

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

Commission File Number **1-9035**

POPE RESOURCES, A DELAWARE
LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1313292
(IRS Employer
Identification Number)

19245 10th Avenue NE, Poulsbo, WA 98370

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

(Address of principal executive offices including zip code)

(Registrant's telephone number including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-2 of the Exchange Act) Yes No

Partnership units outstanding at October 30, 2009: 4,576,434

Pope Resources
Index to Form 10-Q Filing
For the Quarter Ended September 30, 2009

Description	Page Number
Part I. Financial Information	
Item 1 Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Operations	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures about Risk	38
Item 4. Controls and Procedures	38
Part II. Other Information	
Item 1. Legal Proceedings	39
Item 1A. Risk Factors	39
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3. Defaults Upon Senior Securities	41
Item 4. Submission of Matters to a Vote of Security Holders	41
Item 5. Other Information	41
Item 6. Exhibits	42
Signatures	43

PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Pope Resources, a Delaware Limited Partnership
September 30, 2009 and December 31, 2008
(Thousands)

	2009	2008
Assets		
Current assets:		
Pope cash and cash equivalents	\$ 3,879	\$ 15,931
ORM Timber Funds cash and cash equivalents	33,813	2,047
Cash and cash equivalents	<u>37,692</u>	<u>17,978</u>
Student loan auction rate securities, current	890	-
Accounts receivable, net	812	500
Land held for sale	553	596
Current portion of contracts receivable	37	477
Prepaid expenses and other	417	295
Total current assets	<u>40,401</u>	<u>19,846</u>
Properties and equipment, at cost:		
Land held for development	25,269	23,931
Land	20,346	20,449
Roads and timber (net of accumulated depletion of \$54,189 and \$52,552)	91,500	92,753
Buildings and equipment (net of accumulated depreciation of \$7,534 and \$7,360)	3,714	3,565
	<u>140,829</u>	<u>140,698</u>
Other assets:		
Contracts receivable, net of current portion	1,373	994
Student loan auction rate securities, non-current	2,741	3,619
Other	2,292	254
	<u>6,406</u>	<u>4,867</u>
Total assets	<u>\$ 187,636</u>	<u>\$ 165,411</u>
Liabilities, partners' capital, and noncontrolling interests		
Current liabilities:		
Accounts payable	\$ 431	\$ 635
Accrued liabilities	608	863
Current portion of environmental remediation	150	300
Current portion of long-term debt	831	1,417
Deferred revenue	433	205
Other current liabilities	201	161
Total current liabilities	<u>2,654</u>	<u>3,581</u>
Long-term debt, net of current portion	28,666	28,169
Environmental remediation, net of current portion	1,153	1,254
Other long term liabilities	162	236
Partners' capital (units outstanding 4,520 and 4,599)	83,804	87,817
Accumulated other comprehensive income	109	-
Noncontrolling interests	71,088	44,354
Total partners' capital and noncontrolling interests	<u>155,001</u>	<u>132,171</u>
Total liabilities, partners' capital, and noncontrolling interests	<u>\$ 187,636</u>	<u>\$ 165,411</u>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Pope Resources, a Delaware Limited Partnership

For the Three Months and Nine Months Ended September 30, 2009 and 2008

(Thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues	\$ 6,615	\$ 7,436	\$ 15,260	\$ 25,028
Cost of timber and land sold	(1,946)	(4,167)	(6,026)	(13,135)
Operating expenses	(1,761)	(2,536)	(5,346)	(6,946)
General and administrative expenses	(790)	(1,022)	(2,535)	(2,916)
Income (loss) from operations	<u>2,118</u>	<u>(289)</u>	<u>1,353</u>	<u>2,031</u>
Other income (expense):				
Interest expense	(555)	(613)	(1,765)	(1,853)
Debt extinguishment costs	(1,137)	-	(1,137)	-
Capitalized interest	235	321	853	940
Interest income	35	237	167	850
Impairment of investments	(15)	(293)	(72)	(293)
Total other expense	<u>(1,437)</u>	<u>(348)</u>	<u>(1,954)</u>	<u>(356)</u>
Income (loss) before income taxes	681	(637)	(601)	1,675
Income tax benefit (expense)	(1)	51	(6)	(6)
Net income (loss)	<u>680</u>	<u>(586)</u>	<u>(607)</u>	<u>1,669</u>
Net loss attributable to noncontrolling interests:				
ORM Timber Funds	240	563	711	932
Net income (loss) attributable to unitholders	<u>\$ 920</u>	<u>\$ (23)</u>	<u>\$ 104</u>	<u>\$ 2,601</u>
Allocable to general partners	\$ 12	\$ -	\$ 1	\$ 34
Allocable to limited partners	908	(23)	103	2,567
	<u>\$ 920</u>	<u>\$ (23)</u>	<u>\$ 104</u>	<u>\$ 2,601</u>
Earnings (loss) per unit attributable to unitholders:				
Basic	<u>\$ 0.20</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.55</u>
Diluted	<u>\$ 0.20</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.54</u>
Weighted average units outstanding:				
Basic	<u>4,515</u>	<u>4,585</u>	<u>4,545</u>	<u>4,596</u>
Diluted	<u>4,566</u>	<u>4,585</u>	<u>4,585</u>	<u>4,691</u>
Distributions per unit	<u>\$ 0.20</u>	<u>\$ 0.40</u>	<u>\$ 0.60</u>	<u>\$ 1.20</u>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Pope Resources, a Delaware Limited Partnership
 Nine Months Ended September 30, 2009 and 2008
 (Thousands)

	2009	2008
Net income (loss)	\$ (607)	\$ 1,669
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion	1,449	3,537
Unit based compensation	467	422
Depreciation and amortization	615	578
Impairment of student loan auction rate securities	72	293
Deferred taxes	(140)	(17)
Cost of land sold	119	2,560
Capitalized development activities, net of reimbursements	(1,225)	(2,225)
Gain on fixed asset sales	(19)	(3)
Change in operating accounts:		
Deferred revenue	90	30
Accounts receivable	(312)	(106)
Contracts receivable	61	48
Prepaid expenses and other current assets	(87)	18
Accounts payable	(204)	(485)
Accrued liabilities	(185)	(746)
Other current liabilities	40	69
Environmental remediation	(251)	(234)
Other long-term liabilities	(74)	(72)
Other long-term assets	-	381
Net cash provided by (used in) operating activities	<u>(191)</u>	<u>5,717</u>
Cash provided by (used in) investing activities:		
Redemption of investments	25	16,175
Reforestation and roads	(395)	(723)
Proceeds from fixed asset sale	50	42
Other capital expenditures	(571)	(481)
ORM Timber Fund II, Inc. acquisition advance	(1,927)	-
Net cash provided by (used in) investing activities	<u>(2,818)</u>	<u>15,013</u>
Cash provided by (used in) financing activities:		
Unit repurchase	(1,824)	(3,642)
Repayment of long-term debt	(1,410)	(1,343)
Extinguishment of long-term debt	(8,479)	-
Proceeds from issuance of long-term debt	9,800	-
Debt issuance costs	(48)	-
Proceeds from option exercises	-	352
Capital call- ORM Timber Fund II, Inc.	27,445	370
Noncontrolling interests distribution	-	(800)
Unitholder distributions	(2,761)	(5,573)
Net cash provided by (used in) financing activities	<u>22,723</u>	<u>(10,636)</u>
Net increase in cash and cash equivalents	19,714	10,094
Cash and cash equivalents at beginning of period	<u>17,978</u>	<u>2,174</u>
Cash and cash equivalents at the end of the nine-month period	<u>\$ 37,692</u>	<u>\$ 12,268</u>

See accompanying notes to condensed consolidated financial statements.

POPE RESOURCES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2009

1. The condensed consolidated financial statements as of September 30, 2009 and December 31, 2008 and for the three-month periods (quarters) and nine-month periods ended September 30, 2009 and September 30, 2008 have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The condensed consolidated financial statements are unaudited, but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2008, is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2008, and should be read in conjunction with such financial statements. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2009. We have evaluated subsequent events for recognition or disclosure through November 5, 2009, which was the date we filed this Form 10-Q with the SEC.
2. The financial statements in the Partnership's 2008 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.
3. In December 2007, the Financial Accounting Standards Board (FASB) issued new guidance on noncontrolling interests which requires noncontrolling interests (previously referred to as minority interests) in consolidated subsidiaries to be reported as a component of equity, which changes the accounting for transactions involving a noncontrolling interest. In the balance sheet, noncontrolling interests for all periods presented are now classified in the equity section, below Partners' Capital. In the statement of operations, net income (loss) is presented excluding the impact of net loss attributable to noncontrolling interests to arrive at net income (loss) attributable to the Partnership's unitholders. The Partnership adopted the standard in the first quarter of 2009.

In June 2008, the FASB issued a staff position providing additional guidance in determining whether share-based payments are participating securities for earnings-per-share calculations. The guidance, adopted by the Partnership in the first quarter of 2009, requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be considered participating securities. The impact to the Partnership was not material for the quarters and nine-month periods ended September 30, 2009 or 2008.

In April 2009, the FASB issued a staff position which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This standard is effective for interim reporting periods ending after June 15, 2009. The Partnership adopted this standard in the second quarter of 2009. The implementation of the standard did not have a material impact on the Partnership's financial position or results of operations.

In April 2009, the FASB issued a staff position which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance is effective for interim reporting periods ending after June 15, 2009. The Partnership adopted this standard in the second quarter of 2009. The adoption of the standard did not have a material impact on the Company's financial position or results of operations.

Also in April 2009, the FASB issued a staff position providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. This standard is effective for reporting periods ending after June 15, 2009. The Partnership adopted this standard in the second quarter of 2009, which did not have a material impact on the Company's financial position or results of operations.

In May 2009, the FASB issued new guidance on subsequent events. The pronouncement, adopted by the Partnership in the second quarter of 2009, makes management directly responsible for subsequent-events accounting and disclosure. The guidance requires management to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were widely distributed to unitholders, defined as issued, or the date the financial statements are in a complete form and format that complies with Generally Accepted Accounting Principles (GAAP) and all management and board approvals, defined as the date the financial statements are available to be issued. The adoption of the pronouncement resulted in additional disclosures in Notes 1 and 11.

In June 2009, the FASB Accounting Standards Codification (Codification) was issued. The pronouncement establishes the Codification as the source of authoritative guidance for non-governmental entities on U.S. generally accepted accounting principles. The third quarter 2009 adoption of the pronouncement did not have a material impact on the Company's financial position or results of operations.

4. Basic net earnings (loss) per unit are based on the weighted average number of units outstanding during the period. Diluted net earnings per unit is calculated by dividing net income (loss) attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders, 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. Unit equivalents are excluded from the computation if their effect is anti-dilutive, as is the case when the company has net loss for the period. For computing the dilutive effect of unit options for the quarter and nine months ended September 30, 2009, 51 and 40 unit equivalents outstanding were included in the calculation of fully diluted units outstanding, respectively.

For the quarter and nine months ended September 30, 2009, options to purchase 11,556 and 42,469 units, respectively, at prices ranging from \$21.00 to \$37.73 were not included in the calculation as they were anti-dilutive.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income (loss) attributable to Pope Resources' unitholders	920	(23)	104	2,601
Nonforfeitable distributions paid to unvested restricted unitholders	(11)	(25)	(34)	(74)
Net income (loss) to outstanding unitholders	909	(48)	70	2,527
Weighted average units outstanding (in thousands):				
Basic	4,515	4,585	4,545	4,596
Dilutive effect of unit equivalents	51	-	40	95
Diluted	4,566	4,585	4,585	4,691
Earnings (loss) per unit: Basic	\$ 0.20	\$ (0.01)	\$ 0.02	\$ 0.55
Earnings (loss) per unit: Diluted	\$ 0.20	\$ (0.01)	\$ 0.02	\$ 0.54

Options to purchase 163,000 and 190,000 units at prices ranging from \$9.30 to \$37.73 per unit were outstanding as of September 30, 2009 and 2008, respectively.

5. In 2005, we adopted the 2005 Unit Incentive Plan. Following adoption of this new plan the Human Resources Committee of the Board of Directors began issuing restricted units instead of unit options as its primary method of granting equity based compensation. However, that plan permits the issuances of unit options, unit appreciation rights and other equity compensation at the discretion of the Human Resources Committee.

Restricted Units

As of September 30, 2009, total compensation expense not yet recognized related to non-vested restricted unit awards was \$690,000 with a weighted average 19 months remaining to vest.

Restricted units	September 30, 2009
Number outstanding	56,195
Aggregate value	\$ 1,349,000

Unit Options

Unit options have not been granted since December 2005. Units options granted prior to January 1, 2006 were non-qualified options granted at an exercise price not less than 100% of the fair value on the grant date. Unit options granted to employees vested over four or five years. Board members had the option of receiving their annual retainer in the form of unit options and those options vested immediately as they were granted monthly for services rendered during the month. Options granted have a life of ten years.

Options Outstanding and Exercisable	September 30, 2009
Number outstanding	163,053
Weighted average exercise price	\$ 15.86
Aggregate intrinsic value	\$ 1,346,000
Weighted average remaining contractual term (yrs)	2.57

6. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled \$2.0 million and \$1.1 million for the nine months ended September 30, 2009 and 2008, respectively. We received income tax refunds of \$63,000, net of income taxes paid of \$7,000, for the nine months ended September 30, 2009 compared to \$12,000 income tax paid for the nine months ended September 30, 2008.

Non-cash investing activities includes \$138,000 for land recovered in lieu of foreclosure in the third quarter of 2009.

During the quarter ended September 30, 2009, the Partnership changed its classification of cash flows to include real estate development capital expenditures within cash flows from operating activities. Prior to the quarter ended September 30, 2009, these expenditures were reported within investing activities within the Partnership's statement of cash flows. We concluded that this change is preferable because the cash inflows and cash outflows associated with land held for sale and land held for development should be classified in a consistent manner and that classification within operating activities better reflects the fact that these cash outflows are directly related to the Partnership's operations of developing and selling real estate. Furthermore, this change makes our reporting consistent with that of other companies that similarly conduct both timberland and real estate development activities. Certain accounts in the prior year statement of cash flows have been revised for comparative purposes to conform to the presentation in the current year financial statements. The table below details the changes made to the 2008 statement of cash flows.

(Thousands)	As Originally Reported	Adjustments	As Revised
Cash flows from operating activities:			
Capitalized development activities	-	(2,225)	(2,225)
Net cash provided by operating activities	7,942	(2,225)	5,717
Cash flows from investing activities:			
Capitalized development activities	(2,225)	2,225	-
Net cash provided by investing activities	12,788	2,225	15,013

7. The fair values of cash and cash equivalents and investments held at September 30, 2009 and December 31, 2008 are as follows (in thousands):

	September 30, 2009			
	Gross			
	Amortized Cost	Unrealized Loss	Realized Gain	Estimated Fair Value
Cash and cash equivalents	\$ 37,692	\$ -	\$ -	\$ 37,692
Securities maturing after ten years:				
Auction rate securities, current	1,000	(110)	-	890
Auction rate securities, non-current	2,975	(237)	3	2,741

	December 31, 2008			
	Gross			
	Amortized Cost	Unrealized Loss	Realized Gain	Estimated Fair Value
Cash and cash equivalents	\$ 17,978	\$ -	\$ -	\$ 17,978
Auction rate securities, non-current	4,000	(381)	-	3,619

There was a realized gain of \$3,000 in the nine-month period ended September 30, 2009 compared with no realized gain or loss for the comparable period in 2008. The realized gain resulted from a redemption at par for a \$25,000 portion of one of the four Student Loan Auction Rate Securities (“SLARS”) in our portfolio. The \$3,000 gain represents the amount by which the redemption proceeds exceeded the basis, as adjusted for previous impairments.

At September 30, 2009, Pope Resources held SLARS with a par value of nearly \$4.0 million and an estimated fair value of \$3.6 million. SLARS are collateralized long-term debt instruments that were designed to provide liquidity through a Dutch auction process that reset the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed when sell orders exceeded buy orders. When these auctions failed to clear, default interest rates went into effect. The underlying assets of the SLARS we hold, including the securities for which auctions have failed, are student loans which are guaranteed by the U.S. Department of Education for 97% of the loan and interest due.

In early October 2009, we received and accepted an “invitation to offer” from one of the four SLARS issuers, the result of which was the redemption of a portion of our position at an 11% discount to the \$1.0 million par value. As a result of the tender offer and subsequent redemption of that SLARS position, we recorded \$15,000 of impairment expense in the third quarter of 2009 related to this security.

We have filed a claim with the Financial Industry Regulatory Authority (FINRA) against the broker that sold us the \$4.0 million par value of SLARS. The FINRA claim is currently in arbitration and the results of the binding arbitration will not be known until the arbitration panel issues its decision which is expected sometime in November 2009. Short of the panel’s decision providing a settlement in full for our outstanding position, the principal amount of these securities, other than the \$890,000 redeemed in October 2009, will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures.

Management believes that the working capital and borrowing capacity available to the Partnership excluding the funds invested in SLARS will be sufficient to meet cash requirements for at least the next 12 months.

8. ASC 820 *Fair Value Measurements and Disclosures* (FASB Statement No. 157 Fair Value Measurement (SFAS No. 157)) was followed to determine the fair value of the Partnership's investments. ASC 820 (SFAS No. 157) defines a hierarchy of three levels of evidence used to determine fair value:

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

Under current credit market conditions, there is no market for SLARS, thus limiting available Level 1 inputs for use in determining a market value to a recent tender offer. SLARS are unique and there are no actively traded markets that one can observe to determine a value for the SLARS unless a tender offer is received. The tender offer was evidence of a determinable price for one of four SLARS holdings, resulting in a transfer of that holding from Level 3 to Level 1. The following table provides the fair value measurements of applicable Partnership financial assets according to the levels defined in ASC 820 (SFAS No. 157) as of September 30, 2009 and December 31, 2008:

	September 30, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 37,692	\$ -	\$ -	\$ 37,692
Auction rate securities, current	890	-	-	890
Auction rate securities, non-current	-	-	2,741	2,741
Total financial assets at fair value	\$ 38,582	\$ -	\$ 2,741	\$ 41,323

	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 17,978	\$ -	\$ -	\$ 17,978
Auction rate securities, non-current	-	-	3,619	3,619
Total financial assets at fair value	\$ 17,978	\$ -	\$ 3,619	\$ 21,597

For the remaining portfolio, we identified market interest rates for similar securities, performed a discounted cash flow calculation using these alternative interest rates and considered the impact of illiquidity as well as the "invitation to offer" on the value of the securities. This method represents a Level 3 input, and represents the best evidence we have to indicate value under current market conditions. The table below summarizes the change in the condensed consolidated balance sheet carrying value associated with Level 3 financial assets for the nine months ended September 30, 2009 and 2008:

Activity for Securities Valued Using Level 3 Inputs	2009	2008
Balance at December 31, 2008 and 2007	\$ 3,619	\$ -
Transfers into Level 3	-	15,850
Transfers out of Level 3	(890)	-
Redemptions	(25)	(5,000)
Unrealized losses included in statement of operations	(75)	(293)
Total unrealized gain (loss) included in other comprehensive loss	109	(1,302)
Realized gain included in statement of operations	3	-
Balance at September 30,	\$ 2,741	\$ 9,255

Total comprehensive income for the three-month period ended September 30, 2009 is \$648,000 which includes net income for the quarter offset by the unrealized loss of \$32,000 on SLARS compared to total comprehensive loss of \$734,000 for the comparable period in 2008. Total comprehensive loss for the nine-month period ended September 30, 2009 is \$498,000 which consists of net loss of \$607,000 offset by the unrealized gain of \$109,000 on the SLARS portfolio versus total comprehensive income of \$367,000 for the nine-month period in 2008 which consists of net income of \$1.7 million and a temporary asset impairment charge of \$1.3 million on the SLARS portfolio.

9. 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 and income (loss) between the general and limited partners is pro rata among all units outstanding.

