4.0 million, $958,000, and $1.7 million in 2013, 2012, and 2011, respectively. Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying all Fund expenses and management fees. During Q3 2013, Fund II made a special distribution of $14.1 million to its investors, financed by the closing of a $14 million timberland mortgage. The Partnership's portion of this special distribution was $2.7 million, and is included in the $4.0 million of combined distributions received by the Partnership in 2013. In addition to distributions, the Partnership also earned investment and timberland management fees from the Funds which totaled $2.8 million, $2.2 million, and $2.4 million in 2013, 2012, and 2011, respectively. These fees are eliminated in consolidation because the Funds' financial statements are consolidated with the Partnership's.

See Accounting Matters ~ Critical Accounting Policies and Estimates ~ Timber Fund Management Fees for more information on accounting for management fees paid by third-party investors.

Revenue and Operating Loss

Revenue and expense generated through the management of the Funds is accounted for within the TM&C segment, but accounting guidance requires us to consolidate the Funds' financial performance into our financial statements because the Partnership controls the Funds. As such, all fees earned by the TM&C segment associated with managing the Funds are eliminated in our consolidated financial statements. This fee revenue is an expense to the Fee Timber segment which is also eliminated when the Funds are consolidated into the Partnership's financial statements. Funds I and II are owned 20% by the Partnership such that, in a look-through sense, 80% of these management fees are paid by third-party investors. Fund III is 5%-owned by the Partnership such that, again, in a look-through sense, 95% of these management fees are paid by third-party investors. That portion of fees attributable to third-party investors is reflected as a component of income in the Partnership's Condensed Consolidated Statement of Comprehensive Income (Loss) under the caption "Net loss attributable to noncontrolling interests - ORM Timber Funds."

Revenue and operating loss for the TM&C segment for each year in the three-year period ended December 31, 2013, were as follows:

Year Ended December 31, (in millions)	**2013**	2012	2011
Revenue internal	**$ 2.8**	$ 2.2	$ 2.4
Intersegment eliminations	**(2.8)**	(2.2)	(2.4)
Revenue external	**$ 0.0**	$ 0.0	$ 0.0
Operating income-internal	**$ 0.3**	**$ 0.1**	$ 0.4
Intersegment eliminations	**(2.3)**	**(1.7)**	(1.9)
Operating loss-external	**$ (2.0)**	$ (1.6)	$ (1.5)
Fund harvest voume (in MMBF) *	41.0	32.3	39.5
Acres under management	91,000	80,000	61,000

* Volume includes 2.3 MMBF from timber deed sale in 2013.

Fiscal Year 2013 compared to 2012. TM&C had no revenue to report in 2013 after elimination of $2.8 million of fees and minimal consulting fee revenue in 2012 after elimination of $2.2 million of fees. The increase in invested capital and acres managed associated with the acquisition by Fund III in December 2012, as well as the increase in harvest volume, resulted in the increase in management fees earned in 2013 versus 2012.

Fiscal Year 2012 compared to 2011. TM&C had minimal consulting fee revenue in 2012 compared with no revenue in 2011 after elimination of $2.2 million and $2.4 million of fees in 2012 and 2011, respectively. The reduction in harvest volume resulted in a decline in management fees earned in 2012 from 2011.

Operating Expenses

Fiscal Year 2013 compared to 2012. TM&C operating expenses increased $375,000 from $1.6 million in 2012 to $2.0 million in 2013. The increase in operating expense is due primarily to increased expenses incurred in connection with evaluating potential acquisition targets offset partially by reduced travel and other expenses associated with raising capital for Fund III, which was completed in July 2012.

Fiscal Year 2012 compared to 2011. TM&C operating expenses increased $60,000 from $1.5 million in 2011 to $1.6 million in 2012. The increase in operating expense is due primarily to expenses incurred in connection with raising capital and evaluating potential acquisition targets.

Real Estate

Revenue and Operating Income

The Real Estate segment's activities consist of investing in and later reselling improved properties, holding properties for later development and sale, and managing commercial properties. Revenue is generated primarily from the sale of land within its 2,900-acre portfolio, sales of development rights, known as conservation easements (CE's), sales of tracts from the Partnership's timberland portfolio, and residential and commercial rents from our Port Gamble and Poulsbo properties. The Partnership's Real Estate holdings are located primarily in the Washington counties of Pierce, Kitsap, and Jefferson with sales of land for this segment typically falling into one of the three general types:

- Commercial, business park, and residential plat land sales represent land sold after development rights have been obtained and generally are sold with prescribed infrastructure improvements.

- Rural residential lot sales that generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale.

- The sale of unimproved land, which generally consists of larger acreage sales rather than single lot sales, and is normally completed with very little capital investment prior to sale and may or may not have a conservation flavor.

In addition to outright sales of fee simple interests in land, such as those three categories enumerated above, we also enter into conservation easement sales that allow us to retain harvesting rights and other timberland management rights, but bar any future subdivision of or real estate development on the property.

As indicated above, conservation sales take two primary forms for us, either a conservation easement sale that extinguishes future development rights on a parcel of timberland but retains the ability to conduct forestry operations or an outright fee simple sale to a conservation entity. In 2013, conservation sales reflected outright sales of fee simple interests in 2,330 acres from our Columbia tree farm and 348 acres from our Hood Canal tree farm. In 2012, we sold development rights on nearly 1,900-acres of our Columbia tree farm. In 2011, conservation sales reflected an outright sale of fee simple interest in a 386-acre conservation tract as well as a sale of development rights on 255 acres. In the case of the 386-acre fee simple sale, the Partnership retained no interest in or harvesting rights to the property post-sale. On the other hand, the 255-acre sale of development rights allows us to retain harvesting rights and other timberland management rights, but bars any future subdivision of or real estate development on the property.

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. Real Estate segment revenue for each year in the three-year period ended December 31, 2013 consisted of the following components:

(in thousands except acres) Description	Revenue	Gross margin	Gross margin %	Operating Income (loss)	Per Acre Amounts: Acres	Per Acre Amounts: Revenue	Per Acre Amounts: Gross Margin
Conservation land sales	**$ 7,259**	**$ 5,426**			**2,678**	**$ 2,711**	**$ 2,026**
Gig Harbor Residential	**1,628**	**702 ^**			**12**	**135,667**	**58,500**
Gig Harbor Business Park	**4,400**	**1,132**			**14**	**314,286**	**80,857**
Unimproved land	**126**	**102**			**21**	**6,000**	**4,857**
Total land	**13,413**	**7,362**	**55%**		**2,725**	**5,806**	**3,187**
Rentals	**1,229**	**(19)**					
Other	**15**	**14**					
2013 Total	**$ 14,657**	**$ 7,357**	**50%**	**$ 3,276**			
Land underlying corporate office	$ 2,900	$ 2,726			**2**	**$ 1,450,000**	**$ 1,363,000**
Development rights (CE)	1,235	985			**1,852**	**667**	**532**
Gig Harbor Residential	1,553	524 ^			**12**	**129,380**	**43,667**
Unimproved land	1,511	966			**444**	**3,403**	**2,175**
Total land	7,199	5,201	**72%**		**2,310**	**3,116**	**2,251**
Rentals	1,287	50					
Other	11	11					
2012 Total	$ 8,497	$ 5,262	**62%**	**$ (11,099) ***			
Description	Revenue	Gross Margin			Acres	Revenue	Gross Margin
Development rights (CE)	$ 480	$ 414			255	$ 1,882	$ 1,624
Conservation sale	1,955	1,713			386	5,065	4,438
Unimproved land	417	347			102	4,088	3,402
Residential	484	342			5	96,800	68,400
Total land	3,336	2,816	84%		748	4,460	3,765
Rentals	1,195	134					
Other	14	14					
2011 Total	$ 4,545	$ 2,964	65%	$ (349) **			

^Revenue recognized on percentage of completion basis
*Includes $12.5 MM of environmental remediation expense
**Includes $977,000 of environmental remediation expense

Fiscal Year 2013 compared to 2012. Real Estate closed on a 2,330-acre conservation land sale for $5.7 million during Q2 2013 and, in December 2013, closed on a 348-acre conservation land sale for $1.6 million and a 14-acre sale from the Harbor Hill development in Gig Harbor for $4.4 million. Results for 2013 also include $1.6 million of revenue recognized on a percentage-of-completion basis for the 11.5 acre multi-family parcel sale in December 2012 from the Harbor Hill development. We had post-closing obligations in the form of road and infrastructure construction that precluded us from recognizing as revenue the entire sales price in 2012. As such, we account for the sale on a percentage-of-completion basis as we satisfy the post-closing obligations. As of December 31, 2013, we have completed nearly all of the post-closing obligation, leaving less than $100,000 of revenue to be recognized in 2014. During 2012, the Real Estate segment closed on the sale of development rights, the sale of the land underlying our headquarters building on 2 acres in Poulsbo, two land sales, and an ingress/egress and utility easement.

The decrease in rental income was due to a reduction in square footage under lease to third parties. This resulted from the purchase of our new corporate office building in the second quarter of 2011, which was fully leased to third parties in 2012, whereas only 60% of the building is currently leased to third parties following our move to our new corporate office building in the fourth quarter of 2012.

Fiscal Year 2012 compared to 2011. Sales for the Real estate segment in 2012 include the sale of two acres underlying our Poulsbo headquarters building, a sale of development rights on 1,852-acres of our Columbia tree farm for $1.2 million, partial recognition of revenue in connection with a $3.3 million sale of an 11.5-acre multi-family residential land parcel from our Harbor Hill project in Gig Harbor, and four rural land sales totaling $1.5 million for 444 acres. This compares to 2011 when we had one sale of development rights, a fee simple sale to The Nature Conservancy, four unimproved lands sales, the sale of a building on two acres we owned in north Seattle, and one residential lot in Kitsap County.

Operating loss increased $10.8 million from $349,000 in 2011 to $11.1 million in 2012 due to an $11.5 million increase in environmental remediation accruals over the same period in 2011. Notwithstanding the increase in environmental remediation accruals, operating results improved from 2011 to 2012 due to increased revenue and margin as described earlier.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2013, 2012, and 2011 was $7.3 million, $3.2 million, and $1.6 million, respectively, with these amounts comprised of land basis, legal, other closing costs, and costs incurred in the generation of rental revenue. CE sales, unlike fee simple sales which include land basis in cost of sales, typically have little or no cost basis as part of the transaction. The increases in cost of sales from 2011 to 2012 and from 2012 to 2013 are due primarily to the increase in sales revenue.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2013, 2012, and 2011 were $4.1 million, $16.4 million, and $3.3 million, respectively. Operating expenses significantly increased in 2012, primarily as a result of $12.5 million in environmental remediation charges in addition to expenses incurred in connection with the submission of the Port Gamble master plan and depreciation expense related to the retirement of our previous corporate headquarters. Excluding the 2012 environmental remediation charge, operating expenses increased by $220,000 from 2012 to 2013 due primarily to continuing costs associated with the master plan submission for Port Gamble's town and mill site, as well as increases in costs related to long-term planning and development for other properties where entitlements have not yet been obtained, offset partially by lower depreciation expense following our move to our new corporate headquarters which prompted the acceleration of depreciation in 2012 to reflect the reduction in depreciable life. Operating expenses in 2012, excluding $12.5 million in environmental remediation charges, increased $1.5 million over 2011, excluding $977,000 in environmental remediation charges in that year. This increase was due primarily to costs associated with the master plan submission for Port Gamble's town and mill site.

Basis in Real Estate Projects

"Land Held for Development" on our Balance Sheet represents the Partnership's cost basis in land that has been identified as having greater value as development property rather than as timberland. Our Real Estate segment personnel work with local officials to establish entitlements for further development of these parcels. Project costs that are clearly associated with development or construction of a real estate project are capitalized once entitlement has been obtained.

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

Those properties that are for sale, under contract, and those for which the Partnership has an expectation they will sell within the next 12 months, are classified on our balance sheet as a current asset under “Land Held for Sale.” The $10.3 million amount currently in Land Held for Sale reflects our expectation of sales in 2014 of parcels comprising 61 acres from the Harbor Hill project in Gig Harbor as well as 535 acres of timberland near Port Gamble for conservation purposes. Land Held for Sale as of December 31, 2012 represented an expected 2013 sales of an 11-acre, single-family parcel from the Harbor Hill project.

Environmental Remediation

The environmental remediation liability represents management’s best estimate of payments to be made to remediate and monitor and remedy certain areas in and around the townsite/millsite of Port Gamble, and at Port Ludlow, Washington.

In the second quarter of 2012 we accrued an additional $12.5 million for Port Gamble environmental liabilities to have an estimated accrual of $14.3 million as of June 30, 2012. This additional accrual was derived prior to the conclusion of negotiations with the Department of Ecology (DOE), but was the result of significant modifications to the draft Port Gamble Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) issued by the DOE in May 2012. From mid-August 2012 through the balance of 2013, management was in regular dialogue with DOE on the development of a Clean-Up Action Plan (CAP), the negotiation of a consent decree (CD), and the potential sale of property around Gamble Bay by Pope Resources. In December of 2013, the CD and CAP were finalized and filed with Kitsap County Superior Court. The scope of the clean-up outlined in the final CAP is substantially the same as was contemplated in the second quarter of 2012 when the additional accrual was recorded. A short list of unresolved issues remain, principally related to the degree to which the Department of Natural Resources (DNR), the other potentially liable party (PLP) in Port Gamble, is going to participate in funding the costs of clean-up.

In developing its estimate of the Port Gamble environmental liability management has employed a Monte Carlo statistical simulation model that suggests a potential aggregate range of clean-up costs from $11.4 million to $15.3 million which corresponds to a two standard deviation ranges from the mean of possible outcomes. The $13.1 million liability recorded by the Partnership as of December 31, 2013 is based on the 50th percentile within the range, which management considers their best estimate of the most likely outcome.

The environmental liability also includes a separate remediation effort within the resort community of Port Ludlow. Early in 2012, soil vapor extraction (SVE) pilot tests were conducted in Port Ludlow with this round of testing producing somewhat inconclusive results regarding the efficacy of SVE as a remediation technique. In September 2013, the Partnership completed and submitted to the DOE a focused feasibility study of clean-up action alternatives. The Partnership has recorded a liability of $100,000 which corresponds to the estimated cost of the clean-up alternative recommended in the study. In February 2014, DOE issued an opinion letter in which it concurred with the clean-up alternative recommended in the study.

The environmental liability at December 31, 2013 is comprised of $700,000 that the Partnership expects to expend in the next 12 months and $12.5 million thereafter. Activity in the environmental remediation liability is detailed as follows:

(in thousands) Year ended December 31,	Balances at the Beginning of the Year	Additions to Accrual	Expenditures for Remediation	Balance at Year-end
2013	**$ 13,942**	**-**	**701**	**$ 13,241**
2012	2,203	12,500	761	13,942
2011	1,933	977	707	2,203

General & Administrative (G&A)

Fiscal Year 2013 compared to 2012. G&A expenses increased to $4.6 million in 2013 from $4.2 million in 2012. The increase from 2012 to 2013 was due to the combination of higher equity compensation expense driven by a strong unit price in 2013 relative to 2012 and professional fees incurred for non-recurring projects.

Fiscal Year 2012 compared to 2011. G&A costs were $4.2 million in both 2012 and 2011, with some cost categories up between periods but other offsetting categories down.

Interest Income and Expense

Interest income declined from $26,000 in 2012 to $21,000 in 2013 on top of a decrease from $42,000 in 2011. The progressively lower amounts of interest income from 2011 through 2013 are due primarily to lower cash and investment balances coupled with a decrease in average interest earned on the portfolio.

Interest expense, net of interest capitalized to development projects, was $1.5 million in 2013 and 2012 and $1.7 million in 2011. Although interest expense was flat on a net basis from 2012 to 2013, it increased by $287,000 on a gross basis. However, this was offset by a $224,000 increase in interest capitalized to the Harbor Hill project. The decline from 2011 to 2012 was due to a decline in weighted average borrowings on the operating line of credit coupled with an increase in interest capitalized to the Harbor Hill project.

The debt arrangement between the Partnership and Northwest Farm Credit Services (NWFCS) includes an annual rebate of a portion of interest expense paid in the prior year (patronage). This NWFCS patronage program is a feature common to most of this lender's customer loan agreements. The patronage receivable reduced interest expense by $264,000 and $214,000 in 2013 and 2012, respectively.

Income Taxes

We recorded a tax benefit of $307,000 in 2013 compared to tax expense of $352,000 in 2012 and $236,000 in 2011, based on taxable income in corporate subsidiaries and certain discrete items.

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

Noncontrolling interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represented the portion of 2013, 2012, and 2011 net (income) losses of the Funds attributable to third-party owners of the Funds. The Funds carry a higher depletion cost than the Partnership's timberland and as a result often generate losses during the early years of the Fund life. Included in these results are the management fees charged by ORM LLC to the Funds. The portion of the loss or (income) attributable to these third-party investors is added back to determine "Net income (loss) attributable to Partnership unitholders" as follows:

(in thousands)

Noncontrolling interest-2013	**Fund I**	**Fund II**	**Fund III**	**Total**
Management fees paid to ORM LLC	**$ (801)**	**$ (1,427)**	**$ (572) ***	**$ (2,800)**
Forest operations	**181**	**2,238**	**(283)**	**2,136**
Fund operating income (loss)-Internal	**(620)**	**811**	**(855)**	**(664)**
Interest expense	**(1)**	**(737)**	**(62)**	**(800)**
Income tax expense	**(47)**	**(97)**	**-**	**(144)**
Fund net loss-Internal	**(668)**	**(23)**	**(917)**	**(1,608)**
Add back of loss attributed to noncontrolling interest	**$ 534**	**$ 18**	**$ 871**	**$ 1,424**

Noncontrolling interest-2012	Fund I	Fund II	Fund III	Total
Management fees paid to ORM LLC	$ (804)	$ (1,321)	$ (86) *	$ (2,211)
Forest operations	(149)	454	(60)	245
Fund operating income (loss)-Internal	(953)	(867)	(146)	(1,966)
Interest expense	(3)	(535)	-	(538)
Income tax expense	(23)	(55)	-	(78)
Fund net income (loss)-Internal	(979)	(1,457)	(146)	(2,582)
Add back of loss attributed to noncontrolling interest	$ 783	$ 1,165	$ 139	$ 2,087

Noncontrolling interest-2011	Fund I	Fund II	Fund III	Total
Management fees paid to ORM LLC	$ (847)	$ (1,343)	$ (200) *	$ (2,390)
Forest operations	(143)	3,474	-	3,331
Fund operating income (loss)-Internal	(990)	2,131	(200)	941
Interest expense	(4)	(534)	-	(538)
Income tax expense	(46)	(105)	-	(151)
Fund net income (loss)-Internal	(1,040)	1,492	(200)	252
Add back of loss attributed to noncontrolling interest	$ 832	$ (1,195)	$ 190	$ (173)

* Includes $21, $66 and $200 of costs reimbursed to ORM by Fund III in 2013, 2012 and 2011, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

The Partnership's debt consists primarily of an operating line of credit and fixed-rate mortgage debt. The line of credit has a maximum borrowing limit of $20 million and matures August 1, 2015 and carries a variable interest rate based on the one-month LIBOR rate with margins ranging between 1.75% and 2.75% and unused commitment fees ranging from 0.15% to 0.35%. The Partnership had no balance drawn under the line of credit as of December 31, 2013 or 2012.

In December 2012, we mortgaged the commercial office building on Seventh Avenue in Poulsbo, Washington using a 10-year term loan from Northwest Farm Credit Services (NWFCS) with a 3.8% interest rate and a 20-year principal amortization. The $3.0 million loan amount was set using a 75% loan-to-value ratio and requires monthly interest and principal payments until January 2023. Loan origination costs of $18,000 will be amortized over the life of the loan.

The Partnership's debt agreements have financial covenants which are measured quarterly. Among the covenants measured is a requirement that the Partnership not exceed a maximum debt-to-total-capitalization ratio of 30% with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with this covenant as of December 31, 2013 and expects to remain in compliance for at least the next twelve months.

In June 2010, we entered into a $20.0 million term loan agreement with NWFCS. This agreement was structured with three tranches with terms of 5, 7, and 15 years that collectively have a weighted average interest rate of 5.3%. A fourth tranche of debt with NWFCS had been taken out previously in 2009 in the amount of $9.8 million with an interest rate of 6.4%. The weighted average interest rate for these four tranches of term debt is 5.6%.

Fund II has a timberland mortgage comprised of two tranches totaling $25 million with MetLife Insurance Company. The tranches are non-amortizing and mature in September 2020. The original $11 million tranche bears interest at 4.85% per year and the additional $14 million tranche that we added in August 2013 bears interest at 3.84% per year. The loans allow for, but do not require, annual principal payments of up to 10% of outstanding principal without incurring a make-whole premium.

In December 2013, Fund III entered into an $18.0 million timberland mortgage payable to NWFCS to fund a portion of the purchase of approximately 11,000 acres of timberland in southwest Washington. The mortgage is collateralized by all of Fund III's timberland, is non-amortizing and matures in December 2023. Interest is payable quarterly at an annual interest rate of 5.1%.

Cash and cash equivalents increased by $3.2 million from 2012 to 2013 due primarily to cash from operations resulting from strong log prices and volume in the Fee Timber segment. Cash and cash equivalents increased $1.1 million from 2011 to 2012 due primarily to cash provided by proceeds from the mortgage on our new corporate headquarters. During the year ended December 31, 2011, overall cash and cash equivalents remained relatively stable, increasing by $230,000. The $2.0 million and $896,000 variance in cash flow from 2013 to 2012 and 2012 to 2011, respectively, is broken down in the following table:

(in thousands)	2013	Change	2012	Change	2011
Cash provided by operations	**$ 17,949**	$ 1,740	$ 16,209	$ (5,451)	$ 21,660
Investing activities					
Proceeds from sale of fixed assets	**-**	(2,873)	2,873	2,873	-
Capital expenditures	**(2,230)**	75	(2,305)	(394)	(1,911)
Acquisition of commercial office building in Poulsbo	**-**	-	-	3,210	(3,210)
Timberland acquisition	**(43,413)**	1,742	(45,155)	(44,996)	(159)
Cash used in investing activities	**(45,643)**	(1,056)	(44,587)	(39,307)	(5,280)
Financing activities					
Repayment of line of credit, net	**-**	4,957	(4,957)	(314)	(4,643)
Repayment of long term debt	**(125)**	(93)	(32)	(2)	(30)
Proceeds from issuance of long-term debt	**31,980**	28,980	3,000	3,000	-
Debt issuance costs	**(28)**	18	(46)	(46)	-
Proceeds from option exercises, net	**-**	(12)	12	(504)	516
Payroll taxes paid on unit net settlements	**(241)**	59	(300)	(66)	(234)
Excess tax benefit from equity-based compensation	**-**	(220)	220	124	96
Cash distributions to unitholders	**(8,886)**	(1,387)	(7,499)	(2,236)	(5,263)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(16,483)**	(12,541)	(3,942)	3,070	(7,012)
Capital call - ORM Timber Funds, net of Partnership contribution	**24,658**	(18,288)	42,946	42,509	437
Stock sale - ORM Timber Fund II, Inc.	**-**	(118)	118	118	-
Preferred stock issuance (distribution), net - ORM Timber Fund II, Inc.	**-**	16	(16)	0	(16)
Other	**-**	-	-	1	(1)
Cash provided by (used in) financing activities	**30,875**	1,371	29,504	45,654	(16,150)
Net increase in cash and cash equivalents	**$ 3,181**	$ 2,055	$ 1,126	$ 896	$ 230

Operating cash activities. Cash provided by operating activities increased $1.7 million from 2012 to 2013 due principally to an 9% increase in harvest volume coupled with a 14% increase in realized average log price. This was offset partially by an $8.6 million increase in capitalized development activities during 2013 in connection with the Harbor Hill development to prepare for sales projected to close in 2014 and beyond.

Cash provided by operating activities decreased $5.5 million from 2011 to 2012 due principally to an 11% decline in harvest volume coupled with a 5% reduction in realized average log price. This was offset partially by increased sales from the Real Estate segment, but capitalized development activities increased $1.3 million during 2012 in connection with construction activity for the Harbor Hill development.

Investing cash activities. Cash used in investing activities increased $1.1 million from 2012 to 2013 as the 2012 use of cash was reduced by proceeds from the sale of land underlying our corporate headquarters. This was offset partially by the Fund III timberland acquisition in December 2013 that was $1.7 million less than Fund III's timberland acquisition in December 2012.

Cash used in investing activities increased $39.3 million from 2011 to 2012 due to Fund III's timberland acquisition in December 2012. This was partially offset by the sale of land underlying our corporate headquarters in the third quarter of 2012 that had no counterpart in 2011 and the acquisition of a commercial building in the second quarter of 2011 that had no corollary in 2012.

Financing activities. Cash provided by financing activities increased $1.4 million in 2013 from 2012 due primarily to the repayment of the $4.9 million balance outstanding on the line of credit in 2012 offset partially by the $3.0 million proceeds from the mortgage for our corporate headquarters. The $0.10 per unit increase in the quarterly distribution beginning the third quarter of 2013 from $0.45 to $0.55 per unit was offset by a decrease in distributions to Fund investors, net of amounts financed from long-term debt.

Cash provided by financing activities increased $45.7 million in 2012 from 2011 due primarily to the Fund III capital call and proceeds provided by a mortgage on the new corporate headquarters. The $0.10 per unit increase in the quarterly distribution beginning the second quarter of 2012 from $0.35 per unit to $0.45 per unit was offset by a decrease in distributions to Fund investors.

Expected Future Changes to Cash Flows

Operating activities. We currently plan to harvest between 95 MMBF to 103 MMBF in 2014. This plan reflects our expectation that domestic sawmills will gradually increase operating rates and demand for logs in response to improved housing starts.

Based on budget plans, we currently expect our Gig Harbor project's 2014 capital expenditures to total $7.0 million in 2014. The majority of Gig Harbor capital expenditures in 2014 are projected to be for site work, engineering, surveying and overall project management costs in connection with additional closings in Gig Harbor that are referred to on page 35 and for which we have entered into purchase and sale agreements.

Investing activities. In addition to the expenditures for Gig Harbor described above, management has budgeted $2.4 million of capital expenditures for 2014, excluding any potential timberland acquisitions. These investments are primarily comprised of long-term investments supporting our Fee Timber operations.

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

Should a financing need arise, management is comfortable that there is room to take on additional debt with the ratios at these levels. Portions of the Hood Canal and Columbia tree farms secure the Partnership's current timberland mortgages, Fund II's tree farms secure the MetLife timberland mortgage and Fund III's tree farms secure Fund III's NWFCS mortgage. To date, the Partnership's strong financial position has enabled fairly easy access to credit at reasonable terms when needed.

Seasonality

Fee Timber. The Partnership owns 110,000 acres of timberland in western Washington and the Funds own collectively 91,000 acres of timberland in western Washington, northwestern Oregon and northern California. We are able to conduct year-round harvest activities on the 69,200-acre Hood Canal tree farm and 23,000 acres of the Funds' properties because these properties are concentrated at low elevations. In contrast, Columbia tree farm's 41,300 acres and the remaining 68,000 acres of the Funds' ownership are at a higher elevation where harvest activities are generally not possible during the winter months because snow precludes access to the lands. Generally, we concentrate our harvests from the lower-elevation tree farms in those months when weather limits operations on other properties, thus taking advantage of reduced competition for log supply to our customers and improving prices realized. As such, when these various tree farms are combined, we can operate so that the pattern of quarterly volumes harvested is flatter than would be the case if looking at one tree farm in isolation.

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

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

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2013 consist of operating leases, and other obligations entered into in the normal course of business.

(in thousands)	Payments Due By Period /Commitment Expiration Date				
Obligation or Commitment	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Total debt	$ 75,690	$ 109	$ 5,223	$ 5,242	$ 65,116
Operating leases	210	76	90	44	-
Interest on debt	28,941	3,776	7,455	7,012	10,698
Environmental remediation	13,241	700	9,140	3,401	-
Other long-term obligations	191	25	50	50	66
Total contractual obligations or commitments	$ 118,273	$ 4,686	$ 21,958	$ 15,749	$ 75,880

Environmental remediation represents our estimate of potential liability associated with environmental contamination at Port Gamble and Port Ludlow. Other long-term obligations consist of a $192,000 liability for a supplemental employment retirement plan.

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

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

Off-Balance Sheet Arrangements

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

Capital Expenditures and Commitments

Projected capital expenditures in 2014 are $9.4 million, of which $7.0 million relates to the Gig Harbor site. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions.

Government Regulation

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

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

ACCOUNTING MATTERS

Accounting Standards Not Yet Implemented

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

Critical Accounting Policies and Estimates

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

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

Depletion. Depletion represents the cost of timber harvested and the cost of the permanent road system that is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 35 years of age for all of our tree farms except California, for which merchantable timber is defined as timber with a diameter at breast height (DBH) of 16 inches or greater.

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. Depletion rate calculations on Funds timberlands, which are recently acquired, are made on a tree farm specific basis.

Timber inventory volumes include only timber whose eventual harvest is not constrained by the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's properties. Timber inventory volume is accounted for by periodic statistical sampling of the harvestable timbered acres. Since timber stands can be very heterogeneous, the accuracy of the statistical sampling, known as a "timber cruise", of a timber stand can vary. The inventory system is designed in such a way that the accuracy of the whole is very reliable while any subset, or individual timber stand, will have a wider range of accuracy. The Partnership's standing timber inventory system 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 update process and the second is a comparison of the volume actually extracted by harvest to the inventory in the standing inventory system at the time of the harvest. Only productive acres with timber that is at least 20 years old are selected as subject to a cruise. The Partnership cruises 10-20% of its productive acres with 25-year-old or greater timber annually. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. As the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 6 inches are measured for inclusion in the inventory. The inventory to harvested volume comparison utilizes subsets of the total inventory which have been sampled sometime in the last ten years and grown annually using yield tables built on more statistical data; due to the nature of statistical sampling the results of the annual timber inventory to harvested volume comparison is meaningful only in the context of accumulated results over several years, and not in the context of a single harvest unit.

A hypothetical 5% change in estimated timber inventory volume would have changed 2013 depletion expense by $513,000.

Environmental remediation. The Partnership has an accrual for estimated environmental remediation costs of $13.2 million and $13.9 million as of December 31, 2013 and 2012, respectively. The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the townsite/millsite of Port Gamble, and at Port Ludlow, Washington.

In the second quarter of 2012 we accrued an additional $12.5 million for Port Gamble environmental liabilities to have an estimated accrual of $14.3 million as of June 30, 2012. This additional accrual was derived prior to the conclusion of negotiations with the Department of Ecology (DOE), but was the result of significant modifications to the draft Port Gamble Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) issued by the DOE in May 2012. From mid-August 2012 through the balance of 2013, management was in regular dialogue with DOE on a Clean-up Action Plan (CAP), coincident with a consent decree that outlines clean-up actions and potential property sales of land around Gamble Bay by Pope Resources. In December of 2013, the consent decree and CAP were finalized and filed with Kitsap County Superior Court. The scope of the clean-up in the final CAP is substantially the same as was contemplated in the second quarter of 2012 when the additional accrual was recorded. A short list of unresolved issues remain, principally related to the degree to which the DNR, the other potentially liable party (PLP) in Port Gamble, is going to participate in funding the costs of clean-up.

In developing its estimate of the Port Gamble environmental liability, management has employed a Monte Carlo statistical simulation model that suggests a potential aggregate range of clean-up costs from $11.4 million to $15.3 million which corresponds to a two standard deviation ranges from the mean of possible outcomes. The $13.1 million liability recorded by the Partnership as of December 31, 2013 is based on the 50th percentile within the range, which management considers their best estimate of the most likely outcome.

The environmental remediation liability also includes estimated costs related to a separate remediation effort within the resort community of Port Ludlow. Early in 2012, soil vapor extraction (SVE) pilot tests were conducted in Port Ludlow with this round of testing producing somewhat inconclusive results regarding the efficacy of SVE as a remediation technique. In September 2013, the Partnership completed and submitted to the DOE a focused feasibility study of clean-up action alternatives. The Partnership has recorded a liability of $100,000 which corresponds to the estimated cost of the clean-up alternative recommended in the study. In February 2014, DOE issued an opinion letter in which it concurred with the clean-up alternative recommended in the study.

Property development costs. The Partnership is developing six master planned communities in Gig Harbor, Kingston, Port Gamble, Bremerton, Hansville and Port Ludlow. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative preconstruction fair value. This allocation of basis supports, in turn, the computation of those amounts reported as a current vs. long-term asset based on management's expectation of when the sales will occur ("Land Held for Sale" and "Land Held for Development", respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales.

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

Percentage of Completion Revenue Recognition. The partnership accounts for revenue recognized from development sales consistent with the accounting standards relating to the sales of real estate. When a real estate transaction is closed with obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to complete the project.

Impairment of Long-Lived Assets. When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the 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, for the difference between the carrying value and the fair value, and charge this amount against current operations. The land basis associated with most of our development properties is well below current market value; therefore, an asset impairment charge on one of our development projects is not likely. The long-term holding period of timberland properties, particularly those that have been transferred to our real estate development portfolio, makes an asset impairment unlikely as the expected undiscounted cash flows from a timberland property would need to decrease very significantly to not exceed its carrying value.

Consolidation of ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III (REIT) Inc. (Fund III). Fund I and Fund II are owned 19% by Pope Resources, A Delaware Limited Partnership, 1% by Olympic Resource Management LLC ("ORMLLC") (a wholly owned subsidiary of the Partnership), and the Partnership owns 5% of Fund III with the remaining owned by third-party investors. ORMLLC is the general partner of Fund I and the manager of Funds II and III. Third-party investors do not have the right to dissolve these Funds or otherwise remove the general partner/manager without cause nor do they have substantive participating rights in major decisions of the Funds. Based upon this governance structure, ORMLLC has presumptive control of the Funds and, as a result, under accounting rules the Funds must be consolidated into the Partnership's financial statements.

Timber Fund Management Fees. The Partnership's wholly owned subsidiary, ORMLLC, earns management fees related to managing the Funds. As a result, the Partnership's consolidated financial statements, excluding the Funds, include 100% of these management fees as revenue. The stand-alone financial statements for the Funds include 100% of these management fees as expenses. The dollar amounts are the same, allowing for elimination of these two amounts in consolidation, and initially, no income impact in consolidation. However, Funds I and II are owned 80% third-party investors, while Fund III is owned 95% by third-party investors, and, as a result, 80% and 95% of these management fees are paid by these third-party investors, respectively. The management fees paid by third-party investors flows to the Partnership's Statement of Operations as a component of the caption" "Net (income) loss attributable to noncontrolling interest-ORM Timber Funds," effectively bringing management fees paid by third-party investors back into consolidated income of the Partnership as detailed on page 51.

Total management fees of $2.8 million and $2.2 million were generated in 2013 and 2012, respectively. To summarize the aforementioned consolidation process, these management fees were eliminated from revenue in the Partnership's TM&C segment and from operating expenses in the Partnership's Fee Timber segment. The management fees paid by third-party investors in the funds were added back to consolidated income in the Statement of Operations as a component of the caption "Net loss attributable to noncontrolling interests-ORM Timber Funds."

Incentive Compensation. The Human Resources Committee adopted a new incentive compensation program in 2010. The program has two components – the Performance Restricted Unit ("PRU") plan and the Long-Term Incentive Plan ("LTIP"). Both components have a long-term emphasis, with the PRU plan focused on annual decision making, and the LTIP focused on 3-year performance of the Partnership's publicly traded units relative to a group of peer companies. Compensation expense relating to the PRU will be recognized over the four-year future service period beginning with the date of grant. Approximately $1.2 million of equity compensation expense related to the PRU component of this program was recognized in 2013. As of December 31, 2013, we had accrued $2.0 million, with $197,000 of that total attributable to the cash component of the PRU element and the balance of $1.8 million attributable to the LTIP that is paid in cash.

Item 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest Rate Risk

At December 31, 2013, the Partnership had $75.7 million of fixed-rate debt outstanding with a fair value of approximately $77.5 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by $3.4 million.

POPE RESOURCES

A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

CONTENTS

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, 2013 and 2012, and the related statements of comprehensive income (loss), partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We 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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 5, 2014 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 5, 2014

Report of Independent Registered Public Accounting Firm

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

We have audited Pope Resources, A Delaware Limited Partnership (the Partnership), internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Pope Resources, A Delaware Limited Partnership, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (*1992*) 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, 2013 and 2012, and the related consolidated statements of comprehensive income (loss), partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 5, 2014, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 5, 2014

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012
(IN THOUSANDS)

ASSETS	**2013**	2012
Current assets		
Partnership cash and cash equivalents	**$ 5,704**	$ 2,517
ORM Timber Funds cash and cash equivalents	**1,256**	1,262
Cash and cash equivalents	**6,960**	3,779
Accounts receivable, net	**1,501**	1,208
Land held for sale	**10,258**	1,179
Current portion of contracts receivable	**98**	13
Prepaid expenses and other	**1,562**	1,075
Total current assets	**20,379**	7,254
Properties and equipment, at cost		
Timber and roads, net of accumulated depletion of $92,971 and $82,094	**211,946**	183,287
Timberland	**44,946**	41,201
Land held for development	**27,040**	29,039
Buildings and equipment, net of accumulated depreciation of $6,437 and $6,012	**6,205**	6,154
Total properties and equipment, at cost	**290,137**	259,681
Other assets		
Contracts receivable, net of current portion	**128**	288
Other	**264**	276
Total other assets	**392**	564
Total assets	**$ 310,908**	$ 267,499
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	**$ 2,196**	$ 1,673
Accrued liabilities	**4,109**	2,866
Current portion of long-term debt	**109**	125
Deferred revenue	**599**	2,065
Other current liabilities	**966**	993
Total current liabilities	**7,979**	7,722
Long-term debt, net of current portion	**75,581**	43,710
Other long-term liabilities	**12,734**	13,426
Commitments and contingencies		
Partners' capital		
General partners' capital (units issued and outstanding 60 and 60)	**974**	902
Limited partners' capital (units issued and outstanding 4,312 and 4,269)	**68,471**	63,321
Noncontrolling interests	**145,169**	138,418
Total partners' capital and noncontrolling interests	**214,614**	202,641
Total liabilities, partners' capital, and noncontrolling interests	**$ 310,908**	$ 267,499

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2013	2012	2011
Revenue			
Fee Timber	**$ 56,035**	$ 45,539	$ 52,729
Timberland Management & Consulting	-	7	-
Real Estate	**14,657**	8,497	4,545
Total revenue	**70,692**	54,043	57,274
Costs and expenses			
Cost of sales			
Fee Timber	**(32,326)**	(27,596)	(29,568)
Real Estate	**(7,300)**	(3,235)	(1,581)
Total cost of sales	**(39,626)**	(30,831)	(31,149)
Operating expenses			
Fee Timber	**(7,541)**	(6,090)	(6,262)
Timberland Management & Consulting	**(1,950)**	(1,575)	(1,515)
Real Estate	**(4,081)**	(3,861)	(2,336)
Environmental remediation	-	(12,500)	(977)
General & Administrative	**(4,562)**	(4,170)	(4,188)
Total operating expenses	**(18,134)**	(28,196)	(15,278)
Operating income (loss)			
Fee Timber	**16,168**	11,853	16,899
Timberland Management & Consulting	**(1,950)**	(1,568)	(1,515)
Real Estate	**3,276**	(11,099)	(349)
General & Administrative	**(4,562)**	(4,170)	(4,188)
Total operating income (loss)	**12,932**	(4,984)	10,847
Other income (expense)			
Interest expense	**(2,364)**	(2,077)	(2,158)
Interest capitalized to development projects	**815**	591	432
Interest income	**21**	26	42
Total other expense	**(1,528)**	(1,460)	(1,684)
Income (loss) before income taxes	**11,404**	(6,444)	9,163
Income tax benefit (expense)	**307**	(352)	(236)
Net income (loss)	**11,711**	(6,796)	8,927
Net (income) loss attributable to noncontrolling interests-ORM Timber Funds	**1,424**	2,087	(173)
Net and comprehensive income (loss) attributable to unitholders	**13,135**	(4,709)	8,754
Allocable to general partners	**$ 180**	$ (65)	$ 121
Allocable to limited partners	**12,955**	(4,644)	8,633
Net and comprehensive income (loss) attributable to unitholders	**$ 13,135**	$ (4,709)	$ 8,754
Basic and diluted earnings (loss) per unit attributable to unitholders	**$ 2.96**	$ (1.11)	$ 1.94
Distributions per unit	**$ 2.00**	$ 1.70	$ 1.20

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(IN THOUSANDS)

	Attributable to Pope Resources		Noncontrolling	
	General	Limited	Interests	Total
December 31, 2010	$ 992	$ 69,998	$ 107,817	$ 178,807
Net income	121	8,633	173	8,927
Cash distributions	(72)	(5,191)	(7,028)	(12,291)
Proceeds from option exercises	7	509	-	516
Capital call	-	-	437	437
Excess tax benefit from equity-based compensation	6	90	-	96
Equity-based compensation	12	888	-	900
Indirect repurchase of units for minimum tax withholding	(3)	(231)	-	(234)
December 31, 2011	$ 1,063	$ 74,696	$ 101,399	$ 177,158
Net loss	(65)	(4,644)	(2,087)	(6,796)
Cash distributions	(105)	(7,394)	(3,958)	(11,457)
Proceeds from option exercises	-	12	-	12
Stock sale	-	-	118	118
Capital call	-	-	42,946	42,946
Excess tax benefit from equity-based compensation	3	217	-	220
Equity-based compensation	10	730	-	740
Indirect repurchase of units for minimum tax withholding	(4)	(296)	-	(300)
December 31, 2012	$ 902	$ 63,321	$ 138,418	$ 202,641
Net income (loss)	**180**	**12,955**	**(1,424)**	**11,711**
Cash distributions	**(122)**	**(8,764)**	**(16,483)**	**(25,369)**
Capital call	**-**	**-**	**24,658**	**24,658**
Equity-based compensation	**17**	**1,197**	**-**	**1,214**
Indirect repurchase of units for minimum tax withholding	**(3)**	**(238)**	**-**	**(241)**
December 31, 2013	**$ 974**	**$ 68,471**	**$ 145,169**	**$ 214,614**

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(IN THOUSANDS)

	2013	2012	2011
Cash flows from operating activities:			
Cash received from customers	**$ 69,009**	$ 56,517	$ 56,076
Cash paid to suppliers and employees	**(39,062)**	(36,364)	(31,609)
Interest received	**22**	26	47
Interest paid, net of amounts capitalized	**(1,376)**	(1,490)	(1,924)
Capitalized development activities	**(10,801)**	(2,152)	(893)
Income taxes received (paid)	**157**	(328)	(37)
Net cash provided by operating activities	**17,949**	16,209	21,660
Cash flows from investing activities:			
Capital expenditures	**(2,230)**	(2,305)	(5,121)
Proceeds from sale of fixed assets	**-**	2,873	-
Timberland acquisitions	**(43,413)**	(45,155)	(159)
Net cash used in investing activities	**(45,643)**	(44,587)	(5,280)
Cash flows from financing activities:			
Repayment of line of credit, net	**-**	(4,957)	(4,643)
Repayment of long-term debt	**(125)**	(32)	(30)
Proceeds from issuance of long-term debt	**31,980**	3,000	-
Debt issuance costs	**(28)**	(46)	-
Proceeds from option exercises	**-**	12	516
Payroll taxes paid on unit net settlements	**(241)**	(300)	(235)
Excess tax benefit from equity-based compensation	**-**	220	96
Cash distributions to unitholders	**(8,886)**	(7,499)	(5,263)
Cash distributions- ORM Timber Funds, net of distributions to Partnership	**(16,483)**	(3,942)	(7,012)
Capital call - ORM Timber Funds, net of Partnership contribution	**24,658**	42,946	437
Stock sale - ORM Timber Fund II, Inc.	**-**	118	-
Preferred stock issuance (distribution), net - ORM Timber Fund II, Inc.	**-**	(16)	(16)
Net cash provided by (used in) financing activities	**30,875**	29,504	(16,150)
Net increase in cash and cash equivalents	**3,181**	1,126	230
Cash and cash equivalents:			
Beginning of year	**3,779**	2,653	2,423
End of year	**$ 6,960**	$ 3,779	$ 2,653

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
SCHEDULE TO CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011
(IN THOUSANDS)

Reconciliation of net income (loss) to net cash provided by operating activities:	**2013**	2012	2011
Net income (loss)	**$ 11,711**	$ (6,796)	$ 8,927
Depletion	**11,204**	10,019	11,908
Capitalized development activities	**(10,801)**	(2,152)	(893)
Equity-based compensation	**1,214**	740	900
Excess tax benefit from equity-based compensation	**-**	(220)	(96)
Depreciation and amortization	**704**	1,232	701
Gain (loss) on sale of property and equipment	**47**	(2,753)	-
Deferred taxes, net	**(260)**	97	90
Cost of land sold	**5,004**	1,492	112
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	**(293)**	668	(1,353)
Contracts receivable	**76**	188	382
Prepaid expenses and other current assets	**(276)**	(84)	(10)
Accounts payable and accrued liabilities	**1,763**	410	921
Deferred revenue	**(1,466)**	1,618	(227)
Other current liabilities	**23**	15	37
Environmental remediation	**(701)**	11,739	271
Other, net	**-**	(4)	(10)
Net cash provided by operating activities	**$ 17,949**	$ 16,209	$ 21,660

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged primarily in managing timber resources on its own properties as well as those owned by others. Pope Resources' active subsidiaries include the following: ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC (ORMLLC), which provides timberland management and consulting activities and is responsible for developing the timber fund business; Olympic Property Group I LLC, which manages the Port Gamble townsite and millsite together with land that is held as development property; and OPG Properties LLC, which owns land that is held as development property. These consolidated financial statements also include ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III, Inc. (Fund III, and collectively with Fund I and Fund II, the Funds). With respect to Funds I and II, ORMLLC is the general partner and manager, respectively, and owns 1% while Pope Resources owns 19%. ORMLLC is the manager and owns 1% of Fund III and the Partnership separately has a 4% co-investment in Fund III. The purpose of all three Funds is to invest in timberlands. See Note 2 for additional information.

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

Principles of consolidation

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

The Funds are consolidated into Pope Resources' financial statements due to our control over the Funds (see Note 2).

General partner

The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions, income and other capital related items between the general and limited partners is pro rata among all units outstanding. The managing general partner of the Partnership is Pope MGP, Inc.

Noncontrolling interests

Noncontrolling interests represents the portion of 2013, 2012, and 2011 net income and losses of the Funds attributable to third-party owners of the Funds. In the case of Funds I and II, noncontrolling interests represent 80%, while noncontrolling interests represent 95% of Fund III ownership. To arrive at net income (loss) attributable to Partnership unitholders, the portion of the income attributable to these third-party investors is subtracted from Partnership income (loss) or, in the case of a loss attributable to third-party investors, added back to Partnership income (loss).

Significant estimates and concentrations in financial statements

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

Depletion

Timber costs are combined into depletion pools based on the common characteristics of the timber such as location and species mix. Each tree farm within the Funds is considered a separate depletion pool and timber harvested by the Funds is accounted for and depleted separate from the Partnership's timberlands due to third-party owners in the Funds. The applicable depletion rate is derived by dividing the aggregate cost of merchantable stands of timber, together with capitalized road expenditures, by the estimated volume of merchantable timber available for harvest at the beginning of that year. The depletion rate, so derived and expressed in per MBF terms, is then multiplied by the volume harvested in a given period to calculate depletion expense for that period as follows:

Depletion rate = <u>Accumulated cost of timber and capitalized road expenditures</u>
Estimated volume of merchantable timber

Purchased timberland cost allocation.

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

Cost of sales

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

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at date of purchase.

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 and utilizing the underlying land sold as collateral on contracts. The Partnership's allowance for doubtful accounts on accounts receivable is $19,492 and $58,509 at December 31, 2013 and 2012, respectively.

Contracts receivable

In the past, the Partnership has occasionally sold small land parcels under contracts that require minimum cash down payments of 20% to 25% at interest rates between 7% and 8.75% per annum. As of December 31, 2013 and 2012, we held 3 such contracts. While one contract has a repayment term of 15 years, loans are typically structured with repayments based on a 20-year amortization schedule culminating in a balloon payment within 5 to 7 years.

At December 31, 2013, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows (in thousands):

2014	98
2015	9
2016	10
2017	10
2018	11
Thereafter	88
Total	$ 226

Income taxes

The Partnership itself is not subject to income taxes, but its corporate subsidiaries are subject to income taxes which are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Operating loss and tax credit carryforwards, if any, are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Partnership has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2013. This conclusion is based on anticipated future taxable income, the expected future reversals of existing taxable temporary differences, and tax planning strategies to generate taxable income, if needed. The Partnership will continue to reassess the need for a valuation allowance during each future reporting period. The Partnership is not aware of any tax exposure items as of December 31, 2013 and 2012 where the Partnership's tax position is not more likely than not to be sustained if challenged by the taxing authorities.

Land held for sale and Land held for development

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

Those properties that are for sale, under contract, and for which the Partnership has an expectation they will be sold within 12 months are classified on our balance sheet as a current asset under "Land Held for Sale". The $10.3 million currently in Land Held for Sale reflects our expectation of sales in 2014 of parcels comprising 61acres from the Harbor Hill project in Gig Harbor as well as 535 acres of timberland near Port Gamble for conservation purposes. Land Held for Sale as of December 31, 2012 represented an expected 2013 sales of a 11-acre single-family parcel from the Harbor Hill project.

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

Timberland, timber and roads

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

Buildings and equipment

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

Buildings and equipment are recorded at cost and consisted of the following as of December 31, 2013 and 2012 (in thousands):

Description		12/31/2013		12/31/2012
Buildings	$	**8,890**	$	8,512
Equipment		**3,118**		3,029
Furniture and fixtures		**634**		625
Total	$	**12,642**	$	12,166
Accumulated depreciation		**(6,437)**		(6,012)
Net buildings and equipment	$	**6,205**	$	6,154

Impairment of long-lived assets

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

Deferred revenue

Deferred revenue represents the unearned portion of cash collected. Deferred revenue of $599,000 at December 31, 2013 reflects mostly the unearned portion of rental payments received on cell tower leases. The deferred revenue balance of $2.1 million at December 31, 2012 represents primarily revenue that was recognized in 2013 as we completed post-closing obligations related to the 12-acre sale of a multi-family parcel in our Gig Harbor project.

Revenue recognition

Revenue on fee timber sales is recorded when title and risk of loss passes to the buyer, which typically occurs when delivered to the customer. Revenue on real estate sales is recorded on the date the sale closes, upon receipt of adequate down payment, and receipt of the buyer’s obligation to make sufficient continuing payments towards the purchase of the property and the Partnership has no continuing involvement with the real estate sold. When a real estate transaction is closed with obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to satisfy the obligation. Timberland management fees and consulting service revenues are recognized as the related services are provided.

Land and development rights or conservation easement (CE) sales

The Partnership considers the sale of land and development rights, or conservation easements (CE’s), to be part of its normal operations and therefore recognizes revenue from such sales and cost of sales for the Partnership’s basis in the property sold. CE sales allow us to retain harvesting and other timberland management rights, but bar any future subdivision of or real estate development on the property. Cash generated from these sales is included in cash flows from operations on the Partnership’s statements of cash flows.

In 2012, and 2011 the Partnership generated $1.2 million, and $2.0 million, respectively, from conservation easement sales. There were no such sales in 2013.

Equity-based compensation

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

Income (loss) per partnership unit

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

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

	Year Ended December 31,		
(in thousands)	**2013**	2012	2011
Net income (loss) attributable to Pope Resources' unitholders	**$ 13,135**	$ (4,709)	$ 8,754
Net income attributable to unvested restricted unitholders	**(195)**	(88)	(341)
Dividends paid to Fund II preferred shareholders	**(16)**	(16)	(16)
Net income (loss) attributable to outstanding unitholders	**$ 12,924**	$ (4,813)	$ 8,397
Weighted average units outstanding:			
Basic	**4,369**	4,351	4,323
Dilutive effect of unit equivalents	**-**	-	2
Diluted	**4,369**	4,351	4,325
Net earnings (loss) per unit: Basic	**$ 2.96**	$ (1.11)	$ 1.94
Net earnings (loss) per unit: Diluted	**$ 2.96**	$ (1.11)	$ 1.94

As of December 31, 2013 and 2012 there were no outstanding options. At December 31, 2011, there were 5,500 options to purchase units at prices ranging from $10.75 to $17.40, none of which were excluded from the calculation of dilutive unit equivalents.

Fund II Preferred Shares

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

Fair Value Hierarchy

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

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

The fair value hierarchy consists of the following three levels:

- Level 1-Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2-Inputs are: (a) quoted prices for similar assets or liabilities in an active market, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, or (c) inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3-Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

2. ORM TIMBER FUND I, LP (FUND I), ORM TIMBER FUND II, INC. (FUND II), AND ORM TIMBER FUND III (REIT) INC. (FUND III) (COLLECTIVELY, "THE FUNDS")

The Funds were formed by ORMLLC for the purpose of attracting capital to purchase timberlands. The objective of these Funds is to generate a return on investments through the acquisition, management, value enhancement and sale of timberland properties. Each Fund is organized to operate for a term of ten years from the end of the drawdown period, with Fund I terminating in August 2017, Fund II terminating in March 2021, and Fund III terminating on the tenth anniversary of the completion of its drawdown period. Fund III's drawdown period will end at the earlier of placement of all committed capital or July 31, 2015. During the fourth quarter of 2012, Fund III acquired 19,000 acres of northern California timberland for a purchase price of $45.1 million which represented a deployment of 25% of the Fund III committed capital. The purchase price was allocated $7.5 million to land and $37.6 million to roads and timber. During the fourth quarter of 2013, Fund III acquired 11,000 acres of timberland in southwest Washington for $43.4 million. $18.0 million of the purchase price was financed by a loan from Northwest Farm Credit Services (NWFCS) with the remainder coming from contributed capital. The purchase price was allocated $4.3 million to land and $39.1 million to roads and timber.

Pope Resources and ORMLLC together own 20% of Fund I and Fund II and own 5% of Fund III. All Funds are consolidated into the Partnership's financial statements. The Funds' statements of operations for the year ended December 31, 2013 reflects an operating loss of $664,000, operating loss of $2.0 for the year ended December 31, 2012 and operating income of $941,000 for the year ended December 31, 2011. These operations include management fees paid to ORMLLC of $2.8 million, $2.2 million, and $2.4 million for 2013, 2012, and 2011, respectively, which are eliminated in consolidation.

The Partnership's consolidated financial statements include Fund I, Fund II, and Fund III assets and liabilities at December 31, 2013 and 2012, which were as follows:

(in thousands)	2013	2012
Cash	**$ 1,256**	$ 1,262
Other current assets	**362**	691
Total current assets	**1,618**	1,953
Properties and equipment (net of accumulated depletion and depreciation in 2013 and 2012 of $28,713 and 20,664)	**211,871**	175,410
Other long-term assets	**125**	111
Total assets	**$ 213,614**	$ 177,474
Current liabilities	**$ 1,747**	$ 1,413
Current portion of long-term debt	**3**	34
Total current liabilities	**1,750**	1,447
Long-term debt	**42,980**	11,002
Funds' equity	**168,884**	165,025
Total liabilities and equity	**$ 213,614**	$ 177,474

The table above includes management fees payable to the Partnership of $557,000 and $490,000 as of December 31, 2013 and 2012, respectively. These amounts are eliminated in the Partnership's Consolidated Balance Sheets.

3. LONG-TERM DEBT

(in thousands)	At December 31, 2013	2012
Pope Resources debt:		
Mortgage payable to NWFCS, collateralized by Poulsbo headquarters:		
Ten-year tranche, interest at 3.80% with monthly principal and interest payments (matures in January 2023)	**$ 2,908**	$ 3,000
Mortgages payable to NWFCS, collateralized by timberlands, as follows:		
Five-year tranche, interest at 4.10% with monthly interest-only payments (matures in July 2015)	**4,999**	4,999
Seven-year tranche, interest at 4.85% with monthly interest-only payments. (matures in July 2017)	**5,000**	5,000
Ten-year tranche, interest at 6.40%, collateralized by timberlands with monthly interest-only payments (matures September 2019)	**9,800**	9,800
Fifteen-year tranche, interest at 6.05% with monthly interest-only payments. (matures in July 2025)	**10,000**	10,000
Total Partnership debt	**32,707**	**32,799**
ORM Timber Funds debt:		
Fund I note payable to the City of Tacoma, interest at 4.5%, with monthly principal and interest payments (matures January 2014)	**3**	36
Mortgages payable to MetLife, collateralized by Fund II timberlands with quarterly interest payments (matures September 2020), as follows:		
4.85% interest rate tranche	**11,000**	11,000
3.84% interest rate tranche	**14,000**	-
Fund III mortgage payable to NWFCS, interest at 5.1%, collateralized by Fund III timberlands with quarterly interest payments (matures December 2023)	**17,980**	-
Total ORM Timber Funds debt	**42,983**	11,036
Consolidated subtotal	**75,690**	43,835
Less current portion	**(109)**	(125)
Consolidated long-term debt, less current portion	**$ 75,581**	$ 43,710

The Partnership's debt agreements have covenants which are measured quarterly. Among the covenants measured is a requirement that the Partnership not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with this covenant as of December 31, 2013.

Fund II's debt agreement contains a requirement to maintain a loan-to-value ratio of less than 40%, with the denominator defined as fair market value. Fund II is in compliance with this covenant as of December 31, 2013.

At December 31, 2013, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2014	$	109
2015		5,109
2016		114
2017		5,119
2018		123
Thereafter		65,116
Total	$	75,690

The Partnership's revolving line of credit with NWFCS matures August 2015 and has a maximum borrowing limit of $20 million. This line of credit had nothing drawn as of December 31, 2013 or 2012. The interest rate under this credit facility uses LIBOR as a benchmark. The spread above the benchmark rate is variable depending on the Partnership's trailing twelve-month interest coverage ratio but ranges from 175 to 275 basis points. As of December 31, 2013 the rate (benchmark plus the spread) was 195 basis points. The debt arrangement between the Partnership and NWFCS includes an annual reimbursement of interest expense (patronage). The Partnership's 2013 interest expense was reduced by $249,000 which reflects estimated patronage to be refunded in 2014 with the related receivable recorded within Accounts Receivable as of December 31, 2013.

Accrued interest relating to all debt instruments was $671,000 and $463,000 at December 31, 2013 and 2012, respectively, and is included in accrued liabilities.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's consolidated financial instruments include cash and cash equivalents and accounts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature. Carrying amounts of contracts receivable, although long-term, also approximate fair value given the current market interest rates. The fair value of the Partnership's and Funds' fixed-rate debt having a carrying value of $75.7 million and $43.8 million as of December 31, 2013 and 2012, respectively, has been estimated based on current interest rates for similar financial instruments, Level 2 inputs in the Fair Value Hierarchy, to be approximately $77.5 million and $50.1 million, respectively.

5. INCOME TAXES

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

(in thousands)	**2013**	2012	2011
Income (loss) before income taxes	**$ 11,404**	$ (6,444)	$ 9,163
Income (loss) in entities that pass-through pre-tax earnings to the partners	**11,632**	(6,578)	8,427
Income (loss) subject to income taxes	**$ (228)**	$ 134	$ 736

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

(in thousands)	**2013**	2012	2011
Current	**$ 47**	$ (255)	$ (146)
Deferred	**260**	(97)	(90)
Total	**$ 307**	$ (352)	$ (236)

For the years ended December 31, 2012 and 2011, the Company also recorded excess tax benefits from equity-based compensation of $220,000 and $96,000, respectively. There were no such excess tax benefits for 2013.

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

	2013	2012	2011
Statutory tax on income	**34%**	34%	34%
Income (loss) in entities that pass-through pre-tax earnings to the partners	**(37%)**	(39%)	(31%)
Effective income tax rate	**(3%)**	(5%)	**3%**

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

(in thousands)	**2013**	2012	2011
Current (included in prepaid expenses and other)	**$ 992**	$ 590	$ 439
Non-current (included in other assets (other long-term liabilities))	**9**	(41)	207
Total	**$ 1,001**	$ 549	$ 646

The deferred tax assets are comprised of the following:

(in thousands)	**2013**	2012	2011
Compensation-related accruals	**$ 370**	$ 353	$ 628
Net operating loss carryforward	**611**	167	-
Depreciation	**(8)**	4	54
Other	**28**	25	(36)
Total	**$ 1,001**	$ 549	$ 646

The net operating loss carryforwards generated in 2012 and 2013 in the table above expire in 2032 and 2033, respectively.

6. UNIT INCENTIVE PLAN

One of the two components of a management incentive compensation program adopted in 2010 (2010 Incentive Compensation Program) is the Performance Restricted Unit (PRU) plan which includes both an equity and cash component. Compensation expense relating to the PRUs will vest 25% per year over a 4-year future service period. The first equity grants pursuant to this program were made in January 2011. On the date of grant, these restricted units are owned by the employee, officer, or director of the Partnership, subject to a trading restriction that is in effect during the vesting period. As of December 31, 2013, total compensation expense not yet recognized related to non-vested awards was $1.9 million with a weighted average 22 months remaining to vest.

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

Total equity compensation expense was $1.2 million, $740,000 and $900,000 for 2013, 2012 and 2011, respectively. As of December 31, 2013, we accrued $2.0 million relating to the 2010 Incentive Compensation Program, with $197,000 of that total attributable to the cash component of the PRU and the balance of $1.8 million attributable to the LTIP that is paid in cash. This compares with December 31, 2012 when we had accrued $2.0 million for such liabilities, with $275,000 related to the cash-payout component of the PRU and the balance of the $1.7 million attributable to the LTIP that is paid in cash.

The Partnership's 2005 Unit Incentive Plan (the 2005 Plan) authorized the granting of nonqualified equity compensation to employees, officers, and directors of the Partnership and provides a one-way linkage to the 2010 Incentive Compensation Program because it (2005 Plan) established the formal framework by which unit grants, options, etc., can be issued. The 2010 Incentive Compensation Program does not affect the existence or availability of the 2005 Unit Incentive Plan or change its terms. Upon either the exercise of options or vesting of restricted units, grantees have the choice of tendering back units to pay for their option exercise price and minimum tax withholdings. A total of 1,105,815 units have been reserved for issuance under the 2005 Plan of which there are 915,994 units authorized but unissued as of December 31, 2013.

Restricted Units

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

Restricted unit activity for the three years ended December 31, 2013 was as follows:

	Units	Weighted Avg Grant Date Fair Value ($)
Outstanding December 31, 2010	64,673	29.01
Grants	26,500	38.64
Vested, net of units tendered back	(26,431)	32.38
Tendered back to pay tax withholding	(6,242)	31.91
Outstanding December 31, 2011	58,500	31.54
Grants	26,350	42.85
Vested, net of units tendered back	(26,676)	30.15
Tendered back to pay tax withholding	(5,826)	28.60
Outstanding December 31, 2012	52,348	38.09
Grants	36,200	60.00
Vested, net of units tendered back	(12,409)	31.95
Forfeited	(1,350)	49.07
Tendered back to pay tax withholding	(4,031)	34.98
Outstanding December 31, 2013	70,758	50.34

Unit Options

Unit options have not been granted since December 2005. Unit options granted prior to January 1, 2006 were non-qualified options granted at an exercise price not less than 100% of the fair value on the grant date. Unit options granted to employees generally vested over four years. Options granted had a life of ten years. There are no outstanding options, vested or unvested, at December 31, 2012 or thereafter. The table below shows the option activity and balances through December 31, 2013.

	Options	Weighted Avg Exercise Price ($)
Outstanding and Vested December 31, 2010	47,874	14.85
Exercised	(39,982)	13.81
Expired	-	-
Tendered back to pay exercise price and tax withholding	(2,392)	12.26
Outstanding and Vested December 31, 2011	5,500	16.35
Exercised	(3,265)	15.63
Tendered back to pay exercise price and tax withholding	(2,235)	17.40
Outstanding and Vested December 31, 2012 and 2013	-	-

7. EMPLOYEE BENEFITS

As of December 31, 2013 all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During the years 2011 through 2013 the Partnership matched 50% of employees’ contributions up to 8% of an individual’s compensation. The Partnership’s contributions to the plan amounted to $147,000, $141,000, and $128,000 for the years ended December 31, 2013, 2012, and 2011 respectively.

8. COMMITMENTS AND CONTINGENCIES

Environmental remediation

The Partnership has an accrual for estimated environmental remediation costs of $13.2 million and $13.9 million as of December 31, 2013 and 2012, respectively. The environmental remediation liability represents management's best estimate of payments to be made to monitor and remedy certain areas in and around the townsite/millsite of Port Gamble ($13.1 million), and at Port Ludlow, Washington ($100,000).

In 2012 we accrued an additional $12.5 million for the Port Gamble environmental liability. This additional accrual was derived prior to the conclusion of negotiations with the Department of Ecology (DOE), but was the result of significant modifications to the draft Port Gamble Baywide and Millsite Remedial Investigation (RI) and Feasibility Study (FS) issued by the DOE in May 2012. From mid-August 2012 through the balance of 2013, management was in regular dialogue with DOE on a Clean-up Action Plan (CAP), coincident with a consent decree that outlines clean-up actions and potential property sales of land around Gamble Bay by Pope Resources. In December of 2013, the consent decree and CAP were finalized and filed with Kitsap County Superior Court. The scope of the clean-up in the final CAP is substantially the same as was contemplated in the second quarter of 2012 when the additional accrual was recorded. A short list of unresolved issues remain, principally related to the degree to which the Department of Natural Resources (DNR), the other potentially liable party (PLP) in Port Gamble, is going to participate in funding the costs of clean-up.

In developing its estimate of the Port Gamble environmental liability, management has employed a Monte Carlo statistical simulation model that suggests a potential aggregate range of clean-up costs from $11.4 million to $15.3 million which corresponds to a two standard deviation range from the mean of possible outcomes. The $13.1 million liability recorded by the Company as of December 31, 2013 is based on the 50th percentile within the range, which management considers the best estimate of the most likely outcome.

The environmental remediation accrual also includes estimated costs related to a separate remediation effort within the resort community of Port Ludlow. Early in 2012, soil vapor extraction (SVE) pilot tests were conducted in Port Ludlow with this round of testing producing somewhat inconclusive results regarding the efficacy of SVE as a remediation technique. In September 2013, the Company completed and submitted to the DOE a focused feasibility study of clean-up action alternatives. The Company has recorded a liability of $100,000 which corresponds to the estimated cost of the clean-up alternative recommended in the study. In February 2014, DOE issued an opinion letter in which it concurred with the clean-up alternative recommended in the study.

The environmental liability at December 31, 2013 is comprised of $700,000 that the Partnership expects to expend in the next 12 months and $12.5 million thereafter and are included in other current liabilities and other long-term liabilities, respectively.

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

in thousands		
Balance, December 31, 2010	$	1,933
Additions to accrual		977
Expenditures for remediation		(707)
Balance, December 31, 2011		2,203
Additions to accrual		12,500
Expenditures for remediation		(761)
Balance, December 31, 2012		13,942
Additions to accrual		**-**
Expenditures for remediation		**(701)**
Balance, December 31, 2013	**$**	**13,241**

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 $15.5 million and $6.1 million outstanding at December 31, 2013 and 2012, respectively. The bonds relate primarily to development activity in connection with pending and completed sales from our Harbor Hill project in Gig Harbor.

Supplemental Employee Retirement Plan

The Partnership has a supplemental employee retirement plan for a retired 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 $25,000 and $19,000 in 2013 and 2012, respectively, for this benefit based on an approximation of the cost of purchasing life annuity paying the aforementioned benefit amount. The recorded balance of the projected liability as of December 31, 2013 and 2012 was $192,000 and $191,000, 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.

9. RELATED PARTY TRANSACTIONS

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

10. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management & Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from both the Partnership's 110,000 acres of fee timberland in Washington and the Funds' 91,000 acres in Washington, Oregon, and California.

The Timberland Management & Consulting segment provides investment management, disposition, and technical forestry services in connection with 24,000 acres for Fund I, 37,000 acres for Fund II, and 30,000 acres for Fund III.

The Real Estate segment's operations consist of management of development properties and the rental of residential and commercial properties in Port Gamble and Poulsbo, Washington. Real Estate manages a portfolio of 2,900 acres of higher-and-better-use properties as of December 31, 2013. All of the Partnership's real estate activities are presently in the state of Washington.

For the year ended December 31, 2013, the Partnership had one customer that represented 14% of consolidated revenue, or $9.9 million and another that represented 12% of consolidated revenue, or $8.6 million. For the year ended December 31, 2012, the Partnership had one customer that represented 20% of consolidated revenue, or $10.6 million. For the year ended December 31, 2011, the Partnership had one customer that represented 28% of consolidated revenue, or $16.2 million.

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

(in thousands)	Fee Timber			Timberland Management &	Real		
2013	Partnership	Funds	Combined	Consulting	Estate	Other	Consolidated
Revenue internal	$ 32,781	$ 23,854	$ 56,635	$ 2,807	$ 14,798	$ -	$ 74,240
Eliminations	(600)	-	(600)	(2,807)	(141)	-	(3,548)
Revenue external	32,181	$ 23,854	56,035	-	14,657	-	70,692
Cost of sales	(13,554)	(18,772)	(32,326)	-	(7,300)	-	(39,626)
Operating, general and administrative expenses internal	(4,620)	(5,746)	(10,366)	(2,557)	(4,081)	(4,678)	(21,682)
Eliminations	25	2,800	2,825	607		116	3,548
Operating, general and administrative expenses external	(4,595)	(2,946)	(7,541)	(1,950)	(4,081)	(4,562)	(18,134)
Income (loss) from operations internal	14,607	(664)	13,943	250	3,417	(4,678)	12,932
Eliminations	(575)	2,800	2,225	(2,200)	(141)	116	-
Income (loss) from operations external	$ 14,032	$ 2,136	$ 16,168	$ (1,950)	$ 3,276	$ (4,562)	$ 12,932
2012							
Revenue internal	$ 29,353	$ 16,681	$ 46,034	$ 2,218	$ 8,574	$ -	$ 56,826
Eliminations	(495)	-	(495)	(2,211)	(77)	-	(2,783)
Revenue external	28,858	$ 16,681	45,539	7	8,497	-	54,043
Cost of sales	(13,115)	(14,481)	(27,596)	-	(3,235)	-	(30,831)
Operating, general and administrative expenses internal	(4,183)	(4,166)	(8,349)	(2,070)	(16,361) *	(4,199)	(30,979)
Eliminations	48	2,211	2,259	495	-	29	2,783
Operating, general and administrative expenses external	(4,135)	(1,955)	(6,090)	(1,575)	(16,361) *	(4,170)	(28,196)
Income (loss) from operations internal	12,055	(1,966)	10,089	148	(11,022)	(4,199)	(4,984)
Eliminations	(447)	2,211	1,764	(1,716)	(77)	29	-
Income (loss) from operations external	$ 11,608	$ 245	$ 11,853	$ (1,568)	$ (11,099)	$ (4,170)	$ (4,984)
2011							
Revenue internal	$ 31,429	$ 21,749	$ 53,178	$ 2,390	$ 4,593	$ -	$ 60,161
Eliminations	(449)	-	(449)	(2,390)	(48)	-	(2,887)
Revenue external	30,980	21,749	52,729	-	4,545	-	57,274
Cost of sales	(13,042)	(16,526)	(29,568)	-	(1,581)	-	(31,149)
Operating, general and administrative expenses internal	(4,421)	(4,282)	(8,703)	(1,961)	(3,313) **	(4,188)	(18,165)
Eliminations	51	2,390	2,441	446	-	-	2,887
Operating, general and administrative expenses external	(4,370)	(1,892)	(6,262)	(1,515)	(3,313) **	(4,188)	(15,278)
Income (loss) from operations internal	13,966	941	14,907	429	(301)	(4,188)	10,847
Eliminations	(398)	2,390	1,992	(1,944)	(48)	-	-
Income (loss) from operations external	$ 13,568	$ 3,331	$ 16,899	$ (1,515)	$ (349)	$ (4,188)	$ 10,847

*Includes $12.5 MM of environmental remediation expense
**Includes $977,000 of environmental remediation expense

(in thousands)	**2013**	2012	2011
Depreciation, Amortization and Depletion			
Fee Timber-Partnership	**$ 2,999**	$ 3,348	$ 3,460
Fee Timber-Funds	**8,066**	6,950	8,602
Fee Timber-Combined	**11,065**	10,298	12,062
Timberland Management & Consulting	**2**	4	8
Real Estate	**733**	854	405
G&A	**108**	95	134
Total	**$ 11,908**	$ 11,251	$ 12,609
Assets			
Fee Timber-Partnership	**$ 46,856**	$ 53,090	$ 52,886
Fee Timber-Funds	**213,614**	177,474	139,389
Fee Timber-Combined	**260,470**	230,564	192,275
Timberland Management & Consulting	**3**	29	3
Real Estate	**37,712**	32,909	35,913
G&A	**12,723**	3,997	2,217
Total	**$ 310,908**	$ 267,499	$ 230,408
Capital and Land Expenditures			
Fee Timber-Partnership	**$ 985**	$ 927	$ 998
Fee Timber-Funds	**44,510**	46,033	837
Fee Timber-Combined	**45,495**	46,960	1,835
Timberland Management & Consulting	**4**	3	3
Real Estate-development activities	**10,801**	2,478	4,104
Real Estate-other	**101**	35	168
G&A	**43**	136	63
Total	**$ 56,444**	$ 49,612	$ 6,173
Revenue by product/service			
Domestic forest products	**$ 34,001**	$ 33,577	$ 27,227
Export forest products, indirect	**22,034**	11,962	25,502
Conservation easements and sales	**7,259**	1,235	2,435
Fees for service	**-**	7	-
Homes, lots, and undeveloped acreage	**7,398**	7,262	2,110
Total	**$ 70,692**	$ 54,043	$ 57,274

11. SUBSEQUENT EVENTS

In January 2014, the Partnership closed on a sale of 40 single-family lots from its Harbor Hill project in Gig Harbor, Washington for $3.6 million. At December 31, 2013, the Partnership's basis in this project was $2.5 million and is reflected in the balance sheet in Land held for sale.

In February 2014, the Partnership closed on the sale of 535 acres of timberland in Port Gamble, Washington for $4.6 million. At December 31, 2013, the Partnership's basis for this property was $391,000 and is reflected in the balance sheet in Land held for sale.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands except per unit amounts)	Revenue	Income (loss) from operations	Net income (loss) attributable to unitholders	Basic and Diluted Earnings (loss) per partnership unit
2013				
First quarter	**$ 16,718**	**$ 3,758**	**$ 3,484**	**$ 0.76**
Second quarter	**23,197**	**6,859**	**6,128**	**1.34**
Third quarter	**11,724**	**(530)**	**(75)**	**(0.03)**
Fourth quarter	**19,053**	**2,845**	**3,598**	**0.81**
2012				
First quarter	$ 8,804	$ 1,070	$ 1,206	$ 0.27
Second quarter	17,790	(9,150)	(9,295)	(2.14)
Third quarter	14,595	3,412	3,675	0.81
Fourth quarter	12,854	(316)	(295)	(0.07)

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

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

None

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control Over Financial Reporting

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

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

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

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

Management has evaluated the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2013 based on the control criteria established in a report entitled *Internal Control—Integrated Framework (1992)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, the Partnership's management has concluded that the Partnership's internal control over financial reporting is effective as of December 31, 2013.

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

The registered independent public accounting firm of KPMG LLP, auditors of the Partnership's consolidated financial statements, has issued an attestation report on the Partnership's internal control over financial reporting. This report appears on page 63 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

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

9B. OTHER INFORMATION.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

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

The following table identifies the executive officers and directors of the Managing General Partner as of February 28, 2014. Officers of the Managing General Partner hold identical offices with the Partnership.

Name	Age	Position, Background, and Qualifications to Serve
David L. Nunes (2)	52	President and Chief Executive Officer, and Director, from January 2002 to present. President and Chief Operating Officer from September 2000 to January 2002. Senior Vice President Acquisitions & Portfolio Development from November 1998 to August 2000. Vice President Portfolio Development from December 1997 to October 1998. Director of Portfolio Development from April 1997 to December 1997 of Pope MGP, Inc. and the Partnership. Held numerous positions with the Weyerhaeuser Company from 1988 to 1997, the last of which was Strategic Planning Director. Mr. Nunes, as the Partnership's CEO, serves as the only management representative on the board of directors, and is an ex officio member in that regard. Additionally, Mr. Nunes' operational experience and his hands-on knowledge of the Partnership's business and executive team allows him to provide a perspective on the execution of the Partnership's business plans and strategies not available to the non-management directors.
Thomas M. Ringo	60	Vice President and CFO from December 2000 to present. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership. Tax Manager of Westin Hotel Company, 1985 to March 1989. Tax Consultant for Price Waterhouse, 1981 to 1985.
John E. Conlin (2), (3), (4)	55	Director since December 2005. Co-President and COO, NWQ Investment Management Company LLC, 2006 to present. Member, Board of Advisors, Victory Park Capital, 2009 to present. Member, Corporate Advisory Board, University of Michigan, Ross School of Business, 2006 to present. Member, University of Rochester Endowment Committee, 2006 to present. Director, ACME Communications, 2005 to 2008. Director, Cannell Capital Management 2002 to 2006. CEO, Robertson Stephens, Inc, from 2001 to 2003; COO, Robertson Stephens, Inc, from 1999 to 2000. Held numerous positions with Credit Suisse from 1983 to 1999, the last of which was Managing Director. Mr. Conlin's background in corporate finance, capital-raising and financial analysis bring the Partnership a perspective that is unique among our directors. Moreover, Mr. Conlin offers an ability to assess capital needs, structures and returns relating to the performance and operation of the Partnership, the Funds, and our strategic goals and objectives.

Douglas E. Norberg [1], [3], [4], [5]	73	Director since August 1996. Vice Chairman, Wright Runstad & Company, 2000 to 2007; President, Wright Runstad & Company, 1975 until 2000. Wright Runstad & Company is in the business of real estate investing, development, and management. Mr. Norberg has extensive knowledge of real estate development, marketing and management, and consults regularly with management regarding the Partnership's real property portfolio. Mr. Norberg also brings years of experience evaluating strategic alternatives for various real property opportunities.
Maria M. Pope [1], [4]	49	Director since December 2012. Senior Vice President of Power Supply and Operations and Resource Strategy since March 2013 of Portland General Electric, an electric utility. Senior Vice President, Chief Financial Officer and Treasurer of Portland General Electric from 2009 through February 2013; Director, Portland General Electric from 2006 through 2008. Vice President and Chief Financial Officer, Mentor Graphics Corporation, a software company, from July 2007 to December 2008. Vice President and General Manager, Wood Products Division of Pope & Talbot, Inc., a pulp and wood products company, from December 2003 to April 2007; Vice President, Chief Financial Officer and Secretary of Pope & Talbot, Inc. from 1999 to 2003. Pope & Talbot, Inc. filed a voluntary petition under Chapter 11 of the federal bankruptcy laws on November 19, 2007. Ms. Pope previously worked for Levi Strauss & Co. and Morgan Stanley & Co., Inc. Ms. Pope has extensive board experience having served on several U.S. and Canadian corporate boards across a number of industries, including forest products. Ms. Pope is also a director of Sterling Financial Corp. (NASDAQ: STSA). She chairs the compensation committee and was the lead director and prior chair of the governance and audit committees of Premera BlueCross, an insurance company, from 2001 to 2013. She served on the board of TimberWest Forest Corp., the largest private land owner in British Columbia, Canada, from 2006 to 2012, where she chaired the audit committee. In 2010, Oregon's Governor appointed Ms. Pope to the Governing Board of Oregon Health Sciences University.

J. Thurston Roach [(1), (3), (4)]	72	Director since May 2003. Director, Deltic Timber Corporation, December 2000 to present. Director, CellFor Inc. from November 2002 to May 2009. Outside Director, NBBJ Design, LLP, from November 2007 to present. Director, The Liberty Corporation May 1994 to January 2006. President and CEO, HaloSource Corporation, October 2000 to November 2001; Director, HaloSource Corporation, October 2000 to February 2002. Senior Vice President and CFO, Owens Corning, January 1999 to April 2000; Senior Vice President and President of Owens Corning's North American Building Materials Systems Business, February 1998 to December 1998. Vice Chairman, Simpson Investment Company, July 1997 to February 1998; President, Simpson Timber Company, January 1996 to June 1997; Senior Vice President and Chief Financial Officer and Secretary, Simpson Investment Company, August 1984 to December 1995. Mr. Roach's experience as a senior executive and director at other timber and resource companies offer the Partnership insight into the practical issues facing public companies, and his specific knowledge of the timber and timberland markets, both in the Pacific Northwest and elsewhere, allow him to provide extensive input on both strategic and tactical business decisions confronting the board. His specific experience as Audit Committee chair for another public company has been leveraged effectively into a similar role at the Partnership.

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

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner’s Articles of Incorporation provide that directors are divided into two classes, each class serving a period of two years. The Managing General Partner’s shareholders elect approximately one-half of the members of the Board of Directors annually. The terms of the Class A directors expire on December 31, 2014, and the terms of the Class B directors expire on December 31, 2015. The directors’ election to the Managing General Partner’s Board of Directors is subject to a voting agreement between the Managing General Partner’s two shareholders, Ms. Maria M. Pope and Mrs. Emily T. Andrews. J. Thurston Roach serves as Mrs. Andrews’ appointee to the Board of Directors. The Managing General Partner’s Board of Directors met eight times in 2013 with four of the meetings in person to discuss Partnership matters. The composition of our Board of Directors is established by the Limited Partnership Agreement and accordingly, as permitted by NASDAQ Rules IM-5065-7 and 5615(a)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Past Directorships. During the period 2009 through 2013, Ms. Pope and Mr. Roach served on boards of other public companies as outlined in the following table.

Individual’s Name	Name of Public Company	Term of Directorship
Maria M. Pope	Sterling Financial Corporation (NASDAQ:STSA) TimberWest Forest Corp. (TSX:TWF.UN)	2013 – present 2006 - 2012
J. Thurston Roach	Deltic Timber Company (NYSE:DEL)	2000 - present

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

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

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

Audit Committee. The Audit Committee of the Managing General Partner's Board of Directors is comprised of three outside directors who comply with the Exchange Act and NASDAQ's qualification requirements for Audit Committee members. The Audit Committee met to discuss the Partnership eight times during 2013. The Audit Committee's Chairman is J. Thurston Roach and its designated financial expert is Douglas E. Norberg. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unitholders; and (3) determining the salary, bonus, unit option and other compensation of the Partnership's executive officers and senior management. The Human Resources Committee met three times during 2013. Mr. John E. Conlin served as Chairman of the Human Resources Committee in 2013. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

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

Code of Ethics

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

Item 11. EXECUTIVE COMPENSATION; COMPENSATION DISCUSSION & ANALYSIS

Overview

Objectives of our Executive Compensation Program

The objective of our executive compensation program is to reward performance and to attract, motivate, and retain those employees who embrace a culture of achievement with a long-term perspective. Our executive compensation plans consist of two general components: salary and a long-term incentive program (the “Incentive Program”), which is intended to reward selected management employees who provide services to the Partnership for performance that builds long-term unitholder value. The Incentive Program examines participants’ decision making each year, with an eye towards rewarding behavior that is linked to adding long-term value to unitholders. In addition, the Incentive Program addresses the Partnership’s relative total unitholder performance over a trailing three-year period so as to promote both a long-term focus and align management with unitholder returns over time. Payments are made under the Incentive Program during the first quarter of each year with respect to results of decision-making in the prior year and relative performance of our publicly traded units over the three-year period ending on December 31 of the prior year. As a result, information depicted in this report includes amounts paid in 2012, 2013, and 2014 with respect to performance from each of the following three-year periods, respectively: 2009-2011, 2010-2012, and 2011-2013.

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

The Board’s Human Resources Committee has responsibility for establishing our compensation objectives and approving all compensation for the CEO, his immediate subordinates, and the broader management team that participates in the Incentive Program. The committee’s primary focus is on designing a compensation system that adequately rewards and motivates employees, and then monitoring the execution of this system. In designing the Partnership’s compensation system, the committee focuses on maintaining fairness and balance between the interests of our employees and our unitholders. With that in mind, the committee intends that the Incentive Program be continuing and permanent for participants, but reserves the right to suspend and or terminate the Incentive Program at any time, as long as previously earned awards are not forfeited. In its role as administrator of the Incentive Program, the committee has the authority to determine all matters relating to awards to be granted thereunder, and has sole authority to interpret its provisions and any applicable rule or regulation. In making its decisions and administering the Incentive Program and our other compensation programs, the committee also monitors and evaluates periodically the impact of our compensation policies and objectives in light of the potential for such arrangements to promote excessive risk-taking by individual participants.

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

The committee has from time-to-time engaged compensation consultants to assist the committee in assessing the market for top executives. Historically, these consultants have provided a limited scope of services on behalf of the committee and their roles generally have been confined to specific peer analyses or assessments of specific compensation components within the Partnership's then-existing compensation structures. These consultants generally hav performed no other services for the Partnership or its subsidiaries or management, and in each case the committee has evaluated matters that the comittee determined to be relevant to the consultant's independence. In 2011, the Partnership's board of directors engaged Farient Advisors, a compensation consulting advisory firm, to advise the board on director compensation, general partner compensation, and related issues, for which the Partnership paid Farient $109,000. Farient also served as an advisor to the HR Committee for executive compensation matters in 2011, 2012, and 2013, for which Farient was paid a total of $21,000, $83,000, and $33,000, respectively.

Elements of Compensation

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

Base Salary. Base salary represents that portion of compensation that is designed to provide the executive with a stable and predictable cash payment at a level that is competitive with other similarly situated companies. In establishing base salary levels for executives and other members of the management team, the committee has used compensation consultant data, taking into account such factors as competitive industry salaries, general and regional economic conditions, and the size and geographic differences of "peer" companies against which the Partnership is compared. Using that data, the committee attempts to tailor our executives' base compensation to each executive's scope of responsibilities, individual performance, and contribution to our organization. If adjustments in base salary are made, they are usually effective March 1 of each year, unless circumstances warrant otherwise. In March 2011 the Partnership's named executive officers received a 3% increase in base salary but no additional increase in base salary was made effective for 2012 or 2013.

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

Long-Term Incentive Program (LTIP). The LTIP represents the Partnership's cash bonus plan for the CEO and his direct management reports, and focuses on relative total unitholder return measured over a rolling three-year period ending on the last day of the fiscal year for which the award is to be computed. Specifically, at the beginning and end of each period, the Partnership measures the arithmetic average trading price of the Partnership's limited partner units over the sixty trading day period preceding the first day and the last day of the three-year measurement period. The Partnership also takes into account all distributions to unitholders during that period, and compares the resulting total returns to those provided to security holders within a group of the Partnership's peers as measured using the same methodology. The peer group definition has evolved over time and has been based upon the recommendation of the Partnership's compensation consultant to include companies within the forest products industry, as well as those in real estate and those having a strong focus on land or natural resources. The following group of 23 companies was used to serve as peer benchmark for the 2009-11 and 2010-12 performance cycles.

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

Starting with the three-year LTIP cycle 2011-13, the group of benchmark peer companies has been reduced from 23 companies to 15. The rationale for the change in peer companies was to de-emphasize real estate or land companies in relation to timber and to eliminate mining companies. The composition of the new peer list is as follows:

Forest Products	**Real Estate**	**Agriculture**
Deltic (DEL)	EastGroup Properties (EGP)	Alico (ALCO)
Plum Creek (PCL)	First Potomac (FPO)	Griffin Land (GRIF)
Potlatch (PCH)	Forestar Group Inc. (FOR)	Limoneira (LMNR)
Rayonier (RYN)	Monmouth RE Investment (MNR)	
St. Joe (JOE)	Tejon Ranch (TRC)	
Weyerhaeuser (WY)	Thomas Properties Group (TPGI)	

For the LTIP cycle 2012-14 and subsequent ones, TPGI has been dropped from the list of 15 peers and replaced by CatchMark Timber Trust (CTT). TPGI is no longer a separately traded public company after December 2013 and CTT is a newly minted IPO and a pure-play timber REIT.

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

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

Performance Restricted Unit Plan (“PRU”). The PRU is the equity-based element of the Incentive Program, although awards can be made in cash, restricted units, or a combination of each. Awards from this component of the Incentive Program are based upon a target pool established at the beginning of each fiscal year and adjusted upward or downward as participants are added to or deleted from the Incentive Program. For 2013 the payout award pool consisted of 3,000 units for the CEO and 6,966 units for all other management participants collectively. This represents a halving of the target award pool amounts from when the PRU was initially established in 2010 to recalibrate for the increase since then in the Partnership’s trading price.

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

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

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

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

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

Most participants can expect to earn 100% of their target payout award for each year; however, the committee has the discretion to reduce the award levels in the event of poor performance or decision-making that exposes the Partnership to significant risk or loss, or to increase those awards up to an additional 100% of the targeted award levels for generating or implementing decisions, plans or programs that are of major positive influence on the Partnership.

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

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

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

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

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

Defined Contribution Retirement Savings Plan. As of December 31, 2013 all our employees are eligible to participate in our defined contribution plan, which is a tax qualified plan pursuant to Section 401(k) of the Code. Durin each of the years 2011 through 2013 the Partnership matched 50% of the employees' contributions up to 8% of compensation. Partnership contributions to the plan amounted to $147,000, $141,000, and $128,000 for each of the years ended December 31, 2013, 2012, and 2011, respectively. Employees become fully vested in the Partnership's contribution over a six-year period. The Partnership does not discriminate between executive and non-executive employees with respect to any aspect of this plan.

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

Severance and Other Termination Benefits

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

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

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

The following table summarizes the cash payments that would have been due Pope Resources' executive officers if a change in control event had occurred on December 31, 2013.

Name	Two times base salary	Target bonus	Total cash payments
David L. Nunes, President & CEO	$655,636	$180,000	$835,636
Thomas M. Ringo, Vice President & CFO	$426,164	$80,000	$506,164

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

Policy With Respect to $1 Million Deduction Limit

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

Summary Compensation Table

The following table sets forth information regarding compensation earned by our named executive officers for the years 2011 through 2013:

Name and Principal Position	Year	Salary ($)	Unit Awards ($) (1)	Non-equity Incentive Program Compensation ($) (2)	All Other Compensation ($) (3)	Total ($)
David L. Nunes President and CEO	2013	327,818	196,500	360,000	49,684	934,002
	2012	327,818	720,001	360,000	30,054	1,437,873
	2011	327,818	257,100	360,000	25,530	970,448
Thomas M. Ringo V.P.and CFO	2013	213,082	88,425	160,000	22,553	484,060
	2012	213,082	162,000	160,000	18,955	554,037
	2011	213,082	115,695	160,000	17,210	505,987

(1) Amounts represent the market value on the date of grant of restricted units received in January 2014, 2013 and 2012, respectively, as compensation under the PRU plan for 2013, 2012 and 2011 performance. Expense will be recognized, however, over the four-year vesting period for each of these grants with 25% vesting each year.

(2) Represents awards earned for each of the years 2011 through 2013 under the LTIP but paid out in January 2012, 2013, and 2014, respectively, as discussed in the Compensation Discussion and Analysis beginning on page 93.

(3) Amounts represent matching contributions to the Partnership's 401(k) plan made by the Partnership on behalf of the executive, and distributions received by the executive on unvested restricted Partnership units (the value of the restricted units is described under footnote (1) above and not repeated here.)

Grants of Plan Based Awards Table

The following table supplements the Summary Compensation Table and lists both annual and long-term incentive awards made during 2013 to each named executive officer.

			Estimated Future Payouts Under Non-Equity Incentive Program Awards (1)			Estimated Future Payouts Under Equity Incentive Program Awards						
Name	**Type of Award**	**Grant Date (2)**	**Thresh -old ($)**	**Target ($)**	**Maximum ($)**	**Thresh -old ($)**	**Target ($)**	**Maximum ($)**	**All Other Unit Awards: Number of Shares of Unit or Units (#) (3)**	**All Other Options Awards: Number of Securities Underlying Options (#)**	**Closing Price on Grant Date ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($)**
David L. Nunes	LTIP 2013-15	None	-	180,000	360,000							
President and CEO	RU	1/11/13							12,000		60.00	720,001
Thomas M Ringo	LTIP 2013-15	None	-	80,000	160,000							
V.P. and CFO	RU	1/11/13							2,700		60.00	162,000

(1) Reflects potential awards under the LTIP. The LTIP was implemented in 2010 with an initial “cycle” corresponding to the performance period 2008 – 10, a second cycle for the performance period 2009 – 11, a third cycle for the performance period 2010 – 12, and so on up through the sixth cycle for the performance period 2013 – 15 which is the only cycle shown in the table above since its performance period initiated in calendar year 2013. Payouts for the 2009-11, 2010-12, and 2011-13 cycles are reflected in the Summary Compensation Table (see footnote (2) from that table.) A description of how the LTIP works is described above beginning on page 94.

(2) No grant date attaches to LTIP cycles.

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

Unit Incentive Program

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

Units Available for Issuance

There are 1,105,815 units authorized under the Plan. As of December 31, 2013 there were 915,994 authorized but not issued units in the Plan. Securities issued or issuable under the Plan have been registered on a Form S-8 registration statement.

Unit Options

There are currently no unexpired and unexercised options.

Vesting Schedule

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

Unit Appreciation Rights

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

Adjustments, Changes in Our Capital Structure

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

Administration

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

Amendment and Termination

The board of directors has the exclusive authority to amend or terminate the Plan, except as would adversely affect participants' rights to outstanding awards. As the plan administrator, the committee has the authority to interpret t plan and options granted under the Plan and to make all other determination necessary or advisable for plan administration. In addition, as administrator of the Plan the committee may modify or amend outstanding awards, except would adversely affect participants' rights to outstanding awards without their consent.

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

The following table summarizes the outstanding equity award holdings held by our named executive officers as of December 31, 2013:

	Option Awards					**Unit Awards**			
Name	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Units That Have Not Vested (#)**	**Market Value of Units That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
David L. Nunes President and CEO	-	-	- -			19,500	1,306,500	-	39,484
Thomas M. Ringo V.P. and CFO	-	-	-			6,075	407,025	-	12,353

The following table summarizes the number of units acquired and amounts realized by our named executive officers during the year ended December 31, 2013 on the exercise of unit options and vesting of restricted units.

Name	Option Awards		Unit Awards	
	Number of Units Acquired on Exercise	Value Realized on Exercise	Number of Units Acquired on Vesting	Value Realized on Vesting
	(#)	($)	(#) (1)	($)
David L. Nunes President and CEO	-	-	4,075	244,401
Thomas M. Ringo V.P. and CFO	-	-	1,800	107,885

(1) Of the 4,075 units acquired upon vesting in 2013 by Mr. Nunes, he tendered back 1,204 of those units with an aggregate value of $72,143 to the Partnership in lieu of paying cash for payroll taxes due upon the vesting. As such, Mr. Nunes retained a net position of 2,871 of these units. Of the 1,800 units acquired upon vesting in 2013 by Mr. Ringo, he tendered back 563 of those units with an aggregate value of $33,693 to the Partnership in lieu of paying cash for payroll taxes due on the vesting. As such, Mr. Ringo retained a net position of 1,237 of these units.

Officer Unit Ownership Guidelines

We do not have a formal unit ownership guideline for named executive officers, but note that as of February 17, 2014 Messrs. Nunes and Ringo owned units of Pope Resources that had the following values expressed as multiples 2013 base salary. In addition, the table below outlines in a relative sense how the respective ownership positions of each named executive officer was obtained.

		David L. Nunes	Thomas M. Ringo
A	Total # of units owned - excluding unvested restricted units	87,550	17,665
B	Value of units owned - excluding unvested restricted units	$ 5,778,300	$ 1,165,890
C	2013 base salary	$ 327,818	$ 213,082
	Value divided by salary - B/C	17.6	5.5
% of A acquired via:			
	Open market purchase	22%	8%
	Exercise of options	45%	50%
	Vesting of restricted units	33%	42%
D	Total # of unvested restricted units	16,500	5,400
E	Value of unvested restricted units	$ 1,089,000	$ 356,400
	Value divided by salary - E/C	3.3	1.7
F	Combined value of all owned units - B plus E	$ 6,867,300	$ 1,522,290
	Value divided by salary - F/C	20.9	7.1

Director Compensation

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2013:

Name	Fees Earned or Paid in Cash ($)	Unit Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Program Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation ($) (3)	Total ($)
John E. Conlin	35,000	90,000	-	-	-	11,381	136,381
Douglas E. Norberg	29,000	90,000	-	-	-	11,381	130,381
Maria M. Pope	25,000	90,000	-	-	-	3,000	118,000
J. Thurston Roach	40,000	90,000	-	-	-	11,381	141,381

(1) Amounts represent the market value on the date of grant (January 11, 2013) of restricted units received during the year. These units are subject to a trading restriction until the units vest. These unit grants vest 50% on the third anniversary of the grant in January 2016 and the remaining 50% on the fourth anniversary of the grant date in January 2017. For each of Messrs. Conlin, Norberg, and Roach a total of 375 restricted units granted during fiscal year 2009 vested and became eligible for trading on August 26, 2013 and an additional 750 restricted units granted during fiscal year 2010 vested and became eligible for trading on May 25, 2013.

(2) No options were awarded in 2013.

(3) Amounts represent distributions received on unvested restricted Partnership units.

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

Report of the Human Resources Committee on Executive Compensation

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

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

Responsibilities and Composition of the Committee

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

The Committee is currently comprised of Douglas E. Norberg, Maria M. Pope, J. Thurston Roach, and John Conlin. Mr. Conlin served as Committee Chair during 2013. None of the members are officers or employees of the Partnership or the General Partner.

Conclusion

The Human Resources Committee believes that for 2013 the compensation terms for Mr. Nunes and Mr. Ringo, as well as for our other management personnel, were clearly related to the realization of the goals and strategies established by the Partnership. The discussion set forth in this section entitled “Compensation Discussion and Analysis” is hereby adopted as the Report of the Human Resources Committee for the year ended December 31, 2013.

John E. Conlin, Chairman

Douglas E. Norberg

Maria M. Pope

J. Thurston Roach

Audit Committee Report on Financial Statements

The Audit Committee of the General Partner’s Board of Directors has furnished the report set forth in the following section entitled “Responsibilities and Composition of the Audit Committee” on the Partnership’s year-end financial statements and audit for fiscal year 2013. The Audit Committee’s report is intended to identify the members of the Audit Committee and describe in general terms the responsibilities the Audit Committee assumes, the process it undertakes, and the matters it considers in reviewing the Partnership’s financial statements and monitoring the work of the Partnership’s external auditors.

Responsibilities and Composition of the Audit Committee

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

The Audit Committee is comprised of J. Thurston Roach, John E. Conlin, and Douglas E. Norberg. Mr. Roach serves as Audit Committee Chair. All members of the Audit Committee are independent as defined under NASDAQ Rule 5605(a)(2) and Exchange Act Section 10A(m)(3), and all are financially literate. Mr. Norberg is designated as a “financial expert” for purposes of NASDAQ Rule 5605(c)(2)(A).

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

Conclusion

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

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

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

Principal Unitholders

As of February 17, 2014, the following persons were known or believed by the Partnership (based solely on statements made in filings with the SEC or other information we believe to be reliable) to be the beneficial owner of more than 5% of the outstanding Partnership units :

Name and Address of Beneficial Owner	Number Of Units (1)	Percent of Class
James H. Dahl 501 Riverside, Suite 902 Jacksonville, FL 32202	520,157 (2)	11.7
Emily T. Andrews 601 Montgomery Street Suite 2000 San Francisco, CA 94111	498,203 (3)	11.2
Peter T. Pope 133 SW 2nd Ave., Ste. 301 Portland, OR 97204	252,762 (4)	5.7

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

(2) Mr. Dahl filed a Schedule 13G on February 3, 2014 that indicates he is the direct beneficial owner of 144,827 Partnership units, that he owns another 221,359 units through various trusts over which he retains sole voting and investment power, and that he owns another 153,971 units for which he shares voting and dispositive power.