10. In the presentation of the Partnership's revenue and operating income by segment all intersegment revenue and expense is eliminated to determine externally reported operating income by business segment. The table that follows reconciles internally reported income from operations to externally reported income (loss) from operations by business segment, for the quarters and nine-month periods ended September 30, 2009 and 2008:

Three Months Ended September 30, (Thousands)	Fee Timber			Timberland Management & Consulting	Real Estate	Other	Consolidated
	Pope Resources Timber	Timber Funds	Total Fee Timber				
2009							
Revenue internal	\$ 2,905	\$ 3	\$ 2,908	\$ 269	\$ 3,726	\$ -	\$ 6,903
Eliminations	(46)	-	(46)	(230)	(12)	-	(288)
Revenue external	2,859	3	2,862	39	3,714	-	6,615
Cost of timber and land sold	(1,752)	-	(1,752)	-	(194)	-	(1,946)
Operating, general and administrative expenses internal	(689)	(302)	(991)	(252)	(806)	(790)	(2,839)
Eliminations	12	221	233	55	-	-	288
Operating, general and administrative expenses external	(677)	(81)	(758)	(197)	(806)	(790)	(2,551)
Income (loss) from operations internal	464	(299)	165	17	2,726	(790)	2,118
Eliminations	(34)	221	187	(175)	(12)	-	-
Income (loss) from operations external	<u>\$ 430</u>	<u>\$ (78)</u>	<u>\$ 352</u>	<u>\$ (158)</u>	<u>\$ 2,714</u>	<u>\$ (790)</u>	<u>\$ 2,118</u>
2008							
Revenue internal	\$ 4,350	\$ 1,944	\$ 6,294	\$ 576	\$ 950	\$ -	\$ 7,820
Eliminations	(53)	-	(53)	(321)	(10)	-	(384)
Revenue external	4,297	1,944	6,241	255	940	-	7,436
Cost of timber and land sold external	(1,927)	(2,164)	(4,091)	-	(76)	-	(4,167)
Operating, general and administrative expenses internal	(1,038)	(480)	(1,518)	(474)	(928)	(1,022)	(3,942)
Eliminations	10	275	285	96	3	-	384
Operating, general and administrative expenses external	(1,028)	(205)	(1,233)	(378)	(925)	(1,022)	(3,558)
Income (loss) from operations internal	1,385	(700)	685	102	(54)	(1,022)	(289)
Eliminations	(43)	275	232	(225)	(7)	-	-
Income (loss) from operations external	<u>\$ 1,342</u>	<u>\$ (425)</u>	<u>\$ 917</u>	<u>\$ (123)</u>	<u>\$ (61)</u>	<u>\$ (1,022)</u>	<u>\$ (289)</u>

Nine Months Ended September 30, (Thousands)	Fee Timber			Timberland Management & Consulting	Real Estate	Other	Consolidated
	Pope Resources Timber	Timber Funds	Total Fee Timber				
2009							
Revenue internal	\$ 10,254	\$ 4	\$ 10,258	\$ 1,182	\$ 4,609	\$ -	\$ 16,049
Eliminations	(121)	-	(121)	(632)	(36)	-	(789)
Revenue external	10,133	4	10,137	550	4,573	-	15,260
Cost of timber and land sold	(5,672)	-	(5,672)	-	(354)	-	(6,026)
Operating, general and administrative expenses internal	(2,203)	(891)	(3,094)	(883)	(2,158)	(2,535)	(8,670)
Eliminations	36	623	659	130	-	-	789
Operating, general and administrative expenses external	(2,167)	(268)	(2,435)	(753)	(2,158)	(2,535)	(7,881)
Income (loss) from operations internal	2,379	(887)	1,492	299	2,097	(2,535)	1,353
Eliminations	(85)	623	538	(502)	(36)	-	-
Income (loss) from operations external	\$ 2,294	\$ (264)	\$ 2,030	\$ (203)	\$ 2,061	\$ (2,535)	\$ 1,353
2008							
Revenue internal	\$ 17,252	\$ 4,799	\$ 22,051	\$ 1,477	\$ 2,436	\$ -	\$ 25,964
Eliminations	(162)	-	(162)	(744)	(30)	-	(936)
Revenue external	17,090	4,799	21,889	733	2,406	-	25,028
Cost of timber and land sold external	(7,763)	(4,823)	(12,586)	-	(549)	-	(13,135)
Operating, general and administrative expenses internal	(2,730)	(1,141)	(3,871)	(1,387)	(2,624)	(2,916)	(10,798)
Eliminations	30	696	726	210	-	-	936
Operating, general and administrative expenses external	(2,700)	(445)	(3,145)	(1,177)	(2,624)	(2,916)	(9,862)
Income (loss) from operations internal	6,759	(1,165)	5,594	90	(737)	(2,916)	2,031
Eliminations	(132)	696	564	(534)	(30)	-	-
Income (loss) from operations external	\$ 6,627	\$ (469)	\$ 6,158	\$ (444)	\$ (767)	\$ (2,916)	\$ 2,031

11. On September 25, 2009 the Partnership entered into a new \$9.8 million term loan agreement with Northwest Farm Credit Services, PCA (NWFCS). Proceeds from this new term loan were used both to retire a term loan from John Hancock Life Insurance Company (JHLIC) due in April 2011 and fund a prepayment premium due on retirement of that timberland mortgage. Following funding of the new term loan and retirement of one of the Partnership's two JHLIC term loans, the Partnership now has two term loans outstanding with staggered maturity dates as follows:

Long-term debt (in thousands):	<u>Sep-09</u>	<u>Dec-08</u>
Mortgage payable to JHLIC, interest at 9.65%, collateralized by timberlands with monthly interest payments and annual principal payments. Matures in April 2011.	\$ -	\$ 9,019
Mortgage payable to JHLIC, interest at 7.63%, collateralized by timberlands with monthly interest payments and annual principal payments. Matures in April 2011.	19,303	20,053
Mortgage payable to NWFCS, interest at 6.4%, collateralized by timberlands with monthly interest-only payments. Matures in September 2019.	9,800	-
Other	394	514
	<u>\$ 29,497</u>	<u>\$ 29,586</u>

As of September 30, 2009 and December 31, 2008, the Partnership's fixed-rate debt outstanding had a fair value of approximately \$30.7 million and \$31.4 million, respectively.

The Partnership's debt agreements contain covenants with which the Partnership is in compliance as of September 30, 2009.

In connection with the new term loan, the limit on the Partnership's revolving line of credit with Northwest Farm Credit Services was reduced from \$40 million to \$35 million.

12. In early October 2009, ORM Timber Fund II, Inc. (Fund II) completed two timberland acquisitions totaling \$34 million, of which Pope Resources' co-investment was \$6.8 million. Financing activities in the Statements of Cash Flows includes \$27.4 million received following a Fund II capital call for the acquisition of these properties in October. Investing activities in the Statements of Cash Flows includes a \$1.9 million deposit paid in the third quarter for these fourth quarter acquisitions.

**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 our management's estimates and present intentions based on our current goals, in light of currently known circumstances and management's expectations about future developments. Statements about expectations, plans and future performance are "forward looking statements" within the meaning of applicable securities laws. Because these statements describe our goals, objectives and anticipated performance, they 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 "Item 1A: Risk Factors" below and other factors discussed elsewhere in this report or in our annual report on Form 10-K for the fiscal year ended December 31, 2008. 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; the effect of financial market conditions on our investment portfolio and related liquidity; environmental and land use regulations that limit our ability to harvest timber and develop property; access to debt financing by our customers as well as ourselves; and other risks and uncertainties which are discussed in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates as of the date of the report, and we cannot undertake to update these statements as our business operations and environment change.

This discussion should be read in conjunction with the condensed consolidated financial statements and related notes included with this report.

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), was organized in late 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). We are engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets, revenues, income and operations, is the Fee Timber segment. This segment includes timberlands owned directly by the Partnership and operations of ORM Timber Fund I, LP ("Fund I") and ultimately ORM Timber Fund II, Inc. ("Fund II"), collectively the ("Funds"). Operations in this segment consist of growing timber to be harvested as logs for sale to domestic manufacturers and to a lesser extent export brokers. 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 through the sale of larger parcels to buyers who will take the land further up the value chain, either to home buyers or to operators and lessors of commercial property. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed until that project is sold resulting in operating income. Our third business segment, Timberland Management & Consulting, consists of raising investment capital from third parties for investment in timberland through private equity timber funds like the Funds and providing timberland management and related services for a fee to the Funds, as well as for other third party owners of timberland.

Our current strategy for adding timberland acreage is centered on our private equity timber fund business model. For example, in March 2009 we completed the final close for Fund II with \$84 million of committed capital including Pope Resources' 20% co-investment. In early October 2009, Fund II closed on its first two timberland acquisitions representing 41% of its committed capital. Our 20% co-investment in the Funds affords us a share of the Funds' operations while allowing us to earn asset management and timberland management fees. Management also believes that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management than could be cost-effectively maintained for the Partnership's timberlands alone. Our Real Estate challenges center around how and when to "harvest" a parcel of land and capture the optimum value increment by selling the property.

During periods in which the U.S. and, to a much lesser extent, Asian residential real estate markets perform poorly, we tend to recognize diminishing financial performance in both our Fee Timber and Real Estate segments. In Fee Timber, declines in building construction affect log prices and volumes directly. As discussed below in greater detail, we often further reduce our harvest during these periods so as to avoid liquidating our timber assets at low prices, an opportunity afforded to us by our relatively low leverage and our relatively low-cost operating model. Land held for sale in western Washington by our Real Estate segment is suitable primarily for residential and commercial building sites and the market for this product suffers along with regional and national markets, producing a decline in our sales.

During the first nine months of 2009, we purchased 95,372 units for an aggregate purchase price of \$1.8 million and a weighted average unit purchase price of \$19.11 bringing the total repurchase program to 110,624 units for a total of \$2.1 million, yielding a weighted average unit purchase price of \$19.16.

RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impact our net income for each of the quarter and nine month periods ended September 30, 2009 to September 30, 2008. In addition to the table's detailed numeric analysis, the explanatory text that follows the table describes many of these changes by business segment.

	Quarter Ended September 30,	Nine Months Ended September 30,
Net income (loss) attributable to unitholders:		
2009 period	\$ 920	\$ 104
2008 period	(23)	2,601
Variance	<u>\$ 943</u>	<u>\$ (2,497)</u>
Detail of earnings variance:		
Fee Timber:		
Log price realizations (A)	\$ (645)	\$ (2,344)
Log volumes (B)	(2,596)	(6,689)
Depletion	1,257	1,962
Production costs	1,081	2,747
Other Fee Timber	326	184
Total Fee Timber	<u>(577)</u>	<u>(4,140)</u>
Timberland Management & Consulting (TM&C):		
Management fee changes	(187)	(109)
Other TM&C	164	362
Total Timberland Management & Consulting (TM&C)	<u>(23)</u>	<u>253</u>
Real Estate:		
Land sales	2,605	2,152
Timber depletion on HBU sale	20	146
Other Real Estate	150	530
Total Real Estate	<u>2,775</u>	<u>2,828</u>
General & administrative costs	232	381
Net interest expense	(1,367)	(1,819)
Other (taxes, noncontrolling int., impairment)	(97)	-
Total change in net income (loss) attributable to Pope Resources' Unitholders	<u>\$ 943</u>	<u>\$ (2,497)</u>

(A) Price variance calculated by applying the change in price to current period volume.

(B) Volume variance calculated by applying the change in sales volume to the average log sales price for the prior period.

Fee Timber

Fee Timber results include operations from 114,000 acres of fee timber owned by the Partnership and 24,000 acres of fee timber owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands all of which are located in western Washington and, to a lesser extent, from leasing cellular communication towers and selling gravel and other resources from our timberlands. Revenue from the sale of timberland tracts will also appear in results for this segment on the relatively infrequent occasions when those transactions occur. Our Fee Timber revenue is driven primarily by the volume of timber harvested which is generally expressed in thousand board feet (MBF) or million board feet (MMBF), and Fee Timber expenses, which consist predominantly of depletion, harvest and transportation costs, vary directly and roughly proportionately with harvest volume and the resulting revenues. Harvest activities from the timberland owned by our timber funds are consolidated into this discussion of operations.

Planned Harvest for 2009. We began 2009 with a plan to harvest 37 MMBF representing a nearly 30% harvest volume deferral from the estimate of our long-term sustainable harvest of 52 MMBF, which includes 8 MMBF of harvest from properties of the Funds. As 2009 has progressed, we have deferred additional volume from our original plan owing to protracted weakness in log markets, and we are now estimating our annual harvest for 2009 will be closer to 32 MMBF. We continue to monitor log markets closely and may adjust harvest volume from the current plan as log markets continue to change.

We consider a number of factors in evaluating our harvest plans, including current log market conditions, harvest costs, age of the timber, expected growth rate for stands that are being considered for deferral, and future log price expectations. As 2009 progressed and log prices declined from the already low levels that existed at the end of 2008, we reviewed our harvest plan and have made adjustments. These adjustments included an additional deferral of harvest volume that we had originally planned to harvest in 2009 from Fund I and substitution of harvest units that contained a higher mix of pulp logs to both better match current log market conditions and to preserve future values in stands with a heavier mix of higher valued sawlogs. We anticipate the decision to defer harvest volume will produce an economic benefit due to both log price improvement and biologic growth of the timber left on the stump.

When discussing our Fee Timber operations, we compare current results to both the previous quarter and the corresponding quarter of the prior year. These comparisons offer an understanding of trends in market price and harvest volumes that affect Fee Timber results of operations. Revenue and operating income (loss) for the Fee Timber segment for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 are as follows:

(\$ Million) Quarter Ended	Log Sale Revenue	Mineral, Cell Tower & Other Revenue		Total Fee Timber Revenue	Operating Income/(loss)	Harvest Volume (MBF)
Pope Resources Timber	\$ 2.5	\$ 0.4	\$ 2.9	\$ 0.4	6,396	
Fund I	-	-	-	(0.1)	-	
Total Fee Timber September 30, 2009	\$ 2.5	\$ 0.4	\$ 2.9	\$ 0.3	6,396	
Pope Resources Timber	\$ 2.4	\$ 0.4	\$ 2.8	\$ 0.4	7,120	
Fund I	-	-	-	(0.1)	-	
Total Fee Timber June 30, 2009	\$ 2.4	\$ 0.4	\$ 2.8	\$ 0.3	7,120	
Pope Resources Timber	\$ 3.8	\$ 0.5	\$ 4.3	\$ 1.3	7,373	
Fund I	1.9	-	1.9	(0.4)	4,332	
Total Fee Timber September 30, 2008	\$ 5.7	\$ 0.5	\$ 6.2	\$ 0.9	11,705	

Comparing Q3 2009 to Q2 2009. Fee Timber revenue and operating income for the third quarter 2009 are flat compared to the second quarter of 2009, with a \$50/MBF increase in average log price realized offset by a 724 MBF decline in harvest volume in the third quarter compared to the second quarter of 2009.

Comparing Q3 2009 to Q3 2008. Fee Timber revenue and operating income for the third quarter 2009 are \$3.3 million and \$565,000 lower, respectively, than the comparable period in the prior year. The decline in revenue consists of a \$3.2 million decrease in log revenue combined with a \$134,000 decline in other revenue. The decline in log revenue is due to a 5.3 MMBF, or 45%, decrease in harvest volume and a \$101/MBF, or 21%, decline in average log price realized. A portion of this log price decline is due to our decision to harvest lower valued stands in the third quarter of 2009 compared to those we harvested a year earlier. As a result, our pulpwood percentage doubled from 22% of total harvest volume in 2008 to 44% in 2009. Operating income decreased due to the \$3.2 million decline in log revenue, offset by a reduction in cost of sales and operating costs.

Revenue and operating income for the Fee Timber segment for the nine-month periods ended September 30, 2009 and 2008 were as follows:

(\$ Million) Nine Months Ended	Log Sale Revenue	Mineral, Cell Tower & Other Revenue	Total Fee Timber Revenue	Operating Income/(loss)	Harvest Volume (MBF)
Pope Resources Timber	\$ 9.1	\$ 1.1	\$ 10.1	\$ 2.3	22,261
Fund I	-	-	-	(0.3)	-
Total Fee Timber September 30, 2009	\$ 9.1	\$ 1.1	\$ 10.1	\$ 2.0	22,261
Pope Resources Timber	\$ 15.7	\$ 1.4	\$ 17.1	\$ 6.6	30,429
Fund I	2.4	2.4	4.8	(0.5)	5,246
Total Fee Timber September 30, 2008	\$ 18.1	\$ 3.8	\$ 21.9	\$ 6.1	35,675

Comparing YTD 2009 vs. YTD 2008. The decline in Fee Timber revenue and operating income for the current nine-month period relative to the comparable period in 2008 is primarily attributable to a 13.4 MMBF, or 38%, decrease in harvest volume and a \$100/MBF, or 20%, decline in average log price realized. The decrease in 2009 harvest volume over 2008 is due to weak log markets which have caused us to reduce harvest levels in 2009 below our estimated long-term sustainable harvest level of 52 MMBF. We originally planned to harvest 37 MMBF in 2009 representing nearly a 30% volume deferral but as 2009 progressed and log markets weakened below the levels that we had forecasted we are currently planning to harvest 32 MMBF in 2009.

ORM Timber Funds. The Funds are consolidated into our financial statements. Fund II acquired its first properties in early October 2009 and, as a result, only Fund I has operating results to include in the Fee Timber discussion herein. The 80% of these Funds owned by third parties is reflected in our Statement of Operations under the caption "Noncontrolling interest-ORM Timber Funds." Fund I generated \$3,000 of revenue in the third quarter of 2009, compared with no revenue generated in the second quarter of 2009 and \$1.9 million in the third quarter of 2008. The Funds incurred operating losses of \$299,000, \$313,000, and \$700,000 in the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, respectively. Operating losses of the Funds are calculated before elimination of management fees paid to Olympic Resource Management LLC (ORM LLC) of \$221,000, \$198,000, \$275,000 in the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008, respectively.

Revenue generated by Fund I for the nine months ended September 30, 2009 was \$4,000 compared to \$4.8 million for the comparable prior year due to revenue generated by the 2008 conservation easement sale and modest log sales that did not recur in 2009. The Funds incurred operating losses of \$887,000 and \$1.2 million in the periods ended September 30, 2009 and 2008, respectively. Operating losses of the Funds are calculated before elimination of management fees paid to ORM LLC of \$623,000 and \$696,000 in the nine-month periods ended September 30, 2009 and 2008, respectively.

Log Volume

The Partnership harvested the following log volumes by species from its timberlands, including Fund I, for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 and the nine-month periods ended September 30, 2009 and 2008:

Log sale volumes (MBF):	Quarter Ended					
	Sep-09		June-09		Sep-08	
Sawlogs		% Total		% Total		% Total
Douglas-fir	2,527	40%	4,953	70%	7,279	62%
Whitewood	282	4%	207	3%	1,293	11%
Cedar	434	7%	180	2%	281	3%
Hardwood	310	5%	271	4%	274	2%
Pulp						
All Species	2,843	44%	1,509	21%	2,578	22%
Total	6,396	100%	7,120	100%	11,705	100%

Comparing Quarterly Harvest Levels. For the quarter ended September 30, 2009 we harvested 20% of our revised annual harvest plan for 2009 of 32 MMBF as compared to 22% for the quarter ended June 30, 2009 and 31% of our actual annual harvest for the comparable quarter in the prior year. As discussed in more detail below, in the third quarter of both 2008 and 2009, we harvested a relatively high proportion of volume from low-quality timber stands to sell logs into the pulp market, which has not weakened quite as dramatically in relative terms as the domestic sawlog market and acts to preserve asset value in higher quality stands. Logs sold as pulp are generally lower quality logs that are manufactured into wood chips by the buyer. Sawlogs are of a higher quality and primarily used to manufacture lumber or plywood.

Log sale volumes (MBF):	Nine Months Ended			
	Sep-09	% Total	Sep-08	% Total
Sawlogs				
Douglas-fir	15,010	67%	23,405	66%
Whitewood	554	3%	3,035	8%
Cedar	678	3%	741	2%
Hardwood	700	3%	926	3%
Pulp				
All Species	5,319	24%	7,568	21%
Total	22,261	100%	35,675	100%

Comparing Year-To-Date Harvest Levels. For the nine months ended September 30, 2009, we have harvested 70% of our revised annual harvest plan of 32 MMBF, compared to the first nine months of 2008, when we harvested 94% of the total actual annual harvest of 38 MMBF. As previously reported, our 2009 timber harvest volume has been reduced from our long-term sustainable level of 52 MMBF. The original plan to harvest 37 MMBF in 2009 has been revised to 32 MMBF as management acts to preserve the Partnership's asset value during this period of declining log and lumber prices, which result primarily from the condition of domestic and overseas housing markets. We plan to harvest this deferred volume when log markets improve. We would generally expect the proportion of harvest going to pulp markets to average between 10% and 15%. However, in 2009 and 2008 we have concentrated our harvest on lower quality timber stands to sell logs into pulp markets which have not been as dramatically impacted as other log markets by the downturn in housing. As such, pulp logs represent a relatively higher-than-normal proportion of harvest volume for both 2009 and 2008. This shift in weighting of our sort mix does lower the average realized price per MBF below what it would otherwise be.

Log Prices

While harvest volume is largely within management's control, one additional factor that impacts Fee Timber income is the price we realize upon selling our logs. Logs from the Partnership's tree farms serve a number of different domestic and export markets but the core market through which most of the demand for our logs is generated is the domestic residential construction market. During this recessionary period, residential construction has been particularly hard hit, as demonstrated by the dramatic decrease in sawlog prices in 2009 versus 2008. In response to these market conditions we have directed harvest to lower value pulp stands to preserve stands with higher value sawlogs until the residential construction market returns. We realized the following log prices from our fee timberlands for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 and the nine-month periods ended September 30, 2009 and 2008:

	Quarter Ended		
	Sep-09	June-09	Sep-08
Average price realizations (per MBF):			
Sawlogs			
Douglas-fir	\$ 393	\$ 343	\$ 520
Whitewood	279	290	387
Cedar	832	867	1,277
Hardwood	439	430	593
Pulp			
All Species	321	247	357
Overall	388	338	489

	Nine Months Ended	
	Sep-09	Sep-08
Average price realizations (per MBF):		
Sawlogs		
Douglas-fir	\$ 434	\$ 538
Whitewood	286	413
Cedar	839	1,246
Hardwood	442	641
Pulp		
All Species	283	361
Overall	407	507

Douglas-fir: Douglas-fir is noted for its structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. Demand and price for Douglas-fir sawlogs is very dependent upon the level of new home construction. Construction starts leveled off and began to show signs of improvement that carried through the third quarter; however, the export market continued to fluctuate. We have experienced a \$127/MBF, or 24%, drop in Douglas-fir sawlog prices in the third quarter of 2009 from the comparable period in 2008 and a \$50/MBF, or 15%, increase from the second quarter of 2009. For the nine-month period ended September 30, 2009 the price realized is off \$104/MBF, or 19%, from the comparable nine-month period in 2008, also a result of the aforementioned weak domestic housing starts and weak repair and remodel market.

Whitewood: "Whitewood" is a term used to describe several softwood species, but for us primarily refers to western hemlock. Though generally considered to be of a lower quality than Douglas-fir, these logs are also used for manufacturing construction grade lumber and plywood. In the third quarter of 2008, export and domestic whitewood markets were depressed by an influx of storm-damaged whitewood that entered the market following salvage operations of logs from a coastal Washington storm late in 2007. The market for whitewood sawlogs continued to be very weak for the remainder of 2008 and into 2009. The average price realized on whitewood declined \$11/MBF, or 4%, in the third quarter of 2009 versus second quarter of 2009 and \$108/MBF, or 28%, off from the comparable period in 2008. These same factors served to bring down the average price realized for the year-to-date period ended September 30, 2009 by \$127/MBF, or 31%, from the same year-to-date period in 2008.

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 decreased by \$35/MBF, or 4%, in the three-month period ended September 30, 2009 versus the second quarter of 2009. The relatively modest decline reflects the seasonal nature of demand for cedar logs which is generally centered-around the summer months. On a year-over-year basis cedar prices declined \$445/MBF, or 35%, which reflects the decrease in home remodeling activity. The weak economic conditions also drove down our average year-to-date price realized on cedar through September 30, 2009 by \$407/MBF, or 33%, from the comparable nine-month period ended September 30, 2008.

Hardwood: "Hardwood" can refer to many different species, but on our tree farms primarily consists of red alder. The local mills that process red alder sawlogs are using the resource to manufacture lumber for use in furniture and cabinet construction. In past years, the price realized from the sale of red alder sawlogs increased in connection with relatively limited supply, coupled with increased demand as a result of new mills focused on hardwood lumber production in the Pacific Northwest. However, demand for alder lumber has been blunted as users have substituted other species in the face of higher alder prices. The effect of this substitution, combined with weakness in demand for end-use products, has translated to lower prices. In the third quarter 2009 hardwood log prices increased a modest \$9/MBF, or 2%, versus the second quarter of 2009 and decreased \$154/MBF, or 26%, versus the comparable quarter in 2008. For the nine months ended September 30, 2009, average price realized decreased \$199/MBF, or 31%, from the comparable period in 2008 for these same reasons. Hardwood represents a relatively minor species in our sales and timber inventory mix.