(3) Includes 1,090 units owned by her husband, Adolphus Andrews, Jr. as to which she disclaims beneficial ownership. Also includes a total of 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares voting and investment power.

(4) Includes (a) 239,317 units held by a limited liability company controlled by Mr. Pope; (b) 4,625 units held directly; and (c) 8,820 units held in trust for one of his children.

Management

As of February 17, 2014, the beneficial ownership of the Partnership units of (1) the named executives (2) the directors of the Partnership's general partners, (3) the general partners of the Partnership, and (4) the Partnership's officers, directors and general partners as a group, was as follows. **

Name	Position and Offices	Number of Units (1)	Percent of Class
David L. Nunes	Chief Executive Officer and President, Pope MGP, Inc. and the Partnership; Director, Pope MGP, Inc.	104,050 (2)	2.3
Thomas M. Ringo	Vice President and CFO, Pope MGP, Inc. and the Partnership	23,065 (3)	*
John E. Conlin	Director, Pope MGP, Inc.	23,895 (4)	*
Douglas E. Norberg	Director, Pope MGP, Inc.	58,970 (4)	1.3
Maria M. Pope	Director, Pope MGP, Inc.	79,575 (5)	1.8
Peter T. Pope	Director, Pope MGP, Inc. and Pope EGP, Inc.; President, Pope EGP, Inc.	252,762 (6)	7.1
J. Thurston Roach	Director, Pope MGP, Inc.	7,500 (4)	*
Pope EGP, Inc.	Equity General Partner of the Partnership	54,000	1.2
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000	*
All General partners, directors and officers of general partners, and officers of the Partnership as a group (7 individuals and 2 entities)		549,817 (7)	12.3

* Less than 1%

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

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

(2) Includes 16,500 unvested restricted units issued to Mr. Nunes. Also includes 3,050 units held in trust for Mr. Nunes' children for which he disclaims beneficial ownership.

(3) Includes 5,400 unvested restricted units issued to Mr. Ringo.

(4) Includes 6,000 unvested restricted units.

(5) Includes 2,250 unvested restricted units and 1,125 units held jointly with Ms. Pope's spouse for which she disclaims beneficial ownership. Also includes 640 units held in trust for Ms. Pope's children for which she disclaims beneficial ownership and 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares investment and voting power.

(6) Includes (a) 239,317 units held by a limited liability company controlled by Mr. Pope; (b) 8,820 units held in trust for one of his children.

(7) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Mr. Pope. Mr. Pope and Emily T. Andrews own all of the outstanding stock of Pope MGP, Inc. and Pope EGP, Inc. Includes 42,150 unvested restricted units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2013.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	-	N/A	915,994
Equity compensation plans not approved by security holders	-	-	-
Total	-	N/A	915,994

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

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

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

ORM Timber Fund I, LP ("Fund I"). Pope Resources, A Delaware Limited Partnership owns 19% and Olympic Resource Management LLC owns 1% and is the general partner of Fund I. David L. Nunes and Thomas M. Ringo invested less than 1% of the capital in Fund I. The majority of this commitment was paid in the fourth quarter of 2006 when Fund I acquired timberland. Messrs. Nunes and Ringo are not direct investors in either Fund II or Fund III.

Director Independence

With the exception of David L. Nunes, our Chief Executive Officer, all of the directors of the Managing General Partner are independent under applicable laws and regulations and the listing standards of NASDAQ.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees related to the Partnership's principal accountants, KPMG LLP, during 2013 and 2012.

Description of services		2013	%		2012	%
Audit (1)	**$**	**358,750**	**86%**	$	355,000	86%
Audit related (2)		**60,000**	**14%**		53,750	14%
Tax (3):						
General tax consultation		**-**	**-**		-	-
Total	**$**	**418,750**	**100%**	$	408,750	100%

(1) Fees represent the arranged fees for the years presented, including the annual audit of internal controls as mandated under Sarbanes-Oxley section 404, and out-of-pocket expenses reimbursed during the years presented.
(2) Fees represent the arranged fees for the years presented in connection with the audits of Olympic Resource Management LLC, ORM Timber Fund I LP, ORM Timber Operating Company II, LLC, and ORM Timber Fund III Inc.
(3) Fees paid for professional services in connection with tax consulting.

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

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

Exhibits.

No.	Document
3.1	Certificate of Limited Partnership. (1)
3.2	Limited Partnership Agreement, dated as of November 7, 1985. (1)
3.3	Amendment to Limited Partnership Agreement dated December 16, 1986. (2)
3.4	Amendment to Limited Partnership Agreement dated March 14, 1997. (4)
3.5	Certificate of Incorporation of Pope MGP, Inc. (1)
3.6	Amendment to Certificate of Incorporation of Pope MGP, Inc. (3)
3.7	Bylaws of Pope MGP, Inc. (1)
3.8	Certificate of Incorporation of Pope EGP, Inc. (1)
3.9	Amendment to Certificate of Incorporation of Pope EGP, Inc. (3)
3.10	Bylaws of Pope EGP, Inc. (1)
3.11	Amendment to Limited Partnership Agreement dated October 30, 2007. (9)
3.12	Audit Committee Charter. (7)
4.1	Specimen Depositary Receipt of Registrant. (1)
4.2	Limited Partnership Agreement dated as of November 7, 1985, as amended December 16, 1986 and March 14, 1997 (*see* Exhibits 3.2, 3.3 and 3.4).
4.3	1997 Unit Option Plan Summary (5) and Pope Resources 2005 Unit Incentive Plan. (8)
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Transfer and Indemnity Agreement between the Partnership and P&T dated as of December 5, 1985. (1)
10.2	Environmental Remediation Agreement. (6)
10.3	Form of Change of control agreement. (7)
10.4	First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated June 10, 2010. (10)
10.5	Amendment No. 1 to First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated August 6, 2010. (10)
10.6	First Amended and Restated Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (10)

10.7	Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (10)
10.8	First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated June 10, 2010. (10)
10.9	Amendment No. 1 to First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated August 6, 2010. (10)
10.10	Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated June 10, 2010. (10)
10.11	Amendment No. 1 to Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated June 15, 2010. (10)
10.12	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, FLCA dated June 10, 2010. (10)
10.13	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, PCA dated June 10, 2010. (10)
10.14	Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (10)
10.15	First Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated February 7, 2011. (10)
10.16	Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated September 1, 2010. (10)
10.17	Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated September 1, 2010. (10)
10.18	Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (10)
10.19	Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (10)
10.20	Incentive Compensation Program Summary – revised February 2011. (10)
10.21	Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated May 30, 2012. (11)
10.22	Amendment No. 1 to Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated June 30, 2012. (12)
10.23	Amendment No. 2 to First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated June 30, 2012. (12)
10.24	Amendment No. 2 to First Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated November 10, 2012. (12)

10.25	Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated December 20, 2012. (12)
10.26	Second Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (13)
10.27	Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated August 15, 2013. (13)
10.28	Amendment and Reaffirmation of Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated August 15, 2013. (13)
10.29	First Amendment to Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (13)
10.30	First Amendment to Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (13)
10.31	Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated December 2, 2013. (13)
10.32	Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated December 2, 2013. (13)
10.33	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Grays Harbor County). (13)
10.34	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Pacific County). (13)
10.35	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Siskiyou County). (13)
10.36	Guaranty Agreement by ORM Timber Fund III LLC and ORM Timber Fund III (Foreign) LLC in favor of Northwest Farm Credit Services, FLCA dated December 2, 2013. (13)
21.1	Significant Subsidiaries. (13)
23.1	Consent of Registered Independent Public Accounting Firm. (13)
31.1	Certificate of Chief Executive Officer. (13)
31.2	Certificate of Chief Financial Officer. (13)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (13)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (13)

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.

(2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1987.

(3) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.

(4) Incorporated by reference from the Partnership's Proxy Statement filed on February 14, 1997.

(5) Incorporated by reference to the Company's Form S-8 Registration Statement (SEC file number 333-46091) filed with the Commission on February 11, 1998.

(6) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2002.

(7) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2005.

(8) Filed with Form S-8 on September 9, 2005.

(9) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2007.

(10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2010.

(11) Incorporated by reference to the quarterly Report on Form 10-Q filed by the Registrant August 9, 2012.

(12) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2012.

(13) Filed with this annual report for the fiscal year ended December 31, 2013.

SIGNATURES

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

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: March 5, 2014	By /s/ David L. Nunes President and Chief Executive Officer

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

Date: March 5, 2014	By /s/ David L. Nunes David L. Nunes, President and Chief Executive Officer (principal executive officer), Partnership and Pope MGP, Inc.; Director, Pope MGP, Inc.
Date: March 5, 2014	By /s/ Thomas M. Ringo Thomas M. Ringo Vice President & CFO (principal financial and accounting officer), Partnership and Pope MGP, Inc.
Date: March 5, 2014	By /s/ John E. Conlin John E. Conlin Director, Pope MGP, Inc.
Date: March 5, 2014	By /s/ Douglas E. Norberg Douglas E. Norberg Director, Pope MGP, Inc.
Date: March 5, 2014	By /s/ Maria M. Pope Maria M. Pope Director, Pope MGP, Inc.
Date: March 5, 2014	By /s/ J. Thurston Roach J. Thurston Roach Director, Pope MGP, Inc.

SECOND AMENDMENT TO LOAN AGREEMENT

This Second Amendment to Loan Agreement (this "Second Amendment") is made this 15th day of August, 2013, by and among METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation ("Lender"), and ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company ("Borrower") with reference to the following recitals of fact:

A. Lender and Borrower are parties to that certain Loan Agreement dated as of September 1, 2010 as amended by that certain First Amendment to Loan Agreement dated February 7, 2011 (as amended, the "2010 Loan Agreement"). The Loan Agreement was executed in connection with a loan (the "2010 Loan") made by Lender to Borrower evidenced by, among other things, that certain Promissory Note in the original principal amount of$11,000,000 (the "Note"). The 2010 Loan is secured by certain Deeds of Trust (as defined in the 2010 Loan Agreement) encumbering certain timberlands and related assets situated in Lewis County, Washington and Clackamas and Marion Counties, Oregon. Capitalized terms used but not defined or modified herein shall have the meanings given in the 2010 Loan Agreement.

B. Borrower has requested that Lender make an additional loan to Borrower in the principal amount of $14,000,000 (the "Additional Loan") to be evidenced by, among other things, a Promissory Note in the principal amount of $14,000,000 (the "Additional Note") and secured by the lien of the Deeds of Trust and the other Loan Documents.

C. Subject to the terms and conditions set forth herein, Lender has agreed to make the Additional Loan to Borrower pursuant to that certain Term Sheet/Loan Application dated June 21, 2013 (the "Application"), which Additional Loan shall be secured as provided herein and in the other Loan Documents. The Additional Loan will also be guaranteed by ORM Timber Fund II, Inc. (the "Guarantor").

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Status of Existing Loan. Borrower acknowledges for the benefit of Lender that the Note, the 2010 Loan Agreement, the Deeds of Trust and the other Loan Documents all comprise valid and binding obligations enforceable in accordance with their respective terms, and that Borrower has no offset or defense against the indebtedness evidenced by the Note or any of the obligations set forth in the Loan Documents.

2. Definitions and References. All references in the 2010 Loan Agreement to the following terms are hereby amended, as of the date hereof , as set forth below:

(a) the term "Deeds of Trust" is hereby modified to mean the Deeds of Trust, each as amended by the applicable First Amendment to Deed of Trust (the "Amendments to Deeds of Trust") executed by Borrower and Lender as of even date herewith;

(b) the term "Guaranty" is hereby modified to mean the Guaranty as amended and reaffirmed by Guarantor as of even date herewith;

(c) the term "Loan" is hereby modified to mean the 2010 Loan anq the Additional Loan, collectively;

(d) the term "Loan Agreemenf ' is hereby modified to mean the 2010 Loan Agreement as amended hereby;

(e) the term "Loan Documents" is hereby modified to mean the 2010 Loan Agreement, as amended by this Second Amendment, the Note, the Additional Note, the Deeds of Trust (as amended by the Amendments to Deeds of Trust, as defined herein), the Assignment of Timber Contracts, the Environmental Indemnity Agreement, the Guaranty Agreement, as amended and reaffirmed, the documents listed under Sections 1.5 and 6.1 of the 2010 Loan Agreement, and any and all other agreements, instruments and documents, including, without limitation, mortgages, security agreements, assignments, pledges, powers of attorney, consents, and all other written agreements heretofore, now or hereafter executed by Borrower in favor of Lender or in respect to the transactions contemplated by the 2010 Loan Agreement (as amended by this Second Amendment), in each case as may be amended from time to time and as reaffirmed in connection with the Additional Loan;

(f) the terms "Note" and "Notes" are hereby amended to mean the Note and the Additional Note, collectively, or either the 2010 Note or the Additional Note, as the context requires; and

(g) the term "Permitted Encumbrances" shall include those items disclosed as additional exceptions in the Modification Endorsements (defined below) accepted by Lender.

3. Amendment to Loan to Value Ratio. Effective following the 2013 Closing Date, the first sentence of Section 5.4.2 of the 2010 Loan Agreement is hereby modified to read as follows:

"Borrower shall not at any time cause or permit the Loan to Value Ratio to exceed Fifty Percent (50%), and any such non-compliance shall be a Default hereunder, and any such Default which is not restored to compliance by a prepayment of principal made as required under the terms of Section 5.4.4 below, shall constitute an Event of Default hereunder."

4. Partial Releases. Sections 4.8.3 and 4.8.4 of the 2010 Loan Agreement are hereby amended and superseded in their entirety by the following:

"4.8.3 Lender will, in its sole and absolute discretion, calculate a reasonable payment (the "Release Price") for such partial release and communicate same to Borrower. The Release Price shall be paid by Borrower to Lender for application to prepayment of principal of the Note. Any such prepayment shall be treated in the same manner as any other prepayment and shall be subject to prepayment premium in the same manner as any other prepayment.

4.8.4 Any request by Borrower shall be accompanied by an LTV calculation by Borrower in accordance with Section 5.4 on a pro forma basis as if the partial release requested had been granted, and any partial release shall be subject to verification by Lender of such pro forma LTV in accordance with Section 5.4 and shall be otherwise acceptable to Lender. No partial release shall be permitted which may cause any non-compliance with Section 5.4 below as determined with respect to such pro forma LTV by Lender in the exercise of its sole judgment based upon the most recent appraisal or appraisal update approved by Lender, adjusted for any previous releases, removals, growth, any other matters since such date and the best information then available to Lender. The following terms shall apply to any partial release request:

4.8.4.1 At any time that the LTV is 40% or less, Borrower may obtain partial releases for any portion of the Timberlands, without the payment of a Release Price (although Borrower shall be responsible for all costs and expenses incurred by Lender in reviewing and processing such partial release as set forth in Section 4.8.9), as long as the LTV does not exceed 40% before and after the partial release, as adjusted for any previous partial releases, and as determined by Lender, and subject to compliance with all other subsections of this Section 4.8.

4.8.4.2 At any time that the LTV is greater than 40% but less than 50%, Borrower shall have the right to obtain partial releases for a portion or portions of the Timberlands, without the payment of a Release Price (although Borrower shall be responsible for all costs and expenses incurred by Lender in reviewing and processing such partial release as set forth in Section 4.8.9), as long as the LTV after each partial release shall be equal to or less than the LTV whi.ch existed immediately prior thereto, as determined by Lender in its sole discretion based upon the most recently accepted Appraisal, and subject to compliance with all subsections of this Section 4.8.

4.8.4.3 In the event Borrower shall request a partial release under clause 4.8.4.2 above and the LTV test included in clause 4.8.4.2 would not be met, Borrower may make a prepayment of principal under the terms of the Note in an amount determined by Lender which shall, at the least, be sufficient to cause the LTV tests included in clause 4.8.4.2 to be met once such prepayments have been applied. Any such prepayments shall be subject to prepayment premium, if any, as set forth in the Note, in the same manner as any other prepayment."

5. Representations and Warranties. Borrower hereby restates and reaffirms all of thecovenants, representations and warranties set forth in the 2010 Loan Agreement, as if made as ofthe date of this Second Amendment, except to the extent of and as modified by the following updated Schedules attached hereto and incorporated herein (the **"Updated Schedules"):**

Schedule 2.3
Schedule 2.6.1.A
Schedule 2.6.2

Furthermore, Borrower hereby makes the following representations, warranties and covenants to Lender, it being hereby acknowledged by Borrower that Lender is relying upon such representations, warranties and covenants as a material inducement to Lender's execution hereof:

(a) Borrower has the power and authority to enter into this Second Amendment and all other agreements contemplated hereby, and to do all acts and things as are required or contemplated hereunder to be done, observed and performed by Borrower.

(b) The execution and delivery of this Second Amendment and all other agreements to be executed by Borrower and contemplated hereby, and Borrower's performance hereunder and thereunder, do not and will not require the consent or approval of any governmental authority, nor be in contravention of or in conflict with any certificate of incorporation, certificate of organization, bylaws, limited liability company agreement or other formation documents, or the provisions of any statute, or any judgment, order, or indenture, instrument, agreement, or undertaking, to which Borrower is a party or by which Borrower or its assets or properties are or may become bound.

(c) Borrower is, as of the date hereof, and shall be as of the date hereof, in full compliance with all covenants, agreements and obligations of Borrower as set forth in the 2010 Loan Agreement, the Note, the Security Documents (as defined in the 2010 Loan. Agreement), this Second Amendment and the other Loan Documents, and no Event of Default exists thereunder or hereunder, and no event or circumstance exists which with the passage of time or the giving of notice, or both, would constitute an Event of Default thereunder.

(d) Borrower has duly performed all of its obligations under the 2010 Loan Agreement and the other Loan Documents.

(e) This Second Amendment constitutes the legal, valid and binding obligations of Borrower enforceable in accordance with its terms, and the execution and delivery of this Second Amendment does not contravene, result in a breach of, or constitute a default under any deed of trust, loan agreement, indenture or other contract or agreement to which Borrower is bound, nor would such execution and delivery constitute such a default with the passage of time or the giving of notice, or both.

(f) Borrower has thoroughly read and reviewed the terms and provisions of this Second Amendment and is familiar with same, and Borrower has entered into this Second Amendment voluntarily, without duress or undue influence of any kind, and with the advice and representation of legal counsel which it has selected.

6. Closing. The closing of the Additional Loan (the **"2013 Closing")** is scheduled to be held in a manner acceptable to Lender on or before August 16, 2013 (the **"2013 Closing Date").** Notwithstanding any other provision of this Second Amendment or any other Loan Documents, and without affecting in any manner the rights of Lender under the other sections of this Second Amendment, it is understood and agreed that Lender's obligation to fund the Additional Loan is subject to fulfillment of the terms and conditions of the Application, Lender's closing checklist and other terms and conditions established by Lender, and that Lender shall have no obligation to fund the Additional Loan if any Default or Event of Default shall exist at such time and unless and until the following conditions have been satisfied, all in fonn and substance satisfactory to Lender and their special counsel:

(a) Documentation. Lender shall have received the following documents, each to be in fonn and substance satisfactory to Lender:

i. The original Additional Note, duly executed by Borrower, and the Consent and Reaffinnation Agreement duly executed by the Guarantor (the **"Consent and Reaffirmation of Guaranty");**

ii. Multiple original counterparts of each of the Amendments to Deeds of Trust required in connection with the Additional Loan, with evidence that the Amendments to Deeds of Trust intended to be recorded have been duly recorded, or that arrangements satisfactory to Lender have been made for such recordation, in each office where such recordation is necessary;

iii. A solvency certificate of Borrower and Guarantor;

iv. Original written opinions of counsel covering the State of Delaware and each State in which any part of the Timberlands is located in fonn and substance satisfactory to the Lender with respect to the transactions contemplated by this Second Amendment, including, without limitation, the enforceability of the Loan Documents executed by the Borrower and Guarantor.

v. Certificates of a duly authorized officer or manager of each Borrower and Guarantor certifying (i) that attached thereto is a true and complete copy of the Certificate of Formation and Operating Agreement, or Articles oflncorporation and Bylaws, as applicable, and all other organizational documents of such entity, as amended to the date of such certification, (ii) that attached thereto are true and complete copies of consents executed and delivered by the officers and manager of each Borrower and Guarantor authorizing the execution, delivery and performance of this Second Amendment and the other Loan Documents to which such entity is a party, (iii) that attached thereto is a true and complete copy of the organizational documents of manager, as amended to the date of such certification, and (iv) as to the incumbency, authority and genuineness of the signature of each officer of Borrower executing this Second Amendment or any of the other Loan Documents to which Borrower or Guarantor is a party, and such other authority documents as may be requested by Lender;

vi. Good standing certificates (or the equivalent) for Borrower, Guarantor and the manager of Borrower, issued by the appropriate official of each jurisdiction where the conduct of Borrower's and Guarantor's business activities or the ownership of its Properties necessitates qualification;

vii. Such modification endorsements to the Title Policy (the **"Modification Endorsements"),** in form and substance satisfactory to the Lender, as Lender may require, insuring the continuing validity and first priority of the lien and effect of the each of the Deeds of Trust (as amended by the Amendments to Deeds of Trust), subject only to such exceptions to and exclusions from coverage as may be acceptable to the Lender. In addition, the Lender shall have received copies of all instruments and other matters affecting title to the Property encumbered by the Deeds of Trust to the extent shown as exceptions to coverage under the Modification Endorsements and not previously approved as exceptions in the Title Policy. Ingress and egress to the Timberlands shall be by public road or deeded right of way easement included as part of the mortgaged property and insured under the Title Policy, except as disclosed on Schedule 2.6.2, as updated and attached hereto. All premiums, charges, fees, costs and expenses of the title insurer or related to the Modification Endorsements shall be paid in full by Borrower;

viii. Duplicate original counterparts of this Second Amendment, duly executed by all parties;

ix. The Updated Schedules to the Loan Agreement;

x. Environmental Questionnaire;

xi. Such other documents, instruments and agreements as are required by the Application or as the Lender shall reasonably request in connection with the foregoing matters, including without limitation, updates, revisions or supplements to previously delivered information or documents where necessary to make such previously delivered information or documents true, complete and accurate;

xii. a certificate signed by a duly authorized officer of Borrower dated as of the 2013 Closing Date, stating the Borrower and any Affiliate of Borrower is in compliance with all of the terms and provisions set forth in the Loan Agreement, as amended hereby; and

xm. a Reaffirmation of Assignment and Subordination of Management Agreement duly executed by the Project Manager with respect to the Management Agreement of the Timberlands.

(b) Other Conditions. The following conditions shall have been and at the time of the 2013 Closing shall continue to be satisfied, to the satisfaction of Lender:

i. No Event of Default shall have occurred;

ii. Borrower shall have furnished to Lender on or before the date of the 2013 Closing, copies of any appraisals, valuations, timber inventory cruises or the like, and all environmental reports, in each case as required under the Loan Agreement or the Application;

iii. The Loan to Value Ratio shall not exceed forty percent (40%);

iv. No action, proceeding, investigation, regulation or legislation shall have been instituted, proposed or, to the knowledge of Borrower, threatened in writing before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of the Loan Agreement (as amended hereby) or the consummation of the transactions contemplated thereby, or which is related to or arises out of the Loan Agreement or the consummation of the transactions contemplated thereby, and which, in Lender's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Second Amendment;

v. The Additional Note shall on the 2013 Closing Date qualify as a legal investment for Lender under applicable insurance law including, without limitation, Section 1045 of the New York Insurance Law (without regard to any "basket" or "leeway" provisions), and such acquisition shall not subject Lender .to any penalty or other onerous condition in or pursuant to any such law or regulation, and Lender shall have received such evidence as Lender may request to establish compliance with this condition;

vi. Borrower shall have good and marketable fee simple title to the Timberlands, subject to no Liens except the Permitted Encumbrances, and Borrower shall have full power and authority to assign, lease, transfer, pledge and mortgage the Collateral;

vii. the warranties and representations of each of Borrower, Guarantor and Project Manager contained herein and in the other Loan Documents shall be true and correct;

vm. the organizational documents of Borrower and Guarantor shall be acceptable in form and substance to Lender; and

ix. All conditions to the closing of the 2010 Loan as provided in the 2010 Loan Agreement (other than the conditions in Sections 6.2.1 and 6.2.3), shall remain satisfied, and all proceedings taken in connection with the Additional Loan and the other transactions contemplated hereby and by the other Loan Documents and all documents and papers relating thereto shall be satisfactory to Lender and its special counsel. Lender and its special counsel shall have received copies of such documents and papers as they may reasonably request in connection therewith, all in form and substance satisfactory to Lender and its special counsel.

7. Borrower's Notice Address. Borrower's Notice address in Section 8.9 is modified to read:

c/o Olympic Resource Management LLC
19950 Seventh Avenue NE, Suite 200
Poulsbo, Washington 98370
Attention: Thomas M. Ringo
Email: tringo@orminc.com

8. Legal Fees and Expenses. The Parties shall pay, or cause to be paid, upon request all costs and expenses incurred by Lender or incident to the preparation, execution and recordation, as required, of all agreements, instruments and other documents, in connection with the consummation of the transaction contemplated hereby, including, but not limited to, recording fees, title insurance policy or endorsement premiums or other charges of the title company, and reasonable fees and expenses of legal counsel to Lender.

9. Waivers. Any waiver herein by Lender shall not waive, affect or diminish any right of the Lender to hereafter demand strict compliance and performance by any of the Parties of all of the terms, conditions and covenants of the Loan Agreement and the other Loan Documents upon each and every subsequent date when compliance is required. Any waiver herein by Lender shall not suspend, waive or affect any Event of Default by any of the Parties under the Loan Agreement, the Note, the Security Documents, or the other Loan Documents, whether such other Event of Default is prior or subsequent thereto. Any waiver herein by Lender is made in reliance upon, and is strictly subject to, the full performance by each of the Parties of the terms and conditions of this Second Amendment.

10. Default and Remedies. Any default by any of the Parties in the performance of their respective obligations herein contained or any inaccuracy in the representations and warranties made by any of the Parties shall constitute an Event of Default under the terms of the Loan Agreement, Note, Security Documents and other Loan Documents and shall entitle Lender to exercise all of its rights and remedies set forth in the Loan Agreement, Note and other Loan Documents.

11. Relationship of Parties. The relationship between Borrower and Lender is limited to that of debtor and creditor. The provisions in any Loan Document for compliance with financial covenants and delivery of financial statements are intended solely for the benefit of Lender to protect its interests as Lender in assuring payments of interest, and repayment of principal, and nothing contained in this Second Amendment, the 2010 Loan Agreement or the other Loan Documents, shall be construed as (i) permitting or obligating Lender to act as a financial or business advisor or consultant to Borrower, (ii) permitting or obligating Lender to control Borrower or conduct Borrower's operations, (iii) creating any fiduciary obligation on the part of Lender to Borrower, or (iv) creating any partnership, tenancy-in-common, joint tenancy, joint venture, co-ownership, agency or other relationship between the parties other than as debtor and creditor. Lender shall not in any way be responsible or liable for the debts, losses, obligations or duties of Borrower with respect to the Collateral or otherwise. All obligations to pay real property or other taxes, assessments, insurance premiums and all· other fees and charges arising from the ownership, operation, use and occupancy of the Collateral and to perform obligations under all agreements and contracts relating to the Collateral shall be the sole responsibility of Borrower.

12. No Defenses. Counterclaims or Rights of Offset, Release of Lender. As a material inducement to Lender to enter . into this Second Amendment, each of the Parties hereby acknowledges, admits, and agrees that, as of the date hereof, Lender has satisfied and performed its covenants and obligations under each of the Loan Documents, and that no action or failure to act by or on behalf of Lender has or will give rise to any cause of action or other claim against Lender for breach of any of the Loan Documents or otherwise, and there exist no rights of offset, defense, counterclaim, claim, or objection in favor of any or all of them against Lender with respect to the Loan, the Collateral, and the Note or any of the other Loan Documents, or alternatively, that any and all such right of offset, defense, counterclaim, claim, or objection which any of the Parties may have or claim, of any nature whatsoever, whether known or unknown, is hereby expressly and irrevocably waived and released. With respect to that period from the beginning of time until the date of full execution and delivery hereof, each of the Parties hereby releases and forever discharges Lender, its directors, officers, employees, administrators, subsidiaries, affiliates, attorneys, agents, successors, and assigns from any and all rights, claims, demands, actions, causes of action, suits, proceedings, agreements, contracts,

judgments, damages, debts, costs, expenses, promises, agreements, duties, liabilities, or obligations, whether in law or in equity, known or unknown, choate or inchoate, which any of the Parties has had, now has, or hereafter may have, arising under or in any manner relating to, whether directly or indirectly, the Loan, the Collateral and the Note or any of the other Loan Documents, or any transactions contemplated by this Second Amendment, but only with respect to that period from the beginning of time until the date of full execution and delivery hereof; The foregoing release is intended to be, and is, a full, complete and general release in favor of Lender with respect to all claims, demands, actions, causes of action and other matters described therein, including specifically, without limitation, any claims, demands or causes of action based upon allegations of breach of fiduciary duty, breach of any alleged duty of fair dealing in good faith, economic coercion, usury, or any other theory, cause of action, occurrence, matter or thing which might result in liability upon Lender arising or occurring on or before the date hereof. Each of the Parties understands and agrees that the foregoing general release is in consideration for the agreements of Lender contained herein arid that the Parties will receive no further consideration for such release.

13. Ratification; Continued Force and Effect. This Second Amendment is only a modification of the Loan Agreement, Note, and other Loan Documents and is not intended to, and shall not be construed to, effect a novation of the Loan Agreement, Note or other Loan Documents, and, except as expressly set forth herein, all of the representations, covenants, terms. and conditions of the Loan Agreement, Note and other Loan Documents (which are incorporated herein) and the collateral security provided thereby, are not being modified, amended, cancelled, terminated, released, satisfied, superseded or otherwise invalidated hereby in any manner and shall remain in full force and effect. In the event of any conflict between the terms of this Second Amendment and the terms of any of the Loan Documents, the terms of this Second Amendment shall control. Each of the Parties hereby ratifies and confirms the Loan Documents as modified hereby, and acknowledges and agrees that the Loan Documents as modified hereby are enforceable against the Parties and against the Collateral described therein in accordance with their respective terms. The Parties acknowledge and agree that the Collateral shall remain in all respects subject to the liens, charges and encumbrances of the Deeds of Trust and the other Loan Documents and the conveyances of title effected thereby, and nothing herein contained, and nothing done pursuant hereto or in connection herewith shall affect or be construed to affect the liens, charges or encumbrances or conveyances effected thereby or the priority thereof over other liens, charges, encumbrances or conveyances, or to release or affect the liability of any party or parties whomsoever may now, or hereafter be, liable on account of the Obligations.

14. Governing Law. This Second Amendment shall be governed by, and construed and enforced in accordance with, the law of the State of Washington and the Federal laws of the United States of America in force therein, and as further set forth in Section 9.6 of Loan Agreement.

15. Headings. The section headings hereof are inserted for convenience of reference only and shall in no way alter, amend, define or be used in the construction or interpretation of the text of such section.

16. Construction. Whenever the context hereof so requires, reference to the singular shall include the plural and likewise, the plural shall include the singular; words denoting gender shall be construed to mean the masculine, feminine or neuter, as appropriate; and specific enumeration shall not exclude the general, but shall be construed as cumulative of the general recitation.

17. Severability. If any clause or provision of this Second Amendment is or should ever be held to be illegal, invalid or unenforceable under any present or future law applicable to the terms hereof, then and in that event, it is the intention of the parties hereto that the remainder of this Second Amendment shall not be affected thereby, and that in lieu of each such clause or provision of this Second Amendment that is illegal, invalid or unenforceable, such clause or provision shall be judicially construed and interpreted to be as similar in substance and content to such illegal, invalid or unenforceable clause or provision, as . the context thereof would reasonably suggest, so as to thereafter be legal, valid and enforceable.

18. Entire Agreement. THIS SECOND AMENDMENT EMBODIES THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES .HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO. THE PROVISIONS OF THIS SECOND AMENDMENT MAY BE AMENDED OR WAIVED ONLY BY AN INSTRUMENT IN WRITING SIGNED BY THE RESPECTIVE PARTIES TO SUCH DOCUMJ;:NTS.

19. WAIVER OF TRIAL BY JURY. TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES AND LENDER WAIVE TRIAL BY JURY IN ANY PROCEEDING RELATING TO THE LOAN AGREEMENT OR ANY OF THE OTHER DOCUMENTS RELATING TO THE LOAN AND AGREE THAT NO SUCH ACTION WITH RESPECT TO WHICH A JURY TRIAL HAS BEEN WAIVED SHALL BE SOUGHT TO BE CONSOLIDATED WITH ANY OTHER ACTION WITH RESPECT TO WHICH A JURY TRIAL CANNOT OR HAS NOT BEEN WAIVED.

20. Miscellaneous.

(a) From time to time, Borrower and Guarantor shall execute or procure and deliver to Lender such other and further documents and instruments evidencing, securing or pertaining to the Loan or the Loan Documents as shall be reasonably requested by Lender so as to evidence or effect the terms and provisions hereof.

(b) This Second Amendment may be executed in any number of identical counterparts, each of which shall be deemed to be an original, and all of which shall collectively constitute a single agreement, fully binding upon and enforceable against the parties hereto.

(c) This Second Amendment shall be binding upon Borrower and Guarantor, and the successors and assigns of Borrower and Guarantor, and shall be binding upon and inure to the benefit of the Lender, its successors and assigns, including any subsequent holder of the Note.

(d) Borrower and Lender hereby agree that all references in the Loan Agreement to Loan Documents shall include this Second Amendment.

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

[signatures follow on next page]

IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the date first above written.

LENDER:

METROPOLITAN LIFE INSURANCE
COMPANY, a New York corporation

By: ______________________

Printed Name: W. Kirk Purvis
Title: Director

BORROWER:

ORM TIMBER OPERATING COMPANY II, LLC, a
Delaware limited liability company

Olympic Resource Management LLC, a
Washington limited liability company
Its Manager

By:

P · ted Name: Thomas M. Ringo
Title: CFO, VP. Treas. and Secretary

CONSENT OF GUARANTOR

The undersigned, ORM TIMBER FUND II, INC., a Delaware corporation ("Guarantor"), is the Guarantor of the Loan pursuant to that certain Guaranty dated as of September 1, 2010, as amended and reaffirmed as of the date hereof (the "Guaranty"). Guarantor hereby consents to the terms and provisions of the foregoing Second Amendment to Loan Agreement and the related adjustments to the Loan Documents and agrees that its obligations under the Guaranty remain unmodified and in full force and effect with respect to the Loan Agreement as so amended. Guarantor hereby reaffirms the terms and obligations arising under the Guaranty as of the date hereof.

GUARANTOR:

ORM TIMBER FUND II, INC.,
a Delaware corporation

By: Olympic Resource Management LLC,
Its Manager

Date

By: ______________________

David L. Nunes
President and CEO

SCHEDULE 2.3

OWNERSIDP OF BORROWER, SUBSIDIARIES, OFFICERS OF BORROWER AND STATUTORY AGENTS IN EACH STATE

Ownership of Borrower:
Direct ownership of Borrower is as follows:
98.8% owned by ORM Timber Fund II, Inc. ("Guarantor")
I .2% owned by Olympic Resource Management LLC ("Olympic") and Olympic is the member-manager of the LLC
Direct ownership of Guarantor is as follows:
100% · owned by 26 common stock investors, one of which is Pope Resources, A Delaware Limited Partnership ("Pope Resources") that owns 19.3% of Guarantor
There are approximately 125 preferred non-voting stock investors in Guarantor
Direct ownership of Olympic is as follows:
100% owned by ORM, Inc., a Washington corporation, that is in tum owned 100% by Pope Resources Pope MOP, Inc., the managing general partner of Pope Resources and has a profit sharing interest only in Olympic

Subsidiaries of Borrower (100% owned):

Tillamook Log Company LLC, a Delaware limited liability company

Officers of Borrower:
David L. Nunes, President & Chief Executive Officer of Olympic
Thomas M. Ringo, Vice President, Chief Financial Officer, Treasurer & Secretary of Olympic

Officers of Guarantor:
David L. Nunes, President
Thomas M. Ringo, Treasurer & Secretary

Officers of Pro ject Manager:
David L. Nunes, President & Chief Executive Officer
Thomas M. Ringo, Vice President, Chief Financial Officer, Treasurer & Secretary

Statutory Agents for Service of Process:

Washington:	Olympic Resource Management LLC 19950 Seventh Avenue NE, Suite 200 Poulsbo, Washington 98370
Oregon:	National Registered Agent, Inc. 388 State Street, Suite 420 Salem, Oregon 97301

SCHEDULE 2.6.lA

TIMBER VOLUMES

Appraisal Summary Report

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	Non-limbered:	2,846.6
	Grand Total:	21,882.9

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5-9	1,288.6
10-14	1,297.1
15-19	5S4.0
20-24	2;997.t
25-i	1,272.5
30-34	*1,419.8*
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HeiDlo<k		3,580;8	4,736.2	3,215.5	3,105.7	14,638.2
Cedar		*SS.1*	94.0	SS.I	84.6	319.4
Qtll.Con.		·568.o	1,033.S	572.3	661.6	2.83S.4
Rt<l.Allller		*63*	363.9	l,013.6	548.4	1,932.2
OllJ, llwd.		*46.S*	*.165.1*	289.4	116.3	617.9
Total Mor<h MBF	3,867	13,236.7	17,961..1	10,965,8	7,099.7	79,603.1
.GRAND TOTALMBF		15,270.8	23,469.l	15,737.6	10,398.1	Ui,525.8

Property	O\fner	stmlll	Available	Yr.1!11.	Cr. Yr.	stuid.Typo	L.S.	OWi Cir
Copper Creel(Tlmbcr	Fund n							

·Mlsol	Mfscl	SubParcel	Morli"ll• MeWre Collal<ral

LAND:	**Gross Acres**
Timberland:	11.l!IO.l
Non-limbered:	1;376.9
Grand Total:	u,767,o

PRE-Merchonloble:	Net Acres
.Clearcut	6464
0- 4	761.7
5-9	6Q0.S
10-14	61:3
15-19	9.9:1
20-24	114:0
25-i	5923
30-34	790.4
Total Pre-Merch Acres	3,666:1

SUS.Merchantable Timber: Age 35-44

	Acres	l2+	11-11	**Chipnsaw**	Pulplllllod	Total MBF
Dout-nr		978.0	2,560.3	2,025.3	l,018.0	33,911.0
HemlOCK		*481A*	l,153.0	979.2	820.3	3,436.0
Cedar		4.0	1.2	53.3	25.0	*85.4*
·Ofh.·con.		8>0	*185.1*	240.3	138.4	649.3
Red Alder		0.7	*44.7*	*217.6*	265.0	527.9
OU.Hwd		0.0	0.0	89.7	96.0	185.3
T9lal Sul>M.rdh MBF		1:si>01	3,945.7	3,605.5	2,373.2	3g794.9

Mercb111table11n1ber: Age 45+	Acres	12+	8-U	<;.1iJP11SOW	l'Ulj!...00	TolalMDF
Dona;nr		*8,746'8*	*11,'.383.9*	*s;m.8*	*Z;S f§. 6*	*s8,648.9*
HeiDlo<k		3,079.3	4,367.3	2,841.3	2,913.1	13;200.9
Cedar		*30.1*	*85:9*	7U	*84.6*	278.6
Qtll.Con.		S.68.0	1,03.S	572.3	661.6	2,1!3S.4
Red Alder		*63*	107:9	499.7	3)9.8'	*9SP*
OllJ, llwd.		*0.0*	26.2	61.1.	28.1	*115.S*
Total Mor<h MBF	3,674	IZ.:430-5	17,004.6	9,?li.3	6,546.9	76,0JJ.I
.GRAND TOTALMBF		13,990,6	20,950.3	13,;nu	81920.2	114 rs0

Property	Owner	Stand#	Available	Pm:el	Yr.1!11.	Cr. Yr.	slind Type	L.S.	OWi Cir
RllTe Lal<o	Timber Fund ll								
Misc!		Ml.a		SubParcel				MetUle Cot111tral	

LAND:	**Gross Acres**
Timberland:	7,646.1
Non-limbered:	1;469.8
Grand Total:	*9;m;9*

J'RE.MCl<huntable:	Net Acres
Cearcut	189.3
0- 4	43H
5.9	687.8
JO ·14	1;235.9
15 • 19	*454.9*
20 .24	2,883,0
25 -29	680.2
JO •.J	*689A*
Tota!:t'rC:.Mer< Acrei	7,l.J

!iJJ8.'Mqcbunlal/le 1J!Dber: Age JS.H:

	Acr.ts	·12+	HI	Cldpnsaw.	l'ulP,-1	tlitllMBF·	
'IJOufllr		*256.1*	1,2.25.0	168.1	*457,9.*	*.2.101.6*	
Hemlcidi		2!3c8	286;2	201.1	247.7	94U	
(:odor·		M	o:o	o.o	0.4	0.4	
·OUJ. Con.		t:S	0.0	0.0	o.o		*IS*
Red Alder		o.o	46.7	142.3	150.S	339.8	
Otll.HIKI.		1.8	4.7	*54.8*	68.4	129,6	
Total Sub-Morch MBF	2W	47J.9	1,562.5	1,166.J	925.1	**4,127.8**	

Mcrc11untable Thnbcr: Age 4S+

		Acr	12•	8-11	**Chlpnnw**	Pulp'llOOd	Tolid MBF
D01Ji·Dr			232.6	183.9	131.J	63.S	611.1
Hemlock			501.6	368.9	*3143*	*192.5*	1,4373
Cedar			25.6	8.2	*1.0*	o.o	40.8
Rc<IAldor			o.o	6.0	*SU* ,\>	2op	978.4
·Qlll•.HWd.			*46•.5*	139.S	228.3	jlS.2	*502..S*
Totid MerQI MBF	!!IJ		806.3	*956A*	l,lS4.5	55i.8	J,570.0
'GRAND TOTALMBF			1,280.2	2,51U	2:420.8	1,4?7.9	7,697.8

SCHEDULE 2.6.2

NONACCESS TO TIMBERLANDS

The following portions of the Riffe Lake Block:

Parcel A:

South half of the Northwest quarter; the Southwest quarter; the West half of the Southeast quarter of Section 4;
All of Section 8, except the Southeast quarter; All of Section 9;
All of Section 17, all in Township 11 North, Range 5 East, W.M., County of Lewis, State of Washington.

Parcel B:

Northeast quarter of the Southwest quarter and the Southeast quarter of the Northwest quarter, Section 32, Township 12 North, Range 4 East, W.M., County of Lewis, State of Washington. EXCEPT that portion described as follows: Beginning at the Northwest comer of said Southeast quarter of the Northwest quarter;·
Thence South 88°10'29" East 1,333.79 feet;
Thence South 1°22'58" West 971.98 feet;
Thence North 52°14'46" West 1,656.44 feet to the point of beginning.

Exhibit 10.27

PROMISSORY NOTE

Loan No. 196590

$14,000,000

August 15, 2013

FOR VALUE RECEIVED, the undersigned, ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company with an address at 19950 Seventh Avenue NE, Suite 200, Poulsbo, Washington 98370 (hereinafter referred to as "Maker"), promises to pay to the order of METROPOLITAN LFE INSURANCE COMPANY, a New York corporation, together with any subsequent holder of this Note ("Holder"), at the location and in the manner provided in Section 1.3 of that certain Loan Agreement between Maker and the Lender (as defined therein) dated as of September 1, 2010 as amended by that certain First Amendment to Loan Agreement dated February 7, 2011, and as further amended by that certain Second Amendment to Loan Agreement dated as of even date herewith (as further amended, restated or supplemented from time to time, the "Loan Agreement"), or at such other location and manner as Holder may designate in writing from time to time; the principal sum of FOURTEEN MILLION AND N0/100 DOLLARS (US$14,000,000.00) in lawful money of the United States of America (the "Loan") together with interest thereon at the rates and times specified below. Capitalized terms used but not otherwise defined herein shall have the respective meanings assigned thereto in the Loan Agreement. This Note evidences a supplemental loan made to Maker in addition to the existing loan outstanding to Maker in the original principal amount of $11,000,000 as evidenced by the Promissory Note dated September 1, 20 I 0 made by Maker to the order of Holder (the "Existing Note").

1. INTEBEST BATE

1.1 INTEREST. Maker promises to pay interest on the unpaid principal balance from the date of funding by Holder until payment in full at the rate of three and 84/100 percent (3.84%) per annum (the "Loan Rate"). Interest at the Loan Rate shall be calculated on the basis of a three hundred sixty day (360) calendar year containing twelve (12) months of thirty days (30) each; provided that for partial payment periods, interest shall be calculated on the basis of the actual number of days elapsed over a three hundred sixty-five (365) day calendar year. The date of funding hereunder shall be considered the date that the Loan funds are wired or delivered by Holder to Maker or if the Loan is being closed through an escrow, to the escrow agent responsible for closing the Loan, regardless of the date that the escrow agent releases such funds to Maker.

1.2 DEFAULT INTEREST. Upon the occurrence of (i) an Event of Default and/or (ii) maturity of this Note (whether maturity occurs by demand, acceleration, lapse of time or otherwise), at the option of Holder, the unpaid principal balance of the Loan and accrued but unpaid interest due on this Note and all other sums owed by Maker to Holder shall bear interest until paid at a default rate of interest of four percent (4.00%) per annum above the Loan Rate but not in excess of the maximum interest rate permitted by law (the "Default Rate"). Any interest due at the Default Rate shall be added to the amount due hereunder, and shall be deemed to be secured by the Deeds of Trust. The fact that any such interest shall become due hereunder shall not be construed as an agreement or privilege to extend the date of the payment of any amount due hereunder, nor as a waiver of any other right or remedy available to Holder by reason of the occurrence of any Event of Default, nor to prevent Holder from collecting the late fee rate set forth in Section 2.3 below.

2. PAYMENTS; MATURITY DATE

2.1 PAYMENTS. Maker promises to pay the principal and interest under this Note to Holder as follows: .

2.1.1 Accrued interest only at the Loan Rate shall be due and payable quarterly, commencing on October I , 2013 and continuing on the first day of each succeeding January, April, July and October thereafter (each such day, a "Payment Date") until the Maturity Date.

2.1.2 The outstanding principal balance and all accrued and unpaid interest thereon and all other sums and fees due under this Note; the Loan Agreement and the other Loan Documents shall be due and payable on September 1, 2020 (the "Maturity Date").

2.2 PAYMENT ON NON-BUSINESS DAYS. If a payment of principal or interest on this Note is due on a day other than a Business Day, such payment shall be due on the next succeeding Business Day. A "Business Day" shall mean any day that is not a Saturday, Sunday or holiday and on which the New York, New York office of Holder and the New York Stock Exchange are open for business.

2.3 LATE FEE. In the event Maker fails to make any required payment by the end of the fourth (41h) calendar day following the due date of any such payment (the "Grace Period"), Holder shall be entitled to collect, and Maker agrees to pay, in addition to the amount of the scheduled payment, a late charge equal to five percent (5%) of the overdue amount, as liquidated damages for the costs and risk incurred by Holder as a result of the delinquent payment (the "Late Charge"). The Late Charge is intended to reimburse Holder for a portion of the administrative cost and additional loan risk associated with said late payment and shall be in addition to, and not in lieu of, any other remedy Holder may have (e.g., to collect Default Rate interest) and is in addition to Holder's right to collect reasonable fees and charges of any agents or attorneys which Holder employs in connection with any Event of Default, whether or not litigation is commenced. Such late charges if not previously paid shall become part of the indebtedness evidenced hereby and shall, at the option of Holder, be added to any succeeding monthly payment due hereunder. Failure to pay such late charges with such succeeding monthly payment shall constitute an Event of Default and such late charges shall bear interest at the Default Rate from the date due. Notwithstanding the foregoing, in no event shall Maker be entitled to the benefit of the Grace Period for payments due on the Maturity Date.

3. APPLICATION OF PAYMENTS

Provided no Event of Default has occurred, each payment received with respect to the Loan may be applied by Holder as follows: first, to recovery, with interest thereon at the Default Rate, of any expenses, costs, or fees, including attorneys' fees, funds paid or advanced by Holder or any similar charges pursuant to any of the Loan Documents; second, to any scheduled escrow for tax, insurance or similar items; third, to any late charge or interest calculated at the Default Rate then due; fourth, to the payment of accrued interest at the Loan Rate from time to time remaining unpaid; fifth, to any prepayment premium due with respect to the current payment and any other prepayment premium that may remain unpaid; and sixth, subject to the prepayment provisions of this Note, to reduce the principal hereunder, whether or not due and payable. If any partial payment is accepted on this Note at a time when an amount in excess of such partial payment is then due and payable, such partial payment shall be applied to the oldest outstanding amount in arrears in the order of the arrearage unless Holder elects to apply such payment in some other order. Notwithstanding any other provision of this Note or of any of the other Loan Documents, from and after the occurrence of an Event of Default, all payments and other amounts received by Holder may be applied by Holder in such manner and to such indebtedness (whether to payment of advances made by Holder pursuant to any provision of any of the Loan Documents, interest, principal, Late Charges, interest at the Default Rate, prepayment premium, fees and expenses or otherwise) and in such amounts and order of priority as Holder may determine in the exercise of its sole and absolute discretion ..