Pulp: Pulp is a lower quality log of any species that is manufactured into wood chips. These chips are used primarily to make a full range of pulp and paper products from unbleached linerboard used in paper bags and cardboard boxes to fine paper and specialty products. The pulpwood market was strong in 2008 as a direct result of sawmills taking significant downtime to deal with the beginnings of the current housing slowdown. Sawmills provide the bulk of the chips used by pulp manufacturers, so curtailed sawmill production helped to push up the price of pulp logs sold directly to pulp mills. This serves to explain why year-to-date pulp prices for the period ended September 30, 2009 were down \$78/MBF, or 22%, from the comparable period in 2008. For the quarter ended September 30, 2009, pulp prices were up 30% over the second quarter of 2009 as pulp mills had a marginal uptick in demand in response to declining inventories. When compared to the same quarter in 2008, pulp prices were off \$36/MBF, or 10%, for the period ended September 30, 2009. The decline in pulp prices results from a drop in demand for the end products that are manufactured from pulp in the face of overall economic weakness.

Customers

The table below categorizes timber sold by customer type for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 and for the nine-month periods ended September 30, 2009 and 2008 (volumes in MBF):

Destination	Q3 2009		Q2 2009		Q3 2008	
	Volume	Price	Volume	Price	Volume	Price
Domestic mills	3,387	\$ 436	5,430	\$ 355	7,263	\$ 507
Export brokers	166	551	181	588	1,864	600
Pulp	2,843	321	1,509	247	2,578	357
Total	6,396	\$ 388	7,120	\$ 338	11,705	\$ 489

Comparing Quarterly Performance. Volume sold to domestic lumber mills represented 53% of the production volume in the third quarter of 2009 versus 76% in the second quarter of 2009 and 62% in the comparable quarter of 2008. The decrease in volume sold to domestic lumber mills resulted from an uptick in the pulp market in the third quarter of 2009 over the second quarter. The pulp market received 44% of our production volume in the third quarter of 2009 versus 21% and 22% in the second quarter of 2009 and third quarter of 2008, respectively. The export market remained flat with export brokers making up 3% of third quarter 2009 sales volume as they did in the second quarter of 2009. Export brokers received 16% of the sales volume for the comparable period in 2008. Demand from the export market is relatively strong for high quality logs but the price offered is influenced by the domestic market which is extraordinarily weak. As we have altered our harvest to lower quality stands we are harvesting fewer logs in 2009 that are suitable for the export market.

Destination	Nine Months Ended			
	30-Sep-09		30-Sep-08	
	Volume	Price	Volume	Price
Domestic mills	14,511	\$ 412	21,988	\$ 535
Export brokers	2,431	647	6,119	586
Pulp	5,319	283	7,568	361
Total	22,261	\$ 407	35,675	\$ 507

Comparing Year-To-Date Performance. For the year-to-date period ended September 30, 2009, volumes sold to domestic mills increased to 65% from 62% for same period in 2008 while volumes sold to export brokers declined to 11% from 17%. The increase in export pricing in 2009 is driven by a change in the mix of logs sold into this market. Logs sold into the export market in 2009 were primarily high-quality Douglas-fir sawlogs destined for Japan. In 2008 most of the logs sold to the export market were lower valued whitewood sawlogs bound for Korea. This switch in markets between years was driven in part by a relatively stronger Japanese Yen in 2009 compared to 2008. Pulp volumes as a proportion of total volume increased slightly in the nine-month period ended September 30, 2009 to 24% from 21% in the comparable period of 2008. The increase in log volume sold to pulp mills is attributed to our efforts to conserve higher quality sawlogs during this period of price weakness.

Cost of Sales

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

Fee Timber cost of sales for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008, and the nine-month periods ended September 30, 2009 and 2008, respectively, are as follows, with the first table expressing these costs in total dollars and the second table expressing the costs on a per unit of production basis:

(\$ Million) Quarter Ended:	Harvest, Haul and Other	Depletion	Total Cost of Sales
September 30, 2009	\$ 1.3	\$ 0.4	\$ 1.7
June 30, 2009	1.3	0.4	1.7
September 30, 2008	2.4	1.7	4.1

Quarter Ended:	Harvest, Haul and Other per MBF	Depletion per MBF	Total Cost of Sales per MBF
September 30, 2009	\$ 209	\$ 65	\$ 274
June 30, 2009	177	65	242
September 30, 2008	206	143	349

Comparing Q3 2009 to Q2 2009. Cost of sales remained flat at \$1.7 million in the third quarter of 2009 relative to the second quarter of 2009 even though harvest volume decreased from 7.1 MMBF in the second quarter of 2009 to 6.4 MMBF in the third quarter of 2009. Harvest and haul costs per MBF increased \$32/MBF in the third quarter of 2009 relative to the second quarter of 2009. This was primarily due to harvest on lower quality pulp stands that contained less volume per acre, thus increasing harvest costs as well the relative distance to market. Harvest costs vary based upon the physical site characteristics of the specific acres harvested during the period. For example, difficult-to-access sites or those located on steep hillsides are more expensive to harvest. Furthermore, haul costs vary based upon the distance between the harvest area and the mill customer's location.

Comparing Q3 2009 to Q3 2008. Cost of sales declined \$2.4 million in the third quarter of 2009 from the same period in 2008 as a result of a 45% decline in harvest from 11.7 MMBF in the third quarter of 2008 to 6.4 MMBF in the third quarter of 2009. Average harvest and haul costs per MBF in the current quarter remained flat when compared to the same period in 2008. Depletion costs decreased \$78/MBF in the first nine months of 2009 relative to the same period in 2008 in the absence of harvest from Fund I tree farms, which have a separate depletion pool that contains a higher cost per unit of merchantable volume.

Nine Months Ended:	(\$ Million)	Harvest, Haul and Other	Cost of Conservation Easement Sale	Depletion	Total Cost of Sales
September 30, 2009	\$	4.2	\$ -	\$ 1.5	\$ 5.7
September 30, 2008		7.0	2.2	3.4	12.6

Nine Months Ended:	Harvest, Haul and Other per MBF	Depletion per MBF	Total Cost of Sales per MBF (excluding Cost of Conservation Easement Sale)
September 30, 2009	\$ 190	\$ 65	\$ 255
September 30, 2008	195	96	291

Comparing YTD 2009 vs. YTD 2008. Cost of sales in the nine-month period ended September 30, 2009 was \$6.9 million less than the comparable nine-month period in 2008 as a result of a decline in harvest volume of 13 MMBF and \$2.2 million of costs related to the Fund I conservation easement sale completed in the second quarter of 2008.

Depletion expense for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 and the nine-month periods ended September 30, 2009 and 2008 was calculated as follows:

	Quarters Ended	
	Sep-09	June-09
	Pooled	Pooled
Volume harvested (MBF)	6,396	7,120
Rate/MBF	\$ 65	\$ 65
Depletion expense (\$000's)	\$ 416	\$ 464

	Quarter Ended September 30, 2008		
	Pooled	Timber Fund	Combined
	Volume harvested (MBF)	7,373	4,332
Rate/MBF	\$ 64	\$ 276	\$ 143
Depletion expense (\$000's)	\$ 475	\$ 1,197	\$ 1,672

Nine Months Ended September 30, 2009

	Pooled
Volume harvested (MBF)	22,261
Rate/MBF	\$ 65
Depletion expense (\$000's)	\$ 1,449

	Nine Months Ended September 30, 2008		
	Pooled	Timber Fund	Combined
	Volume harvested (MBF)	30,429	5,246
Rate/MBF	\$ 65	\$ 276	\$ 96
Depletion expense (\$000's)	\$ 1,964	\$ 1,446	\$ 3,410

The separate depletion pool for 2008 represents harvest from timberlands owned by Fund I. The separate depletion pool carries a higher depletion rate than our combined pool for the Hood Canal and Columbia tree farms. The combined depletion pool consists primarily of historical timber cost that has been owned by the Partnership for many decades, as well as the Columbia property that was acquired in 2001. The separate depletion pool for Fund I timber volume consists of timber acquired at a higher overall cost in the fourth quarter of 2006 and, therefore, carries a higher depletion rate.

Operating Expenses

Fee Timber operating expenses for the quarter ended September 30, 2009 were \$758,000 compared to \$719,000 and \$1.2 million for the quarters ended June 30, 2009 and September 30, 2008, respectively. Operating expenses for the nine-month periods ended September 30, 2009 and September 30, 2008 were \$2.4 and \$3.1 million, respectively. Operating expenses include management, silviculture and the cost of both maintaining existing roads and building temporary roads required for harvest activities. The decline in operating expenses in 2009 reflects management's cost reduction efforts in response to weak log markets.

Timberland Management & Consulting

The Timberland Management & Consulting segment develops timberland property investment portfolios on behalf of the Funds. In addition we provide our timberland management services to third-party owners of timberland. As of September 30, 2009, the Timberland Management & Consulting segment managed approximately 24,000 acres for Fund I. Up until July 2009, we had been providing timberland management services to Cascade Timberlands LLC (Cascade) since January of 2005. When we began providing services under this management contract Cascade owned 522,000 acres. Acreage under management has declined over the years as the result of sales by Cascade to third parties such that as of the beginning of 2009 we were managing 267,000 acres in eastern Oregon. Our management contract for Cascade was terminated in July 2009 as a result of the decline in acreage under management combined with a significant reduction in harvest activities related to weak log markets. Timberland Management & Consulting revenue includes \$0.4 million of revenue generated during the first seven months of 2009 that will not recur as a result of the termination of this contract.

Revenue and operating loss for the Timberland Management & Consulting segment for the quarters and nine-month periods ended September 30, 2009 and 2008 were as follows:

(\$ Thousand) Quarter Ended	Revenue	Operating loss
September 30, 2009	\$ 39	\$ (158)
September 30, 2008	\$ 255	\$ (123)

(\$ Thousand) Nine Months Ended	Revenue	Operating loss
September 30, 2009	\$ 550	\$ (203)
September 30, 2008	\$ 733	\$ (444)

Comparing Q3 2009 to Q3 2008. Revenue in the third quarter of 2009 declined \$216,000 versus the comparable period in 2008 as result of the termination of the Cascade contract in 2009. Operating income remained flat in the third quarter when compared to the second quarter of 2008 due in large part to the reduction of expenses resulting from the formation of Fund II in 2008 and to a lesser extent a decline in expenses resulting from the cost-cutting effort that begin in the second quarter of 2009.

Comparing YTD 2009 vs. YTD 2008. Revenue for the nine-month period ending September 30, 2009 was \$183,000 lower than revenue in the comparable nine-month period in 2008, however the operating loss declined \$241,000 in the nine months ended September 30, 2009 compared to the same period in 2008. This pattern is also due to a reduction in expenses associated with formation of Fund II as well as cost-cutting efforts within the segment.

Revenue and expense incurred through the management of Fund I is accounted for within this segment but eliminated as a result of the consolidation of Fund I in our financial statements. We generated \$230,000 and \$321,000 of revenue in the quarters ended September 30, 2009 and September 30, 2008, respectively, from the management of Fund I that was eliminated with a corresponding decrease in operating expenses of the Fee Timber segment. In March 2009, we completed the final close for Fund II, with \$84 million of committed capital including the Partnership's co-investment commitment of \$17 million. In early October 2009 we acquired our first two properties with this committed capital totaling almost 12,000 acres of timberland and representing placement of 41% of this committed capital.

Operating Expenses

Timberland Management & Consulting operating expenses for the quarters ended September 30, 2009, and September 30, 2008 were \$197,000, and \$378,000, respectively. The decrease in operating expense results from a reduction of expenses following the termination of the Cascade contract in addition to a decline in activities related to the formation of Fund II. Operating expenses for the nine-month periods ended September 30, 2009 and September 30, 2008 were \$753,000 and \$1.2 million, respectively, and declined year over year for the same aforementioned reasons.

Real Estate

The Partnership's Real Estate segment consists primarily of revenue from the sale of land together with residential and commercial property rents. The Partnership's real estate holdings are located primarily in Pierce, Kitsap, and Jefferson Counties in Washington State. Real Estate revenue is generated through the sale of land and rural residential lots, and to a lesser extent from real property rents, most of which are earned at the Port Gamble townsite. Rural residential lot sales are made to developers or individuals where the lot is expected to be used for a residential dwelling with a general requirement to undertake some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale. Our rural residential lot program produces lots from 5 to 80 acres in size, based on underlying zoning densities. This type of program typically entails modest entitlement efforts, usually involving simple lot segregations and boundary line adjustments. Development activities include minor road building, surveying, and the extension of utilities. Demand for rural lots has dropped significantly over the last year in response to the broader economic contraction.

Revenue and operating income (loss) for the Real Estate segment for the quarters and nine-month periods ended September 30, 2009 and 2008 were as follows:

(\$ Million)		Revenue	Operating income (loss)
Quarter Ended			
September 30, 2009		\$ 3.7	\$ 2.7
September 30, 2008		\$ 0.9	\$ (0.1)

(\$ Million)		Revenue	Operating income (loss)
Nine months Ended			
September 30, 2009		\$ 4.6	\$ 2.1
September 30, 2008		\$ 2.4	\$ (0.8)

Real Estate revenue and gross margin for the quarters and nine-month periods ended September 30, 2009 and 2008 are displayed in the table below:

For the three months ended:

Description	Thousands			Revenue per acre	Gross Margin per acre
	Revenue	Gross margin	Acres Sold		
Conservation easement	\$ 3,298	\$ 3,108	2,290	\$ 1,440	\$ 1,357
Rentals	400	400	NA		
Other	16	12	NA		
September 30, 2009 Total	\$ 3,714	\$ 3,520	2,290		
Rural residential	\$ 570	\$ 492	88	\$ 6,477	\$ 5,591
Rentals	364	364	NA		
Other	6	8	NA		
September 30, 2008 Total	\$ 940	\$ 864	88		

Comparing Q3 2009 to Q3 2008. Revenue for the Real Estate segment was higher in the third quarter of 2009 versus the comparable period in 2008 as a result of a 2,290-acre conservation easement (CE) sale on our Hood Canal tree farm. The CE sale was funded by the federal Forest Legacy program and represents the culmination of five years of negotiation and discussions with Cascade Land Conservancy and the Washington State Department of Natural Resources. This CE will protect the land from development while allowing for continued growing and harvesting of timber.

For the Nine months ended:

Description	Thousands			Revenue per acre	Gross Margin per acre
	Revenue	Gross margin	Acres Sold		
Rural residential	\$ 296	\$ 138	29	\$ 10,207	\$ 4,759
Conservation easement	3,298	3,108	2,290	1,440	1,357
Rentals	949	948	NA		
Other	30	25	NA		
September 30, 2009 Total	\$ 4,573	\$ 4,219	2,319		
Rural residential	\$ 1,456	\$ 905	192	\$ 7,583	\$ 4,714
Rentals	885	884	NA		
Other	65	68	NA		
September 30, 2008 Total	\$ 2,406	\$ 1,857	192		

Comparing YTD 2009 vs. YTD 2008. Revenue for the nine-month period ended September 30, 2009 was dominated by the CE sale on the Hood Canal tree farm in the third quarter, but included as well two rural residential lot sales totaling 29 acres with an average revenue per acre of \$10,207 compared with three rural residential lot sales totaling 192 acres with an average revenue per acre of \$7,580 for the comparable period in 2008.

Cost of Sales

Real Estate cost of sales for the quarters ended September 30, 2009 and 2008 was \$194,000 and \$76,000, respectively. On a year-to-date basis, cost of sales was \$354,000 and \$549,000 for the nine-month periods ended September 30, 2009 and 2008, respectively. Cost of sales for the three and nine-month periods ended September 30, 2009 and 2008 represent costs incurred on the CE sale and rural residential lots. Cost of sales consists of the historical cost basis of the land sold, commissions, taxes, title fees, and in the case of the CE sale, a fee paid to the grant writing agency. The cost basis of our land varies widely since most of our land has been continuously owned by us for decades while other portions of our land portfolio have been acquired within the last few years or have undergone some level of improvement prior to sale. As a result, gross margin generated from a land sale will often vary dramatically between different transactions.

Operating Expenses

Real Estate operating expenses for the quarters ended September 30, 2009 and 2008 were \$806,000 and \$925,000, respectively. For the nine-month periods ended September 30, 2009 and 2008 operating expenses were \$2.2 million and \$2.6 million, respectively. The decline in operating costs of the Real Estate segment represent cost-cutting efforts that have been undertaken during this prolonged downturn in the market for raw and developed land.

Basis in Real Estate Projects

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

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

Environmental Remediation

The environmental remediation liability represents estimated payments to be made to monitor (and remedy if necessary) certain areas in and around the townsite and millsite of Port Gamble, Washington. Port Gamble is a historic town that was owned and operated by P&T until 1985 when the townsite and other assets were spun off to form the Partnership. P&T continued to operate the townsite until 1996 and leased the millsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties. Under applicable law, both Pope Resources and P&T are "potentially liable persons" based on ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties.

Following the bankruptcy of P&T in late 2007 and the pending liquidation of P&T's assets, we determined that P&T will no longer be able to meet any of its obligations under our settlement and remediation agreement. Accordingly, in the fourth quarter of 2007 we added \$1.9 million to our remediation liability, based on what management believed to be the best estimate of the remaining cleanup cost and most likely outcome to various contingencies within the overall project. The Monte-Carlo simulation model by which we estimate this liability indicated a range of potential liability from \$816,000 to \$4.5 million which represents a two standard deviation range from the mean of possible outcomes generated by the statistical modeling process used to estimate this liability as of December 31, 2008. The balance of our estimated remediation liability as of September 30, 2009 is \$1.3 million.

The environmental liability at September 30, 2009 includes \$150,000 that the Partnership expects to expend in the next 12 months and \$1.2 million thereafter. Activities at the site during the first nine months of 2009 included the completion of upland soil and groundwater sampling and analysis, gaining county approval of the aforementioned test results, the removal of all remaining sparged materials, and completion of testing of the bay area. Activity in the environmental remediation liability is detailed as follows:

	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Monitoring and Remediation	Balances at the End of the Period
Year Ended December 31, 2008	\$ 1,994,000	-	\$ 440,000	\$ 1,554,000
Quarter ended March 31, 2009	1,554,000	-	60,000	1,494,000
Quarter ended June 30, 2009	1,494,000	-	146,000	1,348,000
Quarter ended September 30, 2009	1,348,000	-	45,000	1,303,000

General and Administrative (G&A)

General and administrative expenses for the quarters ended September 30, 2009 and 2008 were \$790,000 and \$1.0 million, respectively. For the nine months ended September 30, 2009 and 2008 G&A expenses were \$2.5 million and \$2.9 million, respectively. This decline in G&A expense in 2009 is due to cost-cutting measures implemented in response to weak log and real estate markets.

Interest Income and Expense

Interest income for the quarter ended September 30, 2009 was \$35,000 compared to \$237,000 for the corresponding period of 2008. The decrease in interest income is due to lower cash and investment balances and a decline in average interest rate earned on the portfolio. On a year-to-date basis, interest income decreased to \$167,000 from \$850,000 for the corresponding period in 2008 for the same reasons cited to explain the quarter-to-quarter variances.

Interest expense for the three-month periods ended September 30, 2009 and 2008 was \$1.7 million and \$613,000, respectively. The Partnership's debt consists primarily of mortgage debt with a fixed interest rate. The increase in interest expense is due to a make-whole premium paid in connection with the refinancing of one of our existing mortgages. For the quarter ended September 30, 2009, \$235,000 of interest expense was capitalized primarily to the long-term Gig Harbor development project and a small amount capitalized to two other long-term projects. In the third quarter of 2008, we capitalized \$321,000 of interest expense to the Gig Harbor and Bremerton projects. On a year-to-date basis, interest expense prior to the reduction for capitalized interest was \$2.9 million, including debt extinguishment costs of \$1.1 million, for 2009 and \$1.9 million 2008. Capitalized interest for the nine months ended September 30 decreased to \$853,000 in 2009 compared to \$940,000 in 2008 due to certain projects no longer meeting interest capitalization requirements.

Income Tax

Pope Resources is a limited partnership and is, therefore, not subject to federal income tax. Taxable income/loss is instead reported to unitholders each year on a Form K-1 for inclusion in each unitholder's tax return. Pope Resources does have corporate subsidiaries, however, that are subject to income tax.

For the quarter ended September 30, 2009, the Partnership recorded a tax provision of \$1,000 as compared to a tax benefit of \$51,000 for the corresponding period in 2008. On a year-to-date basis, the provision for income taxes was \$6,000 for the periods ended September 30, 2009 and 2008, respectively.

Noncontrolling Interest-IPMB

Pope MGP, Inc., the Managing General Partner of the Partnership is entitled to a share of income earned from the Investor Portfolio Management Business (IPMB). The 1997 amendment to the Limited Partnership Agreement authorizing the Partnership to pursue the IPMB specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to the Partnership's wholly-owned subsidiary, ORM, Inc., and 20% to Pope MGP, Inc. The sliding scale allocation method evenly divides IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches \$7,000,000 in a given fiscal year.

Current activities of the IPMB are contained in the Timberland Management & Consulting segment, which include timberland consulting, management, acquisition, and disposition services. The IPMB did not generate a profit in 2008 and is not expected to generate a profit in 2009. Beginning in the fourth quarter of 2009 the IPMB will begin earning fees from managing an additional 12,000 acres of timberland that was acquired in October 2009 with Fund II committed capital.

Noncontrolling interests-ORM Timber Fund I, LP and ORM Timber Fund II, Inc.

Noncontrolling interests represent that portion of each Fund's loss attributed to the 80% of the Funds owned by third-party investors.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Liquidity and Capital Resources

We ordinarily finance our business activities using funds from operations and, where appropriate in management's assessment, commercial credit arrangements with banks or other financial institutions. Funds generated internally from operations and externally through financing are expected to provide the required resources for the Partnership's future capital expenditures. The Partnership's debt-to-total-capitalization ratio as measured by the book value of equity, excluding noncontrolling interests, was 26% at September 30, 2009 versus 25% as of December 31, 2008. The debt-to-capitalization ratio as of September 30, 2009 is impacted by expenditures of \$1.8 million to repurchase our units in 2009 which reduce partners' capital and the ratio's denominator, which in turn serves to drive the ratio higher.

At September 30, 2009, the Partnership held Student Loan Auction Rate Securities ("SLARS") with a par value of nearly \$4.0 million and an estimated fair value, based on the methodology described in the notes to the unaudited financial statements included with this report, of \$3.6 million. SLARS are collateralized long-term debt instruments that are intended to provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed for approximately \$17 million in par value of SLARS we held because sell orders exceeded buy orders.