4. PREPAYMENTS

4.1 PREPAYMENT. Subject to the provisions of this Section 4, upon not less than thirty (30) days prior written notice to Holder, which notice must identify the amount being prepaid and the date of prepayment (a "Prepayment Notice"), Maker shall have the right to prepay this Note in full or in part, subject, to the conditions provided below, on any Payment Date by paying, in addition to the amount of the principal prepayment, all accrued and unpaid interest hereunder and all additional sums and charges due under this Note and/or the other Loan Documents, together with a prepayment premium equal to the greater of:

(a) an amount determined by calculating one percent (1%) of the outstanding principal balance;

OR

(b) an amount determined by:

(i) calculating the sum of the present values of all unpaid principal and interest payments required under the Loan Documents through and including the scheduled Maturity Date and including the present value of the outstanding principal balance as of such date (prior to the application of the principal being prepaid), by discounting such payments from their scheduled payment dates back to the date prepayment will be made utilizing a discount rate equal to the Converted Treasury Yield (as defined below); and

(ii) subtracting from such sum the outstanding principal balance (prior to application of the principal being prepaid) as of the date prepayment will be made; and

(iii) multiplying such remainder by the quotient of (A) the principal being prepaid, *divided by* (B) the outstanding principal balance as of the date of prepayment (prior to application of the principal being prepaid).

The "Converted Treasury Yield" means 50 basis points plus the yield available, or if there is more than one yield available, the average yields of United States Treasury non-callable bonds and notes having a maturity date closest to (before, on, or after) the scheduled Maturity Date as reported in *The Wall Street Journal* or similar publication on the fifth (5th) Business Day preceding the date prepayment will be made (as calculated by Holder in the exercise of its reasonable judgment), converted to a quarterly equivalent yield. As used herein, the terms "Converted Treasury Yield" and quarterly equivalent yield ate annualized rates which reflect the frequency of the interest payments made during a calendar year.

Notwithstanding the foregoing, no prepayment premium shall be payable if Maker voluntarily prepays the Loan in full or in part, within the fifteen (15) day period immediately preceding the scheduled Maturity Date, and on the date such prepayment is made Holder has not exercised and is not entitled to exercise its right to accelerate the scheduled Maturity Date.

4.2 PREPAYMENT RIGHTS. Maker acknowledges that it possesses no right to prepay the Loan, except as expressly provided herein. Maker further acknowledges and agrees that, except as expressly provided herein, if the Loan is prepaid prior to the scheduled Maturity Date, for any reason, including, but not limited to, acceleration of the Maturity Date by reason of an Event of Default, any subsequent tender of payment of the Loan made by Maker or by anyone on behalf of Maker or otherwise, including any tender of payment at any time prior to or at foreclosure sale or proceedings or during any redemption period following foreclosure, or during any federal or state bankruptcy or insolvency proceedings, shall constitute an evasion of the restrictions on prepayment set forth herein, and shall be deemed a voluntary prepayment prior to the scheduled Maturity Date requiring payment of the prepayment premium provided for, if any, and Holder shall not be required to accept such prepayment if it does not include payment of the prepayment premium provided for, if any. Further, Holder's acceptance of such prepayment without the requisite prepayment premium shall not constitute or be deemed to constitute a waiver by Holder of its right to seek payment of the required prepayment premium in accordance with the terms hereof or any rights and remedies Holder may have under this Note, the other Loan Documents, at law or in equity on account of Maker's failure to timely pay such prepayment premium as and when required hereunder. To the extent permitted by law, Holder may bid at any foreclosure sale, as part of the indebtedness evidenced by the Loan Documents, the amount of the prepayment premium, if any, which is payable hereunder calculated as if prepayment of the Loan occurs on the date of such foreclosure sale. To the extent the amount of the indebtedness evidenced by this Note must be determined as of a date certain pursuant to·a judicial foreclosure, the Loan will be deemed prepaid as of the date judgment enters and the prepayment premium due and payable hereunder (if any) will be calculated as if prepayment of the Loan occurred on the date of said judgment.

4.3 NEGOTIATION OF PREPAYMENT PREMIUM. Maker and Holder have negotiated the Loan upon the understanding that if the Loan is paid or prepaid prior to the scheduled Maturity Date, for any reason, except as expressly provided herein, Holder shall receive the prepayment premium provided for as partial compensation for: (i) the cost of reinvesting the prepayment proceeds and/or the loss of the contracted rate of return on the Loan; and (ii) the privilege of early payment of the Loan, which Maker has expressly bargained for and which privilege Holder would not have granted to Maker without a prepayment premium. Maker agrees that the prepayment premium provided for herein is reasonable. Maker agrees that Holder shall not be obligated, as a condition subsequent to its receipt of the prepayment premium provided for, to actually reinvest all or any part of the amount prepaid in any United States Treasury instruments or obligations or otherwise.

4.4 APPLICATION OF PREPAYMENTS. Any partial prepayments of the principal of this Note shall be applied to installments of principal coming due hereunder in the inverse order of maturity, and shall not reduce the scheduled installments of principal payable hereunder, if any. Furthermore, at Holder's election any prepayment of principal may be applied on a pro rata basis to the principal outstanding under this Note and the Existing Note, with the related prepayment premiums calculated accordingly. If the amounts necessary to prepay this Note in accordance with the terms and provisions hereof are received by Holder after 2:00 p.m. (Eastern Time), such prepayment shall be deemed to have been made on the,next occurring Business Day and Holder shall be entitled to receive interest on the outstanding principal balance of the Loan, calculated at the Loan Rate or the Default Rate, as applicable, and a re-calculated prepayment premium to the effective date of such prepayment.

4.5 PREPAYMENT IN CONNECTION WITH CASUALTY, CONDEMNATION OR EXCESS INTEREST. Notwithstanding anything to the contrary set forth in this Note or the other Loan Documents, Holder agrees that provided no Event of Default has occurred, no prepayment premium shall be due and payable in connection with the reduction of the outstanding principal balance of the Loan pursuant to (i) the application of insurance or condemnation proceeds received by Holder pursuant to the Deed of Trust, or (ii) the application of Excess Interest (as defined in the this Note).

4.6 PREPAYMENT PERMITTED WITHOUT PREMIUM Subject to the provisions of this Section 4, but notwithstanding Section 4.1, Maker may prepay principal in an amount of not more than ten percent (10%) of the original principal amount of the Loan during any calendar year or portion thereof without prepayment premium, provided that no Event of Default exists.

4.7 NOTICE OF PREPAYMENTS. Any prepayment otherwise permitted under Sections 4.1, 4.5 and 4.6, shall not be permitted unless Holder shall have received written notice from Maker of the amount of such prepayment and the date such prepayment will be paid at least thirty (30) days prior to such date of prepayment.

4.8 PREPAYMENT NOT PERMITTED. Except as hereinabove set forth, no full or partial prepayments of principal shall be allowed.

5. ISSUANCE PURSUANT TO LOAN AGREEMENT

This Note has been issued by the Maker pursuant to the tenns of the Loan Agreement, and Maker and Holder are entitled to the benefits and subject to the obligations thereof. This Note is secured by, among other things the Deeds of Trust. Reference is hereby made to the Loan Agreement for a full statement of the rights of the holder of, and the nature and extent of the security for, this Note. . All covenants, conditions and agreements contained in the Loan Agreement, the Deeds of Trust and any other document securing this Note, are hereby made a part of this Note. In the event of any conflict between the tenns of the Note and the terms of the Loan Agreement, the Deeds of Trust and other security instruments, the terms of this Note shall govern. Maker acknowledges and agrees that the Loan and the other obligations evidenced and secured by the Loan Documents are fully recourse and that, subject to the provisions of this · Note, the Loan Agreement, the Loan Documents and the Deeds of Trust and applicable law, Holder's remedies upon default by Maker are not limited to foreclosure of the Deeds of Trust.

6. EYENTS OF DEFAULT AND REMEDIES

The entire unpaid principal balance and accrued interest under this Note, and any and all other notes of Maker to Holder or other sums owed from Maker to Holder, shall, as set forth in the Loan Agreement, either automatically or as declared at the option of Holder, be immediately due and payable upon the occurrence of an Event of Default with respect to any automatic acceleration and upon the occurrence and during the continuance of one or more Events of Default, with respect to any optional acceleration. Upon the occurrence and during the continuance of one or more Events of Default, Holder shall also have the right to (i) demand additional security in lieu of asserting any other remedy; (ii) use any remedy Holder has under any federal, state, or local law of the United States; and (iii) use any remedy given to Holder in the Loan Agreement or in any of the Loan Documents.

7. ACTIONS BY HOLDER

Any forbearance by Holder in exercising any right or remedy under this Note, the Existing Note, the Deeds of Trust, the Loan Agreement, or any other Loan Document or otherwise afforded by applicable law shall not be a waiver of or preclude the exercise of that or any other right or remedy. The acceptance by Holder of any payment after the due date of such payment or in an amount which is less than the required payment shall not be a waiver of Holder's right to require prompt payment when due of all other payments or to exercise any right or remedy with respect to any failure to make prompt payment. Enforcement by Holder of any security for Maker's obligations under this Note shall not constitute any election by Holder of remedies so as to preclude the exercise of any other right or remedy available to Holder.

8. ATTORNEYS' FEES

If Holder shall employ the services of legal counsel in connection with (i) any request made by Maker to Holder for a modification, amendment, waiver, or consent in connection with the Loan Documents, (ii) defending or protecting Holder's interests in any Loan Document or any property securing the Loan from and against any claim or assertion made by any third party, (iii) rendering advice to Holder, enforcing Holder's legal rights, or performing other legal services for Holder upon the occurrence of an Event of Default, including, without limitation, any services relating to any so-called "work-out" or other negotiations following or anticipating the occurrence of any Event of Default, (iv) representing the interests of Holder in any lawsuit arising out of or in connection with the Loan Documents or Holder's position as secured party or beneficiary under any Loan Document, or (v) any other judicial or nonjudicial action, suit or proceeding instituted by Holder or any other person connected with or related to or with reference to the Loan or to reclaim, seek relief from a judicial or statutory stay, sequester, protect, preserve or enforce Holder's interest in this Note or the Deeds of Trusts or any other Loan Document (including proceedings under state or federal bankruptcy or insolvency law, in eminent domain, under probate proceedings, or in connection with any state or federal tax lien), then in such event Maker promises to pay or reimburse Holder, within thirty (30) days following demand, for all reasonable attorneys' fees and reasonable costs and expenses and any other professional's fees incurred by Holder and/or its attorney in connection with the above mentioned events.

9. MAx:IMUM INTEREST RATE/CHARGES

It being the intention of Holder and Maker to comply with the laws of the State of Washington with regard to the rate of interest charged hereunder, it is agreed that, notwithstanding any provision to the contrary in this Note or any of the other Loan Documents, no such provision shall require the payment or permit the collection of any amount ("Excess Interest") in excess of the maximum amount of interest permitted by law to be charged for th use or detention, or the forbearance in the collection, of all or any portion of the indebtedness evidenced by this Note. If any Excess Interest is provided for, or is adjudicated to be provided for, in this Note or any of the other Loan Documents, then in such event

(a) The provisions of this paragraph shall govern and control;

(b) Maker shall not be obligated to pay any Excess Interest;

(c) Any Excess Interest that Holder may have received hereunder shall, at the option of Holder, be (i) applied as a credit against the then-outstanding principal balance due under this Note, accrued and unpaid interest thereon not to exceed the maximum amount permitted by law, or both, (ii) refunded to the payor thereof, or (iii) any combination of the foregoing;

(d) The applicable interest rate or rates shall be automatically subject to reduction to the maximum lawful rate allowed to be contracted for in writing under the applicable usury laws of the aforesaid State, and this Note, the Loan Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in such interest rate or rates; and

(e) Maker shall not have any action or remedy against Holder for any damages whatsoever or any defense to enforcement of the Note, Loan Agreement or any of the other Loan Documents arising out of the payment or collection of the Excess Interest.

10. GOVERNING LAW AND OTHER AGREEMENTS

Maker agrees that: (i) this Note and the rights and obligations of the parties hereunder shall be governed by the laws of the State of Washington without reference to the conflict of law principles of such state; (ii) the obligation evidenced by this Note is an exempted transaction under the Truth In Lending Act, 15 U.S.C. Section 1601, et seq.; and (iii) said obligation constitutes a business loan and is not intended by Maker for use for personal, family, or household purposes.

11. WAIVERS

Maker and any and all others who may become liable for all or part of the obligations of Maker under this Note (collectively the "Obligors") agree to be jointly and severally bound hereby and jointly and severally, to the extent permitted by,law: (i) waive and renounce any and all redemption and exemption rights and the benefit of all valuation and appraisernent privileges against the indebtedness evidenced by this Note or by any extension or renewal hereof; (ii) waive presentment and demand for payment, notices of nonpayment and of dishonor, protest of dishonor, and notice of protest; (iii)waive all notices in connection with the delivery and acceptance hereof and all other notices in connection with the performance, default, or enforcement of the payment hereof or hereunder, except as otherwise specifically provided in the Loan Documents; (iv) waive any and all lack of diligence and delays in the enforcement of the payment hereof; (v) agree that the liability of each Obligor shall be unconditional and without regard to the liability of any other person or entity for the payment hereof, and shall not in any manner be affected by any indulgence or forbearance granted or consented to by Holder to any Obligor or any such other person or entity; (vi) consent to any and all extensions of time, renewals, waivers, or modifications that may be granted by Holder with respect to the payment or other provisions hereof, and to the release of any security at any time given for the payment hereof, or any part thereof, with or without substitution, and to the release of any person or entity liable for the payment hereof; and (vii) consent to the addition of any and all other makers, endorsers, guarantors, and other obligors for the payment hereof, and to the acceptance of any and all other security for the payment hereof, and agree that the addition of any such obligors or security shall not affect the liability of any of Obligors for the payment hereof.

12. ENTIRE AGBEEMENT

This instrument, together with the other Loan Documents as defined above, constitutes and sets forth the entire understanding and agreement between the parties, and no party hereto has relied upon any representations, agreements or understandings, verbal or written, not set forth herein, or in such other Loan Documents, whether made by any party hereto or by any agent, employee or representative of any party hereto. Specifically, without limiting the generality of the foregoing, the parties agree that Holder has made no agreement to extend or renew this Note in any way, and no such agreement will be binding upon Holder unless made in writing, subsequent to the date hereof, and executed by a duly authorized representative of Holder.

13. HEADINGS AND INTERPRETATION

Headings are for convenience only and are not intended as a limitation on the content of the paragraph following, nor as an aid to the construction thereof. The parties hereto intend and believe that each provision in this Note comports with all applicable law. However, if any provision in this Note is found by a court of Jaw to be in violation of any applicable law, and if such court should declare such provision of this Note to be unlawful, void or unenforceable as written, then it is the intent of Maker and Holder that there shall be added in lieu thereof a provision as similar in terms to such provision as is possible which is legal, valid and enforceable, provided, however, that if any provision of this Note which is found to be in violation of any applicable law concerns the imposition of interest hereunder, the rights, obligations and interests of Maker and Holder with respect to the imposition of interest hereunder shall be governed and controlled by the provisions of this Note. TIME IS OF THE ESSENCE OF THIS NOTE. Use of the word "including" shall not be construed as a limitation and the word "including" shall be deemed to mean "including, but not limited to."

14. MISCELLANEOUS

14.1 CHANGES TO NOTE. This Note may not be modified, amended, waived, extended, changed, discharged, or terminated orally or by any act or failure to act on the part of Maker or Holder, but only by an agreement in writing signed by both Maker and Holder. Holder may change any terms of payment of this Note, including extensions of time and renewals, and release any security for, or any party to, this Note, without notifying or releasing any accommodation maker, endorser or guarantor from liability on this Note.

14.2 LOSS, THEFT OR DESTRUCTION OF NOTE. In the event of the loss, theft or destruction of this Note, upon Maker's receipt of a reasonably satisfactory indemnification agreement executed in favor of Maker by Holder or in the event of the mutilation of this Note, upon the surrender of the mutilated Note by Holder to Maker, Maker shall execute and deliver to Holder a new note in form and content identical to this Note in lieu of the Jost, stolen, destroyed or mutilated Note.

14.3 MEANING OF PARTICULAR TERMS. Wherever used, the singular member shall include the plural, the plural the singular, and the words "Holder" and "Maker" shall include their respective successors, assigns, heirs, executors and administrators. Upon any endorsement, assignment, or other transfer of this Note by Holder or by operation of law, the term "Holder," as used herein, shall mean such endorsee, assignee, or other transferee or successor to Holder then becoming the holder of this Note. This Note shall inure to the benefit of Holder and its successors and assigns and shall be binding upon the undersigned Maker and its successors and assigns. Maker agrees that Holder and any future Holders or participants may grant or sell participation interests in this Note to other Persons without notice to, or approval of Maker.

14.4 NOTICES. All notices required to be given hereunder shall be given in the manner specified in the Loan Agreement directed to the parties at their respective address as provided therein.

14.5 JOINT AND SEVERAL LIABILITY. If Maker consists of more than one person or party, the obligations and liabilities of each such person or party shall be joint and several.

14.6 COUNTERPARTS. This Note may be executed in several counterparts, each of which when executed and delivered is an original, but all of which together shall constitute one instrument. In making proof of this Note, it shall not be necessary to produce or account for more than one such counterpart which is executed by the party against whom enforcement of such Note is sought.

14.7 PURPOSE OF NOTE. MAKER ACKNOWLEDGES, REPRESENTS AND WARRANTS TO HOLDER THAT THE LOAN EVIDENCED BY THIS NOTE IS FOR COMMERCIAL PURPOSES. MAKER FURTHER ACKNOWLEDGES, REPRESENTS AND WARRANTS THAT IT IS ENGAGED EXCLUSIVELY IN COMMERCIAL PURSUITS AND THAT THE PROCEEDS OF THIS NOTE ARE TO BE UTILIZED IN THE BUSINESS ACTIVITIES OF MAKER AND WILL NOT BE UTILIZED FOR CONSUMER PURPOSES.

14.8 WAIVER OF TRIAL BY JURY. MAKER WAIVES TRIAL BY JURY IN ANY PROCEEDING RELATING TO THIS NOTE, THE DEEDS OF TRUST, OR THE OTHER DOCUMENTS OR TRANSACTIONS EVIDENCED HEREBY OR THEREBY AND AGREES THAT NO SUCH ACTION WITH RESPECT TO WHICH A JURY TRIAL HAS BEEN WAIVED SHALL BE SOUGHT TO BE CONSOLIDATED WITH ANY OTHER ACTION WITH RESPECT TO WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED.

14.9 NO ORAL AGREEMENTS.

THIS NOTE AND ALL THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT OF THE BORROWER AND THE LENDER AND SUPERSEDE , ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE LOAN AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE BORROWER AND THE LENDER. THERE ARE NO ORAL AGREEMENTS BETWEEN THE BORROWER AND THE LENDER. THE PROVISIONS OF THIS NOTE AND THE OTHER LOAN DOCUMENTS MAY BE AMENDED OR REVISED ONLY BY AN INSTRUMENT IN WRITING SIGNED BY THE BORROWER AND THE LENDER.

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

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

ORM TIMBER OPERATING COMPANY II, LLC, a
Delaware limited liability company

Olympic Resource Management LLC, a
Washington limited liability company
Its Manager

By: David L. Nunes

David L. Nunes
President & Chief Executive Officer

[Signature Page to Promissory Note/

AMENDMENT AND REAFFIRMATION OF GUARANTY

THIS AMENDMENT AND REAFFIRMATION OF GUARANTY (this "Agreement ') is made and entered into as of August 15,2013, by ORM TIMBER FUND II, INC., a Delaware corporation ("Guarantor"), in favor of METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation (the "Lender") and the subsequent owners and holders of the Notes defined herein, with reference to the following recitals of fact:

A. Guarantor has executed for the benefit of the Lender a Guaranty dated as of September l, 2010(the "Guaranty"), in connection with its loan no. 194231 (the "2010 Loan") made by the Lender to ORM TIMBER OPERATING COMPANY II1 LLC1 a Delaware limited liability company (the "Borrower") pursuant to the terms of the Loan Agreement dated September 1, 2010 between Borrower and Lender, as amended by the First Amendment to Loan Agreement dated February 7, 2011 (as amended, the "Loan Agreement"). The 2010 Loan is evidenced by that certain Promissory Note dated September 1, 2010 in the principal amount of Eleven Million and No/100 Dollars ($11,000,000.00) (the "2010 Note"). Capitalized terms used but not defined herein shall have the meanings given in the Guaranty.

B. Lender has agreed to make an additional loan to Borrower in the principal amount of Fourteen Million and No/100 Dollars ($14,000,000.00) (the "Additional Loan" and, together with the 2010 Loan, the "Loans"), under the terms of that certain Second Amendment to Loan Agreement executed between Borrower and Lender as of even date herewith (the "Second Amendment"). The Additional Loan shall be evidenced by, among other things, that certain Promissory Note in the principal amount of Fourteen Million and No/100 Dollars ($14,000,000.00) dated as of even date herewith executed by Borrower to the order of Lender (the "Additional Note" and, together with the 2010 Note, the "Notes"). The Additional Note shall also be secured by the Deeds of Trust.

C. Guarantor is an affiliate of Borrower and Guarantor will directly benefit from Lender making the Additional Loan.

D. Lender has advised Guarantor that it will not extend the Additional Loan to Borrower unless, among other matters, all of the obligations of Borrower under the Additional Note, the Loan Agreement (as amended by the Second Amendment) and certain other agreements as hereinafter provided, including without limitation the punctual payment of both principal and interest to be paid, are guaranteed by Guarantor.

E. Guarantor is willing and has agreed to guarantee the payment and performance of the Borrower's obligations under the Additional Loan pursuant to the terms of the Guaranty.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Guarantor hereby confirms and agrees for the benefit of Lender as follows:

1. <u>Confirmation of Obligations.</u> Guarantor hereby confirms, acknowledges and agrees for the benefit of Lender that the Guaranty and the obligations guaranteed thereunder are valid

and binding obligations enforceable in accordance with their terms, that the Guarantor has no offsets or defenses against the Obligations, that the Guarantor hereby reaffirms each and every one of the terms and provisions of the Guaranty, and that the Guarantor acknowledges and agrees that its obligations under the Guaranty shall remain unmodified and in full force and effect during the term of the Loans except to the extent of the modifications described herein. In addition, Guarantor hereby reaffirms all waivers set forth in the Guaranty.

2. Guarantor's Consent and Expansion of Guaranty. Guarantor acknowledges that it has received, reviewed and approved the Additional Note, the Second Amendment and the related Additional Loan documents and hereby consents thereto. Guarantor agrees that the Guaranty shall apply with full force and effect to the Additional Loan, and in that regard, the description of the guaranteed obligations set forth in Section I of the Guaranty is hereby expanded to include the payment and performance of the obligations evidenced by the Additional Note. All references in the Guaranty to the "Note" shall hereafter mean the Notes, and the guaranteed obligations shall include all amounts evidenced thereby. In addition, all references to the Loan Agreement shall mean the Loan Agreement as modified by the Second Amendment. Guarantor further confirms that neither the Additional Note, the Second Amendment nor this Agreement affect or impair the Guarantor's liability or continuing obligations under the Guaranty in accordance With the terms and conditions thereof.

3. Reaffirmation. Guarantor hereby reaffirms for the benefit of Lender each and every one of the terms and provisions of the Guaranty as to the Loan Documents, as modified by the Second Amendment and the other documents executed in connection with the Additional Loan and the Additional Note.

4. Financial Statements; Equity, Debt; Contracts; Material Adverse Change. Guarantor has delivered to Lender prior to the date hereof copies of the unaudited quarterly financial statements of Guarantor dated as of March 31, 2013, which have been accepted by Lender. Guarantor hereby represents and warrants that all of said financial statements (including in each case the related schedules and notes) are true and correct in all material respects and present fairly the financial position of the Guarantor as of the respective dates specified in such statements (subject, in the case of interim financial statements, to audit and normal year-end adjustments) and the results of its operations and its cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except (i) for charges required or permitted by GAAP and with which the auditors of Guarantor concur, or (ii) where applicable, as set forth in the notes thereto. Guarantor agrees to deliver to Lender all of the financial statements and other information as may be required of Guarantor under the terms of the Loan Agreement , and further agrees that the representations set forth in the preceding sentence will apply to all financial statements to be delivered to Lender under the terms of the Loan Agreement or the Guaranty.

5. Continuing Representations and Warranties. Each of the covenants, representations and warranties made by Guarantor under the Guaranty remain accurate, true and complete and are hereby reaffirmed as of the date of this Agreement.

6. Guarantor's Notice Address. Guarantor's address for notices contained in Section 11 of the Guaranty is hereby deleted and replaced with the following

Guarantor:

ORM Timber Fund II,Inc.
c/o Olympic Resource Management LLC
19950 Seventh Avenue NE, Suite 200
Poulsbo, Washington 98370
Attention: Thomas M. Ringo
Email: tringo@orminc.com

with a copy to:

Davis Wright Tremaine LLP
1201 Third Avenue, Suite 2200
Seattle, Washington 98101-1688
Attention: Greg Adams Email: gregadams@dwt.com

7. <u>No Oral Agreements.</u>

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

IN WITNESS WHEREOF, Guarantor has executed this Agreement as of the day and year first above written.

GUARANTOR

ORM TIMBER FUND II, INC.,
a Delaware corporation

By: Olympic Resource Management LLC,
Its Manager

By: ______________________________
David L. Nunes
President and CEO

Prepared by and after recording return to:

Virginia' M. Pedreira
Stoel Rives LLP
600 University Street, Suite 3600
Seattle, Washington 98101-4109

Loan No. 196590

ATTENTION: COUNTY RECORDER-THIS INSTRUMENT COVERS GOODS THAT ARE OR WILL BECOME FIXTURES ON THE DESCRIBED REAL PROPERTY AND SHOULD BE FILED FOR RECORD IN THE REAL PROPERTY RECORDS WHERE DEEDS OF TRUST ON REAL ESTATE ARE RECORDED. THIS INSTRUMENT SHOULD ALSO BE INDEXED AS A UNIFORM COMMERCIAL CODE FINANCING STATEMENT COVERING GOODS THAT ARE OR WILL BECOME FIXTURES ON THE DESCRIBED REAL PROPERTY. THE MAILING ADDRESSES OF THE SECURED PARTY AND THE.DEBTOR ARE WITHIN.

FIRST AMENDMENT TO DEED OF TRUST, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING
(Washington)

GRANTOR:	ORM TIMBER OPERATING COMPANY II, LLC
GRANTEES: (I) Beneficiary: (2) Trustee:	 METROPOLITAN LIFE INSURANCE COMPANY CHICAGO TITLE INSURANCE COMPANY
ABBREVIATED LEGAL DESCRIPTION:	Portions of Sections 4, 8, 9 and 17, Township 11 North, Range 5 East, W.M., in Lewis County, Washingto (See Schedule I at the end of the document for complete list of abbreviated legal descriptions)
ASSESSOR'S TAX PARCEL ACCOUNT NO.:	026830-000-000 (TCA 739), 026892-000-000 (TCA 739) (See Schedule II at the end of the document for complete list of tax parcel account numbers)
REFERENCE TO RELATED DOCUMENTS:	3350234

After recording return to:

STOEL RIVES LLP
600 University Street, Suite 3600
Seattle, WA 98101-4109
Attn: Virginia M. Pedreira

Loan No. 196590

SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY

FIRST AMENDMENT TO DEED OF TRUST, SECURITY AGREEMENT, FIXTURE FILING, ASSIGNMENT OF RENTS AND LEASES AND RELATED LOAN DOCUMENTS

This First Amendment to Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, (this **"Amendment")** is made and entered into this day of August, 2013, by and between ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company **("Borrower"),** and METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation **("Lender").**

RECITALS

A. Borrower has executed for the benefit of Lender that certain Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated as of September **1,** 2010, recorded in the Official Records of Lewis County, Washington on September **1,** 2010, under Document No. 3350234 (the **"Deed of Trust"),** pertaining to certain real property (the **"Property")** located in Lewis County, Washington, more particularly described in the Deed of Trust. Capitalized terms used but not defined herein shall have the meanings given to them in the Deed of Trust.

B. The Deed of Trust was executed in connection with that certain loan (the **"2010 Loan")** made by Lender to Borrower pursuant to the terms of that certain Loan Agreement by and between Borrower and Lender dated as of September 1, 2010, as amended pursuant to that certain First Amendment to Loan Agreement dated February 7, 2011 (collectively, as amended, the **"Loan Agreement").** The 2010 Loan is evidenced by, among other things, that certain Promissory Note dated September 1, 2010 (the **"2010 Note"),** made by Borrower payable to the order of Lender in the original principal amount of Eleven Million and No/100 Dollars ($11,000,000.00).

C. The Lender has agreed to make an additional loan in the principal amount of Fourteen Million and No/100 Dollars ($14,000,00.00) (the **"Additional Loan")** pursuant to the terms of that certain Second Amendment to Loan Agreement between Lender and Borrower dated as of even date herewith (the **"Second Amendment").** All references herein to the Loan Agreement shall refer to the Loan Agreement as modified by the Second Amendment. The Additional Loan shall be evidenced by that certain Promissory Note dated as of even date herewith in the principal amount of $14,000,000.00 (the **"Additional Note").**

D. Borrower and Lender desire to modify the Deed of Trust to provide that, in addition to the Secured Obligations, the Deed of Trust secures the obligations set forth in the Second Amendment and as evidenced by the Additional Note.

NOW, THEREFORE, the parties hereby agree as follows:

1. Confirmation of Security Documents. Borrower hereby acknowledges and confirms that (a) the Deed of Trust currently encumbers all of the Property as a first and valid lien for each of the debts and obligations therein set forth; and (b) the Deed of Trust continues to grant a first and valid security interest in all of the "Collateral" described therein.

2. Obligations Secured. In addition to the Secured Obligations described in the Deed of Trust, the Deed of Trust shall and is hereby granted to secure the Additional Note and the Loan Agreement, as amended, and all debts evidenced by all renewals, extensions, modifications, substitutions and consolidations of the Additional Note and for such purpose, and With respect to the Deed of Trust, the Borrower hereby irrevocably transfers, grants, bargains, sells, conveys, assigns, warrants and mortgages the Property fo Chicago Title Insurance Company, as trustee, its successors and assigns, in trust with power of sale and right of entry and possession, to secure all of the obligations evidenced by the Additional Note and the Loan Agreement, as amended, and the Deed of Trust may be judicially or nonjudicially foreclosed in the Event of Default thereunder that is not fully cured within any applicable cure period expressly provided thereby. The defined term "Secured Obligations" is hereby amended to include all of the obligations evidenced by the Additional Note and the Loan Agreement, as amended, and otherwise arising in connection with the Additional Loan.

3. Definitions. As of the date hereof, the term "Loan Agreement" as used in the Deed of Trust shall mean the Loan Agreement, as amended, and the term "Note" shall mean, collectively, the 2010 Note and the Additional Note.

4. Representations and Warranties. Borrower hereby reaffirms each of the representations and warranties set forth in the Deed of Trust as of the date hereof.

5. <u>No Agricultural Property.</u> The Property is not used principally or primarily for agricultural or farming purposes.

6. <u>No Implied Modifications</u>. Except as specifically modified in this Amendment, nothing herein contained shall be considered as modifying, releasing, altering or affecting the Deed of Trust, the original priority of the Deed of Trust, or the rights, benefits, duties or obligations of the parties thereto. It is further recognized and agreed that any and all other documents and security agreements entered into between any of the parties hereto which are in any manner connected with the indebtedness evidenced by the Additional Note shall remain in full force and effect unless specifically canceled or amended by an instrument in writing by Lender.

7. <u>Attorneys' Fees.</u> The prevailing party in any arbitration or litigation concerning this Amendment shall be entitled to be paid its court costs and reasonable attorneys' fees by the party against whom judgment is rendered, including such costs and fees as may be incurred on appeal.

8. <u>Assignments Prohibited.</u> This Amendment may not be assigned by the Borrower in whole or in part, voluntarily or involuntarily (including a transfer to a receiver or bankruptcy estate), without the prior and express written consent of the Lender in each instance or as otherwise expressly agreed to under and subject to the Borrower's satisfaction of the conditions in the Loan Agreement and the Deed of Trust. Subject to the foregoing this Amendment shall bind and inure to the benefit of the parties and their respective heirs, successors and assigns.

9. <u>No Subordination.</u> This Amendment does not constitute nor is it intended to be or create a subordination of the lien of the Deed of Trust to any other lien on or interest in the property encumbered thereby whether created or recorded before or after the Deed of Trust.

10. <u>Time of Performance.</u> Time is of the essence of each and every term, covenant and condition hereof.

11. <u>Reaffirmation</u>. Each of the terms, provisions and covenants of the Deed of Trust is hereby confirmed and reaffirmed by Borrower as of the date hereof, as such terms, provisions or covenants are modified by this Amendment.

12. <u>Counterparts.</u> This Amendment may be executed in two or more counterparts, all of which shall constitute but one and the same instrument. The signature pages of exact copies of this Amendment may be attached to one copy to form one complete document.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment the day and year first above written.

BORROWER:

ORM TIMBER OPERATINGCOMPANY II, LLC,
a Delaware limited liability company

By: Olympic Resource Management LLC,
a Washington limited liability company
Its Manager

By: ______________________
David L. Nunes
President & Chief Executive Officer

LENDER:

METROPOLITAN LIFE INSURANCE COMPANY,
a New York corporation

By: ______________________
Printed Name: W. Kirk Purvis
Title: Director

STATE OF WASHINGTON	)	
	)ss.	
COUNTY OF _______________	)	

On this __________day of August, 2013, before me personally appeared DAVID L. NUNES, to me known to be the President and Chief Executive Officer of Olympic Resource Management, LLC, a Washington limited liability company and the Manager of ORM Timber Operating Company II, LLC, the Delaware limited liability company that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said companies, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of Olympic Resource Management, LLC, and that he was authorized to do so on behalf of ORM Timber Operating Company II, LLC.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Signature: ___________________________

Name (Print): _________________________

NOTARY PUBLIC in and for the State
of Washington, residing at _______________
My appointment expires: _________________

STATE OF TENNESSEE)
)
COUNTY OF SHELBY)

On , 2013, before me, ______________ Notary Public of the State and County aforementioned, personally appeared W. Kirk Purvis, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged himself to be a Director of Metropolitan Life Insurance Company, a New York corporation and as such Director, executed the foregoing instrument for the purpose therein contained and acknowledged the instrument to be the free act and deed of the corporation.

I certify under PENALTY OF PERJURY under the laws of the State of Tennessee that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ________________________________ (seal)

SCHEDULE I
ABBREVIATED LEGAL DESCRIPTIONS

Portions of Sections 4, 8, 9 and 17, Township 11 North, Range 5 East, W.M.;
Portions of Government Lots 1-4, 8 and 9 in Section 4, and all of Section 14, Township 11 North, Range 6 East, W.M.;
Portions of Sections 1, 3, 4, 5, 8, 9, 10, 11, 12, 13 and 14, and Government Lots 1 and 2 of Section 6, Township 12 North, Range 3 East, W.M.;
Government Lots 1, 2 and 3 and the SW 1/4 of NWl /4 in Section 6, and portion of Section 32, Township 12 North, Range 4 East, W.M.;
Portions of Section 33, Township 12 North, Range 6 East, W.M.;
Portions of Government Lots 2, 5, 6 and 7 in Section 24, Township 12 North, Range 7 East, W.M.;
Portions of Sections 31, 34 and 35, Township 13 North, Range 3 East, W.M.;
Portions of Sections 24, 25, 26, 31 and 35, Township 13 North, Range 4 East, W.M.;

All situated in Lewis County, Washington.

SCHEDULE II

TAX PARCEL NUMBERS

026830-000-000 (TCA 739)
026892-000-000 (TCA 739)
026912-000-000 (TCA 739)
027015-000-000 (TCA 739)
027248-000-000 (TCA 741F)
027264-003-000 (TCA 741F)
027427-000-000 (TCA 741F)
029010-000-000 (TCA 260)
029016-000-000 (TCA 260)
029018-000-000 (TCA 260)
029019-000-000 (TCA 260)
029040-000-000 (TCA 219F)
029056-001-000 (TCA 219F)
029071-000-000 (TCA 219F)
029078-002-000 (TCA 219F)
029089-001-000 (TCA 219F)
029091-000-000 (TCA 219F)
029137-000-000 (TCA 219F)
029162-000-000 (TCA 219F)
029178-000-000 (TCA 219F)
029192-001-000 (TCA 260)
029192-002-000 (TCA 219F)
029216-000-000 (TCA 260)
029230-000-000 (TCA 260)
029243-000-000 (TCA 219F)
029819-000-000 (TCA 260)
029824-000-000 (TCA 260)
030256-000-000 (TCA 219F)
030257-000 ooo (TCA 219F)
031436-002-000 (TCA 741F)
031437-002-000 (TCA 741F)
031957-001-000 (TCA 741F)
031959-000-000 (TCA 741F)
031965-002-000 (TCA 741F)
033864-000'-000 (TCA 219F)
033906-000-000 (TCA 260)
033913-000-000 (TCA 260)
033921-000-000 (TCA 260)
034015-000-000 (TCA 250)
034019-000-000 (TCA 250)
034024-001-001 (TCA 260F)
034025-000-000 (TCA 260F)
034026-000-000 (TCA 260F)
034028-000-000 (TCA 260F)
034032-000-000 (TCA 260F)
034042-000-000 (TCA 250)
034046-002-000 (TCA 250)
034046-003-000 (TCA 250)
034047-002-000 (TCA 250)
034047-003-000 (TCA 250)
034089-000-000 (TCA 260)
034161-000-000 (TCA 260F)
034161-003-000 (TCA 260F)

Clackamas County Official Records **2013-058892**
Sherry Hall, County Clerk
08/15/2013 12:09:45 PM
M-TDAMD Cnt=5 Stn=1 LESLIE
$40.00 $16.00 $20.00 $10.00 $17.00 $103.00

RECORDING REQUESTED BY:
Stewart Title Guaranty Company

AND WHEN RECORDED MAIL TO:

Stoel Rives LLP
600 University Street, Suite 3600
Seattle, WA 98101-31 97
Attn: Virginia M. Pedreira
Loan No. 196590

SPACE ABOVE THIS LINE FOR RECORDER'S USE

FIRST AMENDMENT TO TRUST DEED, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING

(This First Amendment to Trust Deed is executed in duplicate counterpart originals for concurrent recording in Clackamas and Marion Counties, Oregon)

The final due date of the sums secured hereby is September 1, 2020. The maximum principal amount to be advanced is Twenty-Five Millions Dollars ($25,000,000), provided, however that the maximum principal amount to be advanced may be exceeded by advances to complete construction pursuant to ORS 86.155 (2) (c),for reasonable protection of the Real Property, including but not limited to advances to pay real property taxes, hazard insurance premiums, maintenance charges imposed under a declaration of restrictive covenants, reasonable attorneys' fees, and other advances described in the Trust Deeds (defined below).

This First Amendment to Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing (this "Amendment") is made and entered into this day of August, 2013, by and between ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company ("Borrower"), and METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation ("Lender").

RECITALS

A. Borrower has executed for the benefit of Lender (i) that certain Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing_ dated as of September 1, 2010, recorded in the Official Records of Clackamas County, Oregon on September 1, 2010, under Document No. 2010-054064 (the "Clackamas County Trust Deed"), pertaining to certain real property located in Clackamas County, Oregon more particularly described therein (the "Clackamas Property") and (ii) that certain Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated as of September 1, 2010, recorded in the Official Records of Marion County, Oregon on September 1, 2010, under Reel No. 3210, Page No. 331 (the "Marion Counfy Trust Deed" and, together with the Clackamas County Trust Deed, the "Trust Deeds"),

REEL 3535 PAGE 197
MARION COUNTY
BILL BURGESS, COUNTY CLERK
08-15-2013 11:55 am.
Control Number 345352 $ 86.00
Instrument 2013 00037914

RECORDING REQUESTED BY:
Stewart Title Guaranty Company

AND WHEN RECORDED MAIL TO:

Stoel Rives LLP
600 University Street, Suite 3600
Seattle, WA 98101-3197
Attn: Virginia M. Pedreira
Loan No. 196590

SPACE ABOVE THIS LINE FOR RECORDER'S USE

FIRST AMENDMENT TO TRUST DEED, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND FIXTURE FILING

(This First Amendment to Trust Deed is executed in duplicate counterpart originals for concurrent recording in Clackamas and Marion Counties, Oregon)

The final due date of the sums secured hereby is September 1, 2020. The maximum principal amount to be advanced is Twenty-Five Millions Dollars ($25,000,000), provided, however that the maximum principal amount to be advanced may be exceeded by advances to complete construction pursuant to ORS 86.155 (2) (c),for reasonable protection of the Real Property, including but not limited to advances to pay real property taxes, hazard insurance premiums, maintenance charges imposed under a declaration of restrictive covenants, reasonable attorneys ' fees, and other advances described in the Trust Deeds (defined below).

This First Amendment to Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing (this "Amendment") is made and entered into this 15th day of August, 2013, by and between ORM TIMBER OPERATING COMPANY II, LLC, a Delaware limited liability company ("Borrower"), and METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation ("Lender").

RECITALS

A. Borrower has executed for the benefit of Lender (i) that certain Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated as of September 1, 2010, recorded in the Official Records of Clackamas County, Oreg.on on September 1, 2010, under Document No. 2010-054064 (the "Clackamas County Trust Deed"), pertaining to certain real property located in Clackamas County, Oregon more particularly described therein (the "Clackamas Property") and (ii) that certain Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing dated as of September 1, 2010, recorded in the Official Records of Marion County, Oregon on September 1, 2010, under Reel No. 3210, Page No. 331 (the "Marion County Trust Deed" and, together with the Clackamas County Trust Deed, the "Trust Deeds"), pertaining to certain real property located in Marion County, Oregon more particularly described therein (the **"Marion Property"** and, together with the Clackamas Property, the **"Property").** Capitalized terms used but not defined herein shall have the meanings given in the Trust Deeds.

B. The Trust Deeds were executed in connection with that certain loan (the **"2010 Loan")** made by Lender to Borrower pursuant to that certain Loan Agreement by and between Borrower and Lender dated as of September 1, 2010, as amended pursuant to that certain First Amendment to Loan Agreement dated February 7, 2011 (collectively, as amended, the **"Loan Agreement").** The 2010 Loan is evidenced by, among other things, that certain Promissory Note dated September 1, 2010 (the **"2010 Note"),** made by Borrower payable to the order of Lender in the original principal amount of Eleven Million and Noll 00 Dollars ($11,000,000.00).

C. The Lender has agreed to make an additional loan in the prineipal amount of Fourteen Million and No/100 Dollars ($14,000,00.00) (the **"Additional Loan")** pursuant to the terms of that certain Second Amendment to Loan Agreement between Lender and Borrower dated as of even date herewith (the **"Second Amendment").** All references herein to the Loan Agreement shall refer to the Loan Agreement as modified by the Second Amendment. The Additional· Loan shall be evidenced by that certain Promissory Note dated as of even date herewith in the principal amount of $14,000,000.00 (the **"Additional Note").**

D. Borrower and Lender desire to modify the Trust Deeds to provide that, in addition to the Secured Obligations, the Trust Deeds secure the obligations set forth in the Second Amendment and as evidenced by the Additional Note.

NOW, THEREFORE, the parties hereby agree as follows:

1. Confirmation of Security Documents. Borrower hereby acknowledges and confirms that (a) the Trust Deeds currently encumber all of the Property as first and valid liens for each of the debts and obligations therein set forth; and (b) the Trust Deeds continue to grant a first and valid security interest in all of the **"Collateral"** described therein.

2. Obligations Secured. In addition to the Secured Obligations described in the Trust Deeds, the Trust Deeds shall and are hereby granted to secure the Additional Note and the Loan Agreement, as amended, and all debts evidenced by all renewals, extensions, modifications, substitutions and consolidations of the Additional Note and for such purpose, and with respect to the Trust Deeds, the Borrower hereby transfers, grants, bargains, sells, conveys, assigns, warrants and mortgages the Property to Chicago Title Insurance Company, as trustee, its successors and assigns, IN TRUST WITH POWER OF SALE AND RIGHT OF ENTRY AND POSSESSION, to secure all of the obligations evidenced by the Additional Note and the Loan Agreement, as amended, and the Trust Deeds may be judicially or nonjudicially foreclosed in the Event of Default thereunder that is not fully cured within any applicable cure period expressly provided thereby. The defined term "Secured Obligations" is hereby amended to include all of the obligations evidenced by the Additional Note and the Loan Agreement, as amended, and otherwise arising in connection with the Additional Loan.

3. No Agricultural Property. The Property is not used principally or primarily for agricultural or farming purposes.

4. Commercial Deed; Commercial Purpose; Each of the Trust Deeds, as amended hereby, is a commercial deed of trust and not a "residential trust deed", as defined by O.R.S. 86.705 or its successor statutes, and Borrower shall continue the commercial use during the term of the 2010 Loan and the Additional Loan, including any extensions thereof. The proceeds of the Additional Loan will be used exclusively for commercial, business or investment purposes rather than for Borrower's owner-occupied residential, personal, family or household use. In the event of default or other act or omission that enables Lender to foreclose either of the Trust Deeds, Lender shall have the right to judicially or non-judicially foreclose the Trust Deeds against the Property.

5. Definitions. As of the date hereof, the term "Loan Agreement" as used in the Trust Deeds shall mean the Loan Agreement as amended, and the term "Note" shall mean, collectively, the 2010 Note and the Additional Note.

6. Representations and Warranties. Borrower hereby reaffirms each of the representations and warranties set forth in the Trust Deeds as of the date hereof.

7. No Implied Modifications. Except as specifically modified in this Amendment, nothing herein contained shall be considered as modifying, releasing, altering or affecting the Trust Deeds, the original priority of the Trust Deeds, or the rights, benefits, duties or obligations of the parties thereto. It is further recognized and agreed that any and all other documents and security agreements entered into between any of the parties hereto which are in any manner connected with the indebtedness evidenced by the Additional Note shall remain in full force and effect unless specifically canceled or amended by an instrument in writing by Lender.

8. Attorneys' Fees. The prevailing party in any arbitration or litigation concerning this Amendment shall be entitled to be paid its court costs and reasonable attorneys' fees by the party against whom judgment is rendered, including such costs and fees as may be incurred on appeal.

9. Assignments Prohibited. This Amendment may not be assigned by the Borrower in whole or in part, voluntarily or involuntarily (including a transfer to a receiver or bankruptcy estate), without the prior and express written consent of the Lender in each instance or as otherwise expressly agreed to under and subject to the Borrower's satisfaction of the conditions in the Loan Agreement and Trust Deeds. Subject to the foregoing this Amendment shall bind and inure to the benefit of the parties and their respective heirs, successors and assigns.

10. No Subordination. This Amendment does not constitute nor is it intended to be or create a subordination of the lien of the Trust Deeds to any other lien on or interest in the property encumbered thereby whether created or recorded before or after the Trust Deeds.

11. Time of Performance. Time is of the essence of each and every term, covenant and condition hereof.

12. Reaffirmation. Each of the terms, provisions and covenants of the Trust Deeds are hereby confirmed and reaffirmed by Borrower as of the date hereof, as such terms, provisions or covenants are modified by this Amendment.

13. Counterparts. This Amendment may be executed in two or more counterparts, all of which shall constitute but one and the same instrument. The signature pages of exact copies of this Amendment may be attached to one copy to form one complete document.

BORROWER HEREBY DECLARES AND ACKNOWLEDGES THAT BORROWER HAS RECEIVED, WITHOUT CHARGE, A TRUE COPY OF THIS FIRST AMENDMENT TO TRUST DEED.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY LENDER CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDER TO BE ENFORCEABLE.

[signature page immediately follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment the day and year first above written.

BORROWER:

ORM TIMBER OPERATINGCOMPANY II, LLC,
a Delaware limited liability company

By: Olympic Resource Management LLC,
a Washington limited liability company
Its Manager

By: ____________________
David L. Nunes
President & Chief Executive Officer

LENDER:

METROPOLITAN LIFE INSURANCE COMPANY,
a New York corporation

By: ____________________
Printed Name: W. Kirk Purvis
Title: Director

STATE OF WASHINGTON)
)ss.
COUNTY OF _______________)

On this ______________ day of August, 2013, before me personally appeared DAVID L. NUNES, to me known to be the President and Chief Executive Officer of Olympic Resource Management, LLC, a Washington limited liability company and the Manager of ORM Timber Operating Company II, LLC, the Delaware limited liability company that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said companies, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument on behalf of Olympic Resource Management, LLC, and that he was authorized to do so on behalf of ORM Timber Operating Company II, LLC.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

Signature: ___________________________

Name (Print): _________________________

NOTARY PUBLIC in and for the State
of Washington, residing at _______________
My appointment expires: _________________

STATE OF TENNESSEE)
)
COUNTY OF SHELBY)

On , 2013, before me, ________________________ Notary Public of the State and County aforementioned, personally appeared W. Kirk Purvis, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who, upon oath, acknowledged himself to be a Director of Metropolitan Life Insurance Company, a New York corporation and as such Director, executed the foregoing instrument for the purpose therein contained and acknowledged the instrument to be the free act and deed of the corporation.

I certify under PENALTY OF PERJURY under the laws of the State of Tennessee that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ___________________________ (seal)

Exhibit 10.31

MASTER LOAN AGREEMENT

DATED AS OF DECEMBER 2, 2013

AMONG

ORM Timber Fund III (REIT) Inc.

AS BORROWER

AND

NORTHWEST FARM CREDIT SERVICES, FLCA
NORTHWEST FARM CREDIT SERVICES, PCA

AS LENDERS

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MASTER LOAN AGREEMENT

THIS MASTER LOAN AGREEMENT (this "Loan Agreement") is made and entered into effective December 2, 2013, by and between Lender, as defined below, and Borrower, as defined below.

RECITALS

WHEREAS, Borrower has requested that Lender make a $17,980,000.00 term loan to Borrower;

WHEREAS, Lender has agreed to make the requested Loan available to Borrower on the terms and conditions hereinafter set forth which shall apply to Note No. 6214502 and any future Loans made subject hereto.

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

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

"<u>Affiliate"</u> means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"<u>Appraisal Update"</u> means a written report of the Timberland that is an annual update to the Certified Appraisal to be provided to Lender pursuant to Section 6.01.b.xi herein.

<u>"Appraised Timberland Value"</u> means the value determined pursuant to the most recent appraisal or appraisal update required to be provided to Lender pursuant to Section 6.01.b.xi herein, and which is acceptable to Lender.