Although default interest rates for SLARS went into effect upon failure of the auctions, the principal amount of the securities associated with failed auctions will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. We successfully liquidated \$26.8 million of our SLARS portfolio at par during 2008 and received a redemption at par of a portion of one of the SLARS during the second quarter of 2009. In early October, we received and accepted an "invitation to offer" from one of the four SLARS issuers, the result of which was the redemption of a portion of that particular security at an 11% discount to the \$1.0 million par value. This security is now classified as a current asset at its redeemed value of \$890,000. Following this redemption, the remaining SLARS we hold, which are classified as a non-current asset on our balance sheet, represent nearly \$3.0 million of par value with an estimated fair value of \$2.7 million. We have filed a claim with the Financial Industry Regulatory Authority (FINRA) against the broker that sold us the \$4.0 million par value of SLARS. The FINRA claim is currently in arbitration and the results will not be known until the arbitration panel renders its decision, which is expected sometime in November 2009.

On September 25, 2009 the Partnership entered into a new \$9.8 million term loan agreement with Northwest Farm Credit Services, PCA (NWFCFS). Proceeds from this new term loan were used to retire a term loan from John Hancock Life Insurance Company (JHLIC) due in April 2011 and fund a prepayment premium due on retirement of that timberland mortgage. Following funding of the new term loan and retirement of one of the Partnership's two JHLIC term loans, the Partnership now has two term loans outstanding with staggered maturity dates as follows:

Long-term debt (in thousands):	Sep-09	Dec-08
Mortgage payable to JHLIC, interest at 9.65%, collateralized by timberlands with monthly interest payments and annual principal payments. Matures in April 2011.	\$ -	\$ 9,019
Mortgage payable to JHLIC, interest at 7.63%, collateralized by timberlands with monthly interest payments and annual principal payments. Matures in April 2011.	19,303	20,053
Mortgage payable to NWFCFS, interest at 6.4%, collateralized by timberlands with monthly interest-only payments. Matures in September 2019.	9,800	-
Other	394	514
	\$ 29,497	\$ 29,586

In connection with the new term loan, the limit on the Partnership's revolving line of credit with Northwest Farm Credit Services was reduced from \$40 million to \$35 million. Our unsecured revolving loan agreement with Northwest Farm Credit Services matures in August 2011 and requires that we not exceed a maximum debt-to-total capitalization ratio that the Partnership currently satisfies. As of September 30, 2009, there were no amounts outstanding on the line of credit. The Partnership is utilizing its cash balance to support operations in order to avoid selling timber and land into current markets, which by historic comparison are extremely weak. These actions are currently resulting in a draw-down of our cash balances. We believe these actions will serve to increase the value of our Partnership units in the long term. Management believes that the cash we hold in excess of our current operating needs together with the line of credit provide adequate liquidity for our near-term operating needs. Over the remaining three months of 2009, management plans to harvest approximately 10 MMBF of timber for a total fiscal 2009 harvest of 32 MMBF. We have reduced our 2009 harvest plan from the originally planned 37 MMBF due to log prices which have weakened from the already-depressed levels in effect at the end of 2008. Since harvest plans are based on demand and pricing, actual harvest levels may vary, and revenues may vary substantially, subject to management's ongoing review of market conditions. Management believes that the Partnership's working capital and available borrowing capacity will be sufficient to meet cash requirements.

For the nine months ended September 30, 2009, overall cash and cash equivalents increased \$19.7 million versus an increase of \$10.1 million for the corresponding period in the prior year. This is primarily due to an increase of cash in connection with the Fund II capital call in 2009 offset by non-recurring SLARS redemptions in 2008. Cash used in operating activities was \$191,000 for the nine months ended September 30, 2009 versus cash provided by operating activities of \$5.7 million for the corresponding period in 2008. The decrease in cash generated by operating activities primarily results from a decline in cash generated from the harvest and sale of logs partially offset by a decline in capitalized development activities.

Cash used by investing activities was \$2.8 million for the first nine-months of 2009 versus cash provided by investing activities of \$15.0 million for the corresponding period in 2008. The decrease in cash provided by investing activities results primarily from the redemption of \$16.2 million of SLARS in the first nine months of 2008 and to a lesser extent, \$1.9 million used as a deposit for Fund II acquisitions that were completed early in the fourth quarter of 2009. We currently own SLARS with an estimated fair value of \$3.6 million. In October 2009, SLARS with a par value of \$1,000,000 were redeemed at \$890,000. It is uncertain whether the remaining securities will be settled in cash within one year, and as such they are classified as a long-term asset on the balance sheet.

Capital expenditures for the year-to-date period ended September 30, 2009 consisted of the following:

(Thousands)	September 30, 2009
For the nine months ended:	
Capitalized interest:	
Gig Harbor	817
Kingston	28
Port Ludlow	8
Subtotal	853
Capitalized development projects:	
Kitsap County 20-acre segments	52
Port Ludlow	24
Bremerton	26
Kingston	76
Gig Harbor	433
Gig Harbor-water tower cost reimbursement	(280)
Other sites	40
Subtotal	371
Reforestation and roads	395
Port Gamble capital improvements	510
Vehicles and miscellaneous	62
Total capital expenditures	\$ 2,191

Cash provided by financing activities increased to \$22.7 million for the first nine months of 2009 from cash used of \$10.6 million for the comparable period in prior year. This increase is due primarily to the receipt of \$27.4 million of capital in response to the Fund II capital call late in the third quarter, in addition to the \$1.8 million reduction in the repurchase of partnership units from the comparable period in 2008 and a \$2.8 million decrease in unitholder cash distributions.

Seasonality

Fee Timber. The Partnership owns 114,000 acres and Fund I owns 24,000 acres of timberland in Washington State. Partnership timber acreage is concentrated in two non-contiguous tree farms: the 70,000-acre Hood Canal tree farm located on the eastern side of Washington's Olympic Peninsula, and the 44,000-acre Columbia tree farm located on the western side of Washington's Cascade mountain range between Seattle and Portland. Fund I's 24,000 acres are similarly located on the western side of the Cascade mountain range.

The Hood Canal tree farm is concentrated at low elevations, which permits us to conduct year-round harvest activities. Generally, we concentrate our harvests from this tree farm in the winter and spring when supply, and thus competition, is typically lower and, accordingly, when we can expect to receive higher prices. With the acquisition of the Columbia tree farm in 2001, and the timberlands acquired by Fund I in 2006, management expected a decrease in the seasonality of Fee Timber operations as the Columbia tree farm and timberlands owned by Fund I are at higher elevations where harvest activities are not possible during the winter months when snow precludes access to the lands.

Timberland Management & Consulting. In broad terms, Timberland Management & Consulting operations are not currently seasonal.

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

Capital Expenditures and Commitments

We completed our first acquisition-related capital call for Fund II. We had two closings within the first week of October, of which the Partnership’s co-investment was \$6.8 million. The total Fund II property acquisitions in the portion of the fourth quarter prior to the filing of this report were \$34 million. Projected capital expenditures for the fourth quarter of 2009, in addition to the amounts we invested in Fund II, are \$868,000 and are currently expected to include \$370,000 for the Gig Harbor site with \$209,000 in the form of capitalized interest, \$234,000 for capital roads and reforestation on the tree farms, \$89,000 for the Kingston project with \$29,000 in the form of capitalized interest, \$63,000 for the Port Ludlow project with \$8,000 in the form of capitalized interest, \$74,000 on other real estate projects and \$38,000 on G&A projects. These expenditures could be increased or decreased as a result of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions.

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

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

During the quarter ended September 30, 2009, the Partnership changed its classification of cash flows to include real estate development capital expenditures within cash flows from operating activities. Prior to the quarter ended September 30, 2009, these expenditures were reported within investing activities within the Partnership's statement of cash flows. We concluded that this change is preferable because the cash inflows and cash outflows associated with land held for sale and land held for development should be classified in a consistent manner and that classification within operating activities better reflects the fact that these cash outflows are directly related to the Partnership's operations of developing and selling real estate. Furthermore, this change makes our reporting consistent with that of other companies that similarly conduct both timberland and real estate development activities. Certain accounts in the prior year statement of cash flows have been revised for comparative purposes to conform to the presentation in the current year financial statements. Additional information concerning the revised 2008 presentation can be found at Note 6.

For a further discussion of our critical accounting policies and estimates see Accounting Matters in the Management Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of September 30, 2009, the Partnership had \$29.5 million of fixed-rate debt outstanding with a fair value of approximately \$30.7 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 \$1.0 million. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

ITEM 4. CONTROLS AND PROCEDURES

The Partnership's management maintains a system of internal controls, which management views as adequate to promote the timely identification and reporting of material, relevant information. Those controls include (1) requiring executive management and all managers in accounting roles to sign and adhere to a Code of Conduct and (2) implementation of a confidential hotline for employees to contact the Audit Committee directly with financial reporting concerns. Additionally, the Partnership's senior management team meets regularly to discuss significant transactions and events affecting the Partnership's operations. The Partnership's President & Chief Executive Officer and Vice President & Chief Financial Officer ("Executive Officers") lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership's general partner includes an Audit Committee. The Audit Committee reviews the earnings release and all reports on Form 10-Q and 10-K prior to their filing. The Audit Committee is responsible for hiring the Partnership's external auditors and meets with those auditors at least eight times each year.

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

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks and uncertainties, any one or more of which could impact our operating results and financial condition materially and adversely. Some of these risks are discussed in greater detail below, arranged according to business segment. In addition, we face a number of risks that affect our business generally. We compete against much larger companies in each of our business segments. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale. Land ownership carries with it the risk of incurring liabilities due to accidents that take place on the land and previously undiscovered environmental contamination. The Partnership endeavors to maintain adequate accruals to reflect the cost of remediating known environmental contamination and other liabilities resulting from land ownership. However these estimates may prove to be inadequate as additional information is discovered. A more thorough discussion of the risks and uncertainties that may affect our business is contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and in our various other filings with the Securities and Exchange Commission. Readers should review these risks in deciding whether to invest in Partnership units, and should recognize that those factors are not an exhaustive list of risks that could cause us to deviate from management's expectations. Readers also are cautioned that, in reviewing these risk factors, the factors contained in this report and in our other SEC filings are effective as of the date the filing was made, and we cannot undertake to update those disclosures.

Valuation of Student Loan Auction Rate Securities

At September 30, 2009, Pope Resources held Student Loan Auction Rate Securities ("SLARS") with a par value of nearly \$4.0 million but an estimated fair value of \$3.6 million. SLARS are collateralized long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed when sell orders exceeded buy orders. When these auctions failed to clear, higher default interest rates for those securities went into effect. We have filed a claim with the Financial Industry Regulatory Authority (FINRA) against the broker that sold us the \$4.0 million par value of SLARS. The FINRA claim is currently in arbitration and the results of the binding arbitration will not be known until the arbitration panel has rendered its decision which is expected in November 2009. Unless the arbitration panel orders rescission of the original sale of these securities, the principal amount of these securities, other than the \$890,000 redeemed in October, will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures.

If credit markets deteriorate further, we may experience additional adverse impact on the amount and timing of the proceeds from the sale of these investments. Finally, if circumstances that influence the value of these securities do not improve as we expect or even worsen, we may be required to reduce further the carrying value of these securities, which may have an adverse impact on our cash flows or net income for the relevant period or periods.

Fee Timber

Fee Timber revenue is generated primarily through the sale of softwood logs to both domestic mills and third-party intermediaries that resell to the export market. The domestic market for logs in the Puget Sound region of Washington State has been impacted by imported lumber from Canada and decreased demand for lumber as engineered wood products have gained market acceptance in the U.S. These factors have had the effect of concentrating mill ownership with larger mill operators and decreasing the number of mills operating in the Puget Sound region. If this trend continues, decreases in local demand for logs may decrease our profitability. Over the last few years the Partnership has seen the price of logs erode in the Japanese market as competing logs and lumber from regions outside of the U.S. and engineered wood products have gradually gained market acceptance. These export markets for Pacific Northwest logs are significantly affected by fluctuations in U.S. and Japanese economies, as well as by the foreign currency exchange rate between the Japanese yen and the U.S. dollar.

Our ability to grow and harvest timber can be significantly impacted by legislation, regulations or court rulings that restrict or stop forest practices. 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.

Timberland Management & Consulting

Management is working to expand our fee-for-service business through the launch of the timber fund business, which includes a portion of its revenues within our Timberland Management & Consulting segment. To date we have acquired timberlands on behalf of Fund I and in October 2009 Fund II. Unlike other components of our business, which relate solely or primarily to real estate and timber operations, this line of business carries risks relating to the offer and sale of securities, and to the management of investment operations. Among other risks, this line of business includes potential liability to investors if we are determined to have made material misstatements or omissions to those investors, potential accusations that we have breached fiduciary duties to other limited partners, and similar types of investor action. Moreover, litigation of shareholder-related matters can be expensive and time consuming, and if brought, would likely distract management from their focus on ordinary operating activities.

Real Estate

Similar to our Fee Timber business, real estate markets are keenly sensitive to the diminished housing market and tightened credit markets. In a contracted housing and credit market, such as the one we are currently experiencing, the demand for real estate declines with a resultant drop in sales. The value of our real estate investments is subject 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 zoning variances that would allow us to maximize our 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 affect on our investments. Moreover, these investments often are highly illiquid and thus may not generate cash flow if and when needed to support our other operations.

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

(a) – (e) None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

(a) None

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

ITEM 6. Exhibits

Exhibits.

- 10.36 Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated September 25, 2009.
- 10.37 Term Note from Pope Resources to Northwest Farm Credit Services, PCA dated September 25, 2009.
- 10.38 First amendment to revolving operating note with Northwest Farm Credit Services, PCA dated September 25, 2009.
- 10.39 Mortgage to Northwest Farm Credit Services, PCA, dated September 25, 2009.
- 18 Letter from Independent Registered Public Accounting Firm related to change in accounting principle.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 5, 2009.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

By: /s/ David L. Nunes
David L. Nunes
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Thomas M. Ringo
Thomas M. Ringo
Vice President and CFO
(Principal Accounting and Financial Officer)

MASTER LOAN AGREEMENT

DATED AS OF SEPTEMBER 25, 2009

AMONG

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

AS BORROWER

AND

NORTHWEST FARM CREDIT SERVICES, FLCA

AS LENDER

**MASTER LOAN AGREEMENT
TABLE OF CONTENTS**

TERMS	SECTION
Definitions	1
Loans	2
Loans	2.01
Fees	2.02
Evidence of Debt	2.03
Payments Generally	2.04
Accounting Terms	2.05
Stock/Participation Certificates	3
Ownership	3.01
Voting Rights	3.02
Stock Conversion	3.03
Patronage	3.04
FPF Account	4
General Authorization	5
Conditions Precedent	6
Documents Required for Closing	6.01
Conditions precedent to Advances Under All Loans	6.02
Liens	7
Creation of Liens	7.01
Perfection of Liens	7.02
Priority	7.03
Representations and Warranties	7
Representations and Warranties of Borrower	8.01
Representations and Warranties of Lender	8.02
Survival	8.03
Covenants	9
Affirmative Covenants	9.01
Financial Covenants	9.02
Negative Covenants	9.03

Default	10
Events of Default	10.01
Notice and Opportunity to Cure	10.02
Prepayment and Breakage Fees	11
Prepayment Fee	11.01
Breakage Fee	11.02
Participation	11.03
Enforcement and Waiver; Indemnity	12
Enforcement and Waiver by Lender	12.01
Indemnity; Waiver of Damages by Borrower	12.02
Communications	13
Notices and Other Communications	13.01
Facsimile Documents and Signatures	13.02
Use of E-mail	13.03
Participation	14
Governing Law; Jurisdiction; Etc	15
Governing Law	15.01
Submission to Jurisdiction	15.02
Waiver of Venue	15.03
Service of Process	15.04
Waiver of Jury Trial	15.05
Consultation with Counsel	15.06
Miscellaneous	16
Construction	16.01
Binding Effect, Assignment and Entire Agreement	16.02
Severability	16.03
No Personal Liability of General Partners	16.04
Exhibit A: Form of Compliance Certificate	
Exhibit B: Covenant Compliance Worksheet	
Exhibit C: Prepayment Fee and Breakage Fee	
Exhibit D: Adjusted Partners' Capital Worksheet	

**MASTER LOAN AGREEMENT
(INCLUDING MEMBERSHIP AGREEMENT)**

THIS MASTER LOAN AGREEMENT (this "Loan Agreement") is made and entered into effective September 25, 2009, by and between Lender, as defined below, and Borrower, as defined below.

RECITALS

WHEREAS, Borrower has requested that Lender make a \$9,800,000.00 loan to Borrower to refinance existing long term debt; and

WHEREAS, Lender has agreed to make the requested Loan available to Borrower on the terms and conditions hereinafter set forth, which shall apply to Loan No. 56548-841 and to any future Loans made subject to this Loan Agreement.

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

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

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

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

"Appraised Value of Timberlands" means an appraisal of Borrower's Fee Timberlands on an annual or more frequent basis. The appraisal must be performed by a certified appraiser and approved by Lender.

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

**MASTER LOAN AGREEMENT - 1
Pope Resources, A Delaware Limited Partnership; Customer No. 56548**

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

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

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

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

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

“Breakage Fee” shall have the meaning given in Exhibit C attached hereto.

“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.

MASTER LOAN AGREEMENT - 2

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

“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 procedures should, in accordance with GAAP, be consolidated with Borrower.

“Compliance Certificate” shall have the meaning given in Section 9.01.b.iii. and shall be in substantially the form of Exhibit A hereto.

“Consolidated Capital Expenditures” means, for any period, all internally financed operating capital expenditures (excluding timberland acquisitions and the portion of the same associated with the minority interest in Timber Funds, and any real estate capital expenditures financed through creation of a local improvement district, or “LID”) of Companies, on a consolidated basis for such period, as determined in accordance with GAAP.

“Consolidated Cash Flow Coverage Ratio” means, as of any date of determination for the prior four fiscal quarters ending on such date, the ratio of (a) Consolidated EBITDDA minus Consolidated Capital Expenditures to (b) scheduled principal payments (not including balloon principal payments which have been refinanced) and interest expense.

MASTER LOAN AGREEMENT - 3

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

“Consolidated Net Income” means, for any period, the net income or net loss after Consolidated Taxes for such period of Companies on a consolidated basis, as determined in accordance with GAAP.

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

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

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

“Event of Default” shall have the meaning provided in Section 10 hereof.

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

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

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

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

“Fiscal Year” means the calendar year. “Fiscal Year-End” means December 31.

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

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

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

MASTER LOAN AGREEMENT - 4

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

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

MASTER LOAN AGREEMENT - 5

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

“Laws” means all ordinances, codes, statutes, rules, regulations, licenses, permits, orders, injunctions, writs or decrees of any Governmental Authority, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 (“IRC”), the Employee Retirement Income Security Act of 1974 (“ERISA”), the Fair Labor Standards Act (“FLSA”), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”).

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

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

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

“Loan Documents” means all of the contractual obligations associated with the Loan(s), including but not limited to: this Loan Agreement; the Note(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.

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

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

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

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

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

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

MASTER LOAN AGREEMENT - 6

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

“Notes” means one or more Notes.

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

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

“Participation Certificate” means Stock which does not confer voting rights upon the owner.

“Permitted Liens” means:

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

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

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

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

MASTER LOAN AGREEMENT - 7

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

j. Liens on the FPF Account pursuant to Section 4 hereof; and

k. Liens on Property securing Indebtedness to the extent the Indebtedness is permitted under Sections 9.03 f.(vi), (vii) or (ix) hereof.

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

“Prepayment Fee” shall have the meaning given in Exhibit C attached hereto.

“Property” or “Properties” means any interest in any kind of property or asset, whether real, personal or mixed, 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 general partners, directors and officers of such Person and of such Person’s Affiliates.

MASTER LOAN AGREEMENT - 8
Pope Resources, A Delaware Limited Partnership; Customer No. 56548

“**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.

“**Stock**” means uncertificated shares of stock evidencing proprietary interests in Northwest Farm Credit Services, ACA (“ACA”), an Affiliate of Lender, and all patronage, distributions and other rights and entitlements related thereto.

“**Subsidiary**” means, as to any Person, (a) any corporation more than 50 percent of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50 percent equity interest at any time. Unless otherwise specified, all references herein to a “Subsidiary” or “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower. For purposes of section 9 of this Loan Agreement, Subsidiary or Subsidiaries shall include Timber Funds; provided however, Sections 9.02.a. and 9.03.c.i. shall exclude Timber Funds from such definition.

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

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

2. Loans.

2.01 Loans. Subject to the terms and conditions set forth herein, Lender agrees to make Loan No. 56548-841 to Borrower. Borrower agrees to repay the Loan(s) and all of Borrower’s Obligations under the Loan Documents, according to their terms.

MASTER LOAN AGREEMENT - 9

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

2.02 Fees. Borrower shall pay Lender's fees, as set forth in the Note or a separate fee letter.

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

2.04 Payments Generally. All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Lender in U.S. Dollars and in immediately available funds as further described in the Note(s) and according to the terms of the Note(s).

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

3. Stock/Participation Certificates.

3.01 Ownership. Borrower agrees to acquire and maintain Stock or Participation Certificates in an amount required by ACA's Board of Directors, pursuant to its bylaws. Borrower hereby grants Lender a first lien security interest in all Stock or Participation Certificates presently owned or to be acquired by Borrower. All right, title and interest in the Stock or Participation Certificates shall hereby vest in Pope Resources, A Delaware Limited Partnership, a Delaware limited partnership.

3.02 Voting Rights. For so long as Borrower owns voting Stock, Borrower is entitled to one vote at ACA stockholder meetings and to participate in the affairs of ACA. Such vote may be cast by any stockholder who meets the definition of "farmers, ranchers or aquatic producers or harvesters" in the Farm Credit Administration regulations. Borrower authorizes David L. Nunes to act as Borrower's attorney-in-fact for all joint owners of the voting Stock and to cast the vote or appoint proxies on behalf of Borrower. In the event that the attorney-in-fact designated above is unavailable or otherwise unable or unwilling to act, then Borrower authorizes Thomas M. Ringo to act upon Borrower's behalf as attorney-in-fact or such other person as Borrower may indicate in a written authorization provided to Lender.

3.03 Stock Conversion. Borrower authorizes conversion of any Stock or Participation Certificates into any other class of Stock or Participation Certificates of ACA as provided by law, and authorizes ACA's appropriate officer(s) to record such conversion on ACA's books, with full power of substitution. In an Event of Default, ACA may retire any Stock/Participation Certificates acquired by Borrower at book value (not to exceed par value or face amount) and apply the proceeds to the outstanding balance of any Loan. When the policies of ACA permit retirement of excess Stock/Participation Certificates, ACA, at its sole discretion, may elect to retire and apply excess Stock/Participation Certificates to Borrower's Obligations, or if permitted by ACA's policies, excess Stock or Participation Certificates may be applied upon request by Borrower.

MASTER LOAN AGREEMENT - 10

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

3.04 Patronage. Only the portion of a Loan held by Lender for its own account and not subject to participation shall be eligible for patronage or equity distributions of any kind in accordance with the bylaws, practices and procedures of ACA. To the extent a participation in any portion of a Loan is sold at any time, such portion so participated may not be eligible for patronage distributions of ACA or its successors or assigns.

4. FPF Account. If requested by Borrower, Lender may open and maintain an FPF Account for Borrower on any Loan. An FPF Account or accounts will be held, applied or withdrawn in accordance with the following terms and conditions. Payments will be accepted into an FPF Account and held for application on Loans with, or serviced by, Lender. Interest will accrue on FPF Account balances at such minimum balances to be determined by Lender, from the date payments were made into an FPF Account. A variable interest rate, subject to adjustment in the sole discretion of Lender, will be paid on FPF Account(s). The rate paid on funds held in any FPF Account will not exceed the rate paid by Borrower on the related Loan.

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

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

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

c. Provided however, amounts held in an FPF Account for a given Loan may, at Lender's option, be limited to a pro rata amount equal to Lender's ratable share if the Loan is participated with other lenders.

Funds will be applied to Borrower's Obligations on any Loan covered by this Loan Agreement at Borrower's direction or when any payment under any Loan covered by this Loan Agreement becomes due and payable. Application of funds to a Loan does not relieve Borrower from the obligation to make all payments as provided for in the Loan Documents. Funds may be returned to Borrower for purposes for which Lender would make or increase Loans to Borrower, upon written request or upon request pursuant to Lender's electronic funds transfer procedures.

MASTER LOAN AGREEMENT - 11

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

Borrower hereby grants to Lender a first lien security interest in any FPF Account established or to be established by or on behalf of Borrower related to any Loan. To the extent allowed by law, Borrower authorizes the filing of and appoints Lender as its attorney-in-fact, coupled with an interest, for the purpose of executing and filing financing statements and similar documents that may, in Lender's reasonable judgment, be necessary or advisable for perfecting, continuing and reperfecting its security interest. Borrower further acknowledges and agrees that in the Event of Default under any Loan covered by this Loan Agreement, Lender has a right of set-off against all funds in Borrower's FPF Accounts. All conditions applicable to FPF Accounts are subject to change and the program is subject to termination at Lender's sole discretion.

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

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

6.01 Documents Required for Closing.

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

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

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

MASTER LOAN AGREEMENT - 12

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

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

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

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

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

MASTER LOAN AGREEMENT - 13

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

- h. If real Property is Collateral for one or more Loans, a title insurance commitment acceptable to Lender;
- i. Environmental report satisfactory to Lender;
- j. Commercial general liability insurance with Borrower as the named insured and Lender as additional insured in commercially reasonable amounts and terms and issued by an insurer or insurers reasonably satisfactory to Lender;
- k. Evidence that all other actions which, in the opinion of Lender, are reasonably necessary to perfect and protect the security interests created by the Loan Documents have been taken; and
- l. Copies of the most recent timberland appraisals covering all fee timber and timberlands currently owned by Borrower.

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

- a. Evidence as requested by Lender that no condition shall exist which would constitute a Material Adverse Effect, in the opinion of Lender, in the business, operation or financial conditions of Borrower at the time of the advance;
- b. Borrower shall have complied with all conditions precedent contained herein and in Lender's escrow instructions and commitment letters for any Loan, if any;
- c. Payment by Borrower to Lender of the following amounts:
 - i. Any unpaid balance of any Loan fees; and
 - ii. All unpaid costs and expenses to Lender; and
- d. All representations and warranties made in the Loan Documents are true and correct.

7. Liens.

7.01 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.

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

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

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

8. Representations and Warranties.

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

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

MASTER LOAN AGREEMENT - 15

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

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

ii. The conduct of its businesses; and

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

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

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

MASTER LOAN AGREEMENT - 16

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

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

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

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

MASTER LOAN AGREEMENT - 17

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

8.03 Survival. All of the representations and warranties set forth in Subparagraph 7.01 shall survive until all of Borrower's Obligations are paid and satisfied in full and all offsets, defenses or counterclaims that Borrower has or may claim to have, have been released or discharged.

9. Covenants.

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

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

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

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

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

iii. Concurrently with the delivery of the financial statements referred to in Sections 9.01.b.i and ii, a duly completed Compliance Certificate, signed by a Responsible Officer, certifying that such financial statements are fairly presenting the financial condition, results of operations, shareholders' (or equivalent) equity and cash flows of Borrower and its Subsidiaries in accordance with GAAP (subject only to normal year-end audit adjustments and the absence of footnotes with respect to financial statements provided under Section 9.01.b.ii.). A sample Compliance Certificate is attached hereto as Exhibit A. Borrower's Compliance Certificate shall be accompanied by a Covenant Compliance Worksheet, a sample of which is attached hereto as Exhibit B, signed by a Responsible Officer;

MASTER LOAN AGREEMENT - 18

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

viii. Within 45 days of the end of each of the first three Quarters, 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 reconciliation of actual activity compared to the timber harvest plan for harvest and log sales by species and by tract.

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

MASTER LOAN AGREEMENT - 19

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

f. Appraisal of Collateral. Lender may, at any time, request an appraisal of Collateral. Borrower shall be responsible for the cost of the first two appraisals requested by Lender after the Closing Date and any subsequent appraisals requested by Lender in the Event of Default or Incipient Default. Lender shall be responsible for the cost of any subsequent appraisals, provided there is no Event of Default or Incipient Default.

g. Release of Collateral. Provided there is no Event of Default or Incipient Default, Lender may provide Borrower a partial release from its lien on the Collateral pursuant to a written request from Borrower. If granted by Lender, Borrower shall bear all costs thereof, including but not limited to appraisals, if reasonably required, reasonable legal fees and recording fees. If an appraisal is required as a condition for a partial release, such appraisal shall not count toward the lifetime limit of two appraisals Borrower shall be obligated for pursuant to Section 9.01.f. above. The partial release may be subject to and require an additional Timber Cutting Payment, payable at the time of such release. No release will be provided if the proposed Collateral to be released is integral to Lender's Collateral pool, as reasonably determined by Lender.

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

MASTER LOAN AGREEMENT - 20

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

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

a. Indebtedness to Total Capitalization Ratio shall be less than or equal to 0.30:1.00, to be measured as of each Fiscal Year-End, beginning with the 2009 Fiscal Year;

b. Consolidated Cash Flow Coverage Ratio shall be greater than or equal to 1.1:1 to be measured quarterly on a four quarter rolling basis, beginning with the 2011 Fiscal Year-End financial statements;

c. The Loan to appraised value shall not exceed 50% during the life of the Loan;

d. The principal balance of the Loan per MBF of merchantable timber volume on Collateral shall not exceed \$200/MBF. It is estimated the Loan balance / MBF at loan closing will be \$129/MBF. The Loan balance / MBF will be measured annually. Borrower shall provide an update to the Collateral showing the final harvest amount for the year, plus annual growth. Borrower may add or substitute collateral satisfactory to Lender to maintain the Loan balance to merchantable timber volume relationship;

MASTER LOAN AGREEMENT - 21

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

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

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

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

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

d. Fiscal Year; Organizational Documents. Change its Fiscal Year-End or amend, modify or change its Organization Documents, which would result in a Material Adverse Effect.

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

f. Indebtedness. Create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness other than: (i) Indebtedness evidenced by the Note(s); (ii) existing Indebtedness, listed on a schedule provided to Lender as of the Closing Date, and in the case of the line of credit with Lender in place on the date of this Loan Agreement, any subsequently utilized commitment under that line of credit; (iii) purchase money Indebtedness, including capital leases, not to exceed \$1,000,000.00 annually; (iv) Indebtedness related to Permitted Liens; (v) Indebtedness incurred or assumed after the date hereof which has been subordinated to the obligations of Borrower to Lender hereunder and under the Note(s) on terms and conditions satisfactory to Lender; (vi) Timber Fund Indebtedness, to the extent allowed under the governing documents of such Timber Fund; (vii) additional secured Indebtedness of a Subsidiary (other than that provided for under Section 8.03 f.(vi) above) in aggregate over the term of the Loan(s), not to exceed \$8,000,000.00; (viii) additional unsecured Indebtedness, in the aggregate over the term of the Loan(s), not to exceed \$10,000,000.00; provided, however, total additional Indebtedness allowed under (vii) and (viii) above shall not exceed \$10,000,000.00, in aggregate, over the term of the Loan(s); and (ix) obligations to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business.

MASTER LOAN AGREEMENT - 22

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

10. Default.

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

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

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

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

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

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

MASTER LOAN AGREEMENT - 23

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

11. Prepayment and Breakage Fees.

11.01 Prepayment Fee.

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

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

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

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

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

MASTER LOAN AGREEMENT - 24

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

12. Enforcement and Waiver; Indemnity.

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

12.02 Indemnity; Waiver of Damages by Borrower.

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

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

- c. Payments. All amounts due under this Section 12.02 shall be payable not later than ten Business Days after demand therefore.
- d. Survival. The agreements in this Section shall survive the repayment, satisfaction or discharge of Borrower's Obligations.

13. Communications.

13.01 Notice and Other Communications.

a. General. Unless otherwise expressly provided herein or in the Loan Documents, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or, subject to Section 13.03 below, e-mail address, and all notices and other communications expressly permitted hereunder to be given by telephone and shall be made to the applicable telephone number, as follows:

i. If to Borrower:

Attention: Thomas M. Ringo
19245 Tenth Ave. NE
Poulsbo, WA 98370
Facsimile: (360) 697-1476
E-mail: tringo@orminc.com

ii. If to Lender:

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

b. Effectiveness. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (1) actual receipt by the relevant party hereto and (2) (a) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (b) if delivered by Certified Mail, Return Receipt Requested, upon receipt; (c) if delivered by Facsimile, when sent and receipt has been confirmed by telephone; and (d) if delivered by e-mail (which form of delivery is subject to the provisions of Section 13.03 below), when delivered. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

MASTER LOAN AGREEMENT - 26

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

13.02 Facsimile Documents and Signatures. Loan Documents may be transmitted and or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually signed originals and shall be binding on Borrower and Lender, as applicable. Lender may also require that any such document and signature be confirmed by a manually signed original thereof; provided however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

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

14. 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.

15. Governing Law; Jurisdiction; Etc.

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

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

MASTER LOAN AGREEMENT - 27

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

15.03 Waiver of Venue. BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN SECTION 14.02 HEREOF. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

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

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

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

16. Miscellaneous.

16.01 Construction.

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

MASTER LOAN AGREEMENT - 28

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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.

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

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

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

MASTER LOAN AGREEMENT - 29

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

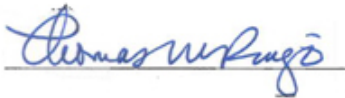
In Witness Whereof, the parties hereto have duly executed this Loan Agreement as of the date first above written.

LENDER:
NORTHWEST FARM CREDIT SERVICES, PCA



By: _____
Authorized Agent

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



By: _____
Name: Thomas M. Ringo
Its: Vice President and CFO

MASTER LOAN AGREEMENT - 30
Pope Resources, A Delaware Limited Partnership; Customer No. 56548

EXHIBIT A
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, FLCA

Reference is made to that certain Master Loan Agreement, dated as of September 25, 2009, (the "Loan Agreement") among **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower"), and **NORTHWEST FARM CREDIT SERVICES, FLCA** ("Lender").

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

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

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by Paragraph 9.01b.i of the Loan Agreement for the Fiscal Year of Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

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

1. Attached hereto as Schedule 1, are the financial statements required by Paragraph 9.01. b.ii of the Loan Agreement for the Fiscal Quarter of Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP, as of such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

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

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

MASTER LOAN AGREEMENT - 31
Pope Resources, A Delaware Limited Partnership; Customer No. 56548

[select one:]

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

—or—

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

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

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

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

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____
Name: _____
Title: _____

MASTER LOAN AGREEMENT - 32
Pope Resources, A Delaware Limited Partnership; Customer No. 56548

EXHIBIT B
COVENANT COMPLIANCE WORKSHEET

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

COVENANT COMPLIANCE WORKSHEET

For the Fiscal Quarter-End or Rolling Four-Quarter Period - _____ (“Calculation Date”)

I. Section 9.02 a. – Indebtedness to Total Capitalization Ratio	
A. Companies’ Indebtedness at Calculation Date	\$ 0
B. Indebtedness associated with minority interest in Timber Funds at Calculation Date	\$ 0
C. Numerator (Line I.A. minus Line I.B.)	\$ 0
D. Total Capitalization at Calculation Date	
1. Adjusted Partners’ Capital at Calculation Date	
a. Partners’ capital per GAAP at Calculation Date	\$ 0
b. Book value of timberland at Calculation Date	\$ 0
c. Book value of timber and roads net of depletion at Calculation Date	\$ 0
d. Book value of timberland, timber and roads net of depletion for Timber Funds at Calculation Date	\$ 0
e. Appraised value of Borrower’s fee timberlands at most recent year-end	\$ 0
f. Adjusted Partners’ Capital (Line I.D.1.a. minus I.D.1.b. minus I.D.1.c. plus I.D.1.d. plus I.D.1.e.)	\$ 0
2. Numerator from line I.C. above	\$ 0
E. Denominator (Line I D.1.f. plus Line I.D.2.)	\$ 0
Ratio of Indebtedness to Total Capitalization (Line I.C. divided by Line I.E.)	<u>0.00</u>
Maximum allowed:	0.30
II. Consolidated Cash Flow Coverage Ratio (not to be measured until Fiscal Year-end 2011)	
A. Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the “Subject Period”)	
1. Consolidated Net Income for the Subject Period	\$ 0
2. Consolidated Interest Expense for the Subject Period	\$ 0
3. Consolidated depreciation expense for the Subject Period	\$ 0
4. Consolidated amortization expense for the Subject Period	\$ 0
5. Consolidated depletion expense for the Subject Period (excluding the portion associated with the minority interest in Timber Funds)	\$ 0
6. Cost of land sold	\$ 0
7. Consolidated Taxes for the Subject Period (to the extent considered in calculating Consolidated Net Income)	\$ 0
8. Consolidated EBITDDA (the sum of Lines II.A.1 through I.A.7. inclusive)	\$ 0
B. Consolidated Capital Expenditures	\$ 0
C. Numerator (Line A.8. minus Line B.)	\$ 0
D. Denominator - debt service for Subject Period	
1. Consolidated Interest Expense for Subject Period	\$ 0
2. Scheduled principal payments during the Subject Period	\$ 0
3. Denominator - debt service for Subject Period (Line II.D.1. plus Line II.D.2.)	\$ 0
E. Consolidated Cash Flow Coverage Ratio (Line C. divided by Line D.3.)	<u>to 1</u>

EXHIBIT C
PREPAYMENT/BREAKAGE FEE CALCULATION

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

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

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

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

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

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

MASTER LOAN AGREEMENT - 35

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

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

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

Compare Rates – Step 1

Initial Reference Rate	5.50%
Final Reference Rate	5.00%

(The Final Reference Rate is the 90-day Current Discount Note Rate, as adjusted by Lender)

Continue to the next step because the Initial Reference Rate is greater than the Final Reference Rate.

Scheduled Interest Payments at the Initial Reference Rate – Step 2

<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Balance</u>
1	\$ 13,750.00	\$ 1,000,000.00
		\$ 1,000,000.00

$[(\$1,000,000.00 \times 5.50\%)/4 = \$13,750.00]$

Carry forward the Initial Interest Amounts to Step 4

Scheduled Interest Payments at the Final Reference Rate – Step 3

<u>Interest Payment</u>	<u>Final Interest Amounts</u>	<u>Balance</u>
1	\$ 12,500.00	\$ 1,000,000.00
		\$ 1,000,000.00

$[(\$1,000,000.00 \times 5.00\%)/4 = \$12,500.00]$

Carry forward the Final Interest Amounts to Step 4

Interest Difference – Step 4

<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Final Interest Amounts</u>	<u>Differential Interest Amount</u>
1	\$ 13,750.00	\$ 12,500.00	\$ 1,250.00

Carry forward the Differential Interest Amount to Step 5

Net Present Value of Differential Interest Amounts – Step 5

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

MASTER LOAN AGREEMENT - 36

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

EXHIBIT D
ADJUSTED PARTNERS' CAPITAL WORKSHEET

(Example as of 12/31/08 audit date)

Partners' Capital per GAAP		\$	87,817
Less: book Value of Timberland			(20,449)
Depleted Book Value of Fee Timber and Roads	92,753		
Less: ORM Timber Fund book value of Timber, Land and Roads	55,789		
Net book value of Timber, Land and Roads	38,964		(38,964)
Plus: Appraised Value of Fee Timberland		\$	364,200
Adjusted Partners' Capital		\$	392,604

Calculation of Funded Indebtedness to Adjusted Partners' Capital as of 12/31/08 was:

Funded Debt	\$	29,384,000
Adjusted Partners' Capital	\$	392,604,000
Total Capitalization	\$	421,988,000

Indebtedness to Total Capitalization = \$29,384,000 divided by \$421,988,000 = .07

MASTER LOAN AGREEMENT - 37

Pope Resources, A Delaware Limited Partnership; Customer No. 56548

Date: September 25, 2009

Pope Resources, a Delaware Limited Partnership
Customer/Note No. 56548-841

**TERM NOTE
(WITH MULTIPLE PRICING OPTIONS)**

For Value Received, on the Loan Maturity Date, Borrower, as defined below, as principal, jointly and severally, promises to pay to Lender, as defined below, or order, at its office in Spokane, Washington, or at such other place as the holder of this Term Note (this "Note") may designate in writing, the principal sum of **Nine Million and Eight Hundred Thousand and No/100's Dollars (\$9,800,000.00)**, or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter. For all intents and purposes, all Loan Segments are treated as one obligation under this Note and the other Loan Documents.

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

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

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

"Collateral" means all the property pledged to secure this Loan as described in the Loan Documents, including but not limited to the real property consisting of approximately 13,200 acres of fee-owned timberland, known as the Swift North property, located in Washington, together with all improvements located thereon, as more particularly described in that certain Mortgage dated of or around even date herewith.

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

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

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

"Fixed Rate Option" means any of the Fixed Rate Options defined in Section 4 hereof.

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

"Lender" means Northwest Farm Credit Services, FLCA.

"Loan" or "Loan No. 56548-841" means all principal amounts advanced by Lender to Borrower or on the account of Borrower or otherwise under this Note and the other Loan Documents, and all fees or charges incurred as provided for in this Note and the other Loan Documents, plus all interest accrued thereon.

"Loan Documents" means the Note and all other documents executed in connection with the Loan, including but not limited to the Loan Agreement, Mortgage dated on or about the same date herewith, and all renewals, extensions, amendments, modifications, substitutions and replacements thereof.

"Loan Maturity Date" means September 1, 2019.

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

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

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

"Pricing Date" means the Business Day a given Loan Segment begins to accrue interest under a given Rate Option or a day when there is a change in the Base Rate.

"Rate Option" means one of the Fixed Rate Options.

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

2. Loan Fee, Expenses, Stock and Notice.

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

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

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

2.04 Notice of Prepayment and Pricing.

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

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

3. Advances and Pricing Elections.

3.01 Advances. So long as there is no Event of Default or Incipient Default, Lender will advance Loan proceeds to or on the account of Borrower on a Disbursement Date for an approved Loan Purpose during the Loan term. The Loan is not a revolving loan. Once Loan principal has been borrowed and repaid, it may not be reborrowed.

3.02 Pricing Elections. Upon irrevocable Notice to Lender on the Disbursement Date, Borrower may elect to designate all or any part of the advance on such Pricing Date to bear interest at any Rate Option; provided however, that (1) there is no Event of Default or Incipient Default, (2) Borrower shall price Loan principal in Fixed Rate Loan Segments in principal amounts no less than \$1,000,000.00, and (3) there are no more than three Loan Segments at any one time.

4. Pricing Options.

4.01. 3-, 5-, 7- or 10-Year Fixed Rate Options. Borrower understands and agrees that the availability of any Fixed Rate Option will be determined at Lender's (and participant's, if applicable) sole discretion. Subject to the preceding sentence, a Fixed Rate Loan Segment may be priced with a fixed rate equal to the 3-, 5-, 7- or 10-year Fixed Rate Options, as defined herein, plus the Applicable Margin. With these Fixed Rate Options, (a) rates may be fixed for Interest Periods, as defined herein, of 3, 5, 7 and 10 years; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the "3-, 5-, 7- and 10-year Fixed Rate Options" shall mean the rate for the all-in cost of the corresponding term for Farm Credit Medium Term Notes, rounded to the nearest .05 percent, as made available by the Index Source on the Pricing Date; and (ii) "Interest Period" shall mean a period commencing on the Pricing Date and ending on the Fixed Rate Maturity Date. The Fixed Rate Maturity Date for

TERM NOTE - 3

Pope Resources; CIF/Note No. 56548-841

a given Fixed Rate Option shall be the corresponding anniversary of the first day of the month following the Pricing Date if the Pricing Date is not the first day of a month or the corresponding anniversary of the Pricing Date if such Pricing Date is the first day of a month.

5. Payment.

5.01 Payment of Loan Segments.

a. Payment of Interest. Borrower shall pay the interest that accrues on each Loan Segment on the first day of the following month. Such interest payments shall commence on the first day of the month following the Closing Date or the first day of the following month, as Lender shall determine.

b. Payment of Principal. The principal associated with each Loan Segment shall be repaid in full on the Fixed Rate Maturity Date for each Loan Segment.

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

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

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

5.04 Timber Cutting Payments. Lender will calculate a timber cutting payment annually, to the extent the outstanding balance of the Loan / volume of Merchantable Timber remaining uncut and located on the real property security is greater than \$200.00/MBF. The Timber Cutting Payment will be due and payable 15 days after it is billed. So long as there is no Event of Default or Incipient Default, Borrower may elect the Loan Segment(s) against which the Timber Cutting Payment will be applied. A Timber Cutting Payment shall not excuse Borrower from making any other required payments. Timber Cutting Payments will be subject to the Prepayment Fee provisions hereof. In lieu of a Timber Cutting Payment, Lender may, in its sole discretion, allow Borrower to pledge additional Collateral.

6. Prepayment and Breakage Fees. The Loan shall be subject to the prepayment and breakage fees set forth in the Loan Agreement.

7. Default.

7.01 Events of Default. Time is of the essence in the performance of this Note. The occurrence of any one or more of the events identified in the Loan Agreement as an Event of Default shall constitute an "Event of Default" under this Note.