"<u>Asset Disposition"</u> means any sale, lease, transfer or other disposition (including any such transaction effected by way of merger, amalgamation or consolidation) by Borrower, subsequent to the Closing Date of any asset (including stock or other equity interests in Borrower), including without limitation, any sale leaseback transaction (whether or not involving a Capital Lease), but excluding (a) the sale of standing Timber in the ordinary course of business for fair consideration, (b) the sale or disposition of obsolete machinery and equipment no longer used or useful in the conduct of such Person's business (except for assets which are security for Lender's Loans), (c) transfers of cash and assets to any Related Parties, and (d) the sale of or realization on delinquent receivables.

"<u>Bankruptcy Code"</u> means the Bankruptcy Code in Title **11** of the United States Code, as amended, modified, succeeded or replaced from time to time.

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

"Borrower" means ORM Timber Fund III (REIT) Inc., a Delaware corporation and any Subsidiary of Borrower as may from time to time become a party hereto (collectively "Borrower").

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

"Breakage Fee" shall have the meaning given in Section 7.02 hereof.

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

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

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

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

"Certified Appraisal" means a written appraisal report performed by a state certified and licensed appraiser acceptable to Lender.

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

"Code" means the Internal Revenue Code of 1986, as amended or recodified, and any successor thereto, as interpreted by the rules and regulations promulgated thereunder, in each case as in effect from time to time.

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

"Company" and "Companies" means Borrower , as well as any present or future Subsidiaries whose financial statements and accounting proced ures should, in accordance with GAAP, be consolidated with Borrower and ORM Timber Fund III LLC, a Delaware limited liability company and ORM Timber Fund III (Foreign) LLC, a Delaware limited liability company.

"Compliance Certificate" shall have the meaning given in Section 6.01.b.iii., and shall be in substantially the form of Exhibit A hereto.

"Consolidated Debt Coverage Ratio" means, for any Fiscal Year-End, Consolidated EBITDDA minus Distributions, *divided by* the sum of: (a) the current portion of long-term debt ("CPLTD") as of the prior Fiscal Year-End; and (b) Consolidated Net Interest Expense.

"Consolidated EBITDDA" means, for any period, the sum of : (a) Consolidated Net Income; (b) Consolidated Net Interest Expense; (c) consolidated depreciation expense; (d) consolidated depletion expense: (e) Consolidated Taxes; and (f) consolidated amortization expense, all as determined in accordance with GAAP .

"Consolidated Net Income" means, for any period, the net income after Consolidated Taxes for such period of Companies on a consolidated basis, as determined in accordance with GAAP.

"Consolidated Net Interest Expense" means, for any period, all interest expense (including the interest component under Capital Leases) of Companies on a consolidated basis for such period, net of all interest income for the same period, as determined in accordance with GAAP.

"Consolidated Taxes" means, as of any date of determination, total federal, state or other income taxes of Companies on a consolidated basis for such period, as determined in accordance with GAAP.

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

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

"Covenant Compliance Worksheet" shall have the meaning given in Section 6.01.b.iii. hereof and shall have the form substantially of Exhibit B hereto.

"Deed of Trust" shall include, without limitation, a deed of trust, a trust deed, a mortgage, an assignment of real estate contract or other like security document encumbering real Property.

"Default Interest Rate" shall have the meaning provided in Section 8.03 hereof.

"Distributions" means cash or other Property paid to a Person by virtue of the Person's ownership in Borrower and or Borrower's Affiliates.

"Event of Default" shall have the meaning provided in Section 8.01 hereof .

"Fiscal Quarter" means the three month periods beginning January 1, April 1, July 1 and October 1.

"Fiscal Quarter-End" means each March 31, June 30, September 30 and December 31. "Fiscal Year" means the calendar year.

"Fiscal Year-End" means December 31.

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

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

"Guarantor" shall have the meaning as provided in each Note.

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

"Indebtedness" of any Person means (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to Property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations, including without limitation, intercompany items, of such Person issued or assumed as the deferred purchase price of Property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person, (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (f) all Indebtednes s of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guaranty obligations of such Person, (h) the principal portion of all obligations of such Person under Capital Leases, (i) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed). The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer.

"Intercompany Indebtedness" means any Indebtedness of a Borrower which (a) is owing to a Subsidiary, or Related Party, and (b) is by its terms subordinated to the payment of Borrower's Obligations on terms and conditions reasonably satisfactory to Lender.

"Investment," in any Person or Affiliate, means any loan or advance to such Person , any purchase or other acquisition of any Capital Stock, warrants, rights, options, obligations or other securities of, or equity interest in such Person, any capital contribution to such Person or any other investment in such Person, including without limitation, any guaranty obligation incurred for the benefit of such Person.

"Laws" means all ordinances , codes, statutes, rules, regulations , licenses, permits , orders, injunctions, writs or decrees of any Governmental Authority, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 ("IRC"), the Employee Retirement Income Security Act of 1974 ("ERISA"), the Fair Labor Standards Act ("FLSA"), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA ").

"Lender" means Northwest Farm Credit Services, FLCA or Northwest Farm Credit Services, PCA, as the case may be for a given Loan, each an association organized under the laws of the United States, together with its successors and assigns.

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

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

"Loan Documents" means all of the Contractual Obligation associated with the Loan(s), including but not limited to: this Loan Agreement; the Note(s) the Membership Agreement(s); the Mortgage dated of or around even date herewith to be recorded in Grays Harbor and Pacific Counties, Washington; that certain Deed of Trust dated of or around even date herewith to be recorded in Siskiyou County, California, and any other Mortgages or Deed(s) of Trust as may be required by Lender; security agreement(s) ; financing statement(s); indemnities; Guaranty Agreement (Unconditional Payment); assignment(s); and other documents or instruments as required by Lender, executed in connection with the Loan(s), and any extensions, renewals, amendments, substitutions or replacements thereof.

"Loans" means two or more Loans.

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

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

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

"McCloud Timberlands" means approximately 18,900 acres of Timberland located in Siskiyou County, California, also known as the Trout Creek property.

"Membership Agreement" means that certain agreement executed by Borrower, concerning Borrower's agreement to purchase Stock, as that term is defined in the Membership Agreement, in Northwest Farm Credit Services, ACA ("ACA"), an affiliate of Lender.

"Merchantable Timber" means Merchantable Timber for the McCloud Timberlands and Merchantable Timber for the Willapa Timberlands.

"Merchantable Timber for the McCloud Timberlands" means Timber with a minimum 16 inch diameter at breast height 'dbh' and which can be harvested without violation of applicable laws and regulations.

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

"Note"means the note evidencing a Loan and which contains a promise to pay a sum certain. "Notes" means two or more Notes.

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

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

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

"Permitted Liens" means:

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

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

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

d. Liens in connection with attachments or judgments (including judgment or appeal bonds) provided that the judgments secured shall, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall have been discharged within 30 days after the expiration of any such stay;

e. Easements, rights-of-way, restnct10ns (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered Property for its intended purposes;

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

g. Liens, if any, on Property securing Borrower's operating loan(s) but will not include Liens on Collateral for Lender's Loans;

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

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

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

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

"Person" means an individual, an Organization or a Governmental Authority. "Prepayment Fee" shall have the meaning given in Section 7.01 hereof.

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

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

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

"Related Party or Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

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

"Solvent" or "Solvency" means, with respect to any Person as of a particular date, that on such date (a) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (b) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature in their ordinary course, (c) such Person is not engaged in a business or a transaction , and is not about to engage in a business or a transaction, for which such Person's Property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged or is to engage, (d) the fair value of the Property of such Person is greater than the total amount of liabilities, including without limitation, contingent liabilities, of such Person, and (e) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

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

"Timber" means timber, standing or severed, including without limitation all Merchantable Timber (living or dead), timber and pulpwood and which is pledged as Collateral.

"Timberland" means real property used primarily for, or contemplated for the primary use of, the growing and or harvesting Merchantable Timber and pledged as Collateral.

"Willapa Timberlands" means approximately l 0,688 acres of Timberland located m Grays Harbor County and Pacific County, Washington.

2. Loans.

2.1 Loans. Subject to the terms and conditions set forth herein, Lender agrees to make Note No. 6214502 to Borrower on the Closing Date. Borrower agrees to pay the Notes and all Borrower's Obligations under the other Loan Documents according to their terms.

2.2 Fees. Borrower shall pay Lender's fees as set forth in each Note or separate fee letter.

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

2.4 **Payments Generally.** All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Lender in U.S. Dollars and in immediately available funds as further described in the Notes and according to the terms of the Notes.

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

3. **Conditions Precedent.** The obligation of Lender to close and advance under the Loan(s) is subject to satisfaction of the following conditions precedent by Borrower on or before the Closing Date or to waiver thereof by Lender.

3.01 **Documents Required for Closing.** Unless waived by Lender, Borrower shall deliver the following to Lender:

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

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

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

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

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

f. Financing statements from each Borrower or Person pledging Collateral to be filed in all jurisdictions, which in the opinion of Lender, are reasonably necessary to perfect the security interests created by the security agreement(s), to the extent such security interests can be perfected by filing; and current searches of appropriate filing offices in each state (and county, to the extent relevant) in which a Borrower has an office or otherwise conducts business (including without limitation, patent and trademark offices, secretaries of state and county recorders) showing that no state or federal tax liens have been filed and remain in effect against any Borrower, and that no financing statements or other notifications or filings have been filed and remain in effect against any Borrower, other than those for which Lender has received an appropriate release, termination or satisfaction or Permitted Liens;

g. If real Property is Collateral for one or more loans, an appraisal of the Collateral acceptable to Lender as determined by Lender in accordance with its policies and procedures, in an amount satisfactory to Lender. Lender will engage a state certified appraiser to perform the appraisal. The appraisal shall be for the sole and exclusive use of Lender. Provided, the appraisal for the Willapa Timberlands shall be provided to Lender post-closing but not later than December 31, 2014;

h. If real Property is Collateral for one or more Loans, a title insurance commitment acceptable to Lender;

i. Environmental report satisfactory to Lender;

j. General liability insurance in amounts as Lender may reasonably require and naming Lender as loss payee; and

k. Evidence that all other actions which, in the opinion of Lender, are reasonably necessary to perfect and protect the security interests created by the Loan Documents have been taken, including the recording in all jurisdictions of the Mortgages and or Deed of Trusts .

3.2 Conditions Precedent to Advances under all Loans. The obligation of Lender to fund any advance under any Loan(s) is subject to the additional conditions precedent:

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

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

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

1. Any unpaid balance of any Loan fees; and

11. All unpaid costs and expenses to Lender; and

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

4. Liens.

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

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

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

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

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

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

4.3 Release of Liens.

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

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

c. Other Releases. Provided there is no Event of Default or Incipient Default, Borrower may request a partial release of Collateral, to the extent that the total outstanding principal balance of the Loan(s) does not exceed fifty percent (50%) of the Appraised Timber land Value following the release. If, at the time of such partial release request, the most recent Appraised Timberland Value is an Appraisal Update, Lender may require a new Certified Appraisal be received prior to such release. All releases will be subject to approval by Lender, which will not be unreasonably withheld. The partial release may be subject to and require an additional Excess Cutting Payment, payable at the time of such release. No release will be provided if the proposed Collateral to be released is integral to the Collateral, as reasonably determined by Lender.

d. Expenses Associated with Lien Releases. Borrower shall pay Lender's reasonable expenses associated with the lien releases identified in this Section 4.03, including but not limited to, title insurance and appraisal costs.

5. Representations and Warranties.

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

a. Borrower is a validly formed corporation that has been duly organized and exists and is in good standing under the laws of the jurisdiction in which it was organized, has the lawful power to own its properties and to engage in the business it conducts, and is duly qualified to do business in all other states where the nature of the business transacted by it or Property owned by it makes such qualification necessary ;

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

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

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

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

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

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

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

g. Companies' financial statements have been and will be prepared and presented and hereafter will present fully and fairly the financial condition of Companies at the dates thereto and the results of operations for the periods covered thereby. There have been no conditions so as to create a Material Adverse Effect in the financial condition or business of Companies since the date of Companies most recent annual financial statements;

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

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

i. The products that it manufactures or sells or to the services it performs;

ii. The conduct of its businesses; and

iii. The use, maintenance and operation of the Properties owned or leased by it.

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

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

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

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

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

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

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

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

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

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

5.3 Survival. All of the representations and warranties set forth in Section 5.01 shall survive until all of Borrower 's Obligation s are paid and satisfied in full and all offsets, defenses or counterclaims that Borrower has or may claim to have, have been released or discharged.

6. Covenants.

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

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

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

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

ii. As soon as available, but in any event within 45 days after each Fiscal Quarter-End, a consolidated balance sheet, the related consolidated statement of cash flows and the related consolidated statement of income or operations for such Fiscal Quarter-End of Companies and their Subsidiaries, and for the portion of Companies' Fiscal Year then ended, setting forth in each case, in comparative form, the figures for the corresponding Fiscal Quarter End of the previous Fiscal Year and the corresponding portion of the previous Fiscal Year, all in reasonable detail;

iii. Concurrently with the delivery of the financial statements referred to in Sections 6.01.b.i and ii, a duly completed Compliance Certificate, signed by a Responsible Officer, certifying that such financial statements are fairly presenting the financial condition, results of operation s, shareholders' (or equivalent) equity and cash flows of Companies and their Subsidiaries in accordance with GAAP (subject only to normal year-end audit adjustments and the absence of footnotes with respect to financial statements provided under Section 6.0 l .b.ii.). A sample Compliance Certificate is attached hereto as Exhibit A. Companies' Compliance Certificate shall be accompanied by a Covenant Compliance Worksheet, a sample of which is attached hereto as Exhibit B, signed by a Responsible Officer;

iv. As soon as available, but in any event not more than 45 days after Fiscal Year-End, as update of Borrower's business plan to include a projected balance sheet, income statement and statement of cash flow;

v. As soon as available, but in any event not more than 45 days after Fiscal Year-End, a timber harvest plan describing the proposed harvest of Timber from the real property Collateral for the ensuing calendar year, which will specify the total timber volume by species to be harvested from the real property Collateral and the location, by tract, of the harvest;

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

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

viii. Promptly after the sending or making available, or filing of the same, copies of all reports or other statements that Borrower makes or sends to any Govenunental Authority or Person concerning compliance with all requirements of Law governing protection of the environment, endangered species of wildlife or other applicable law;

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

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

xi. Within sixty (60) days of receipt of appraisal reports or appraisal updates on the Collateral as required by Borrower's entity documents, Borrower shall provide such appraisal reports or appraisal updates to Lender. The appraisal report shall be a Certified Appraisal.

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

d. Taxes. Borrower shall pay, or cause to be paid, when due, all taxes imposed upon it or on any of their Property or that it is required to withhold and pay, except when contested in good faith by appropriate proceedings with adequate reserves therefore having been set aside on their books. Notwithstanding the foregoing right of contest, such taxes will be paid whenever foreclosure on any Lien that has attached appears imminent.

e. Additional Borrowers. No Person shall become a Subsidiary of Borrower without Lender's prior written consent, which will not be unreasonably withheld. As of the Closing Date, Borrower is processing the documents to create a Subsidiary and Lender has knowledge and provides its consent to such Subsidiary, subject to the remaining provisions of this Section 6.01.e. At the time any Person becomes a Subsidiary of Borrower , Borrower shall so notify Lender and upon request of Lender, at is sole option, shall cause such Person to (i) execute an assumption agreement in favor of Lender in form and content satisfactory to Lender, and (ii) may deliver, or cause to be delivered, such other documentation as Lender may reasonably request in connection with the foregoing, including without limitation, a certified resolution and Organizational Documents of such Person and favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to above), all in form, content and scope reasonably satisfactory to Lender.

f. Records. Borrower shall keep accurate and complete Records of its operations, consistent with sound business practices. Borrower shall, when reasonably requested by Lender, make available for inspection all assets and properties of Borrower and make available for inspection and copying by duly authorized representatives of Lender, all Records related to its assets and Properties and will furnish Lender any information regarding its business affairs and financial condition within a reasonable time after Lender's request.

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

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

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

j. <u>Subordination.</u> Borrower hereby subordinates all Intercompany Indebtedness, including the unsecured debt to Pope Resources , A Delaware Limited Partnership, to Borrower 's Obligations to Lender; provided however , so long as there exists no Event of Default or Incipient Default , Borrower may pay such Intercompany Indebtedness in the ordinary course of its businesses.

k. Change of Location. Borrower shall notify Lender 30 days in advance of any change in its headquarters location.

l. Collateral. Borrower shall comply with the terms of all Loan Documents concerning Collateral pledged to Lender as Collateral for the Loans. To the extent the expiration date for any such document occurs before the maturity date of a Loan, at Lender's request, Borrower shall negotiate an extension of such document to match or exceed the maturity date of a given Loan.

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

6.2 **<u>Financial Covenants.</u>** Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower 's Obligations shall remain outstanding, Borrower shall cause Companies to comply with and maintain the following financial covenants:

a. Consolidated Debt Coverage Ratio shall be no less than 1.00:1.00 to be measured by the Fiscal Year-End financial statements of Companies as of each Fiscal Year-End;

b. Borrower will limit outstanding principal balances of the Loans on Collateral to fifty percent (50%) of the aggregate Appraised Timberland Value of such Collateral at all times during the life of the Loan.

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

a. Liens. Borrower shall not:

i. Contract, create, incur, assume or permit to exist any Lien with respect to any of the Collateral or any portion thereof, or any Property that replaces or upgrades the Collateral, whether now owned or after acquired, except for Permitted Liens.

ii. Sell or replace the Collateral or any portion thereof unless approved by Lender and subject to Lender's Lien on replacement Property, except for Permitted Dispositions and sales of Timber and stumpage in the ordinary course of business.

b. Nature of Business. Borrower shall not substantively alter the nature, character or conduct of its business conducted by it as of the Closing Date.

c. Consolidation, Merger, Sale or Purchase of Assets. Except for sales of Timber and stumpage in the ordinary course of business, Borrower shall not:

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

ii. Make an Asset ·Disposition, which would have a Material Adverse Effect on the financial condition of Borrower.

d. Fiscal Year; Organizational Documents. Borrower shall not change its Fiscal Year-End or amend, modify or change its Organization Documents.

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

6.4. Timber Harvesting.

a. Allowable Annual Cut. Until and unless subsequently revised by Borrower, with Lender's approval, due to appraisal information or a change in laws and subject to the other conditions herein, Borrower may harvest in each Fiscal Year of the term of the Loan, total Merchantable Timber of up to 22,000 MBF from the McCloud Timberlands and the Willapa Timberlands. At no time, beginning with the 2016 fiscal year shall the rolling three year actual harvest Merchantable Timber for the McCloud Timberlands exceed 43,000 MBF and at no time shall the rolling three year actual harvest Merchantable Timber for the Willapa Timberlands exceed 33,000 MBF. Collectively, this is the "Allowable Annual Cut" or "AAC". Refer to Exhibit "C" for the calculation worksheet.

b. Cumulative Allowable Harvest. For any Fiscal Year in which the actual volume of Timber harvested is less than the AAC permitted for such year, the difference between the AAC and the actual volume harvested (the "Annual Harvest Remainder") for such period will be carried forward to subsequent years, subject to the limitation in the next sentence. For any Fiscal Year, the AAC for that year plus the sum of any unapplied Annual Harvest Remainder from previous years is referred to as the "Cumulative Allowable Harvest" or "CAH". In no event shall the CAH for any year exceed twice the AAC. All Timber harvest is subject to the laws in the states where the Timberland is located.

c. Excess Cutting Payments. For any Fiscal Year during which the volume of Timber harvested is more than the AAC or CAH, as applicable, for such Fiscal Year (an "Excess Cut"), Borrower shall pay to Lender, subject to Section 6.04.d below, an amount equal to: (a) the Excess Cut, multiplied by (b) $100 per MBF (an "Excess Cutting Payment") . Any Excess Cutting Payment shall be paid by Borrower to Lender on the first day of the Fiscal Quarter following the severance of the Timber constituting the Excess Cut and shall be applied to the principal of Note No . 6214502 or placed into the Future Payment Fund with removal restrictions. Any such prepayment of principal shall be treated in the same manner as any other prepayment and shall be subject to Prepayment Fees.

d. De Minimis Excess Cut. Notwithstanding the terms of Section 6.04.c above, Borrower shall not be obligated to pay any Excess Cutting Payment for any Fiscal Yeats during the term of any Loan during which the volume of Timber severed exceeds the AAC (or such portion of the CAH, which shall represent the AAC) for such cutting period by not more than twenty percent (20%) of said AAC.

7. Prepayment and Breakage Fees.

7.01 Prepayment Fee.

a. Exemption to Prepayment Fee. Principal prepayments made while a Loan is priced under the Lender's short term variable rate options shall not be subject to a Prepayment Fee. In addition, there is no Prepayment Fee for any prepaid principal if a prepayment is received on an interest change date, as applicable, for the Loan being prepaid. Other prepayments of principal shall be subject to a Prepayment Fee, as described below.

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

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

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

a. Borrower provides Lender Notice that Loan principal is to be priced using a fixed rate option as allowed in a Note, if any, after which Borrower revokes such Notice ; or

b. Borrower provides Lender Notice that Loan principal priced under a fixed rate option, if any, is to be priced, repriced or prepaid on other than a pricing date, after which Borrower revokes such Notice.

7.3. Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee using the calculation on a ·make-whole basis, as calculated under Lender's then current method ology, provided however, a participant may use a different methodology than Lender.

8. Default.

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

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

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

c. Borrower or Guarantor shall fail generally to pay its debts as such debts become due, or becomes insolvent or becomes the subject of an insolvency proceeding.

d. Any Guarantor shall revoke, repudiate or terminate such Guaranty.

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

8.2 Acceleration. In the event of any uncured Event of Default beyond any applicable cure periods provided for in the Loan Documents, at Lender's option, without notice or demand, the unpaid principal balance of the Loan(s), plus all accrued and unpaid interest thereon and all other amounts due shall immediately become due and payable.

8.3 Default Interest Rate.

a. Loans with "Adjusted Principal Balance." The Default Interest Rate applicable to a delinquent payment for a Loan Segment of a Loan with payments computed using an Adjusted Principal Balance (as defined in each Note) shall equal four percent (4%) per annum above the interest rate in effect on such Loan Segment at the time such payment was due, which rate shall accrue on the total amount of the payment due until paid, accelerated or upon maturity. Provided, however, upon acceleration and or maturity, the outstanding principal balance of all Loan Segments, including Prepayment Fees and Breakage Fees, if any, shall be added to the Base Rate Loan Segment and thereafter the Default Interest Rate shall be equal to and remain at four percent (4%) per annum above the interest rate in effect for such Base Rate Loan Segment at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan until paid in full. Provided further, in the event there is no Base Rate Loan Segment but multiple fixed rate Loan Segments, the Default Interest Rate shall be equal to and remain at four percent (4%) per annum above the interest rate in effect on each Loan Segment at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan segment until paid in full.

b. Loans with no · "Adjusted Principal Balance." The Default Interest Rate applicable to a delinquent payment for the Loan, or a Loan Segment of a Loan, computed with no Adjusted Principal Balance, shall remain at the rate in effect on such Loan or the Loan Segment at the time such payment was due. Upon acceleration and or maturity, the outstanding principal balance of the Loan, and all Loan Segments, including Prepayment Fees and Breakage Fees, if any, shall be added to the Loan, or the Base Rate Loan Segment, as applicable, and thereafter the Default Interest Rate shall be equal to and remain at the interest rate in effect for the Loan, or such Base Rate Loan Segment, as applicable, at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan until paid in full. Provided however, in the event there is no Base Rate Loan Segment but multiple fixed rate Loan Segments, the Default Interest Rate shall remain at the rate in effect on each Loan Segment at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan Segment until paid in full.

8.04 Notice and Opportunity to Cure. Notwithstanding any other provision of the Loan Documents, Lender shall not accelerate the maturity of a Loan (a) because of a monetary default (defined below) unless the monetary default is not cured within ten (10) days of its due date, or (b) because of a nonmonetary default (defined below) unless the nonmonetary default is not cured within thirty (30) days after (i) the date on which Lender transmits by facsimile, mails or delivers written notice of the nonmonetary default to Borrower, or (ii) the date on which Borrower notifies Lender (verbally or in writing) of the nonmonetary default. For purposes of this Loan Agreement, the term "monetary default" means a failure by Borrower to make any payment required of it pursuant to the Note or any other Loan Document, and the term "nonmonetary default" means a failure by Borrower or any other Person to perform any obligation contained in the Loan Documents, other than the obligation to make payments provided for in the Notes and Loan Documents.

9. Enforcement and Waiver.

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

9.2 Waiver of Damages by Borrower. To the fullest extent permitted by applicable Law, Borrower shall not assert, and each such party hereby waives, any claim against any lndemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Loan Agreement, any other Loan Document or any agreement or instrument contemplated, the transactions contemplated, any Loan or the use of the proceeds thereof. No Indemnitee referred to in Section 12.07 below shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Loan Agreement or the other Loan Documents or the transactions contemplated.

10. Notices.

10.01 Notice and Other Communications; Email and FAX Copies.

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

i. If to Borrower :
Attention: Thomas M. Ringo, CFO
ORM Timber Fund III (REIT) Inc.
19950 7th Avenue NE, Suite 200
Poulsbo, WA 98370
Facsimile: (360) 697-5932
E-mail: tom@orminc.com

ii. If to Lender:
Attention: Kristy Searles
Northwest Farm Credit Services, FLCA
650 Hawthorne Ave. SE, Suite #210
Post Office Box 13309
Salem, OR 97309-1309
Facsimile: (503) 373-3006
E-mail: SalemAgribusiness@northwestfcs.com

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

b. Effectiveness of FAX Documents and Signatures. Loan Documents may be signed and transmitted by FAX. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually signed originals and shall be binding on Borrower, Guarantors, as applicable, and Lender. Lender may also require that any such document and signature be confirmed by manually-signed original thereof ; provided however, that the failure to request or deliver the same shall not limit the effectiveness of any FAX document or signature.

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

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

12. Governing Law; Jurisdiction; Etc.

12.1 Governing Law. THIS LOAN AGREEMENT SHALL BE GOVERNED BY, AND CONS1RUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WASHINGTON, EXCEPT WHERE THE LOCATION OF THE COLLATERAL FOR THE LOAN MAY REQUIRE THE APPLICATION OF THE LAWS OF ANOTHER STATE OR WHERE FEDERAL LAWS, INCLUDING THE FARM CREDIT ACT OF 1971, AS AMENDED, MAY BE APPLICABLE.

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

12.3 **Waiver of Venue.** BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN SECTION 12.02 HEREOF. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORU M TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

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

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

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

12.7 **Expenses and Indemnification.**

a. Expenses. Borrower shall pay directly or reimburse Lender for paying:

i. such counsel or experts engaged by Lender from time to time, so long as no Default shall have occurred and is continuing, with the prior approval of Borrower (which approval shall not be umeasonably withheld or delayed), in connection with (A) the negotiation, preparation, administration, execution and delivery of this Loan Agreement and the other Loan Documents and the Loans hereunder and (B) any amendment, modification or waiver of any of the terms of this Loan Agreement or any other Loan Document requested by or consented to by Borrower;

ii. all reasonable costs and expenses of Lender (including, without limitation, reasonable counsels' fees and expenses and reasonable experts' fees and expenses) in connection with (A) any Default and any enforcement or collection proceedings resulting therefrom or in connection with the negotiation of any restructuring or "work-out" (whether or not consummated) of the obligations of Borrower under this Loan Agreement or any other Loan Documents or the obligations of any other party under any other Loan Document and (B) the enforcement of this Section 12.07; and

iii. all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any Government Authority in respect of this Loan Agreement or any other Loan Document or any other document referred to herein or therein and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any Lien contemplated by this Loan Agreement or any other Loan Document to which Lender is intended to be a party or any other document referred to herein or therein.

Anything in the foregoing to the contrary notwithstanding, the Company shall not be responsible for any costs or expenses of Lender to the extent such costs or expenses relate solely to ministerial activities of Lender in the ordinary course of its business and do not relate to Lender's administration of the basic Loan Documents or the transactions contemplated thereby.

b. Indemnity. Borrower hereby indemnifies Lender and its officers, directors, employees, representatives, attorneys and agents (each an "Indemnitee") from, and shall hold each of them harmless against, any and all losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs or disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and expenses of counsel for each Indemnitee in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitee shall be designated a party thereto) that may at any time (including, without limitation, at any time following the termination of Borrower's Obligations) be imposed on, asserted against or incurred by any Indemnitee as a result of, or arising out of, or in any way related to:

i. any of the transactions contemplated hereby, by any other Loan Document or the execution, delivery or performance of this Loan Agreement or any other Loan Document;

ii. the extensions of credit hereunder or the actual or proposed use by Borrower of any of the extensions of credit hereunder or the grant to Lender, for the benefit of Lender, any Lien on the Collateral or in any other Property of Borrower or any other Person; or

iii. the exercise by Lender of any of its rights and remedies (including, without limitation, foreclosure) under any agreements (including, without limitation , the security documents) creating any such Lien (but excluding, as to any Indemnitee, (A) any such losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, sqits, costs or disbursements to the extent, but only to the extent, caused by (1) the gross negligence or willful misconduct of such Indemnitee or (2) with respect to any particular Indemnitee, claims of another Indemnitee against such particular lndemnitee unless such claims are the result of, arise out of or are in any way related to, directly or indirectly, the failure of Borrower, any Affiliate, Guarantor or any other Person to comply with its obligations under any Loan Document or the breach of any representation or warranty of Borrower , any Affiliate, Guarantor or any other Person in any Loan Document to which it is a party or (B) costs and expenses expressly subject to Section 12.07 a. hereof, to the extent that such Indemnitee is not entitled to (or is limited in claiming) reimbursement in accordance with the provisions of Section I2.07 a. hereof).

Without limiting the generality of the foregoing, Borrower hereby indemnifies each Indemnitee from, and shall hold each Indemnitee harmless against, any losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs or disbursements described in the preceding paragraph (including, without limitation, any lien filed against the Collateral by any Government Authority) arising under any Environmental Law as a result of the past, present or future operations of Borrower (or any predecessor in interest to Borrower), or the past, present or future condition of any site or facility owned, operated or leased by Borrower (or any such predecessor in interest), or any release or use or threatened release of any hazardous materials at any such site or facility, including any such release or use or threatened release, which shall occur during any period when such Indemnitee shall be in possession of any such site or facility following the exercise by Lender of any of its rights and remedies hereunder or under any other Loan Document.

c. Payments. All amounts due under this Section I 2.07 shall be payable not later than ten Business Days after demand therefore.

d. Survival. The agreements in this Section 12.07 shall survive the repayment, satisfaction or discharge of Borrower's Obligations.

13. Miscellaneous.

13.01 Construction.

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

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

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

d. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns and (iii) the words "herein," "hereof ' and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof.

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

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

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

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

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

In Witness Whereof, the parties hereto have duly executed thi s Loan .Agreement as of the date first above writt en .

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By: ______________________________
Authorized Agent

NORTHWEST FARM CREDIT SERVICES , PCA

By: ______________________________
Authorized Agent

BORROWER:
ORM Timber Fund III (REIT) Inc.
By: Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member

____
By: David L. Nunes
Its: President and CEO

EXHIBIT A TO MASTER LOAN AGREEMENT
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _________________, 20_

To: Northwest Fann Credit Services, FLCA and Northwest Farm Credit Services, PCA
Reference is made to that certain Master Loan Agreement dated as of December 2, 2013, (the "Loan Agreement") among ORM Timber Fund III (REIT) Inc. ("Borrower"), and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA ("Lender").

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

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

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by Section 6.0 l.b.i of the Loan Agreement for the fiscal year of Companies ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

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

1. Attached hereto as Schedule 1, are the financial statements required by Section 6.01.b.ii. of the Loan Agreement for the Fiscal Quarter of Companies ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Companies and their Subsidiaries in accordance with GAAP, as at such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

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

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

[select one:]

[To the best knowledge of the undersigned during such fiscal period, Borrower performed and observed each covenant and condition of the Loan Documents applicable to it.] Exhibit B hereto is a Covenant Compliance Worksheet.

--or--

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

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

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

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of ---------' 20______________

ORM Timber Fund III (REIT) Inc.

By: ______________________________
Name: ____________________________
Title: _____________________________

EXHIBIT B TO MASTER LOAN AGREEMENT
COVENANT COMPLIANCE WORKSHEET

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

6.02 (a.) Consolidated Debt Coverage Ratio

Consolidated EBITDA	$
minus Distributions	$
Numerator (A)	$
CPLTD as of the Prior Fiscal Year-End	$
plus Consolidated Net Interest Expense	$
Denominator (B)	$
Debt Coverage Ratio (A + B)	
Minimum Debt Coverage Ratio Requirement	1.00 : 1.00
In Compliance (cirde one)	YES / NO

6.2 (b.) Loans to Appraised Timberl and Value

(A) Outstanding Principal Balances of Loans at 12/31/20	
(B) Appraised Timberland Value of Collateral as of __ / __ / __	
Loans to Collateral Ratio (A + B)	%
Maximum Loans to Collateral Ratio Allowed	50.00%
In Compliance (circle one)	YES / NO

EXHIBIT C TO MASTER LOAN AGREEMENT
ALLOWABLE ANNUAL CUT WORKSHEET

6.04 Timber Harvesting

(a.) Allowable Annual Cut (AAC)	FY	FY	FY	3-Yr Cumulative
Mccloud Timberlands Harvest				
3-Yr Cumulative Not to Exceed 43,000 MBF				
plus Willapa Timberlands Harvest				
3-Yr Cumulative Not to Exceed 33,000 MBF				
equals Total Collateral Harvest				
Annual Total Not to Exceed 22,000 MBF				

(b.) Cumulative Allowabl e Harvest (CAH)	For the ReportingQuarter Ending:		___ /___ /___
Allowable Annual Cut (AAC)			22,000
less Total CollateraI Harvest			
Annual Harvest Remainder (AHR)			
plus AHR from Previous Years			
less Applied AHR from Previous Years			
equals (i.) Calculated Amount			
(ii.) Twice the Allowable Annual Cut (AAC)			44,000
Cumulative Allowable Harvest (CAH}			
CAH = the lesser of (i.) or (ii.)			

(c.) Excess Cutting Paments

For the ReportingQuarter Ending: ___ /___ /___

Total Collateral Harvest		________
less Cumulative Allowable Harvest (CAH)		________
equals Excess Cut Above CAH	*(enter zero if negative)*	________
X $100.00 / MBF		________
equals Calculated Excess Cutting Payment		________

NOTE

(Long Term with Fixed Rate)

Date: December 2, 2013

For Value Received, on December **1,** 2023 (the "Loan Maturity Date"), Borrower, as defined below, as principal, promises to pay NORTHWEST FARM CREDIT SERVICES , FLCA ("Lender") or order, at its office in Spokane, Washington, or such other place as the holder of this Note (this "Note") may designate in writing, the principal balance of **Seventeen Million Nine Hundred Eighty Thousand and no/lOO's Dollars ($17,980,000.00)** (the "Total Commitment Amount"), or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter.

1. **Definitions.** For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the Master Loan Agreement .

"Adjusted Principal Balance" of this Loan on any date is the unpaid principal balance minus the principal payments that are due on or before such date and are unpaid on such date.

"Borrower" means ORM Timber Fund III (REIT) Inc., a Delaware corporation.

"Closing Date" means the date the Loan Documents are fully executed and the conditions precedent to Loan closing have been met to Lender's satisfaction or waived by Lender in writing.

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

"Guarantors" means ORM Timber Fund III LLC, a Delaware limited liability company, and ORM Timber Fund III (Foreign) LLC, a Delaware limited liability company, under the Guaranty Agreement (the "Guaranty") executed by such parties in connection with the Loan Documents.

"Loan" means all principal amounts advanced by Lender to Borrower or on the account of Borrower or otherwise under this Note and the other Loan Documents, and all fees or charges incurred as provided for in this Note and the other Loan Documents, plus all interest accrued thereon.

"Loan Purpose" means, (a) the purchase of timber and timberlands, and (b) to pay Loan fees and all Lender's reasonable transaction costs.

"Master Loan Agreement" means that certain agreement dated on or around even date herewith, by and between Borrower, Lender and Northwest Farm Credit Services, PCA, that contains the terms and conditions that further govern the relationship of the parties, as further amended , modified, extended, restated or supplemented from time to time.

"Notice" shall have the meaning given in Paragraph 2.04 hereof.

2. Advances, Fees, Expenses and Notice.

2.1 Advance. All Loan principal shall be advanced on a Disbursement Date.

2.2 Loan Fee. Borrower shall pay Loan fees as set forth in a separate loan fee letter.

2.3 Fees and Expenses. Borrower shall pay Lender on demand, all fees and expenses, including attorney fees, related to closing the Note and incurred in any loan servicing action or to protect or enforce any of Lender's rights in bankruptcy, appellate proceedings or otherwise, under this Note or the other Loan Documents. All sums advanced by Lender to protect its interests hereunder or under the other Loan Documents and all Prepayment and Breakage Fees shall be payable on demand and shall accrue interest under the interest rate in effect on such date and shall be treated as an advance under this Note.

2.4 Notice of Prepayment and Pricing.

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

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

3. Interest Rate.

3.1 Fixed Rate. Borrower locked in a fixed per annum interest rate of 5.10 percent on November 13, 2013. The fixed interest rate of 5.10 percent per annum shall remain in effect for the term of the Loan unless changed to the Default Interest Rate.

3.2 Interest Rates. The interest rate used herein does not necessarily represent the lowest rates charged by Lender on its loans. Interest rates are calculated on the basis of the actual number of days elapsed during the year for the actual number of days in the year.

4. Payment.

4.1 Mandatorv Payment - Loan to Value. Borrower shall, upon 10-days' notice from Lender, repay the unpaid principal amount advanced under this Note in such amount as is necessary to reduce the unpaid principal amount of the Loan to an amount equal to the loan to value requirement as set forth in Section 6.02.b of the Master Loan Agreement, of the Excess Cutting Payment required in Section 6.04 of the Master Loan Agreement, which shall be in addition to any regularly scheduled payments due under this Note. Failure to make such mandatory payments is a monetary default under this Note. Such repayments of principal may be subject to the Prepayment Fee.

4.2 Mandatorv Payment -Excess Cutting Payment. Borrower shall pay to Lender the Excess Cutting Payment in the manner and as required to be paid under in Section 6.04 of the Master Loan Agreement, which payment shall be in addition to any regularly scheduled payments due under this Note. Failure to make such mandatory payment is a monetary default under this Note. Such repayments of principal may be subject to the Prepayment Fee.

4.3 Interest only Payments. Borrower shall make quarterly interest only payments on the first day of each Fiscal Quarter beginning January 1, 2014, which payments shall consist of interest that accrued during such prior period on the Adjusted Principal Balance of the Loan.

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

4.6 Manner of Payments. If any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day. All sums payable to Lender hereunder shall be paid directly to Lender in immediately available funds in U.S. dollars. Lender shall provide Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections within 15 days of receipt of any such statement.

4.7 Application of Payments. Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein. Unless Lender otherwise elects, so long as there is no Event of Default, principal prepayments shall reduce the balance owing and discharge the indebtedness at an earlier date, but shall not alter the obligation to pay scheduled payments until the indebtedness is paid in full.

5. Prepayment and Breakage Fees. This Loan is subject to the prepayment and breakage fee provisions set forth in Section 7 of the Master Loan Agreement.

6. Default.

6.01 Events of Default. Time is of the essence in the performance of this Note. The occurrence of any one or more of the Events of Default set forth in Paragraph 8.01 of the Master Loan Agreement shall constitute an "Event of Default" under this Note.

6.2 Acceleration. In the event of any uncured Event of Default beyond any applicable cure periods provided for in the Loan Documents, at Lender's option, without notice or demand, the unpaid principal balance of the Loan, plus all accrued and unpaid interest thereon and all other amounts due shall immediately become due and payable.

6.3 Default Interest Rate. The "Default Interest Rate" applicable to a delinquent payment shall equal four percent (4%) per annum above the interest rate in effect at the time such payment was due, which rate shall accrue on the total amount of the payment due until paid, accelerated and or upon maturity. Provided however, upon acceleration and or maturity, the Default Interest Rate shall be equal to and remain at four percent (4%) per annum above the interest rate in effect at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan until paid in full.

6.4 Notice and Oooortunitv to Cure. Any notice and opportunity to cure shall be provided in accordance with Paragraph 8.04 of the Master Loan Agreement.

7. Security. This Note is secured by the property described in the Membership Agreement and any other Loan Document that grants Lender a lien, security interest, or other rights or entitlements in, to or against such described property (collectively, the "Collateral"), including but not limited to the following specific Loan Documents:

Mortgage, Financing Statement and Fixture Filing dated December 2, 2013 (Grays Harbor County)
Mortgage, Financing Statement and Fixture Filing dated December 2, 2013 (Pacific County)
Deed of Trust, Financing Statement and Fixture Filing dated December 2, 2013 (Siskiyou County)

8. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Master Loan Agreement and the other Loan Documents.

9. Miscellaneous.

9.1 Funds Management Services. Lender may provide funds management services to Borrower. Upon request, Lender shall provide Borrower a quote for identified funds management services. Borrower shall comply with all funds management service agreements during the term of this Note. All fees incurred shall be considered a request for an advance under the Loan. The funds management services and fees may be adjusted upon reasonable notice by Lender.

9.2 Governing Law. The substantive laws of the State of Washington shall apply to govern the construction of the Loan Documents and the rights and remedies of the parties except where the location of the Collateral for the Loan may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

9.3 General Provisions. Borrower agrees to this Note as of the date above written. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under this Note may be indexed, adjusted , renewed or renegotiated . Lender may at any time, without notice, release all or any part of the security for this Note, including any real estate and or personal property covered by the Loan Documents; grant extensions, deferments , renewals or reamortizations of any part of the indebtedness evidenced by this Note over any period of time; and release from personal liability any one or more of the parties who are or may become liable for the indebtedness evidenced by this Note without affecting the personal liability of any other party. Lender may exercise any and all rights and remedies available at law, in equity and provided herein and in the other Loan Documents. Any delay or omission by Lender in exercising a right or remedy shall not waive that or any other right or remedy. No waiver of default by Lender shall operate as a waiver of the same or any other default on a future occasion. Lender shall not be obligated to renew the Note or any part thereof or to make additional or future loans to Borrower. Borrower agrees to take any action requested by Lender to perfect or continue the lien and priority of the Loan Documents, including but not limited to, any action requested by any governmental agency. All Exhibits hereto are incorporated herein and made a part of this Note. This Note may be executed in any number of counterparts , each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument. Borrower shall comply with the capitalization requirements of ACA , as stated in the Membership Agreement.

Borrower agrees that the Note described herein shall be in default should any proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce or to make possible the production of an agricultural commodity, as further explained in 7 CFR Part 1940, Subpart G, Exhibit M.

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

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

BORROWER:
ORM Timber Fund III (REIT) Inc.
By: **Olympic Resource Management LLC, its Manager**
By: Pope MGP, Inc., its Managing Member

By: David L. Nunes
Its: President and CEO

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:
Loan Accounting and Operations
Northwest Farm Credit Services, FLCA

1700 South Assembly Street	P. 0. Box 2515	Fax: 509-340-5508
Spokane, WA 99224-2121	Spokane, WA 99220-2515	Tel: 1-800-216-4535

This Notice is provided pursuant to the Note dated December 2, 2013, as extended , renewed, amended or restated.

D Prepayment of Principal

Principal Amount ________________________________
Date to be Effective ______________________________

Date: ________________________

ORM Tim her Fund III (REIT) Inc.

By: __________________________
Authorized Agent

CONFIRMATION
Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: ______________________

By: __________________________________
Authorized Agent

After Recording Return To:
Salem Agribusiness
P.O. Box 13309
Salem, OR 97309

Document 1Title: Mortgage	
Grantors:	Grantees:
ORM Timber Fund III (REIT) Inc.	Northwest Farm Credit Services, FLCA
Document 2 Title: Financing Statement	
Grantors:	Grantees:
ORM Timber Fund III (REIT) Inc.	Northwest Farm Credit Services, FLCA
Document 3 Title: Fixture Filing	
Grantors:	Grantees:
ORM Timber Fund III (REIT) Inc.	Northwest Farm Credit Services, FLCA

Abbreviated legal description:
PTNS 5-16-9; 21-16-9; 27-16-9; 34-16-9; 20-17-9; 30-17-9; 15-16-10; 17-16-10; 21-16-10; and 35-17-10, all in Grays Harbor County, Washington.

Additional legal is on Exhibit A on Pages: 18-23

Assessor's Property Tax Parcel Numbers:
160905120000; 160905130000; 160905140010; 160905300000; 160605420000; 160921000000; 160927220000; 160927430010; 160934210010; 170920130000; 170930110010; 170930210010; 170930300000; 161015000000; 161017110000; 161017120000; 161017210020; 161021110000; and 171035000000

MORTGAGE, FINANCING STATEMENT
AND FIXTURE FILING

THIS MORTGAGE IS ALSO INTENDED TO BE A SECURITY AGREEMENT AND ASSIGNMENT OF RENTS.

THIS MORTGAGE IS ALSO INTENDED TO BE A FILING AGAINST TIMBER TO BE CUT.

ATTENTION: COUNTY RECORDER: This Mortgage covers timber to be cut on the real property described herein and should be appropriately indexed, not only as a mortgage, but also as a financing statement.

NOTICE : THE SECURED OBLIGATIONS MAY PROVIDE FOR A VARIABLE INTEREST RATE.

This Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing (this "Mortgage"), dated as of December 2, 2013, is executed by ORM TIMBER FUND III (REIT) INC., a Delaware corporation ("Mortgagor"), whose address is 19950 J1h Ave. NE, Suite 200, Poulsbo, WA 98370, in favor of and for the benefit of NORTHWEST FARM CREDIT SERVICES, FLCA, a corporation organized and existing under the laws of the United States ("Mortgagee"), whose address is 1700 South Assembly Street, Spokane, WA 99224-2121, P. 0. Box 2515, Spokane, WA 99220-2515.

This conveyance is intended to secure performance of the covenants and agreements contained herein, and in any note(s), Membership Agreement , security documents and any other documents or instruments signed in connection with the note(s) and security documents and any amendments (collectively, the "Loan Documents "). Pursuant to the terms and conditions of the Loan Documents, Mortgagor has agreed to grant this Mortgage in favor of Mortgagee to provide security for the Secured Obligations described herein, the related Loan Documents and any and all other documents entered into pursuant thereto.

1. GRANT OF SECURITY.

Mortgagor, in consideration of the indebtedness secured by this Mortgage, irrevocably bargains, sells, grants, mortgages, transfers, conveys, assigns and warrants to Mortgagee, for the benefit and security of Mortgagee , all Mortgagor's existing and future rights, titles, interests, estates, powers and privileges in or to the following (collectively the "Collateral"):

1.1 Property.

a. That certain real property located in Grays Harbor County, State of Washington, more particularly described on Exhibit A attached hereto and incorporated herein (the "Land").

b. All buildings, wells and other improvements now or hereafter located on the Land, including, but not limited to, the Fixtures (as defined below), Timber (as defined below) and all other equipment, machinery, appliances and other articles attached to such buildings and other improvements (collectively the "Improvements");

c. All fixtures (including without limitation, goods that are or become so related to the Land that an interest in them arises under the real estate law) and any additions or replacements (collectively the "Fixtures") now or hereafter located on, attached to, installed in or used in connection with the Land;

d. All timber (aka "forest tree species"), whether standing or down, cut or under contract to be cut, now or hereafter growing or located on the Land, and whether or not said timber is merchantable, all logs, lumber and forest products of any nature, all proceeds and products thereof (the "Timber");

e. All personal property, appliances, equipment and goods now or hereafter owned or possessed by Mortgagor located upon, in, or about or used in connection with said Land or Improvements, including the maintenance thereof, together with all increases, substitutes, replacements, proceeds and products thereof and additions and accessions thereto;

f. All rights, rights-of-way, easements, licenses, profits, claims, demands, privileges, grazing privileges, tenements, hereditaments and appurtenances now owned or hereafter acquired by Mortgagor and used in connection with the Land and the Improvements or as a means of access to either or both, including without limitation, all rights over the property of third persons which are related thereto and all unaccrued trespass and surface damage claims appurtenant thereto, and all written operations plans and all permits and approvals related to the Land and Improvements;

g. All of Mortgagor's right, title and interest in and to any land within any right-of- way of any open or proposed street adjoining the Land, and any and all sidewalks, alleys, strips and gores of land adjacent to or used in connection with the Land and Improvements;

h. All of Mortgagor's existing and future rights in (including without limitation, royalty and leasehold rights) oil, gas and other mineral rights in or relating to the Land;

i. All existing and future leases and subleases relating to the Land and Improvements or any interest in them, including without limitation, all deposits, advance rentals and other similar payments, but not including the Rents, as defined and separately assigned in Paragraph 5;

j. All options to purchase, exchange or lease the Land, Fixtures or Improvements or any interest in them (and any greater estate in the Land, Fixtures or Improvements and acquired by exercise of such options);

k. All contracts and policies of insurance and proceeds thereof which may insure all or any portion of the Collateral against casualties and theft;

1. All Mortgagor's other existing or future estates, homestead or other claims or demands, both in law and in equity in the Land and Improvements, including without limitation, (i) all awards made for the partial or complete taking by eminent domain, or by any proceeding or purchase in lieu of eminent domain, of the Land or Improvements, and (ii) all proceeds, including general intangibles and payment intangibles, of any insurance covering any of the Collateral; and

m. All cash or non-cash proceeds of the sale, lease, license, exchange or other disposition of the Collateral, including accounts and general intangibles arising therefrom. Proceeds include all subsidy payments, in cash or in kind, which may be made to Mortgagor by any person, entity or governmental agency, including but not limited to, payments and entitlements from state and federal farm programs, as well as any type of property insurance; and any rights arising out of Land or Improvements, collections and distributions on Land or Improvements.