7.02 Acceleration. In the event of any uncured Event of Default beyond any applicable cure periods provided for in the Loan Documents, at Lender's option, without notice or demand, the unpaid principal balance of the Loan, plus all accrued and unpaid interest thereon and all other amounts due shall immediately become due and payable.

7.03 Default Interest Rate. The Default Interest Rate applicable to a delinquent payment for a Loan Segment shall equal four percent (4%) per annum above the interest rate in effect on such Loan Segment at the time such payment was due, which rate shall accrue on the total amount of the payment due until paid, accelerated or upon maturity. Provided however, upon acceleration and or maturity, the Default Interest Rate shall be equal to and remain at four percent (4%) per annum above the interest rate in effect for each Loan Segment at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan Segment until paid in full.

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

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

9. Miscellaneous Terms.

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

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

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

9.04 Index and Index Source. The Indexes used herein do not necessarily represent the lowest rates charged by Lender on its loans. If any Index or Index Source provided for herein becomes unavailable during the Loan term, Lender will choose a new Index or Index Source,

TERM NOTE - 5

Pope Resources; CIF/Note No. 56548-841

which it determines, in the good faith, reasonable exercise of its sole discretion, is comparable, to be effective upon notification thereof to Borrower.

9.05 Payments. Upon Lender's written request, payments shall be electronically submitted no later than 10:00 a.m. Spokane time on the date specified for payment. All sums payable to Lender hereunder shall be paid directly to Lender in immediately available funds in U.S. dollars. Lender shall send to Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections within 15 days of receipt of any such statement.

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

9.07 Advances, Fees and Costs. Borrower shall pay Lender, on demand, all attorney fees and costs incurred in any loan or loan servicing actions or to protect or enforce any of Lender's rights in bankruptcy, appellate proceedings or otherwise, under this Note or the other Loan Documents. All sums advanced by Lender to protect its interests hereunder or under the other Loan Documents and all Prepayment and Breakage Fees shall be payable on demand and shall accrue interest under the interest rate in effect for the Base Rate Loan Segment or any other Loan Segment as Lender may select on such date and shall be treated as an advance under such Loan Segment.

9.08 Governing Law. The substantive laws of the State of Washington shall apply to govern the construction of the Loan Documents and the rights and remedies of the parties, except where the location of the Collateral for the Loan may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

9.09 General Provisions. Borrower agrees to this Note as of the date first above written. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises, which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under the Loan may be indexed, adjusted, renewed or renegotiated. Lender may at any time, without notice, release all or any part of the security for the Loan, including the real estate and or personal property covered by the Loan Documents; grant extensions, deferments, renewals or reamortizations of any part of the Loan over any period of time; and release from personal liability any one or more of the parties who are or may become liable for the Loan, without affecting the personal liability of any other party. Lender may exercise any and all rights and remedies available at law, in equity and provided herein and in the other Loan Documents. Any delay or omission by Lender in exercising a right or remedy shall not waive that or any other right or remedy. No waiver of default by Lender shall operate as a waiver of the same or any other default on a future occasion.

COPY

Lender shall not be obligated to renew the Loan or any part thereof or to make additional or future loans to Borrower.

9.10 Counterparts. This Note may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument.

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

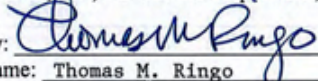
9.12 No Personal Liability of General Partners. In any action brought to enforce the obligation of Borrower to pay Borrower's Obligations, any judgment or decree shall not be subject to execution on, nor be a lien on, the assets of such General Partners of Borrower, other than their interests in the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

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

BORROWER:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

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

By: 
Name: Thomas M. Ringo
Its: Vice President and CFO

Pay to the Order of CoBank, ACB.

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TERM NOTE - 7
Pope Resources; CIF/Note No. 56548-841

COPY

Pope Resources, a Delaware Limited Partnership
Customer/Note No. 56548-841

**EXHIBIT A
NOTICE/CONFIRMATION**

NOTICE TO:

Technical Accounting Services
Northwest Farm Credit Services, FLCA
1700 South Assembly Street
Spokane, WA 99224-2121

P. O. Box 2515
Spokane, WA 99220-2515

Fax: 509-340-5508
Tel: 1-800-216-4535

This Notice is provided pursuant to the Term Note dated September 25, 2009, as renewed, extended, amended or restated, made by Borrower and payable to the order of Lender.

SELECT ONE: Prepayment of Principal

Principal Amount _____
Date to be Effective _____

Date: _____

BORROWER

By: _____
Authorized Agent

CONFIRMATION

Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: _____ By: _____
Authorized Agent

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**TERM NOTE - 8
Pope Resources; CIF/Note No. 56548-841**

AMENDMENT NO. 1 TO REVOLVING OPERATING NOTE

THIS AMENDMENT NO. 1 TO REVOLVING OPERATING NOTE is made and entered into effective September 25, 2009, by and between **NORTHWEST FARM CREDIT SERVICES, PCA** ("Lender") and **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a Revolving Operating Note dated July 31, 2008 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the "Note") and certain related loan documents referenced as Loan No. 56548-811, (herein, as at any time amended, extended, restated, renewed, supplemented or modified, collectively the "Loan Documents");

WHEREAS, Borrower and Lender have agreed to reduce the commitment amount of the Loan as a condition to financing from an affiliate of Lender; and

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

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

1. Except as expressly modified or changed herein, all terms and conditions of the Note and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder.
2. The "Total Commitment Amount" identified in the introductory paragraph of the Note is hereby amended, in its entirety, to provide as follows:

Thirty Five Million and no/100's Dollars (\$35,000,000.00)

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

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

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

LENDER:
NORTHWEST FARM CREDIT SERVICES, PCA

By: Gina Bryan
Authorized Agent

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

By: Thomas M. Ringo
Name: Thomas M. Ringo
Title: Vice President and Chief Financial Officer

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AMENDMENT NO. 1 TO REVOLVING OPERATING NOTE - 2
Pope Resources, A Delaware Limited Partnership; CIF/Note No. 56548-811

After Recording Return To:
Salem Agribusiness
P.O. Box 13309
Salem, OR 97309

Document 1 Title: Mortgage

Grantors:

Pope Resources, A Delaware Limited Partnership

Grantees:

Northwest Farm Credit Services, FLCA

Document 2 Title: Financing Statement

Grantors:

Pope Resources, A Delaware Limited Partnership

Grantees:

Northwest Farm Credit Services, FLCA

Document 3 Title: Fixture Filing

Grantors:

Pope Resources, A Delaware Limited Partnership

Grantees:

Northwest Farm Credit Services, FLCA

Abbreviated legal description:

Ptns of Sec. 24, T7N, R5E; Ptns. of Secs. 3-11; 14-23; 27-29 & 33, T7N, R6E; Skamania County, Washington

Additional legal is on Exhibit A on Page 25-30

Assessor's Property Tax Parcel Numbers: 07-05-00-0-0-2600-0; 07-06-00-0-0-0200-00; 07-06-00-0-0-0300-00; 07-06-00-0-0-0400-00; 07-06-00-0-0-0500-00; 07-06-00-0-0-0600-00; 07-06-00-0-0-0700-00; 07-06-00-0-0-0800-00; 07-06-00-0-0-0900-00; 07-06-00-0-0-1000-00; 07-06-00-0-0-1200-00; 07-06-00-0-0-1300-00; 07-06-00-0-0-1400-00; 07-06-00-0-0-1490-00; 07-06-00-0-0-1480-00; 07-06-00-0-0-1590-00; 07-06-00-0-0-1500-00; 07-06-00-0-0-1600-00; 07-06-00-0-0-1700-00; 07-06-00-0-0-1800-00; 07-06-00-0-0-2600-00; 07-06-00-0-0-2700-00; 07-06-00-0-0-2800-00; 07-06-00-0-0-3000-00; 07-06-00-0-0-03100-00; 07-06-00-0-0-4200-00;

MORTGAGE (Open End) - 1

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

**MORTGAGE , FINANCING STATEMENT
AND FIXTURE FILING
(Open End)**

THIS MORTGAGE IS ALSO INTENDED TO BE A SECURITY AGREEMENT.

THIS MORTGAGE IS ALSO INTENDED TO BE A FILING AGAINST TIMBER TO BE CUT.

NOTICE: THIS MORTGAGE IS A LINE OF CREDIT MORTGAGE. THE MAXIMUM PRINCIPAL AMOUNT TO BE ADVANCED UNDER THE SECURED OBLIGATION (AS DEFINED BELOW) IS \$19,600,000.00. IN ADDITION, THIS MORTGAGE SECURES ALL OTHER INDEBTEDNESS EVIDENCED BY THE SECURED OBLIGATIONS OR OTHERWISE CREATED IN CONNECTION WITH THIS MORTGAGE, WHICH INDEBTEDNESS IS POTENTIALLY UNLIMITED. THE SECURED OBLIGATIONS PROVIDE FOR LOAN MATURITY DATES AS LATE AS OCTOBER 1, 2039 (EXCLUSIVE OF THE OPTION TO RENEW OR EXTEND).

ATTENTION: COUNTY RECORDER: This Mortgage covers goods that are or are to become affixed to or fixtures on the land described in Exhibit A hereto and is to be filed for record in the records where mortgages on real estate are recorded. Additionally, this instrument covers and should be appropriately indexed, not only as a mortgage, but also as a financing statement covering timber to be cut and goods that are or are to become fixtures on the real property described herein.

NOTICE: THE OBLIGATIONS SECURED BY THIS MORTGAGE PROVIDE FOR A VARIABLE INTEREST RATE.

This Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing (this "Mortgage"), dated as of September 25, 2009, is executed by **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP**, a Delaware limited partnership ("Mortgagor"), whose address is 19245 Tenth Ave NE, Poulsbo, WA 98370, in favor of and for the benefit of **NORTHWEST FARM CREDIT SERVICES, FLCA**, a corporation organized and existing under the laws of the United States ("Mortgagee"), whose address is 1700 South Assembly Street, Spokane, WA 99224-2121, P. O. Box 2515, Spokane, WA 99220-2515. Each capitalized term used and not otherwise defined in this Mortgage shall have the meaning given such term in the Master Loan Agreement (the "Loan Agreement") executed by Mortgagor, dated on or around even date. "Loan Documents" as used herein means all documents and instruments signed in connection with the Loan (as defined herein) and other Loans made by Mortgagee to Mortgagor or an affiliate of Mortgagor and any extensions, renewals, amendments, substitutions and replacements thereto.

MORTGAGE (Open End) - 2

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

Pursuant to the terms and conditions of the Loan Agreement, Mortgagor has agreed to grant this Mortgage in favor of Mortgagee to provide security for Mortgagor's obligations under the Note described herein, the Loan Agreement and the related Loan Documents and any and all other documents entered into pursuant thereto.

**ARTICLE 1
GRANT OF SECURITY**

Mortgagor, in consideration of the indebtedness secured by this Mortgage, irrevocably bargains, sells, grants, mortgages, transfers, conveys, assigns and warrants to Mortgagee, for the benefit and security of Mortgagee, all Mortgagor's existing and future rights, titles, interests, estates, powers and privileges in or to the following (collectively the "Collateral"):

1.1 Real Estate.

- a. That certain real property located in Skamania County, State of Washington, more particularly described on Exhibit A attached hereto and incorporated herein (the "Land").
- b. All buildings, wells and other improvements now or hereafter located on the Land, including, but not limited to, the Fixtures (as defined below), and all other equipment, machinery, appliances and other articles attached to such buildings and other improvements (collectively the "Improvements");
- c. All fixtures (including without limitation, goods that are or become so related to the Land that an interest in them arises under the real estate law) and any additions or replacements (collectively the "Fixtures") now or hereafter located on, attached to, installed in or used in connection with the Land;
- d. All timber (aka "forest tree species"), whether standing or down, cut or under contract to be cut, now or hereafter growing or located on the Land, and whether or not said timber is merchantable, all logs, lumber and forest products of any nature, all proceeds and products thereof (the "Timber");
- e. All rights, rights-of-way, easements, licenses, profits, claims, demands, privileges, grazing privileges, tenements, hereditaments and appurtenances now owned or hereafter acquired by Mortgagor and used in connection with the Land and the Improvements or as a means of access to either or both, including without limitation, all rights over the property of third persons which are related thereto, and all unaccrued trespass and surface damage claims appurtenant thereto, and all written operations plans and all permits and approvals related to the Land and Improvements;

**MORTGAGE (Open End) - 3
Pope Resources, A Delaware Limited Partnership; CIF No. 56548**

f. All of Mortgagor's right, title and interest in and to any land within any right-of-way of any open or proposed street adjoining the Land, and any and all sidewalks, alleys, strips and gores of land adjacent to or used in connection with the Land and Improvements;

g. All of Mortgagor's existing and future rights in (including without limitation, royalty and leasehold rights) oil, gas and other mineral rights in or relating to the Land;

h. All waters, water courses, water rights and riparian rights (including without limitation, shares of stock evidencing the same) in or relating to the Land;

i. All existing and future leases and subleases relating to the Land and Improvements or any interest in them, including without limitation, all deposits, advance rentals and other similar payments, but not including the Rents, as defined and separately assigned in Article 5;

j. All options to purchase, exchange or lease the Collateral or any interest in it (and any greater estate in the Collateral and acquired by exercise of such options);

k. All Mortgagor's other existing or future estates, homestead or other claims or demands, both in law and in equity in the Land, including without limitation, (i) all awards made for the partial or complete taking by eminent domain, or by any proceeding or purchase in lieu of eminent domain, of the Collateral, and (ii) all proceeds, including general intangibles and payment intangibles, of any insurance covering the Collateral; and

l. All cash or non-cash proceeds of the sale, lease, license, exchange or other disposition of the Collateral or general intangibles, including payment intangibles, arising therefrom. Proceeds include all subsidy payments, in cash or in kind, which may be made to Mortgagor by any person, entity or governmental agency, including but not limited to, payments and entitlements from state and federal farm programs, as well as any type of property insurance; and any rights arising out of Collateral, collections and distributions on Collateral.

MORTGAGE (Open End) - 4

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

1.2 Personal Property. As further security for the payment, performance and observance of the Secured Obligations, Mortgagor, as debtor, hereby grants to Mortgagee, as secured party, a security interest in all of Mortgagor's existing and future right, title and interest in, to and under the following: all (a) contracts and policies of insurance and proceeds thereof, which may insure all or any portion of the Collateral against casualties and theft; (b) condemnation proceeds for all or any portion of the Collateral; and (c) cash or non-cash proceeds of the Collateral (including but not limited to, general intangibles, including payment intangibles, and all proceeds, which constitute property of the types described in clauses (a) through (c) of this Paragraph) and all right of Mortgagor to receive proceeds of any insurance, indemnity, warranty or guaranty payable by reason of loss of or damage to any of the Collateral. This Mortgage constitutes a security agreement for all purposes under the Uniform Commercial Code in effect in the State where the Mortgagor resides. In addition to all other rights and remedies provided for in this Mortgage, Mortgagee shall have all of the rights and remedies of a secured party under the Uniform Commercial Code. Mortgagor agrees that at least 10-days' notice to Mortgagor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification with respect to the personal property Collateral. If Mortgagee shall so require, Mortgagor upon the occurrence of an Event of Default, will make the Collateral that constitutes personal property available to Mortgagee at a place designated by Mortgagee, which is reasonably convenient to Mortgagee. In addition, Mortgagor shall execute such instruments and documents as Mortgagee reasonably may require from time to time to further evidence, implement or perfect any of Mortgagee's rights, remedies and security interests.

1.3 Fixture Filing and Financing Statement. This Mortgage is intended to serve as a Fixture filing and as a financing statement covering timber to be cut pursuant to the terms of the applicable Uniform Commercial Code. This Mortgage is to be recorded in the real estate records of the County in which the Land is located. In that regard, the following information is provided:

Name of Mortgagor, as Debtor:	Pope Resources, A Delaware Limited Partnership Attn: Thomas M. Ringo
Address of Mortgagor:	19245 Tenth Ave, NE Poulsbo, WA 98370
Name of Mortgagee, as Secured Party:	Northwest Farm Credit Services, FLCA Attn: Kristy Searles
Address of Mortgagee:	P.O. Box 13309 Salem, OR 97309

ARTICLE 2 REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties. Mortgagor represents and warrants to Mortgagee as follows:

a. Mortgagor hereby authorizes Mortgagee to file, at anytime, one or more financing statements and any amendments and continuations thereof, describing any personal property or fixtures described herein, without further signature of Mortgagor. Mortgagor hereby represents and warrants that Mortgagor's State of formation is the State of Delaware; and Mortgagor's exact legal name is as set forth herein.

**MORTGAGE (Open End) - 5
Pope Resources, A Delaware Limited Partnership; CIF No. 56548**

b. Mortgagor is the sole legal and equitable owner of the Collateral;

c. Except as otherwise previously disclosed to Mortgagee, Mortgagor has the exclusive right to harvest any Timber, if any, from the Land and has the exclusive right to use the appurtenant rights and the operating permits;

d. Without thereby limiting the generality of the foregoing, and except as otherwise previously disclosed to Mortgagee, Mortgagor has not assigned or granted any harvest or access rights or interests, or sold or leased any part of the Land or the Improvements, if any, to any other person (individual, organization or governmental unit);

e. There are no claims, liens, encumbrances (including judgments, levies and the like), or security interest ("Liens") covering the Collateral or any part or item thereof except easements and reservations of record which are listed on the title policy delivered by Mortgagor;

f. To the best of Mortgagor's knowledge, and other than have been disclosed to Mortgagee, there are no federal, state or local laws, regulations, rules or standards ("Laws"), or permits, orders, injunctions, citations, notices of civil penalty, restraining orders, judgments or the like issued by any governmental unit ("orders") which are now in effect and which would restrict any material use of the Collateral;

g. Mortgagor has taken all actions necessary and has been duly authorized under its governing limited partnership agreement to execute, acknowledge, deliver and perform the Secured Obligations;

h. This Mortgage has been executed, acknowledged and delivered on behalf of Mortgagor by partners, members, representatives or officers, as applicable, of Mortgagor duly authorized to perform such acts;

i. This Mortgage is the legally valid and binding contract of Mortgagor, and is enforceable against Mortgagor in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the rights and remedies of creditors generally and by general principles of equity, whether applied by a court of law or equity; and

j. To the best of Mortgagor's knowledge, neither the execution of this Mortgage nor the payment and performance of the Secured Obligations will materially violate any Laws or orders affecting Mortgagor or the Collateral or constitute a breach or Event of Default by Mortgagor under any agreement, contract, loan indenture, lease, instrument or like document ("Contract") to which Mortgagor is a party or the Collateral is bound.

MORTGAGE (Open End) - 6

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

The foregoing representations and warranties will survive and not be merged or otherwise eliminated by any conveyance, voluntarily or through foreclosure, of the Collateral to Mortgagee or its nominee. Mortgagor hereby agrees to indemnify, defend and hold harmless Mortgagee from and against any and all claims, loss, liability, damages, liens, penalties, costs and expenses of any nature or kind whatsoever arising from or related to any misstatement of any material fact in the foregoing representations and warranties or the omission therein to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

ARTICLE 3 SECURED OBLIGATIONS

3.1 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 punctual payment of the indebtedness evidenced by that certain Note in favor of Mortgagee (referenced as “Loan No. 56548-841,” the “Note” or “Loan”) dated on or around even date, the final payment of which is due no later than September 1, 2019, made by Mortgagor to the order of Mortgagee in the principal face amount of Nine Million Eight Hundred Thousand and No/100’s Dollars (\$9,800,000.00), with interest thereon at the rates therein provided which interest rate and payment terms may be adjusted as provided in the Note and Loan Documents, together with any and all renewals, modifications, consolidations and extensions of the indebtedness evidenced by the Note, as well as any prepayment fees or penalties provided for in the Note or as it may be amended to provide for such prepayment fees or penalties;

b. It is contemplated that this Mortgage shall secure additional loans made to Mortgagor from time to time but not after October 1, 2019, and not having a maturity date exceeding October 1, 2039.

c. Payment and performance of Mortgagor's obligations under the Note and Loan Agreement and under any and all other present and future agreements executed by Mortgagor and relating to the Note;

d. Payment of such additional sums with interest thereon as may be due to Mortgagee under any provisions of this Mortgage;

e. 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 (including future advances to Mortgagor), and which are contained in a document which recites that it is secured by this Mortgage;

**MORTGAGE (Open End) - 7
Pope Resources, A Delaware Limited Partnership; CIF No. 56548**

f. Payment by Mortgagor 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;

g. Payment and performance of all amendments, modifications, extensions, renewals and replacements of any of the foregoing, including without limitation, (i) amendments or modifications of the required principal or interest payment dates accelerating or deferring any such payment dates, or (ii) amendments, modifications, extensions or renewals at a different rate of interest, whether or not evidenced by a new or additional notes or other document; and

h. 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 Notice. Notice is hereby given that the interest rate, payment terms or balance due on the Notes(s) may be indexed, adjusted, renewed or renegotiated.

3.3 Open End. The continuing validity and priority of this Mortgage for future Note(s) and advances under the Note or prior Note shall not be impaired by the fact that at certain times no outstanding indebtedness to Mortgagee exists.

ARTICLE 4 COVENANTS

4.1 Payment of Secured Obligations. Mortgagor shall pay the Secured Obligations when due.

4.2 Maintenance, Repair, Alterations.

4.2.1 Maintenance, Repair, and Alterations: Affirmative Covenants. Mortgagor shall:

a. Keep the Collateral in good condition and repair;

b. Complete promptly and in a good and workmanlike manner, any Improvement which may be constructed on the Land, and promptly restore in like manner any Improvement which may be damaged or destroyed, and pay when due all claims for labor performed and materials furnished for such construction or restoration;

c. Comply with all statutes, laws, ordinances, regulations, orders, rulings, rules, consents, permits, licenses, conditions of approval and authorizations of any court or governmental or regulatory body having jurisdiction over Mortgagor, the Land or Improvements ("Laws and Ordinances");

**MORTGAGE (Open End) - 8
Pope Resources, A Delaware Limited Partnership; CIF No. 56548**

- d. Comply with any condominium or other plan, declaration of covenants, conditions and restrictions, reciprocal easement agreements to which the Land is subject (“CC&Rs”), any owners' association articles and bylaws affecting the Land, and such exceptions to title acceptable to Mortgagee (“Permitted Exceptions”);
- e. Keep and maintain abutting grounds, sidewalks, roads, parking and landscape areas in good, neat order and repair;
- f. Comply with the provisions of any leases constituting part of the Collateral;
- g. Obtain and maintain in full force and effect all permits necessary for the use, occupancy and operation of the Collateral; and
- h. Do any and all other acts, except as otherwise prohibited or restricted by the Loan Documents, which may be reasonably necessary to protect or preserve the value of the Collateral and the rights of Mortgagee in it.

4.2.2 Maintenance, Repair and Alterations: Negative Covenants. Mortgagor shall not, except upon the prior written consent of Mortgagee, which shall not be unreasonably withheld or delayed:

- a. Remove, demolish or materially alter any of the Improvements, other than to make non-structural repairs in the ordinary course of business which preserve or increase the value of the Land;
- b. Commit, suffer or permit any act to be done in, upon or to any part of the Collateral in violation of any Laws and ordinances, CC&Rs, or Permitted Exceptions now or hereafter affecting the Collateral;
- c. Commit or permit any waste or deterioration of the Collateral;
- d. Take (or fail to take) any action, which would increase the risk of fire or other hazard occurring to or affecting the Collateral or which otherwise would impair the security of Mortgagee in the Collateral; or
- e. Initiate, join in or consent to any change in any zoning ordinance, general plan, specific plan, private restrictive covenant or other public or private restriction limiting the uses that may be made of the Land or Improvements by Mortgagor without the prior written consent of Mortgagee. Mortgagor has notified Lender that it is negotiating a conservation easement on a portion of the Land. Lender will be reasonable in evaluating any subordination requests related to such conservation easement.

MORTGAGE (Open End) - 9
Pope Resources, A Delaware Limited Partnership; CIF No. 56548

4.3 Insurance.

4.3.1 Policies Required. Mortgagor shall at all times maintain in full force and effect, at Mortgagor's sole cost and expense, with insurers reasonably satisfactory to Mortgagee, insurance policies reasonably required by Mortgagee from time to time that are usual and customarily in use in Mortgagor's industry.

Prior to the expiration of each policy, Mortgagor shall deliver to Mortgagee evidence reasonably satisfactory to Mortgagee of renewal or replacement of such policy.

4.3.2 Required Policy Provisions. Each policy of insurance required under this Mortgage shall meet such other requirements as Mortgagee may reasonably require.

4.3.3 Claims. Mortgagor shall give Mortgagee immediate notice of any claim to any portion of the Collateral in excess of \$100,000.00, whether or not covered by insurance. If covered, Mortgagor authorizes Mortgagee, if Mortgagee so elects, to make proof of loss, and to commence, to appear in, defend and prosecute any claim or action arising from any applicable policy and to settle, adjust or compromise any claim under any such policy. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in-fact for all such purposes. Neither Mortgagee nor Mortgagor shall settle, adjust or compromise any such claim without the prior written approval of the other, which approval shall not be unreasonably withheld or delayed.

4.3.4 Assignment of Policies. If this Mortgage is foreclosed or other transfer of title or assignment of the Collateral is made in satisfaction of all or part of the Secured Obligations, then all right, title and interest of Mortgagor in and to all policies of insurance required by Section 4.3.1 above and all unearned premiums paid on them shall, without further act, pass to the purchaser or grantee of the Collateral. Provided, however, some policies of insurance and related unearned premiums may require the policy underwriter's consent.

4.3.5 Waiver of Subrogation. Mortgagor waives all right to recover against Mortgagee (or any officer, employee, agent or representative of Mortgagee) for any loss incurred by Mortgagor from any cause insured against or required by any Loan Document to be insured against, provided however, that this waiver of subrogation shall not apply to any insurance policy if such policy's coverage would be materially reduced or impaired as a result. Mortgagor shall obtain only policies which permit this waiver of subrogation.

4.4 Condemnation and Other Awards. Upon learning of the actual or threatened condemnation or other taking for public or quasi-public use of all or any part of the Land, Mortgagor shall immediately notify Mortgagee. Mortgagor shall take all actions reasonably required by Mortgagee in connection with such condemnation or other taking to defend and protect the interests of Mortgagor, Mortgagee in the Land. At Mortgagee's option, Mortgagee or Mortgagor may be the named party in such proceeding. Regardless of the adequacy of its security, Mortgagee shall be entitled to participate in, control and be represented by counsel of its choice in such proceeding. All condemnation proceeds shall first be applied to reimburse Mortgagee for all their reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection of such award or settlement. The balance of such award or settlement shall be applied by Mortgagee against the Secured Obligations in such order as Mortgagee may determine.

MORTGAGE (Open End) - 10

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

4.5 Taxes and Impositions (Impounds). Mortgagor shall pay, prior to delinquency, all of the following (collectively the “Impositions”):

- a. All general and special real property taxes and assessments imposed on the Land; and
- b. All other taxes and assessments and charges assessed on the Land (or on the owner and/or operator of the Land) which create or may create a lien on the Land (or on any Improvement or Fixture used in connection with the Land); including, without limitation, nongovernmental levies and assessments under applicable CC&Rs; and
- c. All business taxes; and
- d. All license fees, taxes and assessments imposed on Mortgagee (other than Mortgagee's income or franchise taxes) which are measured by or based upon (in whole or in part) the amount of the Secured Obligations.

If permitted by law, Mortgagor may pay the Imposition in installments (together with any accrued interest). Upon demand by Mortgagee from time to time, Mortgagor shall deliver to Mortgagee, within 30 days following the due date of any Imposition, evidence of payment reasonably satisfactory to Mortgagee. In addition, upon demand by Mortgagee, at Mortgagor's expense, from time to time, Mortgagor shall furnish to Mortgagee a tax reporting service for the Collateral of a type and duration, and with a company reasonably satisfactory to Mortgagee.

4.5.1 Reserves on Impositions (Impounds). If Mortgagee requires following the occurrence of an Event of Default, Mortgagor, at the time of making each installment payment on the Note, or at such other intervals as Mortgagee reasonably designates, shall deposit with Mortgagee such sum as Mortgagee reasonably estimates to be necessary to pay installments of Impositions and insurance policies next becoming due (collectively, the “Impounds”) upon any of the Land, Fixtures and Improvements. All such Impounds may be held by Mortgagee and applied in such order as Mortgagee may elect for payment of Impositions or other sums secured by this Mortgage at Mortgagee's election. Such Impounds shall constitute additional collateral for the Secured Obligations. Except as otherwise provided by law, Mortgagee shall have no obligation regarding such Impounds other than to account to Mortgagor for their receipt and application. Upon any transfer by Mortgagee of its rights or interests in the Secured Obligations or of this Mortgage, Mortgagee may turn over to the transferee such of those Impounds as Mortgagee then holds, and Mortgagee's responsibilities with respect to the Impounds shall terminate. Upon any transfer by Mortgagor of the Land or Improvements, Mortgagor's interest in any such Impounds shall be deemed automatically transferred to such transferee.

MORTGAGE (Open End) - 11
Pope Resources, A Delaware Limited Partnership; CIF No. 56548

4.6 Utilities. Mortgagor shall promptly pay all gas, irrigation, electricity, water, sewer and other utility charges incurred for the benefit of the Collateral or which may become a lien against the Collateral; and all other similar public or private assessments and charges relating to the Collateral, regardless of whether or not any such charge is or may become a lien on the Collateral.

4.7 Liens: Non-Permitted Exceptions. Mortgagor shall not cause or permit, or agree or consent to cause or permit in the future (upon the happening of a contingency or otherwise), any of the Collateral, whether now owned or hereafter acquired, to be subject to a lien, whether voluntarily or by operation of law, in each case, without the prior written consent of Mortgagee, except the following:

- a. Liens securing taxes, assessments or governmental charges or levies being contested in good faith by appropriate proceedings as permitted by law;
- b. Statutory liens of carriers, mechanics, materialmen, loggers and other liens imposed by law arising in the ordinary course of business of Mortgagor which are in effect for no more than ninety (90) days (and which are satisfied or discharged, including by bonding pursuant to ORS 87.076 before such period ends) or which are being contested by Mortgagor in good faith by appropriate proceedings, but which are in no event the subject of any foreclosure or similar proceeding;
- c. Attachment or judgment liens in the amount of no more than \$50,000.00 in respect of judgments against Mortgagor that are either satisfied or discharged within thirty (30) days or are stayed upon appeal, but which are in no event the subject of any foreclosure or similar proceeding;
- d. Attachment or judgment liens in the amount of more than \$50,000.00 in respect of judgments against Mortgagor that are either satisfied or discharged (including by way of posting a bond or other arrangement satisfactory to Mortgagee, in Mortgagee's sole discretion if the lien is being contested by borrower in good faith by appropriate proceedings within thirty (30) days, but which are in no event the subject of any foreclosure or similar proceeding;
- e. Liens in favor of the Mortgagee that secure obligations under any of the Loan Documents;

MORTGAGE (Open End) - 12

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

Except as provided above, Mortgagor shall not cause, incur or permit to exist any lien, encumbrance or charge ("Non-Permitted Exceptions") upon all or any part of the Collateral or any interest in the Collateral other than Permitted Exceptions. Mortgagor shall pay and promptly discharge, at Mortgagor's sole cost and expense, all such Non-Permitted Exceptions. If Mortgagor fails to do so, the Mortgagee may, but shall not be obligated to, discharge them, without notice to or demand on Mortgagor, and without inquiring into the validity of such Non-Permitted Exceptions or the existence of any defense or offset to them. Mortgagee may discharge Non-Permitted Exceptions either by (a) paying the amount claimed to be due, or (b) procuring their discharge by depositing in a court a bond or the amount claimed or otherwise giving security for such claim, or (c) in any other manner permitted or required by law. Mortgagor shall, immediately upon demand by Mortgagee, pay Mortgagee's reasonable costs and expenses incurred in connection with such discharge, together with interest on such costs from the date of such expenditure until paid at the default rate of interest described in the Notes ("Default Interest Rate").

4.8 Sale or Lease of Collateral: Due on Sale Clause. Except in the ordinary course of business, Mortgagor shall not sell, lease, sublease or otherwise transfer all or any part of the Collateral or any interest in it, without the prior written consent of Mortgagee, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. The sale and harvesting of Timber shall be considered activity in the ordinary course of business as long as Mortgagor maintains compliance with Section 9.02 (d) of the Loan Agreement. All material leases of any part of the Collateral lasting in duration of more than one year, containing a provision of rental income of more than \$20,000 in any one year, or involving property of more than 100 acres of land must be submitted to Mortgagee for approval prior to execution, which consent may be granted or withheld in Mortgagee's sole and absolute discretion. Transfers requiring Mortgagee's prior written consent shall include, without limitation, the following:

- a. Involuntary transfers and transfers by operation of law;
- b. Liens, encumbrances and assignments as security for obligations, whether voluntary or involuntary; and
- c. Any Change of Control of Mortgagor. As used herein, "Change of Control" shall mean a change in the power, directly or indirectly, to (i) vote 50% or more of the voting securities (or membership interests, as applicable) having ordinary voting power for the election of directors or officers (or Persons functioning in substantially similar roles) of Mortgagor or (ii) direct or cause the direction of the management and policies of Mortgagor whether by contract or otherwise. Transfer of the beneficial interests and/or voting rights of the voting securities of the managing general partner of Mortgagee to or for the benefit of lineal descendants of the current beneficial holders shall not be deemed a "Change of Control" for purposes of this Mortgage.

No sale, lease or other transfer shall relieve Mortgagor from primary liability for its obligations under the Notes and Loan Documents or relieve any guarantor from any liability under any guaranty. Upon any such transfer to which Mortgagee does not consent, Mortgagee at its option may, without prior notice, declare all Secured Obligations immediately due and payable without presentment, demand, protest or further notice of any kind, and may exercise all rights and remedies provided in this Mortgage or under applicable law.

4.9 Inspections. Mortgagor authorizes Mortgagee and its agents, representatives and employees, upon reasonable notice to Mortgagor, to enter at any time upon any part of the Collateral for the purpose of performing a Subsequent Valuation, inspecting the Collateral, taking soil or groundwater samples and conducting tests to investigate for the presence of hazardous materials, provided such entry shall cause as little disruption to the occupants of the Collateral as possible, and provided Mortgagee restores the Collateral to its pre-inspection condition if Mortgagee's inspection activities cause damage to the Collateral. Mortgagor agrees to pay the costs and expenses of Mortgagee incurred in such inspections and examinations, including without limitation, Mortgagee's attorneys' fees, if such inspection was made necessary because of an Event of Default, whether the services are provided by Mortgagee's employees, agents or independent contractors. Any inspection or review by Mortgagee is solely for Mortgagee's benefit to protect Mortgagee's security and preserve Mortgagee's rights under this Mortgage. Mortgagee owes no duty of care to protect Mortgagor or any other party against, or to inform Mortgagor or any other party of, any adverse condition affecting the Collateral, including any defects in the design or construction of the Improvements or Fixtures. No inspection by Mortgagee shall constitute a waiver of any Event of Default.

4.10 Defense of Actions. Mortgagor shall notify Mortgagee of any action or proceeding purporting to affect (a) the security of this Mortgage, (b) any of the Loan Documents, (c) all or any part of the Collateral or any interest in it, (d) any additional or other security for the Secured Obligations, or (e) the interests, rights, powers or duties of Mortgagee under this Mortgage. Mortgagor, at no cost or expense to Mortgagee, shall appear in and defend the same. If Mortgagee elects to become or is made a party to such action or proceeding, Mortgagor shall indemnify, defend and hold Mortgagee harmless from all related liability, damage, cost and expense reasonably incurred by Mortgagee (including, without limitation, reasonable attorneys' fees and expenses consistent with Section 4.13 of this Mortgage), whether or not such action or proceeding is prosecuted to judgment or decision.

4.11 Protection of Security. If Mortgagor fails to make any payment or to do any act required by this Mortgage or any of the other Loan Documents, Mortgagee may do so. Mortgagee may decide to do so, in its own discretion, without obligation to do so, without further notice or demand, and without releasing Mortgagor in such manner and to such extent as it may reasonably deem necessary to protect the security of this Mortgage. In connection with such actions, Mortgagee has the right, without limitation, but not the obligation: (a) to enter upon and take possession of the Collateral; (b) to make additions, alterations, repairs and improvements to the Land, Improvements or Fixtures which in its judgment may be necessary or proper to keep the Collateral in good condition and repair; (c) to appear and participate in any action or proceeding affecting or which may affect the lien or charge of this Mortgage or the rights or powers of Mortgagee; (d) to pay, purchase, contest or compromise any encumbrance, claim, charge, lien or debt (excepting Permitted Encumbrances) which in its judgment may affect the security of this Mortgage or appear to be prior or superior to this Mortgage; and (e) in exercising such powers, to pay all necessary or appropriate costs and expenses and employ necessary or desirable consultants.

MORTGAGE (Open End) - 14

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

4.12 Mortgagee's Powers. If Mortgagor fails to pay any sum, other than principal and interest on the Secured Obligations, or to perform or comply with any other obligation required by any Loan Document, Mortgagee at its election may pay such sum or comply with such obligation. Without affecting the liability of Mortgagor or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Mortgage, Mortgagee may, from time to time, do any of the following: (a) release any person so liable, (b) extend the maturity or alter any of the terms of any such obligation (provided however, that the consent of Mortgagor shall be required for extension or alteration of any unpaid obligation of Mortgagor to Mortgagee), (c) waive any provision of this Mortgage or grant other indulgences, (d) release or reconvey, or cause to be released or reconveyed, at any time at Mortgagee's option, all or any part of the Collateral, (e) take or release any other or additional security for any Secured Obligation, or (f) make arrangements with debtors in relation to the Secured Obligations. Waiver by Mortgagee of any right or remedy as to any transaction or occurrence shall not be deemed to be a waiver of any future transaction or occurrence. By accepting full or partial payment or performance of any Secured Obligation after due or after the filing of a notice of default and election to sell, Mortgagee shall not have thereby waived its right to (i) require prompt payment and performance in full, when due, of all other Secured Obligations, (ii) declare a default for failure to so pay or perform, or (iii) proceed with the sale under any notice of default and election to sell previously given by Mortgagee, or as to any unpaid balance of the indebtedness secured by this Mortgage.

4.13 Reimbursement of Costs, Fees and Expenses: Secured by Mortgage. Mortgagor shall pay, on demand, to the maximum allowable under applicable law, all reasonable costs, fees, expenses, advances, charges, losses and liabilities paid or incurred by Mortgagee in administering this Mortgage, the collection of the Secured Obligations, and Mortgagee's exercise of any right, power, privilege or remedy under this Mortgage. Such amounts include, without limitation (a) foreclosure fees and expenses, receiver's fees and expenses, (b) costs and fees paid or incurred by Mortgagee and/or any receiver appointed under this Mortgage in connection with the custody, operation, use, maintenance, management, protection, preservation, collection, appraisal, sale or other liquidation of the Collateral, (c) advances made by Mortgagee to complete or partially construct all or part of any Improvements which may have been commenced on the Land, or otherwise to protect the lien or charge of this Mortgage, (d) costs of evidence of title, costs of surveys and costs of appraisals, and costs resulting from Mortgagor's failure to perform any of the provisions of this Mortgage. Fees, costs and expenses of attorneys shall include the reasonable fees and disbursements of Mortgagee's outside and staff counsel and of any experts and agents (including fees of law clerks, paralegals, investigators and others not admitted to the bar but performing services under the supervision of an attorney), and including such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Collateral, in protecting the lien or priority of any Loan Document, or in any litigation or controversy connected with the Secured Obligations, including any bankruptcy, receivership, injunction or other proceeding, or any appeal from or petition for review of any such proceeding. Reasonable counsel fees shall include fees incurred not only in enforcing the Secured Obligations in any bankruptcy or receivership proceeding, but also any fees incurred in participating in the bankruptcy or receivership proceedings generally. Such sums shall be secured by this Mortgage and shall bear interest from the date of expenditure until paid at the Default Interest Rate.

MORTGAGE (Open End) - 15

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

ARTICLE 5
ASSIGNMENT OF RENTS, ISSUES AND PROFITS

5.1 Assignment of Rents, Issues and Profits. Mortgagor absolutely, unconditionally and irrevocably assigns and transfers to Mortgagee all of its right, title and interest in and to all rents, issues, profits, royalties, income and other proceeds and similar benefits derived from the Collateral (collectively the "Rents"), and gives to Mortgagee the right, power and authority to collect such Rents. Mortgagor irrevocably appoints Mortgagee its true and lawful attorney-in-fact, at the option of Mortgagee, at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and or sue, in its name or in Mortgagor's name, for all Rents, and to apply them to the Secured Obligations. Mortgagee hereby grants to Mortgagor a license to collect and retain Rents (but not more than one month in advance unless the written approval of Mortgagee has first been obtained) so long as an Event of Default shall not have occurred and be continuing. The assignment of the Rents in this Article 5 is intended to be an absolute assignment from Mortgagor to Mortgagee and not merely the passing of a security interest.

5.2 Collection Upon Default. Upon the occurrence of an Event of Default, Mortgagor's license to collect the Rents shall automatically terminate. Upon such termination, Mortgagee may, at any time, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Secured Obligations, do any of the following: (a) enter upon and take possession of all or any part of the Collateral; (b) with or without taking possession of the Collateral in its own name, sue for or otherwise collect Rents (including those past due and unpaid, and all prepaid Rents and all other security or other deposits paid by tenants to Mortgagor); and (c) apply the Rents (less costs and expenses of operation and collection, including, without limitation, attorneys' fees, whether or not suit is brought or prosecuted to judgment) to any Secured Obligation, and in such order as Mortgagee may determine, even if payment or performance of said Secured Obligation may not then be due. Mortgagor agrees that, upon the occurrence of any Event of Default, Mortgagor shall promptly deliver all Rents and security deposits to Mortgagee. The collection of Rents, or the entering and taking possession of the Land, or the application of Rents as provided above, shall not (i) cure or waive any Event of Default or notice of default under this Mortgage or the other Loan Documents, (ii) invalidate any act performed in response to such Event of Default or pursuant to such notice of default, or (iii) cause Mortgagee to be deemed a mortgage-in-possession of all or any part of the Land.

MORTGAGE (Open End) - 16
Pope Resources, A Delaware Limited Partnership; CIF No. 56548

5.3 Assigned Leases. Mortgagor agrees, with respect to each lease and sublease (collectively the “Assigned Leases”) any portion of which has been assigned to Mortgagee under this Mortgage, as follows:

5.3.1 Mortgagor shall promptly perform all of Mortgagor's obligations as landlord under each Assigned Lease and shall immediately notify Mortgagee in writing of any notice of default received by Mortgagor from the tenant. At Mortgagee's request, Mortgagor will have tenant execute estoppel certificates and subordination agreements acceptable to Mortgagee.

5.3.2 Mortgagor shall diligently enforce the performance of all of the obligations of the tenant under each Assigned Lease; shall not waive any default or waive, release or discharge any such tenant of or from any such obligation; and shall not cancel, terminate or modify any Assigned Lease without Mortgagee's prior written consent.

5.3.3 Mortgagor hereby represents and warrants to Mortgagee, with respect to each Assigned Lease that is presently in effect (collectively the “Current Assigned Leases”), (a) that Mortgagor has delivered to Mortgagee a true and complete copy of each Current Assigned Lease, together with all amendments, modifications and supplements thereto; (b) that Mortgagor has not accepted any payment of Rent (or other charge) under any Current Assigned Lease more than one month in advance; and (c) that, to the best of each Mortgagor's knowledge, no material default by Mortgagor or any other person under any Current Assigned Lease remains uncured.

5.4 Further Assignments. Upon Mortgagee's demand from time to time, Mortgagor shall execute and deliver to Mortgagee recordable assignments of Mortgagor's interest in any and all leases, subleases, contracts, rights, licenses and permits now or hereafter affecting all or any part of the Land. Such assignments shall be made by instruments in form and substance satisfactory to Mortgagee; provided however, that no such assignment shall be construed as imposing upon Mortgagee any obligation with respect thereto. Mortgagee may, at its option, exercise its rights under this Mortgage or any such specific assignment and such exercise shall not constitute a waiver of any right under this Mortgage or any such specific assignment.

ARTICLE 6 REMEDIES UPON DEFAULT

6.1 Events of Default. The occurrence of any of the following events or conditions shall constitute an event of default (“Event of Default”) under this Mortgage:

6.1.1 Mortgagor fails to pay any amount owing under this Mortgage within three business days after written notice from Mortgagee or Mortgagee's agent that the same is due; or

6.1.2 Mortgagor fails to pay any taxes, insurance premiums, assessments or rents required under this Mortgage within thirty business days after written notice from Mortgagee or Mortgagee's agent that the same is due; or

MORTGAGE (Open End) - 17

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

6.1.3 Mortgagor fails to observe or perform any other obligation contained in this Mortgage within thirty business days after written notice from Mortgagee or Mortgagee's agent that the same is due; or

6.1.4 The occurrence of an Event of Default under the Notes, Loan Agreement or any other Loan Documents; or

6.1.5 All or any portion of the Improvements or Fixtures are destroyed by fire or other casualty and Mortgagor fails to satisfy all of the restoration conditions within the time periods specified in Section 4.3 of this Mortgage; or

6.1.6 All or any material part of the Land or other Collateral is condemned, taken in eminent domain, seized or appropriated by any governmental or quasi-governmental agency or entity.