1.2 **Water Assets.** All right, title, and interest at any time of Mortgagor (or any of its bailees, agents, or instrumentalities) , whether now existing or hereafter arising or acquired , whether direct or indirect, whether owned legally, of record, equitably or beneficially, whether constituting real or personal property (or subject to any other characterizations), whether created or authorized under existing or future laws or regulations, and however arising in, without limitation, the water, water rights and other assets and items more specifically described herei nafter (collectively the "Water Assets"). A description of some Water Assets may also be included with the description of the Land set forth above or in an exhibit hereto.

a. All water (including any water inventory in storage), water rights and entitlements, other rights to water and other rights to receive water or water rights of every kind or nature whatsoever and howsoever evidenced, including but not limited to the following: (i) the groundwater on, under, pumped from or otherwise available to the Land , whether as the result of groundwater rights, contractual rights or otherwise , together with Mortgagor's right to remove and extract any such groundwater including any permits, rights or licenses granted by any governmental authority or agency or any rights granted or created by any use, easement, covenant, agreement, or contract with any person or entity; (ii) any rights to which the Land is entitled with respect to surface water, whether such right is appropriative, riparian, prescriptive,decreed or otherwise and whether or not pursuant to permit or other governmental authorization, or the right to store any such water; (iii) any water, water right, water allocation, distribution right, delivery right, water storage right, or other water-related entitlement appurtenant or otherwise applicable to the Land by virtue of the Land being situated within the boundaries of any governmental district or agency, or within the boundaries of any private water company, mutual water company, irrigation company, ditch company or other non-governmental entity that owns, stores, diverts and/or delivers water including, any and all stock, interest or other rights Mortgagor has in such entity, including voting or decision rights, and any and all rights from any entity or other person to acquire, receive, exchange, sell, lease, or otherwise transfer any Water Assets, to store, deposit or otherwise create water credits in a water bank or similar or other arrangement for allocating water, to transport or deliver water, or otherwise to deal with any Water Asset ; and (iv) all water and existing and future water rights, however evidenced , to the use of water for irrigation, livestock and domestic purposes. References to "water" and "water rights" are used herein in the broadest and most comprehensive sense of the terms. The term "water"includes water rights and rights to water or whatever rights to money, proceeds, property or other benefits are exchanged or received for or on account of any Water Assets or any conservation or other nonuse of water, including whatever rights are achieved by depositing one's share of any Water Assets in any water bank or with any water authority, or any other water reallocation rights.

b. All licenses, permits, approvals, contracts, decrees, rights and interests to acquire or appropriate any Water Assets, water bank or other credits evidencing any right to Water Assets, to store, carry, transport or deliver Water Assets, to sell, lease, exchange, or otherwise transfer any Water Asset, or to change the point for diversion of water , the location of any Water Asset , the place of use of any Water Asset, or the purpose of the use of any Water Asset.

c. All rights, claims, causes of action, judgments, awards, and other judicial, arbiter or administrative relief in any way relating to any Water Asset.

d. All storage and treatment rights for any Water Asset, whether on or off the Land or other property of Mortgagor, together with all storage tanks, and other equipment used or usable in connection with such storage and any water bank deposit credits, deposit accounts or other rights arising on account of the storage or nonuse of any Water Asset.

e. All irrigation and watering equipment, including all pumps, pumping plants, storage tanks, pump motors, electrical generators (all of which are declared to be fixtures), and all systems, ditches, laterals, conduits, and rights-of-way used to convey water or to drain the Land, all of which rights are or are hereby made appurtenant to the Land.

f. All guaranties, warranties , marketing, management or service contracts, indemnity agreements, and water right agreements, including joint use agreements, other water related contracts and water reallocation rights, all insurance policies regarding or relating to any Water Asset.

g. All rents, issues, profits, proceeds and other accounts, instruments, chattel paper, contract rights, general intangibles, deposit accounts and other rights to payment arising from or on account of any use, nonuse, sale, lease transfer or other disposition of any Water Asset .

2. REPRESENTATIONS AND WARRANTIES. Mortgagor represents and warrants to Mortgagee as follows:

a. Mortgagor has represented and warranted to Mortgagee the location of Mortgagor's chief executive office; the state of its formation; Mortgagor's state of residence; and Mortgagor's exact legal name is as set forth herein.

b. . Mortgagor is the sole legal and equitable owner of the Collateral;

c. Except as otherwise previously disclosed to Mortgagee , Mortgagor has the exclusive right to harvest any Timber, if any, from the Land and has the exclusive right to use the appurtenant rights and the operating permits;

d. Without thereby limiting the generality of the foregoing, and except as otherwise previously disclosed to Mortgagee, Mortgagor has not assigned or granted any harvest or access rights or interests, or sold or leased any part of the Land or the Improvements, if any, to any other person (individual, organization or governmental unit);

e. There are no claims, liens, encumbrances (including judgments, levies and the like), or security interests ("Liens") covering the Collateral or any part or item thereof except easements and reservations of record, that are listed on the title policy delivered by Mortgagor ;

f. To the best of Mortgagor1s knowledge, and other than have been disclosed to Mortgagee, there are no federal, state or local laws, regulations, rules or standards ("Laws"), or permits, orders, injunctions, citations, notices of civil penalty, restraining orders, judgments or the like issued by any governmental unit ("Orders") that are now in effect and that would restrict any material use of the Collateral;

g. Mortgagor has taken all actions necessary and has duly authorized this Mortgage and it is the legally valid and binding contract of Mortgagor, and is enforceable against Mortgagor in accordance with its terms; and

h. To the best of Mortgagor 1s knowledge, neither the execution of this Mortgage nor the payment and performance of the Secured Obligations will materially violate any Laws or Orders affecting Mortgagor or the Collateral or constitute a breach or Event of Default by Mortgagor under any agreement, contract , loan indenture, lease, instrument or like document to which Mortgagor is a party or the Collateral is bound .

The foregoing representations and warranties will survive and not be merged or otherwise eliminated by any conveyance, voluntarily or through foreclosure, of the Collateral to Mortgagee or its nominee. Mortgagor hereby agrees to indemnify, defend and hold harmless Mortgagee from and against any and all claims, loss, liability, damages, liens, penalties, costs and expenses of any nature or kind whatsoever arising from or related to any misstatement or omission of any material fact in the foregoing representations and warranties.

3. SECURED OBLIGATIONS.

3.1 Secured Obligations. This Mortgage, and the lien it creates, is made for the purpose of securing the following obligations (collectively the "Secured Obligations"):

a. The full and punct ual payment of the indebtedness evidenced by that certain note(s) described below, in favor of Mortgagee (the "Note(s)") with interest thereon at the rates therein provided which interest rate and payment terms may be adjusted as provided in the Note(s) and Loan Documents, together with any and all renewals, modifications, consolidations and extensions of the indebtedness evidenced by the Note(s), as well as any prepayment fees or penalties provided for in the Note(s) or as it may be amended to provide for such prepayment fees or penalties;

Note No.	Date of Note	Principal Amount	Final Installment Date
6214502	December 2, 2013	$17,980,000.00	December 1, 2023

b. Payment and performance of the obligations under the Note(s) and Loan Documents (including future advances) and under any and all other present and future agreements executed in relation to the Note(s);

c. Payment of such additional sums with interest thereon as may be due to Mortgagee under any provisions of this Mortgage;

d. Payment of all indebtedness and performance of all other obligations which the then record owner of the Collateral may agree to pay and perform for the benefit of Mortgagee , and which are contained in a document which recites that it is secured by this Mortgage;

e. Payment of all amounts advanced by (or on behalf of) Mortgagee to improve, protect or preserve the Collateral or the security of this Mortgage, with interest on such amounts as provided in this Mortgage;

f. Payment and performance of all amendments, modifications, extensions, renewals and replacements of any of the foregoing; and

g. Payment of charges as allowed by law, when such charges are made for any Mortgagee statement or other statement regarding the Secured Obligations.

3.2 **Separate Indemnities.** Notwithstanding the foregoing, this Mortgage does not secure any separate hazardous materials indemnity or any similar indemnity or indemnities in any of the Loan Documents.

3.3 **Indexing.** Notice is hereby given that the interest rate, payment terms or balance due on the Notes(s) may be indexed, adjusted, renewed or renegotiated.

3.4 **Continuing Validity,** The continuing validity and priority of this Mortgage for future extensions of credit and advances shall not be impaired by the fact that at certain times no outstanding indebtedness to Mortgagee or commitments from Mortgagee to make future extensions of credit or advances exists.

4. COVENANTS.

4.1 **Maintenance, Repair, Alterations.** Mortgagor shall: keep the Collateral in good condition and repair; complete promptly and in a good and workmanlike manner, any Improvement that may be constructed on the Land , and promptly restore in like manner any Improvement that may be damaged or destroyed, and pay when due all claims for labor performed and materials furnished for such construction or restoration; comply with all Laws and Orders of any court or governmental or regulatory body having jurisdiction over Mortgagor, the Land or Improvements; comply with any condominium or other plan, declaration of covenants, conditions and restrictions, and reciprocal easement agreements to which the Land is subject ("CC&Rs"), any owners' association articles and bylaws affecting the Land, and such exceptions to title as evidenced by a preliminary title report on the date of closing, acceptable to Mortgagee ("Permitted Liens"); keep and maintain abutting grounds, sidewalks, roads, parking and landscape areas in good, neat order and repair; comply with the provisions of any leases constituting part of the Collateral; obtain and maintain in full force and effect all permits necessary for the use, occupancy and operation of the Collateral; and do any and all other acts, except as otherwise prohibited or restricted by the Loan Documents, that may be reasonably necessary to protect or preserve the value of the Collateral and the rights of Mortgagee in it.

Mortgagor shall not, except upon the prior written consent of Mortgagee, which shall not be unreasonably withheld or delayed: remove, demolish or materially alter any of the Improvements, other than to make non-structural repairs in the ordinary course of business, that preserve or increase the value of the Land; commit or permit any waste or deterioration of the Collateral; abandon all or any part of the Collateral or leave the Collateral unprotected, unguarded, vacant or deserted; or initiate, join in or consent to any change in any zoning ordinance, general plan, specific plan, private restrictive covenant or other public or private restriction limiting the uses that may be made of the Land or Improvements by Mortgagor.

4.2 **Insurance.** Keep all material property useful and necessary in its business in reasonably good working order and condition (ordinary wear and tear excepted); maintain with financially sound and reputable insurance companies casualty, liability, and such other insurance (that may include plans of self-insurance) with such coverage and deductibles, and in such amounts as may be consistent with prudent business practice and in any event consistent with normal ind ustry practice; and furnish to the Mortgagee, upon written request, full information as to the insurance carried.

4.3 Condemnation and Other Awards. Mortgagor shall take all actions reasonably required by Mortgagee in connection with condemnation or other taking to defend and protect the interests of Mortgagor, Mortgagee in the Land. Mortgagee shall be entitled to participate in, control and be represented by counsel of its choice in such proceeding. All condemnation proceeds shall first be applied to reimburse Mortgagee for all their reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection of such award or settlement. The balance of such award or settlement shall be applied by Mortgagee against the Secured Obligations in such order as Mortgagee may determine.

4.4 Taxes, Assessments and Utilities. Mortgagor shall pay, prior to delinquency, all of the following: all general and special real property taxes and assessments imposed on the Land; all other taxes, assessments and charges assessed on the Land (or on the owner and/or operator of the Land) that create or may create a lien on the Land (or on any Improvement or Fixture used in connection with the Land); including, without limitation, non-governmental levies and assessments under applicable covenants, conditions and restrictions; and all business taxes.

Mortgagor shall promptly pay all gas, irrigation, electricity, water, sewer and other utility charges incurred for the benefit of the Collateral or that may become a lien against the Collateral; and all other similar public or private assessments and charges relating to the Collateral, regardless of whether or not any such charge is or may become a lien on the Collateral.

4.5 Liens. Mortgagor shall not cause, incur or permit to exist any Liens upon all or any part of the Collateral or any interest in the Collateral other than Permitted Liens. Mortgagor shall pay and promptly discharge, at Mortgagor's sole cost and expense, all such Liens.

4.6 Sale or Lease of Collateral: Due on Sale Clause. Mortgagor shall not sell, lease, sublease or otherwise transfer all or any part of the Collateral or any interest in it, without the prior written consent of Mortgagee, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. No sale, lease or other transfer shall relieve Mortgagor from primary liability for its obligations under the Loan Documents or relieve any guarantor from any liability under any guaranty. Upon any such transfer to which Mortgagee does not consent, Mortgagee at its option may, without prior notice, declare all Secured Obligations immediately due and payable without presentment, demand, protest or further notice of any kind, and may exercise all rights and remedies provided in this Mortgage, in the other Loan Documents or under applicable law.

4.7 Inspections and Property Valuations. Mortgagor authorizes Mortgagee and its agents, representatives and employees, upon reasonable notice to Mortgagor, to enter at any time upon any part of the Collateral for the purpose of inspecting the Collateral. Mortgagor agrees to pay the costs and expenses of Mortgagee incurred in such inspections and examinations, including without limitation, Mortgagee's attorneys' fees, if such inspection was made necessary because of an Event of Default, whether the services are provided by Mortgagee's employees, agents or independent contractors. Any inspection or review by Mortgagee is solely for Mortgagee's benefit to protect Mortgagee's security and preserve Mortgagee's rights under this Mortgage. No inspection by Mortgagee shall constitute a waiver of any Event of Default. Mortgagor shall cooperate in allowing Mortgagee or its agents reasonable access to the Collateral for the purpose of performing any subsequent valuation, whether it is in the form of an appraisal or any other method of valuing the Collateral. Mortgagor shall pay promptly to Mortgagee, on demand, the costs of any such subsequent valuation, whether performed by employees, agents, or independent contractors of Mortgagee.

4.8 Defense of Actions. Mortgagor shall notify Mortgagee of any action or proceeding purporting to affect (a) the security of this Mortgage, (b) all or any part of the Collateral or any interest in it, (c) any additional or other security for the Secured Obligations, or (d) the interests, rights, powers or duties of Mortgagee under this Mortgage. Mortgagor, at no cost or expense to Mortgagee, shall appear in and defend the same. If Mortgagee elects to become or is made a party to such action or proceeding, Mortgagor shall indemnify, defend and hold Mortgagee harmless from all related liability, damage, cost and expense reasonably incurred by Mortgagee, whether or not such action or proceeding is prosecuted to judgment or decision.

4.9 Protection of Security. If Mortgagor fails to make any payment or to do any act required by this Mortgage or any of the other Loan Documents, Mortgagee may do so. Mortgagee may decide to do so, in its own discretion, without obligation to do so, without further notice or demand, and without releasing Mortgagor in such manner and to such extent as it may reasonably deem necessary to protect the security of this Mortgage.

4.10 Mortgagee's Powers. If Mortgagor fails to pay any sum, other than principal and interest on the Secured Obligations, or to perform or comply with any other obligation required by any Loan Document, Mortgagee at its election may pay such sum or comply with such obligation. Without affecting the liability of Mortgagor or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Mortgage, Mortgagee may, from time to time, do any of the following: (a) release any person so liable, (b) release or reconvey all or any part of the Collateral, (c) take or release any other or additional security for any Secured Obligation, or (d) make arrangements with debtors in relation to the Secured Obligations. Waiver by Mortgagee of any right or remedy as to any transaction or occurrence shall not be deemed to be a waiver of any future transaction or occurrence. By accepting full or partial payment or performance of any Secured Obligation after due or after the filing of a notice of default and election to sell, Mortgagee shall not have thereby waived its right to (i) require prompt payment and performance in full, when due, of all other Secured

Obligations, (ii) declare a default for failure to so pay or perform, or (iii) proceed with the sale under any notice of default and election to sell previously given by Mortgagee, or as to any unpaid balance of the indebtedness secured by this Mortgage.

4.11 Reimbursement of Costs, Fees and Expenses: Secured by Mortgage. Mortgagor shall pay, on demand, to the maximum allowable under applicable law, all reasonable costs, fees, expenses, advances, charges, losses and liabilities paid or incurred by Mortgagee in administering this Mortgage, the collection of the Secured Obligations, and Mortgagee's exercise of any right, power, privilege or remedy under this Mortgage. Fees, costs and expenses of attorneys shall include the reasonable fees and disbursements of Mortgagee's outside and staff counsel and of any experts and agents, and including such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Collateral, in protecting the lien or priority of any Loan Document, or in any litigation or controversy connected with the Secured Obligations, including any bankruptcy, receivership, injunction or other proceeding, or any appeal from or petition for review of any such proceeding.

5. RENTS, ISSUES AND PROFITS.

5.1 Assignment of Rents, Issues a nd Profits. Mortgagor absolutely, unconditionally and irrevocably assigns and transfers to Mortgagee all of its right, title and interest in and to all rents, issues, profits, royalties, income and other proceeds and similar benefits derived from the Collateral (collectively the "Rents"), and gives to Mortgagee the right, power and authority to collect such Rents. Mortgagor irrevocably appoints Mortgagee its true and lawful attomey-in fact, at the option of Mortgagee, at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and or sue, in its name or in Mortgagor's name, for all Rents, and to apply them to the Secured Obligations. Mortgagee hereby grants to Mortgagor a license to collect and retain Rents (but not more than one month in advance unless the written approval of Mortgagee has first been obtained) so long as an Event of Default shall not have occurred and be continuing. The assignment of the Rents is intended to be an absolute assignment from Mortgagor to Mortgagee and not merely the passing of a security interest. This assignment of Rents is intended to be specific, perfected and choate upon recording.

5.2 Collection Upon Default. Upon the occurrence of an Event of Default, Mortgagor's license to collect the Rents shall automatically terminate. Upon such termination, Mortgagee may, at any time, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Secured Obligations, do any of the following: (a) enter upon and take possession of all or any part of the Collateral; (b) with or without taking possession of the Collateral in its own name, sue for or otherwise collect Rents (including those past due and unpaid, and all prepaid Rents and all other security or other deposits paid by tenants to Mortgagor); and (c) apply the Rents (less costs and expenses of operation and collection, including, without limitation, attorneys' fees, whether or not suit is brought or prosecuted to judgment) to any Secured Obligation , and in such order as Mortgagee may determine, even if payment or performance of said Secured Obligation may not then be due. Mortgagor agrees that, upon the occurrence of any Event of Default, Mortgagor shall promptly deliver all Rents and security deposits to Mortgagee.

5.3 Further Assignments. Upon Mortgagee's demand from time to time, Mortgagor shall execute and deliver to Mortgagee recordable assignments of Mortgagor's interest in any and all leases, subleases, contracts, rights, licenses and permits now or hereafter affecting all or any part of the Land. Mortgagee may, at its option, exercise its rights under this Mortgage or any such specific assignment and such exercise shall not constitute a waiver of any right under this Mortgage or any such specific assignment.

6. DEFAULT AND REMEDIES

6.1 Events of Default. The occurrence of any of the following events or conditions shall constitute an event of default ("Event of Default") under this Mortgage: Mortgagor fails to pay any amount owing under this Mortgage when due; Mortgagor fails to pay any taxes, insurance premiums, assessments or rents required under this Mortgage; Mortgagor fails to observe or perform any other obligation contained in this Mortgage; the occurrence of an Event of Default under any other Loan Document; all or any portion of the Improvements or Fixtures are destroyed by fire or other casualty and Mortgagor fails to satisfy restoration conditions ; or all or any material part of the Land or other Collateral is condemned, taken in eminent domain, seized or appropriated by any governmental or quasi governmental agency or entity.

6.2 Acceleration Upon Default: Additional Remedies. Upon the occurrence of an Event of Default, Mortgagee may, at its option, exercise all of the applicable rights and remedies set forth herein and in the other Loan Documents and, in addition, declare all Secured Obligations to be immediately due and payable without any presentment, demand, protest or further notice of any kind; and whether or not Mortgagee exercises any said right or remedy. Mortgagee may : (a) either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its Collateral enter upon and take possession of all or part of the Collateral, in its own name. The entering and taking possession of the Collateral, the collection of Rents and their application to the Secured Obligations shall not cure or waive any Event of Default or notice of default or invalidate any act done in response to them . Regardless of whether possession of the Collateral or the collection, receipt and application of any of the Rents is by Mortgagee or a receiver, Mortgagee shall be entitled to exercise every right provided for in the Loan Agreement and other Loan Documents or by law upon occurrence of any Event of Default, including the right to exercise the power of sale; (b) commence an action to foreclose this Mortgage , appoint a receiver, or specifically enforce any of the covenants contained in this Mortgage ; (c) exercise all of the rights and remedies available to a secured party under the applicable Uniform Commercial Code in such order and in such manner as Mortgagee, in its sole discretion, may determine, including without limitation, requiring Mortgagor to assemble the Collateral and make the Collateral available to Mortgagee at a reasonably convenient location. The expenses of retaking, holding, preparing for sale or the like shall include reasonable attorneys' fees and other expenses of Mortgagee and shall be secured by this Mortgage; and/or (d) exercise all other rights and remedies provided in this Mortgage, in any other Loan Document or other document or agreement now or hereafter securing all or any portion of the Secured Obligations, or as provided by law or in equity.

6.3 **Appointment of Receiver.** Upon the occurrence of an Event of Default under this Mortgage, Mortgagee, without notice to Mortgagor, and without regard to the then value of the Collateral or the interest of Mortgagor in it, shall have the right to enter the Land in person or to apply to any court having jurisdiction to appoint a receiver or receivers of the Land, Fixtures or Improvements. Mortgagor irrevocably consents to such appointment and waives notice of any such application. The actions that Mortgagee or such receiver may take in connection with such entry may include, but are not limited to (a) modifying, compromising obligations under, terminating and implementing remedies with respect to any assigned leases or subleases, and (b) entering into, modifying or terminating any contractual arrangements, subject to Mortgagee's right at any time to discontinue any of the same without liability. Mortgagee is further authorized by this provision to request the court to appoint a general receiver and to empower the receiver to (i) sell or lease all or any portion of the Land, Fixtures or Improvements, (ii) collect and apply to the outstanding balances of the Secured Obligations all sales or lease proceeds, or hold the proceeds pending a court order approving the receiver's final report and account, and (iii) hold the collections as cash collateral pending such court order or foreclosure sale. Any such receiver(s) shall also have all the usual powers and duties of receivers in similar cases and all the powers and duties of Mortgagee in case of entry as provided in this Mortgage, and shall continue to exercise all such powers until the date of confirmation of sale of the Land, Fixtures or Improvements, unless such receivership is sooner terminated. If Mortgagee elects to enter or take possession of the Land, Fixtures or Improvements, it will not assume any liability to Mortgagor or any other person for operation or maintenance of the Land, Fixtures or Improvements, and Mortgagor expressly waives any such Mortgagee liability.

6.4 **Application of Funds After Default.** Except as otherwise provided in this Mortgage, upon the occurrence of an Event of Default, Mortgagee may at any time, with notice to Mortgagor if providing such notice will not adversely delay the exercise of Mortgagee's rights or remedies, apply to any Secured Obligation, in such manner and order as Mortgagee may elect, even if such Secured Obligation may not yet be due, any amounts received and held by Mortgagee to pay insurance premium or taxes or as Rents, or as insurance or condemnation proceeds, and all other amounts received by Mortgagee from or on account of Mortgagor or the Collateral, or otherwise. The receipt, use or application of any such amounts shall not affect the maturity of any Secured Obligation, any of the rights or powers of Mortgagee under the terms of any Loan Document, or any of the obligations of Mortgagor or any guarantor under any Loan Document; or waive any Event of Default or notice of default under the Loan Documents; or invalidate any act of Mortgagee.

6.5 Remedies Not Exclusive. Mortgagee shall be entitled to enforce paymentand performance of any Secured Obligation and to exercise all rights and powers under this Mortgage or any other Loan Document or other agreement or any law, even if some or all of the Secured Obligations may be otherwise secured, whether by guaranty, deed of trust, mortgage, pledge, lien, assignment or otherwise. Mortgagee shall be entitled to enforce this Mortgage and any other security for the Secured Obligations held by Mortgagee in such order and manner as it may in its absolute discretion determine. No remedy conferred upon or reserved to Mortgagee is intended to be exclusive of any other remedy in this Mortgage, and other agreement, or at law, but each shall be cumulative and in addition to every other remedy available to Mortgagee. Every power or remedy given by any of the Loan Documents to Mortgagee or to which it may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Mortgagee, and it may pursue inconsistent remedies. Mortgagor may be joined in any action brought by Mortgagee to foreclose under or otherwise enforce this Mortgage.

7. MISCELLANEOUS

7.1 Amendments. This instrument cannot be waived, modified, discharged or terminated except in writing signed by the party against whom enforcement of such changes is sought.

7.2 Waivers. Mortgagor waives, to the extent permitted by law, (a) the benefit of all laws (whenever enacted) providing for any appraisal before sale of any portion of the Collateral, (b) all rights of valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the Secured Obligations and marshaling in the event of foreclosure of this Mortgage, and (c) all rights and remedies that Mortgagor may have under the laws of the State of Washington regarding the rights and remedies of sureties. Further, Mortgagor hereby waives, to the fullest extent permitted by law, the right to plead, use or assert any statute of limitations as a plea, defense or bar to any Secured Obligation, or to any complaint or other pleading or proceeding filed, instituted or maintained for the purpose of enforcing this Mortgage or any rights under it.

7.3 **Further** Assurances. Mortgagor agrees to do or cause to be done such further acts and things and to execute and deliver or to cause to be executed and delivered such additional assignments, agreements, powers and instruments as Mortgagee may reasonably require to: (a) further evidence, implement or perfect any of Mortgagee's rights, remedies and security interests,
(b) correct any defect, error or omission in this Mortgage or the execution or acknowledgment of this Mortgage, (c) subject to the lien of this Mortgage any of Mortgagor's properties covered or intended to be covered by this Mortgage, (d) perfect, maintain and keep valid and effective such lien, (e) carry into effect the purposes of this Mortgage, or (f) better assure and confirm to Mortgagee its respective rights, powers and remedies under this Mortgage.

7.4 Notices. All notices, demands, approvals and other communications shall be made in writing to the appropriate party at the address set forth in the first paragraph of this Mortgage . All such notices shall be made in accordance with the Loan Agreement.

7.5 Headings. Article and section headings are included in this Mortgage for convenience of reference only and shall not be used in construing this Mortgage.

7.6 Severabilitv. Every provision of this Mortgage is intended to be severable. The illegality, invalidity or unenforceability of any provision of this Mortgage shall not in any way affect or impair the remaining provisions of this Mortgage, which provisions shall remain binding and enforceable.

7.7 Subrogation. To the extent that proceeds of the Secured Obligations are used, either directly or indirectly, to pay any outstanding lien, charge or prior encumbrance against the Collateral , Mortgagee shall be subrogated to any and all rights and liens held by any owner or holder of such outstanding liens, charges and prior encumbrances, regardless of whether such liens, charges or encumbrances are released .

7.8 Governing Law. This Mortgage shall be governed by, and construed in accordance with, the substantive laws of the State of Washington, except where the location of the Land may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

7.9 Interpretation. In this Mortgage the singular shall include the plural and the masculine shall include the feminine and the neuter and vice versa, if the context so requires ; and the word "person" shall include corporation, partnership or other form of association. Any reference in this Mortgage to any document, instrument or agreement creating or evidencing an obligation secured hereby shall include such document, instrument or agreement both as originally executed and as it may from time to time be modified .

7.10 Successors and Assigns. This Mortgage applies to, inures to the benefit of and binds all parties to this Mortgage, their heirs, legatees, devisees, administrators, executors, successors and assigns.

7.11 Securitv Agreement. This Mortgage constitutes a security agreement for all purposes under the Uniform Commercial Code in effect in the State(s) where the Mortgagor resides. Mortgagor hereby authorizes Mortgagee to file, at any time, one or more financing statements and any amendments and continuations thereof, describing any personal property or fixtures described herein , without further signature of Mortgagor. In addition to all other rights and remedies provided for in this Mortgage , Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code.

7.12 **Fixture Filing and Financing Statement.** This Mortgage is intended to serve as a Fixture filing covering Fixtures, Timber and as-extracted collateral and as a financing statement covering timber to be cut pursuant to the terms of the applicable Uniform Commercial Code. This Mortgage is to be recorded in the real estate records of each County in which the Land is located. In that regard, Mortgagor is Debtor and Mortgagee is Secured Party .

7.13 **WAIVER OF JURY TRIAL.** MORTGAGOR HEREBY IRREVOCABLY WAIVES ANY RJGHT IT MAY HAVE TO A TRJAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT OR ANY OTHER LOAN DOCUMENTS AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT AND ANY OTHER LOAN DOCUMENTS. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW .

7.14 **Counterparts.** This Mortgage may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument.

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

IN WITNESS WHEREOF, Mortgagor has duly executed this Mortgage as of the date first above written .

MORTGAGOR:
ORM Timber Fund III (REIT) Inc.
By: Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member

David L. Nunes

By: David L. Nunes
Its: President and CEO

STATE OF WASHINGTON)
)ss.
County of Kitsap)

On this 2nd day of December, 2013, before me personally appeared David L. Nunes , known to me to be the President and CEO of Pope MGP, Inc., the corporation that executed the within instrument as managing member of Olympic Resource Management LLC, the limited liability company that executed the within instrument as manager of ORM Timber Fund III (REIT) Inc., the corporation that executed the within instrument, and acknowledged that such corporation executed the same as such managing member and company executed the same as such manager and acknowledged to me that such corporation executed the same as its free act and deed ; and on oath stated that he was authorized to execute said instrument.

Printed Name Seanann Card
Notary Public for the State of Washington
Residing at Kitsap County
My Commission Expires 10-09-2016

Mortgagee acknowledges that this Mortgage is subject to a security interest in favor of CoBank, FCB (Bank) and by its acceptance hereto and pursuant to and in confirmation of certain agreements and assignments by and between Mortgagee and Bank , does assign, transfer, and set over the same unto Bank, its successors and assigns, to secure all obligations of Mortgagee to Bank, provided that pursuant to such agreements and assignment s Mortgagee has authorit y to perform all loan servicing and collection actions and activities hereunder , including without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this Mortgage until the Bank , by instrument record ed in the office in which this Mortgage 1s recorded, revokes such authority.

EXHIBIT A
PROPERTY DESCRIPTION

NEWSKAH PARCEL 2:

Government Lots 2, 3 and 4, in Section 5, Township 16 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor , State of Washington.

NEWSKAH PARCEL 3:

The Southwest Quarter of the Northea st Quarter AND the South Half of the Northwest Quarter of Section 5, Township 16 North , Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 4:

The South Half of the Southeast Quarter of the Northeast Quarter of Section 5, Township 16 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor , State of Washington.

NEWSKAH PARCEL 4-A:

A non-exclu sive easement upon , over and along a right of way 60 feet in width, over and across lands described herein being 30 feet on each side of the centerline of the road located approximately as shown in green on attached Exhibit A of the Road Easement document by and between Milwaukee Land Company, an Iowa corporation and Weyerhaeuser Company, a Washington corporation, recorded July 29, 1974, under Auditor's File No. 54425, records of Grays Harbor County;
Situate in the County of Grays Harbor, State of Washington .

NEWSKAH PARCEL 5:

The Southwest Quarter of Section 5, Township 16 North, Range 9 West of the Willamette Meridian ;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 6:

The West Half of the Southeast Quarter in Section 5, Township 16 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 17:

ALL of Section 21, Township 16 North, Range 9 West of the Willamette Meridian; EXCEPT that portion conveyed to Grays Harbor and Columbia River Railway Company, a Washington corporation by Deed recorded December 4, 1909, in Volume 102, page 512, records of Grays Harbor County;
Situate in the County of Grays Harbor , State of Washington.

NEWSKAH PARCEL 20:

Government Lots 2, 3, 7, 8 and 10 in Section 27, Township 16North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 27:

Government Lots 2, 4, 5 and 9 in Section 34, Township 16 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 27-A:

A non-exclusive easement upon, over and along a right of way 60 feet in width, over and across lands described on the attached Exhibit B being 30 feet on each side of the centerline of the road located approximately as shown in red on the attached Exhibits C, D, E, F, G, H, I, J, K, L, M, N, P and Q of the Easement Exchange document by and between Weyerhaeuser Company, a Washington corporation and ITT Rayonier Incorporated, a Delaware corporation, recorded April 30, 1981, under Auditor's File No. 810430067, records of Grays Harbor County;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 34:

Those portions of the Northwest Quarter of the Northeast Quarter and the Northeast Quarter of the Northwest Quarter lying South of the Southerly right-of-way of State Highway 105;
The Southwest Quarter of the Northeast Quarter;
The East 72 1/2 rods of the Southeast Quarter of the Northwest Quarter;
EXCEPT portion thereof lying Northerly of the Southerly boundary of the State Highway;
The East 72 1/2 rods of the Northeast Quarter of the Southwest Quarter;
The Southeast Quarter of the Southwest Quarter;
The West Half of the Southeast Quarter;

EXCEPT that portion conveyed to the County of Grays Harbor, State of Washington by Quit Claim Deed recorded October 3, 1980, under Auditor's File No. 172952, records of Grays Harbor County;
EXCEPT Roads;
ALL in Section 20, Township 17 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 38:

The Southwest Quarter of the Southeast Quarter;
The East Half of the Southeast Quarter;
The East Half of the Northeast Quarter lying Westerly of Newkah County Road;
ALL in Section 30, Township 17 North, Range 9 West of the Willamette Meridian ;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 39:

The North Half of the Northeast Quarter of the Northwest Quarter;
The Southwest Quarter of the Northeast Quarter of the Northwest Quarter; Government Lots 1 and 2;
The Southeast Quarter of the Northwest Quarter;
EXCEPT that portion of the Northeast Quarter of the Northeast Quarter of the Northwest Quarter lying Southerly of the following described line:
Commencing at the North Quarter comer of Section 30, Township 17 North, Range 9 West of the Willamette Meridian;
Thence South along the East line of the Northeast Quarter of the Northwest Quarter, a distance of 515.10 feet to the true point of begililling of said line, which point is 150 feet North, measured along the East line of the Southeast comer of said Northeast Quarter of the Northeast Quarter of the Northwest Quarter;
Thence North 89° 41' 55" West, parallel with the South line of said Northeast Quarter of the Northeast quarter of the Northwest Quarter, a distance of 652.64 feet to a point on the West line of said Northeast Quarter of the Northeast Quarter of the Northwest Quarter, which point is 150 feet North of the Southwest corner of said Northeast Quarter of the Northeast Quarter of the Northwest Quarter measured along the West line of said Northeast Quarter of the Northeast Quarter of the Northwest Quarter and the end of this line description;
ALL in Section 30, Township 17 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

NEWSKAH PARCEL 40:

The fractional Southwest Quarter of Section 30, Township 17 North, Range 9 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

<u>JOHNSRB PARCEL 19:</u>

ALL of Section 15, Township 16North, Range 10 West of the Willamette Meridian; Situate in the County of Grays Harbor, State of Washington.

<u>JOHNSRB PARCEL 19-A:</u>

A non-exclusive easement upon, over and along a right of way 60 feet in width, over and across lands described herein being 30 feet on each side of the centerline of the road located approximately as shown in green on the attached Exhibit A of the Easement Exchange document by and between Weyerhaeuser Company, a Washington corporation and Grays Harbor County, State of Washington, recorded May 28, 1980, under Auditor's File No. 167199, records of Grays Harbor County;
Situate in the County of Grays Harbor, State of Washington.

<u>JOHNSRB PARCEL 21:</u>

The Northeast Quarter of the Northeast Quarter of Section 17, Township 16 North, Range 10 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

JOHNSRB PARCEL 22:

The Northwest Quarter of the Northeast Quarter of Section 17, Township 16 North, Range 10 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

JOHNSRB PARCEL 23:

The Southeast Quarter of the Northwest Quarter in Section 17, Township 16 North, Range 10 West of the Willamette Meridian;
EXCEPT that portion lying South and West of the County Road, AND EXCEPT that portion of the South Half of the Northwest Quarter of said Section described as follows:
Commencing at a point on the East and West center line of said Section which is on the East bank of the Johns River And is 820 feet West (variation of 22° 35' East) of the center of said Section;
Thence down the East bank of the Johns River North 39° West a distance of 200 feet; Thence North 49° West a distance of 117 feet;
Thence North 56° West a distance of 76 feet to a point on the East bank of the Johns River and the true point of beginning of this description;
Thence East 130 feet;
Thence North 16° 17' West a distance of 465.7 feet;

Thence North 24° West a distance of 260 feet;
Thence South 76° West to the East bank of the Johns River;
Thence Southeasterly up the East bank of the Johns River to the true point of beginning;
ALSO that portion of the North 10 rods of the Northeast Quarter of the Southwest Quarter lying North and East of the Easterly bank of the Johns River;
AND ALSO that portion of the Northeast Quarter of the Northwest Quarter; EXCEPTING THEREFROM the following described tract;
With a variation of 23° 15' East beginning at the Northeast corner of the Northeast Quarter of the Northwest Quarter of said Section;
Thence South 88° 20' West a distance of 1,278.3 feet to the Northwest comer of the Northeast Quarter of the Northwest Quarter of said Section;
Thence South 3° 14' East a distance of 115 feet to the Easterly bank of the Johns River; Thence following the meander of the Easterly bank of the Johns River South 65° 44' East 160 feet;
Thence South 73° 24' East 101.2 feet;
Thence South 57° 21' East 150.2 feet;
Thence South 57° 58' East 117.8 feet;
Thence South 9° 05' East 245 feet;
Thence South 24° 17' West 263 feet;
Thence North 88° 33' West 77 feet;
Thence North 88° 20' East on a line parallel to the North line of said Section, a distance of 993 feet;
Thence North 3° 141 West a distance of 842.5 feet, more or less, to the point of beginning;
EXCEPT from all of the above descriptions in said Section 17 that portion within the bed of the Johns River
Situate in the County of Grays Harbor, State of Washington.

<u>JOHNSRB PARCEL 25:</u>

The East Half of the Northeast Quarter;
The Northeast Quarter of the Southeast Quarter;
ALL in Section 21, Township 16 North, Range 10 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

<u>JOHNSRB PARCEL 25-A:</u>

An easement upon, over and along right of way 60 feet in width, over and across lands described on the attached Exhibit B being 30 feet on each side of the centerline of the road located approximately as shown in green on the attached Exhibits C, D, E, F and G of the Easement Exchange document by and between Weyerhaeuser Company, a Washington corporation and Boise Cascade Corporation, a Delaware corporation, recorded February 13, 1975, under
Auditor's File No. 61668, records of Grays Harbor County;
Situate in the County of Grays Harbor, State of Washington.

JOHNSRB PARCEL 37:

The North Half of the Northeast Quarter;
The Southeast Quarter of the Northeast Quarter;
The West Half of the Northwest Quarter;
The South Half;
The Southwest Quarter of the Northeast Quarter;
The East Half of the Northwest Quarter;
ALL in Section 35, Township 17 North, Range 10 West of the Willamette Meridian;
Situate in the County of Grays Harbor, State of Washington.

Assessor's **Property Tax Parcel Numbers:**
160905120000; 160905130000; 160905140010; 160905300000; 160605420000; 160921000000; 160927220000; 160927430010; 160934210010; 170920130000; 170930110010; 17093021 0010; 170930300000; 161015000000; 161017110000; 161017120000; 161017210020; 16102111 0000; and 171035000000

After Recording Return To:
Salem Agribusiness
P.O. Box 13309
Salem, OR 97309

Document 1Title: Mortgage	
Grantors:	Grantees:
ORM Timber Fund III (REIT) Inc.	Northwest Farm Credit Services, FLCA
Document 2 Title: Financing Statement	
Grantors:	Grantees:
ORM Timber Fund III (REIT) Inc.	Northwest Farm Credit Services, FLCA
Document 3 Title: Fixture Filing	
Grantors:	Grantees:
ORM Timber Fund III (REIT) Inc.	Northwest Farm Credit Services, FLCA

Abbreviated legal description:
SEC 3, PTN SEC 15, TOWNSHIP 11NORTH, RANGE 10 WEST, W.M.; SEC 20, SEC 27 & SEC 33, TOWNSHIP 12 NORTH, RANGE 9 WEST, W.M.; PTN SEC 10, SEC 11, PTN SEC 14 & PTN SEC 15, TOWNSHIP 12 NORTH, RANGE 10 WEST, W.M.; SEC 32, TOWNSHIP 13 NORTH, RANGE 9 WEST, W.M.; SEC 15, SEC 29, SEC 33 & SEC 34, TOWNSHIP 15 NORTH, RANGE 9 WEST, W.M.; PTN SEC 14, TOWNSHIP 15 NORTH, RANGE 10 WEST, W.M., all in Pacific County, Washington.

Additional legal is on Exhibit A on Pages: 18-22

Assessor's Property Tax Parcel Numbers:
11 100300000; 11101510000; 12093300000; 12092000000; 12092700000; 12101011000; 12101048000; 12101100000; 12101426000; 12101518000; 13093200000; 13093231001; 15091500000; 15092900000; 15093300000; 15093460000; 15101421000; 15101429800

MORTGAGE, FINANCING STATEMENT
AND FIXTURE FILING

THIS MORTGAGE IS ALSO INTENDED TO BE A SECURITY AGREEMENT AND ASSIGNMENT OF RENTS.

THIS MORTGAGE IS ALSO INTENDED TO BE A FILING AGAINST TIMBER TO BE CUT.

ATTENTION: COUNTY RECORDER: This Mortgage covers timber to be cut on the real property described herein and should be appropriately indexed, not only as a mortgage, but also as a financing statement .

NOTICE: THE SECURED OBLIGATIONS MAY PROVIDE FOR A VARIABLE INTEREST RATE.

This Mortgage, Assignment of Rents, Security Agreement , Financing Statement and Fixture Filing (this "Mortgage"), dated as of December 2, 2013, is executed by **ORM TIMBER FUND III (REIT) INC.,** a Delaware corporation ("Mortgagor"), whose address is 19950 ?1h Ave. NE, Suite 200, Poulsbo, WA 98370, in favor of and for the benefit of **NORTHWEST FARM CREDIT SERVICES, FLCA,** a corporation organized and existing under the laws of the United States ("Mortgagee"), whose address is 1700 South Assembly Street, Spokane, WA 99224-2121, P. 0. Box 2515, Spokane, WA 99220-2515.

This conveyance is intended to secure performance of the covenants and agreements contained herein, and in any note(s), Membership Agreement, security documents and any other documents or instruments signed in connection with the note(s) and security documents and any amendments (collectively, the "Loan Documents"). Pursuant to the terms and conditions of the Loan Documents, Mortgagor has agreed to grant this Mortgage in favor of Mortgagee to provide security for the Secured Obligations described herein, the related Loan Documents and any and all other documents entered into pursuant thereto.

1. GRANT OF SECURITY.

Mortgagor, in consideration of the indebtedness secured by this Mortgage, irrevocably bargains , sells, grants, mortgages, transfers, conveys, assigns and warrants to Mortgagee, for the benefit and security of Mortgagee, all Mortgagor 1s existing and future rights, titles, interests, estates, powers and privileges in or to the following (collectively the "Collateral"):

1.1 Property.

a. That certain real property located in Pacific County, State of Washington, more particularly described on Exhibit A attached hereto and incorporated herein (the "Land ").

b. All buildings, wells and other improvements now or hereafter located on the Land, including, but not limited to, the Fixtures (as defined below), Timber (as defined below) and all other equipment, machinery, appliances and other articles attached to such buildings and other improvements (collectively the "Improvements");

c. All fixtures (including without limitation, goods that are or become so related to the Land that an interest in them arises under the real estate law) and any additions or replacements (collectively the "Fixtures") now or hereafter located on, attached to, installed in or used in connection with the Land;

d. All timber (aka "forest tree species"), whether standing or down, cut or under contract to be cut, now or hereafter growing or located on the Land, and whether or not said timber is merchantable, all logs, lumber and forest products of any nature, all proceeds and products thereof (the "Timber");

e. All personal property, appliances, equipment and goods now or hereafter owned or possessed by Mortgagor located upon, in, or about or used in connection with said Land or Improvements, including the maintenance thereof, together with all increases, substitutes, replacements, proceeds and products thereof and additions and accessions thereto;

f. All rights, rights-of-way,easements, licenses, profits, claims, demands, privileges, grazing privileges, tenements, hereditaments and appurtenances now owned or hereafter acquired by Mortgagor and used in connection with the Land and the Improvements or as a means of access to either or both, including without limitation, all rights over the property of third persons which are related thereto and all unaccrued trespass and surface damage claims appurtenant thereto, and all written operations plans and all permits and approvals related to the Land and Improvements;

g. All of Mortgagor's right, title and interest in and to any land within any right-of- way of any open or proposed street adjoining the Land, and any and all sidewalks, alleys, strips and gores of land adjacent to or used in connection with the Land and Improvements;

h. All of Mortgagor's existing and future rights in (including without limitation , royalty and leasehold rights) oil, gas and other mineral rights in or relating to the Land ;

i. All existing and future leases and subleases relating to the Land and Improvements or any interest in them, including without limitation, 'all deposits, advance rentals and other similar payments, but not including the Rents, as defined and separately assigned in Paragraph 5;

j. All options to purchase, exchange or lease the Land, Fixtures or Improvements or any interest in them (and any greater estate in the Land, Fixtures or Improvements and acquired by exercise of such options);

k. All contracts and policies of insurance and proceeds thereof which may insure all or any portion of the Collateral against casualties and theft;

1. All Mortgagor's other existing or future estates, homestead or other claims or demands, both in law and in equity in the Land and lmprovements, :including without limitation, (i) all awards made for the partial or complete taking by eminent domain, or by any proceeding or purchase in lieu of eminent domain, of the Land or Improvements, and (ii) all proceeds, including general intangibles and payment intangibles, of any insurance covering any of the Collateral; and

m. All cash or noncash proceeds of the sale, lease, license, exchange or other disposition of the Collateral, including accounts and general intangibles arising therefrom. Proceeds include all subsidy payments, in cash or in kind, which may be made to Mortgagor by any person, entity or governmental agency, including but not limited to, payments and entitlements from state and federal farm programs, as well as any type of property insurance; and any rights arising out of Land or Improvements, collections and distributions on Land or Improvements.

1.2 **Water** Assets. All right, title, and interest at any time of Mortgagor (or any of its bailees, agents, or instrumentalities), whether now existing or hereafter arising or acquired, whether direct or indirect, whether owned legally, of record, equitably or beneficially, whether constituting real or personal property (or subject to any other characterizations), whether created or authorized under existing or future laws or regulations, and however arising in, without limitation, the water, water rights and other assets and items more specifically described hereinafter (collectively the "Water Assets"). A description of some Water Assets may also be included with the description of the Land set forth above or in an exhibit hereto.

a. All water (including any water inventory in storage), water rights and entitlements, other rights to water and other rights to receive water or water rights of every kind or nature whatsoever and howsoever evidenced, including but not limited to the following: (i) the groundwater on, under, pumped from or otherwise available to the Land, whether as the result of groundwater rights, contractual rights or otherwise, together with Mortgagor's right to remove and extract any such groundwater including any permits, rights or licenses granted by any governmental authority or agency or any rights granted or created by any use, easement, covenant, agreement, or contract with any person or entity; (ii) any rights to which the Land is entitled with respect to surface water, whether such right is appropriative, riparian, prescriptive, decreed or otherwise and whether or not pursuant to permit or other governmental authorization, or the right to store any such water; (iii) any water, water right, water allocation, distribution right, delivery right, water storage right, or other water-related entitlement appurtenant or otherwise applicable to the Land by virtue of the Land being situated within the boundaries of any governmental district or agency, or within the boundaries of any private water company, mutual water company, irrigation company, ditch company or other non-governmental entity that owns, stores, diverts and/or delivers water including, any and all stock, interest or other rights Mortgagor has in such entity, including voting or decision rights, and any and all rights from any entity or other person to acquire, receive, exchange, sell, lease, or otherwise transfer any Water Assets, to store, deposit or otherwise create water credits in a water bank or similar or other arrangement for allocating water , to transport or deliver water, or otherwise to deal with any Water Asset; and (iv) all water and existing and future water rights, however evidenced, to the use of water for irrigation, livestock and domestic purposes. References to "water" and "water rights" are used herein in the broadest and most comprehensive sense of the terms. The term "water" includes water rights and rights to water or whatever rights to money, proceeds, property or other benefits are exchanged or received for or on account of any Water Assets or any conservation or other nonuse of water, including whatever rights are achieved by depositing one's share of any Water Assets in any water bank or with any water authority, or any other water reallocation rights.

b. All licenses, permits, approvals, contracts, decrees, rights and interests to acquire or appropriate any Water Assets, water bank or other credits evidencing any right to Water Assets, to store, carry, transport or deliver Water Assets, to sell, lease, exchange, or otherwise transfer any Water Asset, or to change the point for diversion of water, the location of any Water Asset , the place of use of any Water Asset, or the purpose of the use of any Water Asset.

c. All rights, claims, causes of action, judgments, awards, and other judicial, arbiter or administrative relief in any way relating to any Water Asset.

d. All storage and treatment rights for any Water Asset , whether on or off the Land or other property of Mortgagor, together with all storage tanks, and other equipment used or usable in connection with such storage and any water bank deposit credits, deposit accounts or other rights arising on account of the storage or nonuse of any Water Asset.

e. All irrigation and watering equipment, including all pumps, pumping plants, storage tanks, pump motors, electrical generators (all of which are declared to be fixtures), and all systems, ditches, laterals, conduits, and rights-of-way used to convey water or to drain the Land, all of which rights are or are hereby made appurtenant to the Land.

f. All guaranties, warranties , marketing, management or service contracts, indemnity agreements, and water right agreements, including joint use agreements, other water related contracts and water reallocation rights, all insurance policies regarding or relating to any Water Asset.

g. All rents, issues, profits, proceeds and other accounts, instruments, chattel paper, contract rights, general intangibles, deposit accounts and other rights to payment arising from or on account of any use, nonuse, sale, lease transfer or other disposition of any Water Asset.