6.2 Acceleration Upon Default: Additional Remedies. Upon the occurrence of an Event of Default, Mortgagee may, at its option, exercise all of the applicable rights and remedies set forth in the Notes, Loan Agreement or any other Loan Documents and, in addition, declare all Secured Obligations to be immediately due and payable without any presentment, demand, protest or further notice of any kind; and whether or not Mortgagee exercises any said right or remedy, Mortgagee may:

6.2.1 Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its Collateral;

a. Enter upon and take possession of all or part of the Collateral, in its own name or in the name of Mortgagee;

b. Conduct environmental assessments and surveys and do any other acts which it deems necessary or desirable to preserve the value, marketability or rentability of all or part of the Collateral or interest in the Collateral or increase the Collateral's income, or protect the lien or charge of this Mortgage;

c. With or without taking possession of the Collateral, sue for or otherwise collect the Rents, including those past due and unpaid; and

d. Apply the Rents (less costs and expenses of operation and collection including attorneys' fees) to any Secured Obligations, all in such order as Mortgagee may determine;

MORTGAGE (Open End) - 18

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

The entering and taking possession of the Collateral, the collection of such Rents and their application shall not cure or waive any Event of Default or notice of default or invalidate any act done in response to them. Regardless of whether possession of the Collateral or the collection, receipt and application of any of the Rents is by Mortgagee or a receiver, the Mortgagee shall be entitled to exercise every right provided for in the Loan Agreement and other Loan Document or by law upon occurrence of any Event of Default, including the right to exercise the power of sale;

6.2.2 Commence an action to foreclose this Mortgage, appoint a receiver, or specifically enforce any of the covenants contained in this Mortgage;

6.2.3 Exercise all of the rights and remedies available to a secured party under the applicable Uniform Commercial Code in such order and in such manner as Mortgagee, in its sole discretion, may determine, including without limitation, requiring Mortgagor to assemble the Collateral and make the Collateral available to Mortgagee at a reasonably convenient location. The expenses of retaking, holding, preparing for sale or the like shall include reasonable attorneys' fees and other expenses of Mortgagee and shall be secured by this Mortgage; and/or

6.2.4 Exercise all other rights and remedies provided in this Mortgage, in any other Loan Document or other document or agreement now or hereafter securing all or any portion of the Secured Obligations, or as provided by law or in equity.

6.3 Appointment of Receiver. Upon the occurrence of an Event of Default under this Mortgage, Mortgagee, without notice to Mortgagor or anyone claiming under Mortgagor, and without regard to the then value of the Collateral or the interest of Mortgagor in it, shall have the right to enter the Land in person or to apply to any court having jurisdiction to appoint a receiver or receivers of the Land, Fixtures or Improvements. Mortgagor irrevocably consents to such appointment and waives notice of any such application. The actions that Mortgagee or such receiver may take in connection with such entry may include, but are not limited to (a) modifying, compromising obligations under, terminating and implementing remedies with respect to the Assigned Leases, and (b) entering into, modifying or terminating any contractual arrangements, subject to Mortgagee's right at any time to discontinue any of the same without liability. Mortgagee is further authorized by this provision to request the court to appoint a general receiver and to empower the receiver to (i) sell or lease all or any portion of the Land, Fixtures or Improvements, (ii) collect and apply to the outstanding balances of the Notes all sales or lease proceeds, or hold the proceeds pending a court order approving the receiver's final report and account, and (iii) hold the collections as cash collateral pending such court order or foreclosure sale. Any such receiver(s) shall also have all the usual powers and duties of receivers in similar cases and all the powers and duties of Mortgagee in case of entry as provided in this Mortgage, and shall continue to exercise all such powers until the date of confirmation of sale of the Land, Fixtures or Improvements, unless such receivership is sooner terminated. If Mortgagee elects to enter or take possession of the Land, Fixtures or Improvements, it will not assume any liability to Mortgagor or any other person for operation or maintenance of the Land, Fixtures or Improvements, and Mortgagor expressly waives any such Mortgagee liability.

MORTGAGE (Open End) - 19

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

6.4 Application of Funds After Default. Except as otherwise provided in this Mortgage, upon the occurrence of an Event of Default, Mortgagee may at any time, with notice to Mortgagor if providing such notice will not adversely delay the exercise of Mortgagee's rights or remedies, apply to any Secured Obligation, in such manner and order as Mortgagee may elect, even if such Secured Obligation may not yet be due, any amounts received and held by Mortgagee to pay insurance premium or impositions or as Rents, or as insurance or condemnation proceeds, and all other amounts received by Mortgagee from or on account of Mortgagor or the Collateral, or otherwise. The receipt, use or application of any such amounts shall not affect the maturity of any Secured Obligation, any of the rights or powers of Mortgagee under the terms of any Loan Document, or any of the obligations of Mortgagor or any guarantor under the Loan Agreement or any other Loan document; or cure or waive any Event of Default or notice of default under the Note(s) and Loan Agreement or any other Loan Document; or invalidate any act of Mortgagee.

6.5 Remedies Not Exclusive. Mortgagee shall be entitled to enforce payment and performance of any Secured Obligation and to exercise all rights and powers under this Mortgage or any other Loan Document or other agreement or any law, even if some or all of the Secured Obligations may be otherwise secured, whether by guaranty, deed of trust, mortgage, pledge, lien, assignment or otherwise. Neither the acceptance nor enforcement (whether by court action or pursuant to the power of sale or other powers herein contained) of this Mortgage shall impair Mortgagee's right to realize upon or enforce any other security held by Mortgagee. Mortgagee shall be entitled to enforce this Mortgage and any other security for the Secured Obligations held by Mortgagee in such order and manner as it may in its absolute discretion determine. No remedy conferred upon or reserved to Mortgagee is intended to be exclusive of any other remedy in this Mortgage, and other agreement, or at law, but each shall be cumulative and in addition to every other remedy available to Mortgagee. Every power or remedy given by any of the Loan Documents to the Mortgagee or to which it may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Mortgagee, and it may pursue inconsistent remedies. Mortgagor may be joined in any action brought by Mortgagee to foreclose under or otherwise enforce this Mortgage.

6.6 Request for Notice. Mortgagor requests that a copy of any notice of default and that a copy of any notice of sale under this Mortgage be mailed to it at the address set forth in the first paragraph of this Mortgage.

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

MORTGAGE (Open End) - 20

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

**ARTICLE 7
MISCELLANEOUS**

7.1 Amendments. This instrument cannot be waived, modified, discharged or terminated except in writing signed by the party against whom enforcement of such changes is sought.

7.2 Waivers. Mortgagor waives, to the extent permitted by law, (a) the benefit of all laws (whenever enacted) providing for any appraisal before sale of any portion of the Collateral, (b) all rights of valuation, appraisal, stay of execution, notice of election to mature or declare due the whole of the Secured Obligations and marshaling in the event of foreclosure of this Mortgage, and (c) all rights and remedies which Mortgagor may have under the laws of the State of Washington regarding the rights and remedies of sureties.

7.3 Statements by Mortgagor. Mortgagor shall, within 10 days after notice from Mortgagee, deliver to Mortgagee a written statement setting forth whether Mortgagor has any knowledge that any offset or defense exists against the Secured Obligations.

7.4 Statements by Mortgagee. For any statement or accounting requested by Mortgagor or any other entitled person pursuant to applicable law, or for any other document or instrument furnished to Mortgagor by Mortgagee, Mortgagee may charge: (a) the maximum amount permitted by law at the time of the request, (b) if no such maximum, then the greater of Mortgagee's customary charges or the actual cost to Mortgagee.

7.5 Notices. All notices, demands, approvals and other communications shall be made in writing to the appropriate party at the address set forth in the first paragraph of this Mortgage. All such notices shall be made in accordance with the Loan Agreement.

7.6 Headings. Article and section headings are included in this Mortgage for convenience of reference only and shall not be used in construing this Mortgage.

7.7 Severability. Every provision of this Mortgage is intended to be severable. The illegality, invalidity or unenforceability of any provision of this Mortgage shall not in any way affect or impair the remaining provisions of this Mortgage, which provisions shall remain binding and enforceable.

7.8 Subrogation. To the extent that proceeds of the Note are used, either directly or indirectly, to pay any outstanding lien, charge or prior encumbrance against the Collateral, Mortgagee shall be subrogated to any and all rights and liens held by any owner or holder of such outstanding liens, charges and prior encumbrances, regardless of whether such liens, charges or encumbrances are released.

MORTGAGE (Open End) - 21
Pope Resources, A Delaware Limited Partnership; CIF No. 56548

7.9 No Merger of Lease. Foreclosure of the lien created by this Mortgage on the Land, Fixtures or Improvements shall not destroy or terminate any Assigned Lease or other lease or sublease then existing and affecting all or any portion of the Land, Fixture or Improvement, unless the Mortgagee or any purchaser at such foreclosure sale shall so elect. No act by or on behalf of Mortgagee or any such purchaser shall terminate any Assigned Lease or other lease or sublease unless a Mortgagee or such purchaser shall give written notice of termination to such tenant or subtenant. If both the lessor's and lessee's estate under any lease which constitutes a part of the Land, Fixture or Improvement shall become vested in one owner, this Mortgage and its lien shall not be destroyed or terminated by application of the doctrine of merger unless Mortgagee so elects, as evidenced by recording a written declaration so stating. Until Mortgagee so elects, Mortgagee shall continue to have and enjoy all of the rights, powers and privileges of Mortgagee under this Mortgage as to the separate estates.

7.10 Governing Law. This Mortgage shall be governed by, and construed in accordance with, the substantive laws of the State of Washington except where the location of the Land may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

7.11 Statute of Limitations. Mortgagor hereby waives, to the fullest extent permitted by law, the right to plead, use or assert any statute of limitations as a plea, defense or bar to any Secured Obligation, or to any complaint or other pleading or proceeding filed, instituted or maintained for the purpose of enforcing this Mortgage or any rights under it.

7.12 Interpretation. In this Mortgage the singular shall include the plural and the masculine shall include the feminine and the neuter and vice versa, if the context so requires; and the word "person" shall include corporation, partnership or other form of association. Any reference in this Mortgage to any document, instrument or agreement creating or evidencing an obligation secured hereby shall include such document, instrument or agreement both as originally executed and as it may from time to time be modified.

7.13 Further Assurances. Mortgagor agrees to do or cause to be done such further acts and things and to execute and deliver or to cause to be executed and delivered such additional assignments, agreements, powers and instruments as Mortgagee may reasonably require to: (a) correct any defect, error or omission in this Mortgage or the execution or acknowledgment of this Mortgage, (b) subject to the lien of this Mortgage any of Mortgagor's properties covered or intended to be covered by this Mortgage, (c) perfect, maintain and keep valid and effective such lien, (d) carry into effect the purposes of this Mortgage, or (e) better assure and confirm to Mortgagee its respective rights, powers and remedies under this Mortgage.

7.14 Successors and Assigns. Subject to Section 4.8 above, this Mortgage applies to, inures to the benefit of and binds all parties to this Mortgage, their heirs, legatees, devisees, administrators, executors, successors and assigns.

7.15 Appraisal and Property Valuation Costs. Mortgagor acknowledges that Mortgagee has a legitimate business need to remain apprised of the current value of the Collateral, and Mortgagee from time to time after recordation of this Mortgage may order a valuation ("Subsequent Valuation") of the Property. Mortgagor shall cooperate in allowing Mortgagee or its agents reasonable access to the Collateral for the purpose of performing any such Subsequent Valuation, whether it is in the form of an appraisal or any other method of valuing the Collateral. Mortgagor shall pay promptly to Mortgagee, on demand, the costs of any such Subsequent Valuation, whether performed by employees, agents, or independent contractors of Mortgagee.

MORTGAGE (Open End) - 22

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

7.16 Waiver of Marshalling Rights. Mortgagor for itself and for all parties claiming through or under Mortgagor, and for all parties who may acquire a lien on or interest in the Land, hereby waives all rights to have the Collateral and/or any other property which is now or later may be security for any Secured Obligation ("Other Collateral") marshaled upon any foreclosure of this Mortgage or on a foreclosure of any other security for any of the Secured Obligations. Mortgagee shall have the right to sell, and any court in which foreclosure proceedings may be brought shall have the right to order a sale of the Collateral and any or all of the Other Collateral, as a whole or in separate parcels, in any order Mortgagee may designate.

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

7.18 Permitted Exceptions. All of the title exceptions set forth on the title commitment or commitments issued in connection with the closing of the Loan secured by this Mortgage are Permitted Exceptions, except for those monetary liens that are to be paid off in connection with the closing of the Loan secured by this Mortgage.

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

IN WITNESS WHEREOF, Mortgagor has duly executed this Mortgage as of the date first above written.

MORTGAGOR:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

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



By _____
Name: Thomas M. Ringo
Title: Vice President and CFO

MORTGAGE (Open End) - 23

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

STATE OF WASHINGTON)
)ss.
County of Kitsap)

On this 25th day of September 2009, before me personally appeared Thomas M. Ringo, known to me to be the Vice President and CFO of Pope MGP Inc., the managing general partner of the limited partnership that executed the within instrument, and acknowledged that he executed the same as such Vice President and CFO of the managing general partner and in the limited partnership name freely and voluntarily.



Notary Public for the State of Washington

Residing at Suquamish, WA

My commission expires May 20, 2010

Printed Name Susan M. Graham-Schuyler

MORTGAGE (Open End) - 24
Pope Resources, A Delaware Limited Partnership; CIF No. 56548

Mortgagee acknowledges that this Mortgage is subject to a security interest in favor of CoBank, ACB ("Bank") and by its acceptance hereto and pursuant to and in confirmation of certain agreements and assignments by and between Mortgagee and Bank, does assign, transfer, and set over the same unto Bank, its successors and assigns, to secure all obligations of Mortgagee to Bank, provided that pursuant to such agreements and assignments Mortgagee has authority to perform all loan servicing and collection actions and activities hereunder, including without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this Mortgage until the Bank, by instrument recorded in the office in which this Mortgage is recorded, revokes such authority.

MORTGAGE (Open End) - 25

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

**EXHIBIT A
PROPERTY DESCRIPTION**

PARCEL 1

Section 24, Township 7 North, Range 5 East of the Willamette Meridian, Skamania County, Washington. Except the Southeast Quarter of said Section 24.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots O-1 Through O-24.

PARCEL 2

Section 3, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots D-1 Through D-32.

PARCEL 3

Section 4, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots C-1 Through C-32.

PARCEL 4

Section 5, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots B-1 Through B-32.

PARCEL 5

Section 6 Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots A-1 Through A-32.

MORTGAGE (Open End) - 26

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

PARCEL 6

Section 7, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots E-1 Through E-32.

PARCEL 7

All of Section 8, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots F-1 Through F-5, F-7 Through F-28.

Also F-6 together with the South Half of the North Half of the Southeast Quarter of the Northwest Quarter.

EXCEPT that portion lying within Four Peaks Subdivision as recorded in Book B of Plats, Page 60, Skamania County Records.

PARCEL 8

Section 9, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots G-1 Through G-32.

PARCEL 9

Section 10, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots H-1 Through H-32.

PARCEL 10

The West Half of Section 11, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots I-1 Through I-16.

MORTGAGE (Open End) - 27

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

PARCEL 11

The North Half of the Northeast quarter of Section 14, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots N-1 Through N-4.

PARCEL 12

Section 15, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots M-1 Through M-32.

PARCEL 13

Section 16, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots L-1 Through L-32.

PARCEL 14

Section 17, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots K-1 Through K-32.

PARCEL 15

Government Lots 1, 2, 3 and 4, the East half of the West half, the North half of the Northeast quarter, the Southwest quarter of the Southeast quarter and the Southwest quarter of the Northeast quarter of Section 18, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots J-1 Through J-23.

EXCEPT that portion conveyed to Marshall and Melba Moore, by deed recorded in Book 194, Page 10.

MORTGAGE (Open End) - 28

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

PARCEL 16

Section 19, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots P-1 Through P-32.

PARCEL 17

Section 20, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots Q-1 Through Q-32.

PARCEL 18

Section 21, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots R-1 Through R-32.

PARCEL 19

Section 22, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots S-1 Through S-32.

PARCEL 20

The West half, the West half of the Southeast quarter and Government Lots 1 and 2, all in Section 23, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots T-1 Through T-19.

Also Lot T-20 being the South half of the Southwest Quarter of the Southeast Quarter and the South Half of the Southeast Quarter of the Southeast Quarter.

EXCEPT that portion conveyed to Pine Creek Boulder recorded in Auditor File No. 2004155506.

MORTGAGE (Open End) - 29

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

PARCEL 21

Section 27, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots W-1 Through W-31.

EXCEPTING from said Section 27, the following described tracts:

That portion conveyed to Swift Creek Estates by deed recorded under Auditor's File No. 99965, Book 85, Page 66 described as follows:

Beginning at the Southeast corner of said Section 27; thence North 0°04'20" East 60.96 feet, more or less, along the Easterly line of said Section 27 to the Southerly right of way boundary of Lewis River Road commonly called the N-90 Road; thence South 86°17'00" West 569.87 feet, more or less, along said Southerly right of way boundary; thence South 3°43'00" East 25 feet, more or less, to a point on the Southerly line of said Section 27; thence South 89°48'15" East 566 feet, more or less, along said Southerly line to the point of Beginning.

ALSO EXCEPTING that portion of the East half of the Southeast quarter of Section 27, being that certain Short Plat as recorded in Skamania County on November 3, 1987, in Book 3 of Short Plats, Page 125, recorded under Auditor's File No. 104203.

PARCEL 22

Section 28, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots V-1 Through V-29.

EXCEPTING from said Section 28 the following described tracts:

Beginning at a point on the West line of said Section 28 which is South 0°16'55" East a distance of 1,674.98 feet from the West quarter section corner thereof and running thence South 25°37' East 498.22 feet; thence South 47°34'30" East 595.58 feet; thence North 59°33'30" East 240.49 feet; thence South 40°26' East 296.84 feet; thence South 89°49'45" West 1,050.02 feet to the Southwest corner of said Section 28; and thence North 0°16'55" West 958.19 feet to the point of beginning.

MORTGAGE (Open End) - 30

Pope Resources, A Delaware Limited Partnership; CIF No. 56548

ALSO EXCEPTING, Beginning at a point on the South line of said Section 28 which is North 89°49'45" East 2,006.72 feet from the Southwest corner thereof; and running thence North 78°19'30" East 237.50 feet; thence North 33°28' East 235.01 feet; thence North 63°23' East 464.47 feet; thence North 21°05'30" East 360.93 feet; thence North 17°30'30" East 212.97 feet; thence North 57°42' East 110.31 feet; thence South 16°09'30" East 375.99 feet; thence South 10°31'30" East 336.26 feet; thence South 31°11' West 416.74 feet to a point on the South line of said Section 28, which is South 89°52'30" West 2,259.98 feet from the Southeast corner thereof; thence South 89°52'30" West 380.01 feet to the South quarter corner of said Section 28; and thence South 89°49'45" West 634.99 feet to the Point of Beginning.

PARCEL 23

Section 29, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots U-1 Through U-17.

EXCEPT that portion conveyed to Pacific Power and Light Co. By deed recorded under Auditor's File No. 55342, Book 46, Page 115, described as lying South and West and below the 1,000 feet.

PARCEL 24

Section 33, Township 7 North, Range 6 East of the Willamette Meridian, in the County of Skamania, State of Washington.

Also as described in Deed recorded in Auditor File No. 2007167218 as Lots V-25, V-26 & X-1.

EXCEPT that portion conveyed to Pacific Power and Light Co. By deed recorded under Auditor's File No. 55342, Book 46, Page 115, described as lying South and West and below the 1,000 feet.

Assessor's Property Tax Parcel Numbers: 07-05-00-0-0-2600-0; 07-06-00-0-0-0200-00; 07-06-00-0-0-0300-00; 07-06-00-0-0-0400-00; 07-06-00-0-0-0500-00; 07-06-00-0-0-0600-00; 07-06-00-0-0-0700-00; 07-06-00-0-0-0800-00; 07-06-00-0-0-0900-00; 07-06-00-0-0-1000-00; 07-06-00-0-0-1200-00; 07-06-00-0-0-1300-00; 07-06-00-0-0-1400-00; 07-06-00-0-0-1490-00; 07-06-00-0-0-1480-00; 07-06-00-0-0-1590-00; 07-06-00-0-0-1500-00; 07-06-00-0-0-1600-00; 07-06-00-0-0-1700-00; 07-06-00-0-0-1800-00; 07-06-00-0-0-2600-00; 07-06-00-0-0-2700-00; 07-06-00-0-0-2800-00; 07-06-00-0-0-3000-00; 07-06-00-0-0-03100-00; 07-06-00-0-0-4200-00;

MORTGAGE (Open End) - 31
Pope Resources, A Delaware Limited Partnership; CIF No. 56548

November 5, 2009

Pope Resources LP, A Delaware Limited Partnership
Poulsbo, Washington

Dear Gentlemen:

We have been furnished with a copy of the quarterly report on Form 10-Q of Pope Resources LP, A Delaware Limited Partnership (the "Company") for the three months ended September 30, 2009, and have read the Company's statements contained in Note 6 to the consolidated financial statements included therein. As stated in Note 6, the Company changed its method of accounting for the classification of cash outflows associated with real estate development capital expenditures from investing activities to operating activities within the consolidated statement of cash flows and states that the newly adopted accounting principle is preferable in the circumstances because the Company believes that cash inflows and cash outflows related to land held for sale and land held for development should be classified in a consistent manner and that classification within operating activities better reflects the fact that these cash outflows are directly related to the Company's operations of developing and selling real estate. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

We have not audited any financial statements of the Company as of any date or for any period subsequent to December 31, 2008, nor have we audited the information set forth in the aforementioned Note 6 to the consolidated financial statements; accordingly, we do not express an opinion concerning the factual information contained therein.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

/s/ KPMG LLP

KPMG LLP
Seattle, Washington

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David L. Nunes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2009

/s/ David L. Nunes

David L. Nunes
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2009

/s/ Thomas M. Ringo

Thomas M. Ringo
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended September 30, 2009, 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

November 5, 2009

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended September 30, 2009, 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

November 5, 2009