2. **REPRESENTATIONS AND WARRANTIES.** Mortgagor represents and warrants to Mortgagee as follows:

a. Mortgagor has represented and warranted to Mortgagee the location of Mortgagor's chief executive office; the state of its formation; Mortgagor's state of residence; and Mortgagor's exact legal name is as set forth herein.

b. Mortgagor is the sole legal and equitable owner of the Collateral;

c. Except as otherwise previously disclosed to Mortgagee, Mortgagor has the exclusive right to harvest any Timber, if any, from the Land and has the exclusive right to use the appurtenant rights and the operating permits;

d. Without thereby limiting the generality of the foregoing, and except as otherwise previously disclosed to Mortgagee, Mortgagor has not assigned or granted any harvest or access rights or interests, or sold or leased any part of the Land or the Improvements, if any, to any other person (individual, organization or governmental unit);

e. There are no claims, liens, encumbrances (including judgments , levies and the like), or security interests ("Liens") covering the Collateral or any part or item thereof except easements and reservations of record , that are listed on the title policy delivered by Mortgagor;

f. To the best of Mortgagor's knowledge, and other than have been disclosed to Mortgagee , there are no federal, state or local laws, regulations, rules or standards ("Laws"), or permits, orders, injunctions, citations, notices of civil penalty, restraining orders, judgments or the like issued by any governmental unit ("Orders") that are now in effect and that would restrict any material use of the Collateral;

g. Mortgagor has taken all actions necessary and has duly authorized this Mortgage and it is the legally valid and binding contract of Mortgagor, and is enforceable against Mortgagor in accordance with its terms; and

h. To the best of Mortgagor's knowledge, neither the execution of this Mortgage nor the payment and performance of the Secured Obligations will materially violate any Laws or Orders affecting Mortgagor or the Collateral or constitute a breach or Event of Default by Mortgagor under any agreement, contract, loan indenture, lease, instrument or like document to which Mortgagor is a party or the Collateral is bound .

The foregoing representations and warranties will survive and not be merged or otherwise eliminated by any conveyance, voluntarily or through foreclosure, of the Collateral to Mortgagee or its nominee . Mortgagor hereby agrees to indemnify, defend and hold hannless Mortgagee from and against any and all claims, loss, liability, damages, liens, penalties, costs and expenses of any nature or kind whatsoever arising from or related to any misstatement or omission of any material fact in the foregoing representations and warranties.

3. SECURED OBLIGATIONS.

3.1 <u>Secured Obligations.</u> This Mortgage, and the lien it creates, is made for the purpose of securing the following obligations (collectively the "Secured Obligations"):

a. The full and punctual payment of the indebtedness evidenced by that certain note(s) described below, in favor of Mortgagee (the "Note(s)") with interest thereon at the rates therein provided which interest rate and payment terms may be adjusted as provided in the Note(s) and Loan Documents, together with any and all renewals, modifications, consolidations and extensions of the indebtedness evidenced by the Note(s), as well as any prepayment fees or penalties provided for in the Note(s) or as it may be amended to provide for such prepayment fees or penalties;

Note No.	Date of Note	Principal Amount	Final Installment Date
6214502	December 2, 2013	$17,980,000.00	December 1, 2023

b. Payment and performance of the obligations under the Note(s) and Loan Documents (including future advances) and under any and all other present and future agreements executed in relation to the Note(s);

c. Payment of such additional sums with interest thereon as may be due to Mortgagee under any provisions of this Mortgage;

d. Payment of all indebtedness and performance of all other obligations which the then record owner of the Collateral may agree to pay and perfonn for the benefit of Mortgagee , and which are contained in a document which recites that it is secured by this Mortgage;

e. Payment of all amounts advanced by (or on behalf of) Mortgagee to improve, protect or preserve the Collateral or the security of this Mortgage, with interest on such amounts as provided in this Mortgage;

f. Payment and performance of all amendments, modifications, extensions, renewals and replacements of any of the foregoing; and

g. Payment of charges as allowed by Jaw, when such charges are made for any Mortgagee statement or other statement regarding the Secured Obligations.

3.2 Separate Indemnities. Notwithstanding the foregoing, this Mortgage does not secure any separate hazardous materials indemnity or any similar indemnity or indemnities in any of the Loan Documents .

3.3 Indexing. Notice is hereby given that the interest rate, payment terms or balance due on the Notes(s) may be indexed, adjusted, renewed or renegotiated.

3.4 Continuing Validity. The continuing validity and priority of this Mortgage for future extensions of credit and advances shall not be impaired by the fact that at certain times no outstanding indebtedness to Mortgagee or commitments from Mortgagee to make future extensions of credit or advances exists.

4. COVENANTS.

4.1 Maintenance, Repair, Alterations. Mortgagor shall: keep the Collateral in good condition and repair; complete promptly and in a good and workmanlike manner , any Improvement that may be constructed on the Land, and promptly restore in like manner any Improvement that may be damaged or destroyed, and pay when due all claims for labor performed and materials furnished for such construction or restoration; comply with all Laws and Orders of any court or governmental or regulatory body having jurisdiction over Mortgagor, the Land or Improvements; comply with any condominium or other plan, declaration of covenants, conditions and restriction s, and reciprocal easement agreement s to which the Land is subject ("CC&Rs"), any owners' association articles and bylaws affecting the Land, and such exceptions to title as evidenced by a prelim inary title report on the date of closing, acceptable to Mortgagee ("Pem1itted Liens"); keep and maintain abutting grounds, sidewalks, roads, parking and landscape areas in good, neat order and repair; comply with the provisions of any leases constituting part of the Collateral; obtain and maintain in full force and effect all permits necessary for the use, occupancy and operation of the Collateral; and do any and all other acts, except as otherwise prohibited or restricted by the Loan Documents, that may be reasonably necessary to protect or preserve the value of the Collateral and the rights of Mortgagee in it.

Mortgagor shall not, except upon the prior written consent of Mortgagee, which shall not be unreasonably withheld or delayed: remove, demolish or materially alter any of the Improvements, other than to make non-structural repairs in the ordinary course of business, that preserve or increase the value of the Land; commit or permit any waste or deterioration of the Collateral; abandon all or any part of the Collateral or leave the Collateral unprotected, unguarded, vacant or deserted; or initiate, join in or consent to any change in any zoning ordinance, general plan, specific plan, private restrictive covenant or other public or private restriction limiting the uses that may be made of the Land or Improvements by Mortgagor.

4.2 Insurance. Keep all material property useful and necessary in its business in reasonably good working order and condition (ordinary wear and tear excepted); maintain with financially sound and reputable insurance companies casualty, liability, and such other insurance (that may include plans of self-insurance) with such coverage and deductibles, and in such amounts as may be consistent with prudent business practice and in any event consistent with normal industry practice; and furnish to the Mortgagee, upon written request, full information as to the insurance carried.

4.3 Condemnation and Other Awards. Mortgagor shall take all actions reasonably required by Mortgagee in connection with condemnation or other taking to defend and protect the interests of Mortgagor, Mortgagee in the Land. Mortgagee shall be entitled to participate in, control and be represented by counsel of its choice in such proceeding. All condemnation proceeds shall first be applied to reimburse Mortgagee for all their reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection of such award or settlement. The balance of such award or settlement shall be applied by Mortgagee against the Secured Obligations in such order as Mortgagee may determine .

4.4 Taxes, Assessments and Utilities. Mortgagor shall pay, prior to delinquency, all of the following: all general and special real property taxes and assessments imposed on the Land; all other taxes, assessments and charges assessed on the Land (or on the owner and/or operator of the Land) that create or may create a lien on the Land (or on any Improvement or Fixture used in connection with the Land); including, without limitation, non-governmental levies and assessments under applicable covenants, conditions and restrictions; and all business taxes .

Mortgagor shall promptly pay all gas, irrigation, electricity, water , sewer and other utility charges incurred for the benefit of the Collateral or that may become a lien against the Collateral; and all other similar public or private assessments and charges relating to the Collateral, regardless of whether or not any such charge is or may become a lien on the Collateral.

4.5 Liens. Mortgagor shall not cause, incur or permit to exist any Liens upon all or any part of the Collateral or any interest in the Collateral other than Permitted Liens. Mortgagor shall pay and promptly discharge, at Mortgagor's sole cost and expense, all such Liens.

4.6 Sale or Lease of Collateral: Due on Sale Clause. Mortgagor shall not sell, lease, sublease or otherwise transfer all or any part of the Collateral or any interest in it, without the prior written consent of Mortgagee, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. No sale, lease or other transfer shall relieve Mortgagor from primary liability for its obligations under the Loan Documents or relieve any guarantor from any liability under any guaranty. Upon any such transfer to which Mortgagee does not consent, Mortgagee at its option may, without prior notice, declare all Secured Obligation s immediately due and payable without presentment, demand , protest or further notice of any kind, and may exercise all rights and remedies provided in this Mortgage, in the other Loan Documents or under applicable law.

4.7 Inspections and Property Valuations. Mortgagor authorizes Mortgagee and its agents, representatives and employees, upon reasonable notice to Mortgagor, to enter at any time upon any part of the Collateral for the purpose of inspecting the Collateral. Mortgagor agrees to pay the costs and expenses of Mortgagee incurred in such inspections and examinations, including without limitation, Mortgagee's attorneys' fees, if such inspection was made necessary because of an Event of Default, whether the services are provided by Mortgagee's employees, agents or independent contractors. Any inspection or review by Mortgagee is solely for Mortgagee's benefit to protect Mortgagee's security and preserve Mortgagee's rights under this Mortgage. No inspection by Mortgagee shall constitute a waiver of any Event of Default. Mortgagor shall cooperate in allowing Mortgagee or its agents reasonable access to the Collateral for the purpose of performing any subsequent valuation , whether it is in the form of an appraisal or any other method of valuing the Collateral. Mortgagor shall pay promptly to Mortgagee, on demand , the costs of any such subsequent valuation, whether performed by employees, agents, or independent contractors of Mortgagee.

4.8 Defense of Actions. Mortgagor shall notify Mortgagee of any action or proceeding purporting to affect (a) the security of this Mortgage , (b) all or any part of the Collateral or any interest in it, (c) any additional or other security for the Secured Obligations, or (d) the interests, rights, powers or duties of Mortgagee under this Mortgage. Mortgagor, at no cost or expense to Mortgagee, shall appear in and defend the same. If Mortgagee elects to become or is made a party to such action or proceeding, Mortgagor shall indemnify, defend and hold Mortgagee harmless from all related liability, damage, cost and expense reasonably incurred by Mortgagee, whether or not such action or proceeding is prosecuted to judgment or decision.

4.9 Protection of Security. If Mortgagor fails to make any payment or to do any act required by this Mortgage or any of the other Loan Documents, Mortgagee may do so. Mortgagee may decide to do so, in its own discretion, without obligation to do so, without further notice or demand, and without releasing Mortgagor in such manner and to such extent as it may reasonably deem necessary to protect the security of this Mortgage.

4.10 Mortgagee's Powers. If Mortgagor fails to pay any sum, other than principal and interest on the Secured Obligations, or to perform or comply with any other obligation required by any Loan Document, Mortgagee at its election may pay such sum or comply with such obligation. Without affecting the liability of Mortgagor or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Mortgage, Mortgagee may, from time to time, do any of the following: (a) release any person so liable, (b) release or reconvey all or any part of the Collateral , (c) take or relea se any other or additional security for any Secured Obligation , or (d) make arrangements with debtors in relation to the Secured Obligations. Waiver by Mortgagee of any right or remedy as to any transaction or occurrence shall not be deemed to be a waiver of any future transaction or occurrence. By accepting full or partial payment or performance of any Secured Obligation after due or after the filing of a notice of default and election to sell, Mortgagee shall not have thereby waived its right to (i) require prompt payment and performance in full, when due, of all other Secured Obligations, (ii) declare a default for failure to so pay or perform, or (iii) proceed with the sale under any notice of default and election to sell previously given by Mortgagee, or as to any unpaid balance of the indebtedness secured by this Mortgage.

4.11 Reimbursement of Costs, Fees and Expenses: Secured by Mortgage. Mortgagor shall pay, on demand, to the maximum allowable under applicable law, all reasonable costs, fees, expenses, advances, charges, losses and liabilities paid or incurred by Mortgagee in administering this Mortgage, the collection of the Secured Obligations, and Mortgagee's exercise of any right, power, privilege or remedy under this Mortgage. Fees, costs and expenses of attorneys shall include the reasonable fees and disbursements of Mortgagee's outside and staff counsel and of any experts and agents, and including such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Collateral, in protecting the lien or priority of any Loan Document, or in any litigation or controversy connected with the Secured Obligations, including any bankruptcy, receivership, injunction or other proceeding , or any appeal from or petition for review of any such proceeding.

5. RENTS, ISSUES AND PROFITS.

5.1 Assignment of Rents, Issues and Profits. Mortgagor absolutely, unconditionally and irrevocably assigns and transfers to Mortgagee all of its right, title and interest in and to all rents, issues, profits, royalties, income and other proceeds and similar benefits derived from the Collateral (collectively the "Rents"), and gives to Mortgagee the right, power and authority to collect such Rents. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in fact, at the option of Mortgagee, at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and or sue, in its name or in Mortgagor's name, for all Rents, and to apply them to the Secured Obligations. Mortgagee hereby grants to Mortgagor a license to collect and retain Rents (but not more than one month in advance unless the written approval of Mortgagee has first been obtained) so long as an Event of Default shall not have occurred and be continuing. The assignment of the Rents is intended to be an absolute assignment from Mortgagor to Mortgagee and not merely the passing of a security interest. This assignment of Rents is intended to be specific, perfected and choate upon recording .

5.2 Collection Upon Default. Upon the occurrence of an Event of Default, Mortgagor's license to collect the Rents shall automatically terminate. Upon such termination, Mortgagee may, at any time, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Secured Obligations, do any of the following: (a) enter upon and take possession of all or any part of the Collateral; (b) with or without taking possession of the Collateral in its own name, sue for or otherwise collect Rents (including those past due and unpaid, and all prepaid Rents and all other security or other deposits paid by tenants to Mortgagor); and (c) apply the Rents (less costs and expenses of operation and collection, including, without limitation, attorneys' fees, whether or not suit is brought or prosecuted to judgment) to any Secured Obligation, and in such order as Mortgagee may determine, even if payment or performance of said Secured Obligation may not then be due. Mortgagor agrees that, upon the occurrence of any Event of Default, Mortgagor shall promptly deliver all Rents and security deposits to Mortgagee.

5.3 **Further Assignments.** Upon Mortgagee's demand from time to time, Mortgagor shall execute and deliver to Mortgagee recordable assignments of Mortgagor's interest in any and all leases, subleases, contracts, rights, licenses and permits now or hereaft er affecting all or any part of the Land. Mortgagee may, at its option, exercise its rights under this Mortgage or any such specific assignment and such exercise shall not constitute a waiver of any right under this Mortgage or any such specific assignment.

6. DEFAULT AND REMEDIES

6.1 **Events of Default.** The occurrence of any of the following events or conditions shall constitute an event of default ("Event of Default") under this Mortgage: Mortgagor fails to pay any amount owing under this Mortgage when due; Mortgagor fails to pay any taxes, insurance premiums, assessments or rents required under this Mortgage; Mortgagor fails to observe or perform any other obligation contained in this Mortgage; the occurrence of an Event of Default under any other Loan Document; all or any portion of the Improvements or Fixtures are destroyed by fire or other casualty and Mortgagor fails to satisfy restoration conditions ; or all or any material part of the Land or other Collateral is condemned, taken in eminent domain, seized or appropriated by any governmental or quasi-governmental agency or entity.

6.2 **Acceleration Upon Default: Additional Remedies.** Upon the occurrence of an Event of Default, Mortgagee may, at its option, exercise all of the applicable rights and remedies set forth herein and in the other Loan Documents and, in addition, declare all Secured Obligations to be immediately due and payable without any presentment, demand, protest or further notice of any kind; and whether or not Mortgagee exercises any said right or remedy. Mortgagee may: (a) either in person or by agent, with or without bringing any action or proceeding , or by a receiver appointed by a court and without regard to the adequacy of its Collateral enter upon and take possession of all or part of the Collateral, in its own name. The entering and taking possession of the Collateral, the collection of Rents and their application to the Secured Obligations shall not cure or waive any Event of Default or notice of default or invalidate any act done in response to them. Regardless of whether possession of the Collateral or the collection, receipt and application of any of the Rents is by Mortgagee or a receiver, Mortgagee shall be entitled to exercise every right provided for in the Loan Agreement and other Loan Documents or by law upon occurrence of any Event of Default, including the right to exercise the power of sale; (b) commence an action to foreclose this Mortgage, appoint a receiver, or specifically enforce any of the covenants contained in this Mortgage; (c) exercise all of the rights and remedies available to a secured party under the applicable Uniform Commercial Code in such order and in such manner as Mortgagee, in its sole discretion, may determine, including without limitation , reqiring Mortgagor to assemble the Collateral and make the Collateral available to Mortgagee at a reasonably convenient location . The expenses of retaking, holding, preparing for sale or the like shall include reasonable attorneys' fees and other expenses of Mortgagee and shall be secured by this Mortgage; and/or (d) exercise all other rights and remedies provided in this Mortgage, in any other Loan Document or other document or agreement now or hereafter securing all or any portion of the Secured Obligations, or as provided by law or in equity .

6.3 Appointment of Receiver. Upon the occurrence of an Event of Default under this Mortgage, Mortgagee, without notice to Mortgagor, and without regard to the then value of the Collateral or the interest of Mortgagor in it, shall have the right to enter the Land in person or to apply to any court having jurisdiction to appoint a receiver or receivers of the Land , Fixtures or Improvements. Mortgagor irrevocably consents to such appointment and waives notice of any such application. The actions that Mortgagee or such receiver may take in connection with such entry may include, but are not limited to (a) modifying, compromising obligations under, terminating and implementing remedies with respect to any assigned leases or subleases, and (b) entering into, modifying or terminating any contractual arrangements , subject to Mortgagee's right at any time to discontinue any of the same without liability. Mortgagee is further authorized by this provision to request the court to appoint a general receiver and to empower the receiver to (i) sell or lease all or any portion of the Land, Fixtures or Improvements, (ii) collect and apply to the outstanding balances of the Secured Obligations all sales or lease proceeds, or hold the proceeds pending a court order approving the receiver's final report and account, and
(iii) hold the collections as cash collateral pending such court order or foreclosure sale. Any such receiver(s) shall also have all the usual powers and duties of receivers in similar cases and all the powers and duties of Mortgagee in case of entry as provided in this Mortgage, and shall continue to exercise all such powers until the date of confirmation of sale of the Land, Fixtures or Improvements, unless such receivership is sooner terminated. If Mortgagee elects to enter or take possession of the Land , Fixtures or Improvements, it will not assume any liability to Mortgagor or any other person for operation or maintenance of the Land, Fixtures or Improvements, and Mortgagor expressly waives any such Mortgagee liability .

6.4 Application of Funds After Default. Except as otherwise provided in this Mortgage, upon the occurrence of an Event of Default, Mortgagee may at any time, with notice to Mortgagor if providing such notice will not adversely delay the exercise of Mortgagee 's rights or remedies, apply to any Secured Obligation, in such manner and order as Mortgagee may elect, even if such Secured Obligation may not yet be due, any amounts received and held by Mortgagee to pay insurance premium or taxes or as Rents, or as insurance or condemnation proceeds, and all other amounts received by Mortgagee from or on account of Mortgagor or the Collateral, or otherwise. The receipt , use or application of any such amounts shall not affect the maturity of any Secured Obligation, any of the rights or powers of Mortgagee under the terms of any Loan Document, or any of the obligations of Mortgagor or any guarantor under any Loan Document ; or waive any Event of Default or notice of default under the Loan Documents; or invalidate any act of Mortgagee.

6.5 Remedies Not Exclusive. Mortgagee shall be entitled to enforce payment and performance of any Secured Obligation and to exercise all rights and powers under this Mortgage or any other Loan Document or other agreement or any law, even if some or all of the Secured Obligations may be otherwise secured , whether by guaranty, deed of trust, mortgage, pledge, lien, assignment or otherwise. Mortgagee shall be entitled to enforce this Mortgage and any other security for the Secured Obligations held by Mortgagee in such order and manner as it may in its absolute discretion determine. No remedy conferred upon or reserved to Mortgagee is intended to be exclusive of any other remedy in this Mortgage, and other agreement, or at law, but each shall be cumulative and in addition to every other remedy available to Mortgagee. Every power or remedy given by any of the Loan Documents to Mortgagee or to which it may be otherwise entitled, may be exercised, concurrently or independently , from time to time and as often as may be deemed expedient by Mortgagee, and it may pursue inconsistent remedies . Mortgagor may be joined in any action brought by Mortgagee to foreclose under or otherwise enforce this Mortgage.

7. MISCELLANEOUS

7.1 Amendments. This instrument cannot be waived, modified , discharged or terminated except in writing signed by the party against whom enforcement of such changes is sought.

7.2 Waivers. Mortgagor waives, to the extent permitted by law, (a) the benefit of all laws (whenever enacted) providing for any appraisal before sale of any portion of the Collateral, (b) all rights of valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the Secured Obligation s and marshaling in the event of foreclosure of this Mortgage, and (c) all rights and remedies that Mortgagor may have under the laws of the State of Washington regarding the rights and remedies of sureties. Further, Mortgagor hereby waives, to the fullest extent permitted by law, the right to plead, use or assert any statute of limitations as a plea, defense or bar to any Secured Obligation, or to any complaint or other pleading or proceeding filed, instituted or maintained for the purpo se of enforcing this Mortgage or any rights under it.

7.3 Further Assurances . Mortgagor agrees to do or cause to be done such further acts and things and to execute and deliver or to cause to be executed and delivered such additional assignments, agreements, powers and instruments as Mortgagee may reasonably require to: (a) further evidence, implement or perfect any of Mortgagee's rights, remedies and security interests, (b) correct any defect, error or omission in this Mortgage or the execution or acknowledgment of this Mortgage, (c) subject to the lien of this Mortgage any of Mortgagor's properties covered or intended to be covered by this Mortgage, (d) perfect, maintain and keep valid and effective such lien, (e) carry into effect the purposes of this Mortgage, or (f) better assure and confirm to Mortgagee its respective rights, powers and remedies under this Mortgage .

7.4 Notices. All notices, demands, approvals and other communications shall be made in writing to the appropriate party at the address set forth in the first paragraph of this Mortgage. All such notices shall be made in accordance with the Loan Agreement.

7.5 Headings. Article and section headings are included in this Mortgage for convenience of reference only and shall not be used in construing this Mortgage .

7.6 Severability. Every provision of this Mortgage is intended to be severable. The illegality, invalidity or unenforceability of any provision of this Mortgage shall not in any way affect or impair the remaining provisions of this Mortgage , which provisions shall remain binding and enforceable .

7.7 Subrogation. To the extent that proceeds of the Secured Obligations are used, either directly or indirectly , to pay any outstanding lien, charge or prior encumbrance against the Collateral, Mortgagee shall be subrogated to any and all rights and liens held by any owner or holder of such outstanding liens, charges and prior encumbrances, regardless of whether such liens, charges or encumbrances are released.

7.8 Governing Law. This Mortgage shall be governed by, and construed in accordance with, the substantive laws of the State of Washington, except where the location of the Land may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

7.9 Interpretation. In this Mortgage the singular shall include the plural and the masculine shall include the feminine and the neuter and vice versa, if the context so requires; and the word "person" shall include corporation, partn ership or other fonn of association. Any reference in this Mortgage to any document, instrument or agreement creating or evidencing an obligation secured hereby shall include such document, instrument or agreement both as originally executed and as it may from time to time be modified .

7.10 Successors and Assigns. This Mortgage applies to, inures to the benefit of and binds all parties to this Mortgage , their heirs, legatees, devisees, administrators, executors, successors and assigns.

7.11 Security Agreement. This Mortgage constitutes a security agreement for all purposes under the Unifonn Commercial Code in effect in the State(s) where the Mortgagor resides . Mortgagor hereby authorizes Mortgagee to file, at any time, one or more financing statements and any amendments and continuations thereof, describing any personal property or fixtures described herein, without further signature of Mortgagor. In addition to all other rights and remedies provided for in this Mortgage, Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code.

7.12 Fixture Filing and Financing Statement. This Mortgage is intended to serve as a Fixture filing covering Fixtures, Timber and as-extracted collateral and as a financing statement covering timber to be cut pursuant to the terms of the applicable Uniform Commercial Code. This Mortgage is to be recorded in the real estate records of each County in which the Land is located. In that regard, Mortgagor is Debtor and Mortgagee is Secured Party.

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

7.14 Counterparts. This Mortgage may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument.

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

IN WITNESS WHEREOF, Mortgagor has duly executed this Mortgage as of the date first above written.

MORTGAGOR:
ORM Timber Fund III (REIT) Inc.
By : Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member

By : David L. Nunes
Its: President and CEO

STATE OF WASHINGTON)
)ss.
County of Kitsap)

On this 2nd day of December, 2013, before me personally appeared David L. Nunes, known to me to be the President and CEO of Pope MGP, Inc., the corporation that executed the within instrument as managing member of Olympic Resource Management LLC, the limited liability company that executed the within instrument as manager of ORM Timber Fund III (REIT) Inc., the corporation that executed the within instrument , and acknowledged that such corporation executed the same as such managing member and company executed the same as such manager and acknowledged to me that such corporation executed the same as its free act and deed; and on oath stated that he was authorized to execute said instrument.

Printed Name Seanann Card
Notary Public for the State of Washington
Residing at Kitsap County
My Commission Expires 10-09-2016

Mortgagee acknowledges that this Mortgage is subject to a security interest in favor of CoBank, FCB (Banlc) and by its acceptance hereto and pursuant to and in confirmation of certain agreements and assignments by and between Mortgagee and Banlc, does assign, transfer, and set over the same unto Banlc, its successors and assigns, to secure all obligations of Mortgagee to Banlc, provided that pursuant to such agreements and assignments Mortgagee has authority to perform all loan servicing and collection actions and activities hereunder , including without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this Mortgage until the Banlc, by instrument recorded in the office in which this Mortgage is recorded, revokes such authority.

EXHIBIT A
PROPERTY DESCRIPTION

BISHOPP PARCEL 6:

ALL OF SECTION 15, TOWNSHIP 15 NORTH, RANGE 9 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

BISHOPP PARCEL 19:

ALL OF SECTION 29, TOWNSHIP 15 NORTH, RANGE 9 WEST OF W.M ., PACIFIC COUNTY, WASHINGTON

BISHOPP PARCEL 23:

ALL OF SECTION 33, TOWNSHIP 15 NORTH, RANGE 9 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON

BISHOPP PARCEL 24:

THE SOUTH HALF OF THE NORTHWEST QUARTER, THE NORTH HALF OF THE SOUTHWEST QUARTER, THE NORTH HALF OF THE NORTH HALF, THE SOUTHEAST QUARTER OF THE NORTHEAST QUARTER , THE NORTHEAST QUARTER OF THE SOUTHEAST QUARTER, THE SOUTHWEST QUARTER OF THE NORTHEAST QUARTER, THE SOUTHEAST QUARTER OF THE SOUTHWEST QUARTER AND THE WEST HALF OF THE SOUTHEAST QUARTER OF SECTION 34, TOWNSHIP 15 NORTH, RANGE 9 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY,
WASHINGTON.

BISHOPP PARCEL 28:

THE NORTHWEST QUARTER , THE SOUTHWEST QUARTER AND THE WEST HALF OF THE SOUTHEAST QUARTER , ALL IN SECTION I 4, TOWNSHIP I S NORTH, RANGE I 0 WEST OF THE WILLAMETTE MERIDIAN , PACIFIC COUNTY, WASHINGTON.

EXCEPT THAT PORTION CONVEYED TO EPC HOLDINGS XXXVI LLC BY DEED RECORDED SEPTEMBER 24, 2002, UNDER AUDITOR'S FILE NO. 3056208, RECORDS OF PACIFIC COUNTY, WASHINGTON.

BISHOPP PARCEL 28-1:

A NON-EXCLUSIVE EASEMENT FOR ACCESS AND INCIDENTAL PURPOSES AS SET FORTH IN THAT CERTAIN "EASEMENT" RECORDED NOVEMBER 14, 2000 AS 3040170 OF OFFICIAL RECORDS

BISHOPP PARCEL 28A:

INTENTIONALLY DELETED. Conveyed to John Hancock Life Insurance Comany (U.S.A.) by deed recorded on March 9, 2011 under Auditor's File No. 3131611

NNEMAH PARCEL 9:

ALL OF SECTION 20, TOWNSHIP 12 NORTH, RANGE 9 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

NNEMAH PARCEL 15:

ALL OF SECTION 27, TOWNSHIP 12 NORTH, RANGE 9 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

NNEMAH PARCEL 22:

THE EAST HALF OF THE NORTHEAST QUARTER OF SECTION 10, TOWNSHIP 12 NORTH, RANGE 10 WEST OF W.M., PACIFIC COUNTY, WASHINGTON, SUBJECT TO THE RIGHT OF WAY FOR PUBLIC ROADS

AND EXCEPTING THE FORMER RIGHT OF WAY OF THE GRAYS HARBOR AND COLUMBIA RAILWAY COMPANY 100 FEET IN WIDTH.

NNEMAH PARCEL 22A:

EAST HALF OF SOUTHEAST QUARTER *(EYz* OF SE114) OF SECTION TEN (10), TOWNSHIP TWELVE (12), NORTH, RANGE TEN (10) WEST OF W.M.,

EXCEPTING THEREFROM A STRIP OF LAND OF VERYING WIDTHS CONVEY ED TO THE STATE OF WASHINGTON BY MAX BODE AND AMANDA BODE, HIS WIFE, BY A DEED DATED MAY 06, 1937, AND RECORDED ON MAY 24, 1937, IN VOLUME 115, PAGE 504, DEED RECORDS OF PACIFIC COUNTY, WASHINGTON .

NNEMAH PARCEL 23:

ALL OF SECTION 11, TOWNSHIP 12 NORTH , RANGE 10 WEST OF W.M ., PACIFIC COUNTY, WASHINGTON.

NNEMAH PARCEL 26:

THE WEST HALF OF THE NORTHWEST QUARTER AND THE NORTHEAST OF THE NORTHWEST QUARTER OF SECTION 14, TOWNSHIP 12 NORTH , RANGE 10 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

NNEMAH PARCEL 27:

THAT PORTION OF SECTION 15, TOWNSHIP 12 NORTH, RANGE 10 WEST OF THE WILLA METTE MERIDIAN, PACIFIC COUNTY, WASHINGTON, DESCRIBED AS FOLLOWS:

THE EAST HALF OF THE NORTHEAST QUARTER, LESS AND EXCEPT THAT PORTION OF THE EAST HALF OF THE NORTHEAST QUARTER LYING WESTERLY OF THE RIGHT OF WAY OF STATE ROUTE 101.

NNEMAH PARCEL 28:

ALL OF SECTION 32, TOWNSHIP 13 NORTH , RANGE 9 WEST OF W .M., PACIFIC COUNTY , WASHINGTON,

TOGETHER WITH THAT PORTION OF RIXON ROAD VACATED IN PACIFIC COUNTY COMMISSIONERS JOURNAL NO. 21 AT PAGE 224 ACCRUING THERETO BY OPERATION OF LAW.

SNEMAH PARCEL 13:

ALL OF SECTION 3, TOWNSHIP 11 NORTH, RANGE 10 WEST OF THE WILLAMETTE MERIDIAN , PACIFIC COUNTY, WASHINGTON.

SNEMAH PARCEL 20:

THE NORTHEAST QUARTER OF SECTION 15, TOWNSHIP 11 NORTH , RANGE 10 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

ALSO GOVERNMENT LOTS 1, 2, 3, 4 AND 5 OF SECTION 15, TOWNSHIP 11 NORTH, RANGE 10 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

EXCEPT THOSE PORTIONS OF LOTS 3, 4 AND 5 LYING SOUTHERLY OF THE CENTERLINE OF THE OCEAN BEACH HIGHWAY , ALSO EXCEPT THAT PORTION OF LOT 4 CONVEYED TO ALMON CHURCH BY DEED RECORDED JANUARY 5, 1925, IN VOLUME 93, PAGE 96, RECORDS OF PACIFIC COUNTY , WASHINGTON .

TOGETHER WITH ALL TIDE LANDS OF THE SECOND CLASS, LYING BETWEEN THE LINE OF MEAN LOW TIDE AND THE LINE OF EXTREME LOW TIDE IN FRONT OF LOTS 1, 2, 3, 4 AND 5 SECTION 15, TOWNSHIP 11 NORTH, RANGE 10 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

SNEMAH PARCEL 20A:

A NON-EXCLUSIVE EASEMENT FOR ACCESS AND INCIDENTAL PURPOSES AS SET FORTH IN THAT CERTAIN "EASEMENT EXCHANGE" RECORDED MARCH 24, I 972 AS 75693 OF OFFICIAL RECORDS

SNEMAH PARCEL 24:

ALL OF SECTION 33 TOWNSHIP 12 NORTH, RANGE 9 WEST OF THE WILLAMETTE MERIDIAN, PACIFIC COUNTY, WASHINGTON.

Assessor's **Property Tax Parcel Numbers:**
11100300000; 11101510000; 12093300000; 12092000000; 12092700000; 12101011000;
12101048000; 12101100000; 12101426000; 12101518000; 13093200000; 13093231001;
15091500000; 15092900000; 15093300000; 15093460000; 15101421000; 15101429800

Recording Requested By:

Return To:

NWFCS-Salem
650 Hawthorne Ave. SE, Suite 210
P.O. Box 13309
Salem, OR 97309-9831

Mail Tax Statements To:

Document Title(s)

DEED OF TRUST, FINANCING STATEMENT
AND FIXTURE FILING

DEED OF TRUST, FINANCING STATEMENT
AND FIXTURE FILING

THIS DEED OF TRUST IS ALSO INTENDED TO BE A SECURITY AGREEME NT AND ASSIGNMENT OF RENTS.

THIS DEED OF TRUST IS ALSO INTENDED TO BE A FILING AGAINST TIMBER TO BE CUT.

ATTENTION: COUNTY RECORDER: This Deed of Trust covers timber to be cut on the real propert y described herein and should be appropriately indexed , not only as a trust deed, but also as a financing statement.

NOTICE: THE SECURED OBLIGATIONS MAY PROVIDE FOR A VARIABLE INTEREST RATE .

This Deed of Trust, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing (this "Deed of Trust"), dated as of December 2, 2013, is executed by ORM TIMBER FUND III (REIT) INC., a Delaware corporation ("Grantor"), whose address is 19950 h Ave. NE, Suite 200, Poulsbo, WA 98370, in favor of Stewart Title of California, Inc. {"Trustee"), whose address is 7676 Hazard Center Drive, Suite 1400, San Diego , CA 92108, for the benefit of NORTHWEST FARM CREDIT SERVICES, FLCA, a corporation organized and existing under the laws of the United States ("Beneficiary"), whose address is 1700 South Assembly Street, Spokane, WA 99224-2121, P. 0. Box 2515, Spokane, WA 99220-2515.

This conveyance is intended to secure performance of the covenants and agreements contained herein, and in any note{s), Membership Agreement, security documents and any other documents or instruments signed in colUlection with the note (s) and security documents and any amendments (collectively, the "Loan Documents"). Pursuant to the terms and conditions of the Loan Documents, Grantor has agreed to grant this Deed of Trust in favor of Beneficiary to provide security for the Secured Obligations described herein, the related Loan Documents and any and all other documents entered into pursuant thereto.

1. GRANT OF SECURITY.

Grantor, in consideration of the indebtedness secured by this Deed of Trust, irrevocably bargains, sells, grants, mortgages, transfers, conveys, assigns and warrants to Trustee, IN TRUST, WITH POWER OF SALE, AND RIGHT OF ENTRY AND POSSESSION for the benefit and security of Beneficiary, all Grantor's ex1stmg and future rights, titles, interests, estates, powers and privileges in or to the following (collectively the "Collateral"):

1.1 Property.

a. That certain real property located in Siskiyou County, State of California, more particularly described on Exhibit A attached hereto and incorporated herein (the "Land").

b. All buildings, wells and other improvements now or hereafter located on the Land, including, but not limited to, the Fixtures (as defined below), Timber (as defined below) and all other equipment, machinery, appliances and other articles attached to such buildings and other improvements (collectively the "Improvements");

c. All fixtures (including without limitation, goods that are or become so related to the Land that an interest in them arises under the real estate law) and any additions or replacements (collectively the "Fixtures") now or hereafter located on, attached to, installed in or used in connection with the Land;

d. All timber (aka "forest tree species"), whether standing or down, cut or under contract to be cut, now or hereafter growing or located on the Land, and whether or not said timber is merchantable, all logs, lumber and forest products of any nature, all proceeds and products thereof (the "Timber");

e. All personal property, appliances, equipment and goods now or hereafter owned or possessed by Debtor located upon, in, or about or used in connection with said Land or Improvements, including the maintenance thereof, together with all increases, substitutes, replacements, proceeds and products thereof and additions and accessions thereto;

f. All rights, rights-of-way, easements, licenses, profits, claims, demands, privileges, grazing privileges, tenements, hereditaments and appurtenances now owned or hereafter acquired by Grantor and used in connection with the Land and the Improvements or as a means of access to either or both, including without limitation, all rights over the property of third persons which are related thereto and all unaccrued trespass and surface damage claims appurtenant thereto, and all written operations plans and all permits and approvals related to the Land and Improvements;

g. All of Grantor's right, title and interest in and to any land within any right-of-way of any open or proposed street adjoining the Land, and any and all sidewalks, alleys, strips and gores of land adjacent to or used in connection with the Land and Improvements;

h. All of Grantor's existing and future rights in (including without limitation, royalty and leasehold rights) oil, gas and other mineral rights in or relating to the Land;

i. All ex1stmg and future leases and subleases relating to the Land and Improvements or any interest in them, including without limitation, all deposits, advance rentals and other similar payments, but not including the Rents, as defined and separately assigned in Paragraph 5;

j. All options to purchase, exchange or lease the Land, Fixtures or Improvements or any interest in them (and any greater estate in the Land, Fixtures or Improvements and acquired by exercise of such options);

k. All contracts and policies of insurance and proceeds thereof which may insure all or any portion of the Collateral against casualties and theft;

1. All Grantor's other existing or future estates, homestead or other claims or demands, both in law and in equity in the Land and Improvements, including without limitation,
(i) all awards made for the partial or complete taking by eminent domain, or by any proceeding or purchase in lieu of eminent domain, of the Land or Improvements, and (ii) all proceeds, including general intangibles and payment intangibles, of any insurance covering any of the Collateral; and

m. All cash or non-cash proceeds of the sale, lease, license, exchange or other disposition of the Collateral, including accounts and general intangibles, arising therefrom. Proceeds include all subsidy payments, in cash or in kind, which may be made to Granter by any person, entity or governmental agency, including but not limited to, payments and entitlements from state and federal farm programs, as well as any type of property insurance; and any rights arising out of Land or Improvements, collections and distributions on Land or Improvements.

1.2 Water Assets. All right, title, and interest at any time of Grantor (or any of its bailees, agents, or instrumentalities), whether now existing or hereafter arising or acquired, whether direct or indirect, whether owned legally, of record, equitably or beneficially, whether constituting real or personal property (or subject to any other characterizations), whether created or authorized under existing or future laws or regulations, and however arising in, without limitation, the water, water rights and other assets and items more specifically described hereinafter (collectively the "Water Assets"). A description of some Water Assets may also be included with the description of the Land set forth above or in an exhibit hereto.

a. All water (including any water inventory in storage), water rights and entitlements, other rights to water and other rights to receive water or water rights of every kind or nature whatsoever and howsoever evidenced, including but not limited to the following: (i) the groundwater on, under, pumped from or otherwise available to the Land, whether as the result of groundwater rights, contractual rights or otherwise, together with Grantor's right to remove and extract any such groundwater including any permits, rights or licenses granted by any governmental authority or agency or any rights granted or created by any use, easement, covenant, agreement, or contract with any person or entity; (ii) any rights to which the Land is entitled with respect to surface water, whether such right is appropriative, riparian, prescriptive, decreed or otherwise and whether or not pursuant to permit or other governmental authorization, or the right to store any such water; (iii) any water, water right, water allocation, distribution right, delivery right, water storage right, or other water-related entitlement appurtenant or otherwise applicable to the Land by virtue of the Land being situated within the boundaries of any governmental district or agency, or within the boundaries of any private water company, mutual water company, irrigation company, ditch company or other non-governmental entity that owns, stores, diverts and/or delivers water including, any and all stock, interest or other rights Grantor has in such entity, including voting or decision rights, and any and all rights from any entity or other person to acquire, receive, exchange, sell, lease, or otherwise transfer any Water Assets, to store, deposit or otherwise create water credits in a water bank or similar or other arrangement for allocating water , to transport or deliver water , or otherwise to deal with any Water Asset; and (iv) all water and existing and future water rights, however evidenced, to the use of water for irrigation , livestock and domestic purposes. References to "water" and "water rights" are used herein in the broadest and most comprehensive sense of the terms. The term "water" includes water rights and rights to water or whatever rights to money, proceeds, property or other benefits are exchanged or received for or on account of any Water Assets or any conservation or other nonuse of water, including whatever rights are achieved by depositing one's share of any Water Assets in any water bank or with any water authority, or any other water reallocation rights.

b. All licenses, permits, approvals, contracts, decrees, rights and interests to acquire or appropriate any Water Assets, water bank or other credits evidencing any right to Water Assets, to store, carry, transport or deliver Water Assets, to sell, lease, exchange, or otherwise transfer any Water Asset, or to change the point for diversion of water, the location of any Water Asset, the place of use of any Water Asset, or the purpose of the use of any Water Asset.

c. All rights, claims, causes of action,judgments, awards, and other judicial, arbiter or administrative relief in any way relating to any Water Asset.

d. All storage and treatment rights for any Water Asset, whether on or off the Land or other property of Granter, together with all storage tanks, and other equipment used or usable in colUlection with such storage and any water bank deposit credits, deposit accounts or other rights arising on account of the storage or nonuse of any Water Asset.

e. All irrigation and watering equipment, including all pumps, pumping plants, storage tanks, pump, motors, electrical generators (all of which are declared to be fixtures), and all systems, ditches, laterals, conduits, and rights-of-way used to convey water or to drain the Land, all of which rights are or are hereby made appurtenant to the Land .

f. All guaranties, warranties, marketing, management or service contracts, indemnity agreements, and water right agreements, including joint use agreements, other water related contracts and water reallocation rights, all insurance policies regarding or relating to any Water Asset.

g. All rents, issues, profits, proceeds and other accounts, instruments, chattel paper, contract rights, general intangibles, deposit accounts and other rights to payment arising from or on account of any use, nonuse, sale, lease transfer or other disposition of any Water Asset.

2. REPRESENTATIONS AND WARRANTIES

2.1 **Representations and Warranties.** Grantor represents and warrants to Beneficiary as follows :

a. Grantor has represented and warranted to Beneficiary the location of Grantor's chief executive office; the state of its formation; Grantor's state of residence; and Grantor's exact legal name is as set forth herein.

b. Granter is the sole legal and equitable owner of the Collateral;

c. Except as otherwise previously disclosed to Beneficiary, Grantor has the exclusive right to harvest any Timber, if any, from the Land and has the exclusive right to use the appurtenant rights and the operating permits;

d. Without thereby limiting the generality of the foregoing, and except as otherwise previously disclosed to Beneficiary, Grantor has not assigned or granted any harvest or access rights or interests, or sold or leased any part of the Land or the Improvements , if any, to any other person (individual, organization or governmental unit);

e. There are no claims, liens, encumbrances (including judgments , levies and the like), or security interest ("Liens") covering the Collateral or any part or item thereof except easements and reservations of record, that are listed on the title policy delivered by Grantor;

f. To the best of Grantor's knowledge, and other than have been disclosed to Beneficiary, there are no federal, state or local laws, regulations, rules or standards ("Laws"), or permits, orders, injunctions, citations, notices of civil penalty, restraining orders, judgments or the like issued by any governmental unit ("Orders") that are now in effect and that would restrict any material use of the Collateral;

g. Granter has taken all actions necessary and has duly authorized this Deed of Trust and it is the legally valid and binding contract of Grantor, and is enforceable against Grantor in accordance with its terms; and

h. To the best of Grantor's knowledge, neither the execution of this Deed of Trust nor the payment and performance of the Secured Obligations will materially violate any Laws or Orders affecting Grantor or the Collateral or constitute a breach or Event of Default by Grantor under any agreement, contract, loan indenture, lease, instrument or like document to which Grantor is a party or the Collateral is bound.

The foregoing representations and warranties will survive and not be merged or otherwise eliminated by any conveyance, voluntarily or through foreclosure, of the Collateral to Beneficiary or its nominee . Grantor hereby agrees to indemnify, defend and hold harmless Beneficiary from and against any and all claims, loss, liability, damages, liens, penalties, costs and expenses of any nature or kind whatsoever arising from or related to any misstatement or omission of any material fact in the foregoing representations and warranties.

3. SECURED OBLIGATIONS

3.1 Secured Obligations. This Deed of Trust, and the lien it creates, is made for the purpose of securing the following obligations (collectively the "Secured Obligations"):

a. The full and punctual payment of the indebtedness evidenced by that certain note(s) described below, in favor of Beneficiary (the "Note(s)") with interest thereon at the rates therein provided which interest rate and payment terms may be adjusted as provided in the Note(s) and Loan Documents, together with any and all renewals, modifications, consolidations and extensions of the indebtedness evidenced by the Note(s), as well as any prepayment fees or penalties provided for in the Note(s) or as it may be amended to provide for such prepayment fees or penalties;

Note No.	Date of Note	Principal Amount	Final Installment Date
6214502	December 2, 2013	$17,980,000.00	December 1, 2023

b. Payment and perform ance of the obligations under the Note(s) and Loan Documents (including future advances) and under any and all other present and future agreements executed in relation to the Note(s) ;

c. Payment of such additional sums with interest thereon as may be due to Trustee or Beneficiary under any provisions of this Deed of Trust;

d. Payment of all indebtedness and performance of all other obligations which the then record owner of the Collateral may agree to pay and perform for the benefit of Beneficiary, and which are contained in a document which recites that it is secured by this Deed of Trust;

e. Payment of all amounts advanced by (or on behalf of) Beneficiary or Trustee to improve, protect or preserve the Collateral or the security of this Deed of Trust, with interest on such amounts as provided in this Deed of Trust;

f. Payment and performance of all amendments, modifications, extensions, renewals and replacements of any of the foregoing; and

g. Payment of charges as allowed by law, when such charges are made for any Beneficiary statement or other statement regarding the Secured Obligations.

3.2 **Separate Indemnities.** Notwithstanding the foregoing, this Deed of Trust does not secure any separate hazardous materials indemnity or any similar indemnity or indemnities in any of the Loan Documents.

3.3 **Indexing.** Notice is hereby given that the interest rate, payment terms or balance due on the Notes(s) may be indexed, adjusted, renewed or renegotiated.

3.4 **Continuing Validity.** The continuing validity and priority of this Deed of Trust for future extensions of credit and advances shall not be impaired by the fact that at certain times no outstanding indebtedness to Beneficiary or commitments from Beneficiary to make future extensions of credit or advances exists.

4. COVENANTS

4.1 **Maintenance, Repair, Alterations.** Grantor shall: keep the Collateral in good condition and repair; complete promptly and in a good and workmanlike manner, any Improvement that may be constructed on the Land, and promptly restore in like manner any Improvement that may be damaged or destroyed, and pay when due all claims for labor performed and materials furnished for such construction or restoration; comply with all Laws and Orders of any court or governmental or regulatory body having jurisdiction over Grantor, the Land or Improvements; comply with any condominium or other plan, declaration of covenants, conditions and restrictions, and reciprocal easement agreements to which the Land is subject ("CC&Rs"), any owners' association articles and bylaws affecting the Land, and such exceptions to title as evidenced by a preliminary title report on the date of closing, acceptable to Beneficiary ("Permitted Liens"); keep and maintain abutting grounds, sidewalks, roads, parking and landscape areas in good, neat order and repair; comply with the provisions of any leases constituting part of the Collateral; obtain and maintain in full force and effect all permits necessary for the use, occupancy and operation of the Collateral; and do any and all other acts, except as otherwise prohibited or restricted by the Loan Documents, that may be reasonably necessary to protect or preserve the value of the Collateral and the rights of Trustee and Beneficiary in it.

Grantor shall not, except upon the prior written consent of Beneficiary, which shall not be unreasonably withheldor delayed:remove, demolish or materially alter any of the Improvements, other than to make non-structural repairs in the ordinary course of business, that preserve or increase the value of the Land; commit or permit any waste or deterioration of the Collateral; abandon all or any part of the Collateral or leave the Collateral unprotected, unguarded, vacant or deserted; or initiate, join in or consent to any change in any zoning ordinance , general plan, specific plan, private restrictive covenant or other public or private restriction limiting the uses that may be made of the Land or Improvements by Grantor.

4.2 Insurance. Keep all material property useful and necessary in its business in reasonably good working order and condition (ordinary wear and tear excepted); maintain with financially sound and reputable insurance companies casualty, liability, and such other insurance (that may include plans of self-insurance) with such coverage and deductibles, and in such amounts as may be consistent with prudent business practice and in any event consistent with normal industry practice; and furnish to the Beneficiary, upon written request, full information as to the insurance carried.

4.3 Condemnation and Other Awards. Grantor shall take all actions reasonably required by Beneficiary or Trustee in connection with condemnation or other taking to defend and protect the interests of Grantor, Beneficiary and/or Trustee in the Land. Beneficiary shall be entitled to participate in, control and be represented by counsel of its choice in such proceeding. All condemnation proceeds shall first be applied to reimburse Beneficiary and Trustee for all their reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection of such award or settlement. The balance of such award or settlement shall be applied by Beneficiary against the Secured Obligations in such order as Beneficiary may determine.

4.4 Taxes, Assessments and Utilities. Grantor shall pay, prior to delinquency, all of the following: all general and special real property taxes and assessments imposed on the Land; all other taxes, assessments and charges assessed on the Land (or on the owner and/or operator of the Land) that create or may create a lien on the Land (or on any Improvement or Fixture used in connection with the Land); including, without limitation, non-governmental levies and assessments under applicable covenants, conditions and restrictions; and all business taxes.

Grantor shall promptly pay all gas, irrigation, electricity, water, sewer and other utility charges incurred for the benefit of the Collateral or that may become a lien against the Collateral; and all other similar public or private assessments and charges relating to the Collateral, regardless of whether or not any such charge is or may become a lien on the Collateral.

4.5 Liens. Grantor shall not cause, incur or permit to exist any Liens upon all or any part of the Collateral or any interest in the Collateral other than Permitted Liens. Grantor shall pay and promptly discharge, at Grantor's sole cost and expense, all such Liens.

4.6 Sale or Lease of Collateral: Due on Sale Clause. Grantor shall not sell, lease, sublease or otherwise transfer all or any part of the Collateral or any interest in it, without the prior written consent of Beneficiary, which consent may be granted or withheld in Beneficiary's sole and absolute discretion. No sale, lease or other transfer shall relieve Grantor from primary liability for its obligations under the Loan Documents or relieve any guarantor from any liability under any guaranty. Upon any such transfer to which Beneficiary does not consent , Beneficiary at its option may, without prior notice, declare all Secured Obligations immediately due and payable without presentment, demand, protest or further notice of any kind, and may exercise all rights and remedies provided in this Deed of Trust, in the other Loan Documents or under applicable law.

4.7 Inspections and Property Valuations. Grantor authorizes Beneficiary and its agents, representatives and employees, upon reasonable notice to Grantor, to enter at any time upon any part of the Collateral for the purpose of inspecting the Collateral. Grantor agrees to pay the costs and expenses of Beneficiary incurred in such inspections and examinations, including without limitation, Beneficiary's attorneys' fees, if such inspection was made necessary because of an Event of Default, whether the services are provided by Beneficiary's employees, agents or independent contractors. Any inspection or review by Beneficiary is solely for Beneficiary's benefit to protect Beneficiary's security and preserve Beneficiary's rights under this Deed of Trust. No inspection by Beneficiary shall constitute a waiver of any Event of Default. Grantor shall cooperate in allowing Beneficiary or its agents reasonable access to the Collateral for the purpose of performing any subsequent valuation , whether it is in the form of an appraisal or any other method of valuing the Collateral. Granter shall pay promptly to Beneficiary , on demand, the costs of any such subsequent valuation, whether performed by employees, agents, or independent contractors of Beneficiary.

4.8 Defense of Actions. Grantor shall notify Beneficiar y of any action or proceeding purporting to affect (a) the security of this Deed of Trust, (b) all or any part of the Collateral or any interest in it, (c) any additional or other security for the Secured Obligations, or (d) the interests, rights, powers or duties of Beneficiary or Trustee under this Deed of Trust. Grantor, at no cost or expense to Beneficiary or Trustee, shall appear in and defend the same. If Beneficiary or Trustee elects to become or is made a party to such action or proceeding, Grantor shall indemnify, defend and hold Trustee and Beneficiary harmless from all related liability, damage, cost and expense reasonably incurred by either Trustee or Beneficiary, whether or not such action or proceeding is prosecuted to judgment or decision.

4.9 Protection of Security. If Granter fails to make any payment or to do any act required by this Deed of Trust or any of the other Loan Documents, Beneficiary and/or Trustee may do so. Beneficiary or Trustee may decide to do so, each in its own discretion, without obligation to do so, without further notice or demand, and without releasing Grantor in such manner and to such extent as either may reasonably deem necessary to protect the security of this Deed of Trust.

4.10 Beneficiary's Powers. If Grantor fails to pay any sum, other than principal and interest on the Secured Obligations, or to perform or comply with any other obligation required by any Loan Document, Beneficiary at its election may pay such sum or comply with such obligation . Without affecting the liability of Granter or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Deed of Trust, Beneficiary may, from time to time, do any of the following: (a) release any person so liable, (b) release or reconvey all or any part of the Collateral, (c) take or release any other or additional security for any Secured Obligation, or (d) make arrangements with debtors in relation to the Secured Obligations. Waiver by Beneficiary of any right or remedy as to any transaction or occurrence shall not be deemed to be a waiver of any future transaction or occurrence. By accepting full or partial payment or performance of any Secured Obligation after due or after the filing of a notice of default and election to sell, Beneficiary shall not have thereby waived its right to (i) require prompt payment and performance in full, when due, of all other Secured Obligations, (ii) declare a default for failure to so pay or perform, or (iii) proceed with the sale under any notice of default and election to sell previously given by Beneficiary, or as to any unpaid balance of the indebtedness secured by this Deed of Trust.

4.11 Reimbursement of Costs, Fees and Expenses: Secured by Deed of Trust. Grantor shall pay, on demand, to the maximum allowable under applicable law, all reasonable costs, fees, expenses, advances, charges, losses and liabilities paid or incurred by Beneficiary and/or Trustee in administering this Deed of Trust, the collection of the Secured Obligations, and Beneficiaris or Trustee's exercise of any right, power, privilege or remedy under this Deed of Trust. Fees, costs and expenses of attorneys shall include the reasonable fees and disbursements of Beneficiary's outside and staff counsel and of any experts and agents, and including such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Collateral, in protecting the lien or priority of any Loan Document, or in any litigation or controversy connected with the Secured Obligations, including any bankruptcy, receivership, injunction or other proceedin g, or any appeal from or petition for review of any such proceeding.

5. RENTS, ISSUES AND PROFITS

5.1 Assignment of Rents, Issues and Profits. Grantor absolutely, unconditionally and irrevocably assigns and transfers to Beneficiary all of its right, title and interest in and to all rents, issues, profits, royalties, income and other proceeds and similar benefits derived from the Collateral (collectively the "Rents"), and gives to Beneficiary the right, power and authority to collect such Rents. Grantor irrevocably appoints Beneficiary its true and lawful attorney-in-fact, at the option of Beneficiary, at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and or sue, in its name or in Grantor's name, for all Rents, and to apply them to the Secured Obligations. Beneficiary hereby grants to Grantor a license to collect and retain Rents (but not more than one month in advance unless the written approval of Beneficiary has first been obtained) so long as an Event of Default shall not have occurred and be continuing. The assignment of the Rents is intended to be an absolute assignment from Grantor to Beneficiary and not merely the passing of a security interest. This assignment of Rents is intended to be specific, perfected and choate upon recording.

5.2 Collection Upon Defa ult. Upon the occurrence of an Event of Default, Grantor's license to collect the Rents shall automatically terminate. Upon such termination, Beneficiary may , at any time, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Secured Obligations, do any of the following: (a) enter upon and take possession of all or any part of the Collateral; (b) with or without taking possession of the Collateral in its own name, sue for or otherwise collect Rents (including those past due and unpaid, and all prepaid Rents and all other security or other deposits paid by tenants to Grantor); and (c) apply the Rents (less costs and expenses of operation and collection, including, without limitation, attorneys' fees, whether or not suit is brought or prosecuted to judgment) to any Secured Obligation, and in such order as Beneficiary may determine, even if payment or performance of said Secured Obligation may not then be due. Grantor agrees that, upon the occurrence of any Event of Default, Grantor shall promptly deliver all Rents and security deposits to Beneficiary.

5.3 **Further Assignments.** Upon Beneficiary's demand from time to time, Grantor shall execute and deliver to Beneficiary recordable assignments of Grantor's interest in any and all leases, subleases, contracts, rights, licenses and permits now or hereafter affecting all or any part of the Land. Beneficiary may, at its option, exercise its rights under this Deed of Trust or any such specific assignment and such exercise shall not constitute a waiver of any right under this Deed of Trust or any such specific assignment.

6. DEFAULT AND REMEDIES

6.1 **Events of Default.** The occurrence of any of the following events or conditions shall constitute an event of default ("Event of Default") under this Deed of Trust: Grantor fails to pay any amount owing under this Deed of Trust when due; Grantor fails to pay any taxes, insurance premiums, assessments or rents required under this Deed of Trust; Grantor fails to observe or perform any other obligation contained in this Deed of Trust; the occurrence of an Event of Default under any other Loan Document; all or any portion of the Improvements or Fixtures are destroyed by fire or other casualty and Grantor fails to satisfy restoration conditions; or all or any material part of the Land or other Collateral is condemned, taken in eminent domain, seized or appropriated by any governmental or quasi-governmental agency or entity.

6.2 **Acceleration Upon Default: Additional Remedies.** Upon the occurrence of an Event of Default, Beneficiary may, at its option, exercise all of the applicable rights and remedies set forth herein and in the other Loan Documents and, in addition, declare all Secured Obligations to be immediately due and payable without any presentment, demand, protest or further notice of any kind; and whether or not Beneficiary exercises any said right or remedy. Beneficiary may:
(a) either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its Collateral enter upon and take possession of all or part of the Collateral, in its own name or in the name of Trustee. The entering and taking possession of the Collateral, the collection of Rents and their application to the Secured Obligations shall not cure or waive any Event of Default or notice of default or invalidate any act done in response to them. Regardless of whether possession of the Collateral or the collection, receipt and application of any of the Rents is by Trustee, Beneficiary or a receiver, Trustee or Beneficiary shall be entitled to exercise every right provided for in the Loan Agreement and other Loan Documents or by law upon occurrence of any Event of Default, including the right to exercise the power of sale; (b) commence an action to foreclose this Deed of Trust, appoint a receiver, or specifically enforce any of the covenants contained in this Deed of Trust; (c) deliver to Trustee a written declaration of default and demand for sale, and a written notice of default and election to sell the Collateral, which notice Trustee or Beneficiary shall cause to be recorded in the official records of each County in which the Land is located; (d) exercise all of the rights and remedies available to a secured party under the applicable Uniform Commercial Code in such order and in such manner as Beneficiary, in its sole discretion, may determine, including without limitation, requiring Grantor to assemble the Collateral and make the Collateral available to Beneficiary at a reasonably convenient location. The expenses of retaking, holding, preparing for sale or the like shall include reasonable attorneys' fees and other expenses of Beneficiary and Trustee and shall be secured by this Deed of Trust; and/or (e) exercise all other rights and remedies provided in this Deed of Trust, in any other Loan Document or other document or agreement now or hereafter securing all or any portion of the Secured Obligations, or as provided by law or in equity.

6.3 Appointment of Receiver. Upon the occurrence of an Event of Default under this Deed of Trust, Beneficiary, without notice to Grantor, and without regard to the then value of the Collateral or the interest of Grantor in it, shall have the right to enter the Land in person or to apply to any court having jurisdiction to appoint a receiver or receivers of the Land, Fixtures or Improvements. Grantor irrevocably consents to such appointment and waives notice of any such application. The actions that Beneficiary or such receiver may take in connection with such entry may include, but are not limited to (a) modifying, compromising obligations under, terminating and implementing remedies with respect to any assigned leases or subleases, and (b) entering into, modifying or terminating any contractual arrangements, subject to Beneficiary's right at any time to discontinue any of the same without liability. Beneficiary is further authorized by this provision to request the court to appoint a general receiver and to empower the receiver to (i) sell or lease all or any portion of the Land, Fixtures or Improvements, (ii) collect and apply to the outstanding balances of the Secured Obligations all sales or lease proceeds, or hold the proceeds pending a court order approving the receiver's final report and account, and (iii) hold the collections as cash collateral pending such court order or foreclosure sale. Any such receiver(s) shall also have all the usual powers and duties of receivers in similar cases and all the powers and duties of Beneficiary in case of entry as provided in this Deed of Trust, and shall continue to exercise all such powers until the date of confirmation of sale of the Land, Fixtures or Improvements, unless such receivership is sooner terminated. IfBeneficiary elects to enter or take possession of the Land, Fixtures or Improvements, it will not assume any liability to Grantor or any other person for operation or maintenance of the Land, Fixtures or Improvements, and Grantor expressly waives any such Beneficiary liability.

6.4 Application of Funds After Default. Except as otherwise provided in this Deed of Trust, upon the occurrence of an Event of Default, Beneficiary may at any time, with notice to Grantor if providing such notice will not adversely delay the exercise of Beneficiary's rights or remedies, apply to any Secured Obligation, in such manner and order as Beneficiary may elect, even if such Secured Obligation may not yet be due, any amounts received and held by Beneficiary to pay insurance premium or taxes or as Rents, or as insurance or condemnation proceeds, and all other amounts received by Beneficiary from or on account of Grantor or the Collateral, or otherwise. The receipt , use or application of any such amounts shall not affect the maturity of any Secured Obligation, any of the rights or powers of Beneficiary or Trustee under the tenns of any Loan Document, or any of the obligations of Grantor or any guarantor under any Loan Document; or waive any Event of Default or notice of default under the Loan Documents; or invalidate any act of Trustee or Beneficiary.

6.5 Remedies Not Exclusive. Trustee and Beneficiary shall each be entitled to enforce payment and perfonnance of any Secured Obligation and to exercise all rights and powers under this Deed of Trust or any other Loan Document or other agreement or any law, even if some or all of the Secured Obligations may be otherwise secured, whether by guaranty, deed of trust, mortgage, pledge, lien, assignment or otherwise. Trustee and Beneficiary shall each be entitled to enforce this Deed of Trust and any other security for the Secured Obligations held by Beneficiary or Trustee in such order and manner as they may in their absolute discretion detennine. No remedy conferred upon or reserved to Trustee or Beneficiary is intended to be exclusive of any other remedy in this Deed of Trust, and other agreement, or at law, but each shall be cumulative and in addition to every other remedy available to Beneficiary. Every power or remedy given by any of the Loan Documents to Trustee or Beneficiary or to which either of them may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Trustee or Beneficiary, and either of them may pursue inconsistent remedies. Granter may be joined in any action brought by Beneficiary to foreclose under or otherwise enforce this Deed of Trust.

6.6 Foreclosure By Power of Sale. Upon receipt of notice from Beneficiary , Trustee shall cause to be recorded, published and delivered to Grantor such notice of default and election to sell as is then required by law. After such lapse of time, recordation of notice of default, and giving of notice of sale as are required by law, Trustee shall, without demand on Granter, sell the Land, Fixtures and Improvements at the time and place of sale fixed by it in said notice of sale, or as lawfully postponed. Trustee may sell the Land, Fixtures and Improvements either as a whole, or in separate lots or parcels or items and in such order as Beneficiary may direct Trustee to so do, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. A sale of less than the whole of the Land, Fixtures or Improvements or any defective or irregular sale made under this Deed of Trust shall not exhaust the power of sale provided for in this Deed of Trust ; and subsequent sales may be made until all the Secured Obligations have been satisfied, or the entire Land, Fixtures or Improvements sold, without defect or irregularity. Trustee shall deliver to such purchaser or purchasers its good and sufficient deed conveying the Land, Fixture or Improvement so sold, but without any covenant or warrant, express or implied .

After deducting all fees, costs and expenses incurred by Beneficiary or Trustee in connection with such sale, including costs of evidence of title up to the maximum allowed by applicable law, Beneficiary shall apply the proceeds of sale to payment of (a) first, all amounts expended under the terms of this Deed of Trust which are not then repaid, with accrued interest at the Default Interest Rate; (b) second, all other Secured Obligations; and (c) the remainder, if any, to the person or persons legally entitled.

7. MISCELLANEOUS

7.1 Amendments. This instrument cannot be waived, modified, discharged or terminated except in writing signed by the party against whom enforcement of such changes is sought.

7.2 Waivers. Grantor waives, to the extent permitted by law, (a) the benefit of all laws (whenever enacted) providing for any appraisal before sale of any portion of the Collateral, (b) all rights of valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the Secured Obligations and marshaling in the event of foreclosure of this Deed of Trust, and (c) all rights and remedies that Grantor may have under the laws of the State of Washington regarding the rights and remedies of sureties. Further, Grantor hereby waives, to the fullest extent permitted by law, the right to plead, use or assert any statute of limitations as a plea, defense or bar to any Secured Obligation, or to any complaint or other pleading or proceeding filed, instituted or maintained for the purpose of enforcing this Deed of Trust or any rights under it.

7.3 Further Assurances. Grantor agrees to do or cause to be done such further acts and things and to execute and deliver or to cause to be executed and delivered such additional assignments, agreements, powers and instruments as Beneficiary or Trustee may reasonably require to: (a) correct any defect, error or omission in this Deed of Trust or the execution or acknowledgment of this Deed of Trust, (b) subject to the lien of this Deed of Trust any of Grantor's properties covered or intended to be covered by this Deed of Trust, (c) perfect, maintain and keep valid and effective such lien, (d) carry into effect the purposes of this Deed of Trust, or (e) better assure and confirm to Beneficiary or Trustee their respective rights, powers and remedies under this Deed of Trust.

7.4 Notices. All notices, demands, approvals and other communications shall be made in writing to the appropriate party at the address set forth in the first paragraph of this Deed of Trust. All such notices shall be made in accordance with the Loan Agreement.

7.5 Headings. Article and section headings are included in this Deed of Trust for convenience of reference only and shall not be used in construing this Deed of Trust.

7.6 Severability. Every provision of this Deed of Trust is intended to be severable. The illegality, invalidity or unenforceability of any provision of this Deed of Trust shall not in any way affect or impair the remaining provisions of this Deed of Trust, which provisions shall remain binding and enforceable.

7.7 Subrogation. To the extent that proceeds of the Secured Obligations are used , either directly or indirectly, to pay any outstanding lien, charge or prior encumbrance against the Collateral, Beneficiary shall be subrogated to any and all rights and liens held by any owner or holder of such outstanding liens, charges and prior encumbrances, regardless of whether such liens, charges or encumbrances are released.

7.8 Governing Law. This Deed of Trust shall be governed by, and construed in accordance with, the substantive laws of the State of Washington, except where the location of the Land may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

7.9 Interpretation. In this Deed of Trust the singular shall include the plural and the masculine shall include the feminine and the neuter and vice versa, if the context so requires; and the word "person" shall include corporation, partnership or other form of association. Any reference in this Deed of Trust to any document, instrument or agreement creating or evidencing an obligation secured hereby shall include such document, instrument or agreement both as originally executed and as it may from time to time be modified. The term "Trustors" shall be synonymous with the term "Grantors" as used in any of the laws of the state in which the Collateral is situated.

7.10 Successors and Assigns. This Deed of Trust applies to, inures to the benefit of and binds all parties to this Deed of Trust, their heirs, legatees, devisees, administrators , executors, successors and assigns.

7.11 Securitv Agreement. This Deed of Trust constitutes a security agreement for all purposes under the Uniform Commercial Code in effect in the State(s) where the Grantor resides. Grantor hereby authorizes Beneficiary to file, at any time, one or more financing statements and any amendments and continuations thereof, describing any personal property or fixtures described herein, without further signature of Grantor. In addition to all other rights and remedies provided for in this Deed of Trust, Beneficiary shall have all of the rights and remedies of a secured party under the Uniform Commercial Code.

7.12 Fixture Filing and Financing Statement. This Deed of Trust is intended to serve as a Fixture filing covering Fixtures, Timber and as-extracted collateral and as a financing statement covering timber to be cut pursuant to the terms of the applicable Uniform Commercial Code. This Deed of Trust is to be recorded in the real estate records of each County in which the Land is located. In that regard, Grantor is Debtor and Beneficiary is Secured Party.

7.13 Trust Irrevocable. The trust created by this Deed of Trust is irrevocable by Grantor. All Secured Obligations shall be paid without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension , deferment , diminution or reduction . Grantor waives all rights conferred by statute or otherwise to any abatement, suspension, deferment, diminution or red uction of any Secured Obligation .

7.14 Acceptance By Trustee. Trustee accepts this trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law.

7.15 Reconveyance By Trustee. Trustee shall reconvey the Land, Fixtures or Improvements, without warrant, to the person or persons legally entitled to it upon (a) written request of Beneficiary stating that all Secured Obligations have been paid and fully performed, which shall be in substantially the form of Exhibit B attached hereto and incorporated herein, (b) surrender by Beneficiary of this Deed of Trust, and (c) payment by Grantor of Trustee's fees and the costs and expenses of executing and recording any requested reconveyance. The grantee in any such reconveyance may be described as "the person or persons legally entitled thereto ."

7.16 Trustee's Powers. Upon written request of Beneficiary, Trustee may (a) reconvey all or any part of the Land, Fixtures or Improvements, (b) consent in writing to the making of any map or plat thereof, (c) join in granting any easement thereon, or (d) join in any extension agreement, agreement subordinating the lien or charge hereof, or other agreement or instrument relating hereto or to all or any part of the Collateral. Trustee may take such action at any time, and from time to time, without liability and without notice, and without affecting the personal liability of any person for payment of the indebtedness or the performance of any other Secured Obligation or the effect of this Deed of Trust upon the remainder of the Collateral. Any Trustee lawfully appointed by Beneficiary as a substitute or successor Trustee shall succeed to all the powers and duties of Trustee named herein.

7.17 WAIVER OF JURY TRIAL. GRANTOR HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT OR ANY OTHER LOAN DOCUMENTS AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT AND AN Y OTHER LOAN DOCUMENTS. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

7.18 Counterparts. This Deed of Trust may be executed in any number of counterparts, each of which, when executed, shall be deemed to. be an original, and all of which together shall be deemed to be one and the same instrument.

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

IN WITNESS WHEREOF, Grantor has duly executed this Deed of Trust as of the date first above written.

GRANTOR:
ORM Timber Fund III (REIT) Inc.
By: Olympic Resource Management LLC, its Manager By:
By: Pope MGP, Inc., its Managing Member

By: David L.Nunes
Its: President and CEO

STATE OF WASHINGTON

County of Kitsap

On December 2, 2014 before me, (here insert name and the title of the officer), president and CEO of ORM Timber Fund III (REIT), personally appeared David L. Nunes who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of Washington that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Public for the State of Washington
Residing at Kitsap County
My commission expires 10-09-2016
Printed Name Seanann Card

Beneficiary acknowledges that this Deed of Trust is subject to a security interest in favor of CoBank, FCB (Bank) and by its acceptance hereto and pursuant to and in confirmation of certain agreements and assignments by and between Beneficiary and Bank, does assign, transfer, and set over the same unto Bank, its successors and assigns, to secure all obligations of Beneficiary to Bank, provided that pursuant to such agreements and assignments Beneficiary has authority to perform all loan servicing and collection actions and activities hereunder, including without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this Deed of Trust until the Bank, by instrument recorded in the office in which this Deed of Trust is recorded, revokes such authority.

EXHIBIT A
PROPERTY DESCRIPTION

PARCEL ONE:

Section 1: The Southeast Quarter (SE 1/4), Township 40 North Range 1 West M.D.M.

APN: 028-320-010

PARCEL TWO:

Section 12:All, Township 40 North Range 1 West M.D.M.

APN:028-320-020

PARCEL THREE:

Section **1:** The East Half of the Southeast Quarter (E 1/2 SE 114), Township 41 North Range **1**

West M.D.M

APN: 019-550-030

PARCEL FOUR:

Section 10: The East Half of the Southeast Quarter (E 112 SE 1/4), Township 41 North Range 1

West M.D.M. APN:019-

550-040

PARCEL FIVE:

Section I 1: AN, Township 41 North Range 1 West M.D.M.

APN: 019-550-050

PARCEL SIX:

Section 12: All, Township 41 North Range **1** West M.D.M.

APN: 019-550-060

PARCEL SEVEN:

Section 13: All, Township 41 North Range 1 West M.D.M.

APN: 019-580-040

PARCEL EIGHT:

Section 14:All, Township 41 North Range 1 West M.D.M.

APN: 019-580-030

PARCEL NINE:

Section 15: The East Half (E 1/2), Township 41 North Range 1 West M.D.M.

APN: 019-580-020

PARCEL TEN:

Section 16: All, Township 41 North Range 1 West M.D.M.

APN: 019-570-030

PARCEL ELEVEN:

Section 17: The Northeast Quarter of the Northeast Quarter (NE 1/4 NE 1/4); The South Three-Fourths (S 3/4), Township 41 North Range 1 West M.D.M.

APN: 019-570-020

PARCEL TWELVE:

Section 18: The Northwest Quarter of the Northeast Quarter (NW 114 NE 114); The South Half of the Northeast Quarter (S 1/2 NE 1/4); The West Half (W 1/2); the Southeast Quarter (SE 114), Township 41 North .Range 1 West M.D.M.

APN:019-570-050 & 070

PARCEL THIRTEEN:

Section 19:All, Township 41 North Range 1 West M.D.M.

APN: 019-570-100

PARCEL FOURTEEN:

Section 20: All, Township 41 North Range 1 West M.D.M.

APN: 019-570-060 & 110

PARCEL FIFTEEN:

Section 21: All, Township 41 North Range 1 West M.D.M.

APN: 019-570-040 & 120

PARCEL SIXTEEN:

Section 22: All, Township 41North Range I West M.D.M. APN:019-580-

100 & 050

PARCEL SEVENTEEN :

Section 23: The North Half (N 112), Township 41 North Range 1 West M.D.M.

APN: 019-580-080

PARCEL EIGHTEEN:

Section 24: The Northeast Quarter (NE 1/4); The North Half of the Northwest Quarter (N 1/2 NW 114); The Southwest Quarter of the Northwest Quarter (SW 1/4 NW 114), Township 41 North Range 1West M.D.M.

APN:019-580-090 &120

PARCEL NINETEEN:

Section 28: The Northwest Quarter *(NW* 114); The East Half of the Southwest Quarter (E 1/2 SW 114), Township 41 North Range 1 West M.b.M.

APN: 019-600-040

PARCEL TWENTY:

Section 29: The Northeast Quarter (NE 1/4), Township 41 North Range 1 West M.D.M.

APN : 019-600-030

PARCEL TWENTY ONE:

Section 31:The West Half (W 1/2);The West Half of the Southeast Quarter (W 1/2 SE 114), Township 41 North Range 1 West M.D.M.

APN:019-600-020

PARCEL TWENTY TWO:

Section 36: All, Township 42 North Range l West M.D.M.

APN: 019-530-040

PARCEL TWENTY THREE:

Section 12:The Northeast Quarter of the Northeast Quarter (NE *114* NE 1/4); The South Half of the Northeast Quarter (S 1/2NE 114); The Southeast Quarter of the Northwest Quarter (SE 114NW 1/4);the South lfalf (S 1/2), Township 41 North Range 2 West M.D.M.

APN: 019-370-040

PARCEL TWENTY FOUR:

Section 14: The South Half of the Northeast Quarter (S 112 NE 114); The East Half of the Southwest Quarter (E 112 SW 114);The Southeast Quarter (SE 114), Township 41 North Range 2 West M.D.M.

APN 019-400-030

PARCEL TWENTY FIVE:

Section 15: The South Half (S 1/2), Township 41 North Range 2 West M.D.M.

APN: 019-400-020

PARCEL TWENTY SIX:

Section 24: All, Township 41 North Range 2 West M.D.M.

APN: 019-400-060

PARCEL TWENTY SEVEN:

Section 36: All, Township 41 North Range 2 West M.D.M.

APN: 019-410-040

PARCEL TWENTY EIGHT:

Section 7: All, Township 40 North Range 1 East M.D.M.

APN: 027-020-020 & 060

PARCEL TWENTY NINE:

Section 18: Government Lots 1 and 4; The North Half of the Northeast Quarter (N 112 NE 114), Township 40 North Range 1 East M.D.M.

APN: 027-030-010 & 020

PARCEL THIRTY:

Section 4: All, Township 41 North Range 1 East M.D.M.

APN: 018-140-040

PARCEL THIRTY ONE:

Section 5: All (Which is a portion of "Parcel One" as said Parcel is described in that certain boundary line adjustment, recorded April 27, 1999, as Instrument No. 1999042705007, Siskiyou County Records). Township 41 North Range 1 East M.D.M.

APN: 018-140-030

PARCEL THIRTY TWO:

Section 6: Government Lots 1,4, 5, 6; The South Half of the Northeast Quarter (S 1/2NE 1/4); The Southeast Quarter {SE 1/4), Township 41 North Range 2 East M.D.M.

APN: 018-140-020

PARCEL THIRTY THREE:

Section 7: All, Township 41 North Range 1 East M.D.M.

APN: 018-140-050

PARCEL THIRTY FOUR:

Section 8: All, Township 41 North Range 1 East M.D.M.

APN: 018-140-060

PARCEL THIRTY FIVE:

Section 16: All, Township 41 North Range 1 East M.D.M.

APN: 018-160-030

PARCEL THIRTY SIX:

Section 18: All, Township 41 North Range 1 East M.D.M.

APN: 018-160-010

PARCEL THIRTY SEVEN:

Section 19: All, Township 41 North Range 1 East M.D.M.

APN: 018-160-060

PARCEL THIRTY EIGHT:

Section 20: The West Half of the Southwest Quarter (W 1/2 SW 1/4), Township 41 North Range 1 East M.D.M.

APN: 018-160-070

PARCEL THIRTY NINE:

Section 28: The West Half (W 1/2), Township 41 North Range 1 East M.D.M.

APN: 018-180-050

PARCEL FORTY:

Section 29: All, Township 41 North Range 1 East M.D.M.

APN: 018-180-010

PARCEL FORTY ONE:

Section 32: The Northeast Quarter (NE 114), Township 41 North Range 1 East M.D.M.

APN: 018-180-060

PARCEL FORTY TWO:

Section 30: The Southeast Quarter of the Northeast Quarter (SE 1/4 NE 1/4); The Northeast Quarter of the Southeast Quarter (NE 1/4 SE 114); The South Half of the Southeast Quarter (S 112 SE 114), Township 42 North Range 1 East M.D.M.

APN:018-120-080

PARCEL FORTY THREE:

Section 32: The Southeast Quarter of the Southwest Quarter (SE 114 SW 114); The Southeast Quarter (SE 1/4),

Excepting therefrom all that portion lying Northerly and Easterly of the following described line:

Beginning at the center Quarter of said Section 32, thence on and along the East-West Quarter Section Lme, South 89° 13'07" East, a distance of 284. l2 feet, to the centerline of a gravel road; thence.,, leaving said East-West Quarter Section Line, on and along the centerline of said gravel road, tne following courses; South 26° 52' 13"East, a distance of 64.26 feet; South 01° 06' 59" West , a distance of 87.18 feet; South 26° 02' 02" West, a distance of 216.38 feet; South 08° 56' 37" East, a distance of324.77 feet; South 45° 45' 20" East, a distance of 227.43 feet; South 39° 52' 0411 East, a distance of 421.06 feet; South 46° 37' 1111 East, a distance of 708.94 fee South 38° 17' 43" East, a distance of 646.52 feet; South 27° 23' 30" East, distance of 439.03 feet; outh 08° 40' 26" East, a distance of 88.81 feet, to the centerline of Pilgrim Creek Road Q.(oad Ml l); thence, leaving the centerline of said gravel road, on and along the centerline of said P1lw.i!_n Creek Road, North 68° 41' 42" East, a distance of 858.76 feet, to the East Section Line of said Section 32; thence, leavinR the centerline of said Pilgrim Creek Road, on and along said East Section Line, South 00° 24' 02 West,a distance of385.67 feet, more or less, to the Southeast comer of said Section 32.

(Which is a portion of "Parcel One" as said Parcel is described in that certain boundary line aqjustment, recorded April 27, 1999, as Instrument No. 1999042705007, Siskiyou County Records)

Township 42 North Range 1 East M.D.M.

APN: 018-120-140

PARCEL FORTY FOUR:

Access easement granted pursuant to the Easement dated June 24, 1981 between United States of America, as grantor and Champion International Corporation, as grantee, recorded in Volume 921 at Page 292 et seq.

PARCEL FORTY FIVE:

Access easement granted pursuant to the Indenture dated April 7? 1982 between Southern Pacific Land Company, as grantor and Champion International Corporation, as grantee, recorded in Volume 945 at Page 155 et seq.

PARCEL FORTY SIX:

Access easement granted pursuant to the Easement dated November 4, 1981 between United States of America, as grantor and Champion International Corporation, as grantee, recorded inVolume 1018 at Page 488 et seq.

PARCEL FORTY SEVEN:

Access easement granted pursuant to the Easement dated January 23, 1985 between United States of America, as grantor and Champion International Corporation, as grantee, recorded as Document No. 85001524.

PARCEL FORTY EIGHT:

Access easement granted pursuant to the Indenture dated May 20,1987 between Santa Fe Pacific Timber Company, as grantor and Champion International Corporation, as grantee, recorded as Document No. 87005942.

EXHIBIT B

EXAMPLE
REQUEST FOR FULL RECONVEY ANCE

THE PROMISSORY NOTE OR NOTES, AND ANY EVIDENCES OF FURTHER AND/OR ADDITIONAL ADVANCES
MUST BE PRESENTED WITH THIS REQUEST

TO THE TRUSTEE: [Insert Name]

The undersigned hereby certifies that it is the legal owner and holder of the Note[s] and all other indebtedness secured by the Deed of Trust dated [date] between [Grantor name], Grantor, [Trustee name], Trustee, and [Beneficiary Name], Beneficiary, recorded [date], as Instrument No. [instrument no.], to secure an indebtedness in the amount of $[amount], records of [County], [State]. Said indebtedness has been fully paid and satisfied, and you are hereby requested and directed to cancel said Note[s] above-mentioned and all other evidences of indebtedness secured by said Deed of Trust, and to reconvey without warranty all the estate now held by you thereunder.

Dated: [insert date]

[BENEFICIARY NAME]

[BENEFICIARY SIGNATURE BLOCK]

[ACKNOWLEDGEMENT]

GUARANTY AGREEMENT

(Unconditional Payment)

For good and valuable consideration, the current receipt and reasonable equivalence of which are hereby acknowledged, Guarantor, as defined below, hereby, jointly and severally, irrevocably, unconditionally and absolutely promises to pay in legal tender of the United States, and hereby guarantees payment, and not merely collection, and performance, when and as due, of all of the Indebtedness, as defined below, of Borrower, as defined below, to Lender, as defined below, or order, including but not limited to, payment and performance of the Indebtedness of Borrower under a Note dated of or around even date in the initial principal commitment amount of $17,980,000.00 (the "Note"), as evidence for Note No. 6214502 (the "Loan").

1. Definitions.

"Borrower" means, collectively, ORM Timber Fund III (REIT) Inc., a Delaware corporation.

"Collateral" means all the property pledged to secure the Loan, as described in the Loan Documents.

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

"Guarantor" means ORM Timber Fund Ill LLC, a Delaware limited liability company, and ORM Timber Fund Ill (Foreign) LLC, a Delaware limited liability company.

"Guaranty" means this Guaranty Agreement made by Guarantor for the continuing benefit of Lender.

"Indebtedness" is used in this Guaranty in its most comprehensive sense and means and includes any and all of Borrower's liabilities, obligations, debts and Indebtedness owed under the Note and or other Loan Documents to Lender, now existing or hereinafter incurred or created, including without limitation, all Loan advances, repayment of all principal, payment of interest, prepayment fees, breakage fees, loan fees, unused commitment fees, cost and expenses as defined in the Note and all costs and expenses described in any other Loan Documents, other obligations and liabilities of Borrower, or any of them, and any present or future judgments against Borrower, or any of them; and whether any such Indebtedness is voluntarily or involuntarily incurred, due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined; whether Borrower may be liable individually or jointly with others, or primarily or secondarily, or as guarantor or surety; whether recovery on the Indebtedness may be or may become barred or unenforceable against Borrower for any reason whatsoever; and whether the Indebtedness arises from transactions that may be voidable on account of infancy, incapacity, incompetency, ultra vires or otherwise.

"Lender" means Northwest Farm Credit Services, FLCA and its agents, successors and assigns. Lender1s physical address is 1700 South Assembly Street, Spokane, WA 99224-2121, and mailing address is P. 0. Box 2515, Spokane, WA 99220-2515, and may be changed by Lender by providing written notice of the change to Guarantor.

"Loan Documents" means and includes without limitation, the Note, Master Loan Agreement, Membership Agreement, environmental indemnities, guaranties, security agreements, mortgages, deeds of trust and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan and Indebtedness, and all extensions, renewals, amendments, modifications, substitutions and replacements thereof.

2. Nature of Guaranty. Guarantor acknowledges that Lender was willing to make the Loan to Borrower or is willing to provide additional advances only on the condition that Guarantor duly execute and deliver this Guaranty to Lender. Guarantor also acknowledges that Guarantor is an affiliate of Borrower and that the business organization of Borrower , Guarantor and their affiliates, if any, is such that the Loan will benefit Guarantor either (a) because Guarantor is a direct or indirect investor in Borrower, or (b) because the proceeds of the Loan will enable Borrower, or an affiliate of Borrower, to purchase assets at prices and on terms that will enhance the prospects of Guarantor, Borrower or their affiliates operating at a profit. Guarantor's liability under this Guaranty shall be open and continuous for so long as the Indebtedness exists. No payments made upon the Indebtedness will discharge or diminish the liability of Guarantor in connection with any remaining portions of the Indebtedness or any of the Indebtedness that subsequently arises or is thereafter incurred or contracted.

3. Attorney's Fees and Costs. The liability of Guarantor under this Guaranty shall include all of Lendds expenses and attorneys1 fees incurred in connection with or relating to (a) the collection of the Indebtedness, (b) the collection and sale of any Collateral for the Indebtedness or any Collateral given for this Guaranty, or (c) the enforcement of this Guaranty or any other Guaranty given to Lender by another guarantor to guaranty the Indebtedness. Attorneys 1 fees include without limitation, attorneys' fees whether or not there is a lawsuit or bankruptcy proceeding, and if there is a lawsuit or bankruptcy proceeding, any fees and costs for hearings, trial and appeals. If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor , the rights of Lender under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. The liability of Guarantor will be the aggregate liability of Guarantor under the terms of this Guaranty and any such other unterminated guaranties.

4. Dura tion of Guaranty. This Guaranty will take effect when an executed copy is received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all Indebtedness incurred or contracted shall have been fully and finally paid and satisfied and all other obligations of Guarantor under this Guaranty shall have been performed in full. All renewals, extensions, substitutions and modifications of the Indebtedness are contemplated under this Guaranty. This Guaranty shall bind the estate of Guarantor as to Indebtedness created both before and after the death, incapacity or incompetency of Guarantor, regardless of Lender's actual notice of Guarantor's death. If the Indebtedness is for a revolving line of credit, the terms of which permit Borrower to borrow, repay and reborrow Loan proceeds, then fluctuations may occur in the aggregate amount of the Indebtedness covered by this Guaranty, and it is specifically acknowledged and agreed by Guarantor that reductions in the amount of Indebtedness, even to zero dollars ($0.00), shall not constitute a termination of this Guaranty. This Guaranty is binding upon Guarantor and Guarantor's successors and assigns so long as any of the guaranteed Indebtedness remains unpaid and even though the Indebtedness guaranteed may from time to time be zero dollars ($0.00).

5. Guarantor's Authorization to Lender. Guarantor authorizes Lender, without notice or demand, and without reducing Guarantor's liability under this Guaranty, from time to time:
(a) to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other property to Borrower, or otherwise to extend additional credit to Borrower; (b) to alter, compromise, renew, extend, accelerate or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness, extensions may be repeated and may be for longer than the original Loan term; (c) to take and hold Collateral for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect and release any such Collateral, with or without the substitution of new Collateral; (d) to release, substitute, agree not to sue or deal with any one or more of the Borrowers, the Borrower's sureties, endorsers or other guarantors on any terms or in any manner Lender may choose; (e) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (f) to direct the order or manner of sale of the Collateral, including without limitation, any nonjudicial sale permitted by the terms of the controlling Loan Documents Lender in its discretion may determine; (g) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (h) to assign or transfer this Guaranty in whole or in part.

6. Guarantor's Representations and Warranties. Guarantor represents and warrants to Lender that (a) no representations or agreements of any kind have been made to Guarantor that would limit or qualify in any way the terms of this Guaranty; (b) Guarantor has full power, right and authority to enter into this Guaranty; (c) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor;
(d) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (e) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information that has been, and all future financial information that will be provided to Lender is and will be true and correct in all material respects and fairly presents the financial condition of Guarantor, as of the dates the financial information is provided; (f) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred that may materially adversely affect Guarantor's financial condition; (g) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; and (h) Lender has made no representation to Guarantor as to the creditworthiness of Borrower.

In the event Borrower becomes the subject of an insolvency proceeding, Guarantor authorizes Lender to continue to extend credit to Borrower as debtor-in-possession or otherwise without thereby affecting Guarantor's liability under this Guaranty for repayment of all loans and credit extensions made to Borrower before or after the commencement of such proceedings. This Guaranty specifically includes any amount that Lender may be required to repay on account of a voided transfer. Regardless of the payment of the Indebtedness hereby guaranteed , the liability of Guarantor to Lender will continue until 10 days after the expiration of the longest of any potentially applicable federal or state statute of limitations relating to preferences and fraudulent transfers.

7. Guarantor's Waivers.

7.1 Except as prohibited by applicable law, Guarantor hereby waives any right to require Lender to: (a) make any presentment , protest, demand or notice of any kind, including notice of change or any terms of repayment of the Indebtedness, default by Borrower or any other guarantor or surety, any action or nonaction taken by Borrower, Lender, or any other guarantor or surety of Borrower, or the creation of new or additional Indebtedness; (b) proceed against any person, including Borrower, before proceeding against Guarantor; (c) proceed against any Collateral for the Indebtedness, including Collateral provided by Guarantor, before proceeding against Guarantor; (d) apply any payments or proceeds received against the Indebtedness in any order ; (e) give notice of the terms, time and place of any sale of the Collateral pursuant to the Uniform Commercial Code or any other law governing such sale; (f) disclose any information about the Indebtedness, the Borrower, the Collateral or any other guarantor or surety, or about any action or nonaction of Lender; or (g) pursue any remedy or course of action in Lender's power whatsoever.

7.2 Guarantor also waives any and all rights or defenses arising by reason of : (a) any disability or other defense of Borrower, any other guarantor or surety or any other person ; (b) the cessation from any cause whatsoever, other than payment in full, of the Indebtedness; (c) the application of proceeds of the Indebtedness by Borrower for purposes other than the purposes understood and intended by Guarantor and Lender; (d) any act of omission or commission by Lender, which directly or indirectly results in or contributes to the discharge of Borrower or any other guarantor or surety or the Indebtedness, or the loss or release of any Collateral by operation of law or otherwise; (e) any statute of limitations in any action under this Guaranty or on the Indebtedness; or (f) any modification or change in forms of the Indebtedness, whatsoever, including without limitation, the renewal, extension, acceleration or other change in the time payment of the Indebtedness is due and any change in the interest rate, and including any such modification or change in terms after revocation of this Guaranty on the Indebtedness incurred prior to such revocation. Until all Indebtedness is paid in full, Guarantor waives all rights and any defenses Guarantor may have arising out of an election of remedies by Lender. This waiver includes, without limitation, any loss of rights Guarantor may suffer by reason of any rights or protections of Borrower in connection with any anti-deficiency laws or other laws limiting or discharging the Indebtedness or Borrower's obligations . Guarantor waives all rights and protections of any kind that Guarantor may have for any reason, which would affect or limit the amount of any recovery by Lender from Guarantor following a nonjudicial sale or judicial foreclosure of any real or personal property Collateral for the Indebtedness, including but not limited to, the right of any fair market value hearing. Guarantor understands and agrees that the foregoing waivers are waivers of substantive rights and defenses to which Guarantor might otherwise be entitled under state and federal law. The rights and defenses waived, include without limitation, those provided by applicable laws of suretyship, guaranty, foreclosure, anti-deficiency laws and the Uniform Commercial Code. Guarantor acknowledges that Guarantor has provided these waivers of rights and defenses with the intention that they be fully relied upon by Lender. Until all Indebtedness is paid in full, Guarantor waives any right to enforce any remedy Lender may have against Borrower or any other guarantor, surety or other person; and further, Guarantor waives any right to participate in any Collateral for the Indebtedness now or hereafter held by Lender.

7.3 If now or hereafter (a) Borrower shall be or become insolvent, and (b) the Indebtedness shall not at all times until paid be fully secured by Collateral pledged by Borrower, Guarantor hereby forever waives and relinquishes in favor of Lender and Borrower, and their respective successors, any claim or right to payment Guarantor may now have or hereafter have or acquire against Borrower, by subrogation or otherwise, so that at no time shall Guarantor be or become a creditor of Borrower within the meaning of the Federal bankruptcy laws.

7.04 Notwithstanding the waivers set forth above and the authorizations of Guarantor provided to Lender in Paragraph 5 hereof, Lender, in Lender's sole discretion, may from time to time condition any of the foregoing actions upon notice to or the consent of Guarantor with or without obtaining the consent of any other guarantors or sureties and or may, and without the duty to do so, from time to time give Guarantor notice of any of the foregoing actions without giving notice to any other guarantor.

8. Guarantor's Understanding With Respect to Waivers. Guarantor warrants that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

9. Lender's Right of Setoff. In addition to all liens upon and rights of setoff against the moneys, Collateral or other property of Guarantor given to Lender by law, Lender shall have, with respect to Guarantor's obligations to Lender under this Guaranty, and to the extent permitted by law, a contractual possessory security interest in and a right of setoff against, and Guarantor hereby assigns, conveys, delivers, pledges and transfers to Lender all of Guarantor's right, title and interest in and to, any stock owned by Guarantor held by Northwest Farm Credit Services, ACA in connection with the Indebtedness and to moneys of Guarantor now or hereafter held in any Future Payment Fund Account with Lender, whether or not held jointly with someone else. Every such security interest and right of setoff may be exercised without demand upon or notice to Guarantor. No security interest or right of setoff shall be deemed to have been waived by any act or conduct on the part of Lender or by any neglect to exercise such right of setoff or to enforce such security interest or by any delay in so doing. Every right of setoff or security interest shall continue in full force and effect until such right of setoff or security interest is specifically waived or released by instrument in writing executed by Lender.

10. Subordination of Borrower's Debts to Guarantor. Guarantor agrees that the Indebtedness of Borrower to Lender, whether now existing or hereafter created , shall be prior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy , by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness of Borrower to Lender. Guarantor does hereby assign to Lender all claims that it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to execute and file financing statements and to execute such other document and to take such other actions, as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

11. Default. Upon an event of default by Borrower under the Loan Documents, Lender may make demand upon Guarantor for payment of the Indebtedness of Borrower. In such event, Guarantor shall promptly pay Lender the full amount of the Indebtedness of Borrower, or such portion as then demanded by Lender, and failure to so pay shall constitute an event of default hereunder, which shall entitle Lender to exercise its rights and remedies under this Guaranty, under any other agreement , if any, between Lender and Guarantor, and under applicable law, with respect to the Collateral, all of which rights and remedies shall be cumulative and not exclusive.

12. Financial Condition of Borrower. Guarantor delivers this Guaranty based solely on its independent investigation of Borrower's financial condition and Guarantor assumes full responsibility for obtaining any further information.

13. Miscellaneous Provisions. The following miscellaneous provisions are a part of this Guaranty:

13.1 Integration, Amendment. Guarantor warrants, represents and agrees that this Guaranty, together with any exhibits or schedules incorporated herein, fully incorporates the agreements and understandings of Guarantor with Lender with respect to the subject matter hereof, and all prior negotiations, drafts and other extrinsic communications between Guarantor and Lender shall have no evidentiary effect whatsoever. Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty and that Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty, the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty . Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this Guaranty. No alteration or amendment to this Guaranty shall be effective, unless given in writi ng and signed by the parties sought to be charged or bound by the alteration or amendment.

13.2 Applicable Law. This Guaranty shall be governed, interpreted and construed m accordance with the laws of the State of Washington.

13.3 Jurisdictional Consent. Guarantor irrevocably submits to the jurisdiction of any state or federal court sitting in the State of Washington, in any action or proceeding relating to this Guaranty and waives any and all claims that such forum is inconvenient or that there is a more convenient forum located elsewhere.

13.4 Notices. All notices required to be given by either party to the other under this Guaranty shall be in writing, may be sent by facsimile, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier, or when deposited in the United States mail, first class postage prepaid, addressed to the party to whom the notice is to be given at such addresses as either party may designate to the other party in writing. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address.

13.5 Interpretation. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower" and "Lender" include the heirs, successors, assigns and transferees of each of them. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty . If a court of competent jurisdiction finds any provisions of this Guaranty to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances.

13.6 Lender's Waiver. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's right or of any of Guarantor 's obligations as to any future transactions . Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases, such consent may be granted or withhe ld in the sole discretion of Lender.

13.7 **Credit Bureau Inquiries.** Guarantor authorizes Lender to obtain business credit bureau reports on Guarantor at any time .

13.8 **Counterparts** . This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

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

14. **Survival.** Insofar as this Guaranty relates to Borrower's obligations to indemnify Lender pursuant to the terms of any indemnity provided to Lender by Borrower or an affiliate of Borrower in connection with the Indebtedness being guaranteed hereunder , thi s Guaranty shall survive repayment of the Loan or foreclosure or acceptance of a deed in lieu of foreclosure by Lender.

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

Dated: December 2, 2013

ORM Timber Fund III LLC
By: Olympic Resource Management LLC, its Manager
By: **Pope MGP, Inc., its Managing Member**

By: David L. Nunes
Its: President and CEO

ORM Timber Fund III (Foreign) LLC
By: Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member

By: David L. Nunes
Its: President and CEO

Exhibit 21.1

Subsidiary	State of Formation
OPG Properties LLC	Washington
Olympic Property Group I LLC	Washington
ORM, Inc.	Washington
Olympic Resource Management LLC	Washington
ORM Timber Fund I, LP	Delaware
ORM Timber Fund II, Inc.	Delaware
ORM Timber Fund III (REIT) Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in the registration statement No. 333-128245 on Form S-8 of Pope Resources, A Delaware Limited Partnership, of our reports dated March 5, 2014, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income (loss), partners' capital, and cash flows, for each of the years in the three-year period ended December 31, 2013, and the effectiveness of internal control over financial reporting as of December 31, 2013, which reports appear in the December 31, 2013 annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership.

/s/ KPMG

Seattle, Washington
March 5, 2014

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David L. Nunes, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2014

/s/ David L. Nunes
David L. Nunes
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2014

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources (the “Company”) on Form 10-K for the period ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David L. Nunes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company’s filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ David L. Nunes
David L. Nunes
Chief Executive Officer

March 5, 2014

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Financial Officer

March 5, 2014