FINANCIAL HIGHLIGHTS

(Thousands, except per unit data)	**2002**	2001	2000
Revenues			
Fee Timber	**$23,298**	$24,999	$21,444
Timberland Management & Consulting	**7,295**	9,703	11,011
Real Estate	**1,599**	13,143	18,202
Total revenues	**$32,192**	$47,845	$50,657
Income/(loss) from operations			
Fee Timber	**$10,199**	$9,190	$12,895
Timberland Management & Consulting	**919**	1,685	75
Real Estate	**(1,667)**	(2,709)	(11,593)
Administrative	**(3,864)**	(5,110)	(7,254)
Total income/(loss) from operations	**$5,587**	$3,056	($5,877)
Net income/(loss)	**$3,334**	($432)	($6,251)
Net income/(loss) per fully diluted unit	**$0.74**	($0.10)	($1.38)
Unit price at year-end	**$10.11**	$14.75	$24.50
Distribution per unit	**$0.10**	-	$0.40
Units outstanding	**4,518**	4,518	4,528
Total assets	**$86,788**	$84,187	$60,857
Long-term debt, including current portion	**$39,239**	$39,667	$13,127
Partners' capital	**$43,598**	$40,673	$41,280
Partners' capital per unit	**$9.65**	$9.00	$9.12
Fee timber owned (acres)	**112**	112	71
Fee timber harvest (MMBF)	**45.1**	36.3	37.3

David L. Nunes
President & Chief Executive Officer

To Our Unitholders:

I am happy to report to you a strong improvement in Pope Resources' financial results for 2002, with earnings of $3.3 million or $0.74 per fully diluted ownership unit. This compares with a 2001 loss of $0.4 million, or $0.10 per fully diluted ownership unit. Operating earnings improved commensurately, increasing from $3.1 million in 2001 to $5.6 million in 2002. While this letter will reference events of 2002 that contributed towards this performance improvement, the real focus will be on discussing our strategies and management philosophy. For a more detailed description of 2002 results, I encourage readers to review Management's Discussion and Analysis of Financial Condition and Results of Operations from our SEC Form 10-K, which is included in this annual report.

After significant changes to our underlying business model, we emerged at the end of 2002 with a streamlined organization that we believe will serve our unitholders well for years to come. We have also now completed the four important strategic initiatives that we established in 2000:

- Exiting the resort operations and downstream real estate development activities in Port Ludlow, Washington;
- Acquiring incremental fee timberland to fill the gap in our age-class distribution by adding 40,000 net acres in southwest Washington from Plum Creek in 2001;
- Stopping the losses in our Canadian forestry consulting practice by selling a portion of the business and closing the remaining offices in late 2002;
- Streamlining our support infrastructure, thus driving down general and administrative costs by 53% since 1999 to $3.9 million in 2002, a level last experienced in 1996.

While pleased with the progress we have made over the past few years, we are by no means complacent. By achieving these strategic objectives, designed to fix "old" problems, we have both narrowed the focus within our organization and freed up management attention to concentrate on growing the company. Despite the challenging market conditions facing the forest products industry, we feel we can continue to improve the company's performance and are excited about our future.

In looking back over my first year as CEO of Pope Resources, I have fielded many questions about my vision for the company and what our future will look like. Our stated mission is to, "Create value for our unitholders and others by owning and managing land and its related resources." But what does this really mean? When will this translate into a higher unit value? When will we increase our cash distribution level? Is "adding value" a euphemism for failure to deliver better earnings? I will address these questions head on and will describe our plans to "unpack" the drivers of value for Pope Resources.

WHY HAS OUR UNIT VALUE SUFFERED SO MUCH IN RECENT YEARS?

We fully recognize that Pope Resources has suffered a significant decline in the value of its public equity. Our units, which traded as high as $35 per unit in 1999, have declined to $10 per unit by the end of 2002. We are essentially trading on par with our book value, which was $9.65 per unit at the end of 2002. The explanation for this decline points to a number of factors, some of which have little to do with the business fundamentals of this company. I offer the following as factors we believe have influenced the decline in our unit value in the past few years:

- *Small market capitalization combined with limited public float* – As with many micro-cap stocks, this has kept us off the radar screen of investment analysts.
- *Limited appeal to institutional holders* – Pension funds and mutual funds tend to avoid publicly traded partnerships (PTP's) based on tax considerations.
- *Low trading volumes* – Combined with the factors above, this creates an unusually high "liquidity discount" and reflects on the inefficient market for our equity.
- *Suspension of cash distributions in 2000* – Although reinstated in the second half of 2002, we have never attempted to attract prospective investors with high cash distributions, but have instead placed more emphasis on reinvesting cash into the business to provide for long-term growth.
- *Uneven nature of cash flows* – Increases in future harvest levels from our large component of younger age classes is fully discounted in the value of the units.
- *Addition by subtraction* – The completion of the strategic initiatives mentioned earlier resulted in net losses for the Partnership for 2000 and 2001, in part as a result of writing down the Port Ludlow assets by nearly $11 million.
- *Columbia tree farm acquisition* – While generating positive cash flow in both 2001 and 2002, the acquisition of this tree farm had a negative impact on earnings because of significant increases in interest expense and depletion.
- *Loss of the Hancock contract and closure of Canadian offices* – These changes in late 2002 raised questions about the future income generating potential from our timberland management and consulting segment.

Why invest in Pope Resources units?

With the erosion in the value of Pope Resources' units over the past three years and all the reasons presented earlier as possible explanations for this decline, what are the positive attributes of investing in Pope Resources? Paradoxically, this same erosion in the value of our equity may also represent an opportunity to acquire our units at an attractive price. While timber prices have eroded in the past few years, this price decline is nowhere near the magnitude of the decline in the value of our units.

Going forward, I see Pope Resources primarily as a land company with a pronounced emphasis on timber. Whether it's managing our own timberlands, providing timberland management services to other landowners, or navigating through the complex world of securing real estate entitlements, the connection to the land will remain paramount. The changes we have implemented over the past two years all work to narrow our focus on land and timber, improve our competitiveness, and enhance our bottom line.

Compared to even just two years ago, our asset mix is now decidedly heavier to timber with the acquisition of the Columbia tree farm. The timber asset class has proven, over many decades of performance, to be a great portfolio diversifier while at the same time providing solid after-tax returns that exceed those of broader stock and bond indices. It is a time-tested asset class for creating and preserving wealth. Academic studies suggest that timber is negatively correlated to most other asset classes and provides an excellent hedge against inflation. As many portfolio managers have discovered in the past decade, adding timber to a portfolio facilitates maintaining or improving returns while at the same time lowering portfolio risk. And investing in timber through a partnership structure allows investors to enjoy the benefits of a single layer of taxation as well as capital gains treatment on the Partnership's timber harvest income.

As mentioned above, the partnership vehicle offers efficient and favorable tax treatment for individual investors interested in the timber asset class. For many of our unitholders, the preferential tax rate applied to capital gains can generate a net tax benefit, even though the Partnership is reporting income. This is because the net stumpage income (defined as the delivered log price less the harvesting and transportation costs) is taxed at the capital gains rate while all the other costs of managing the tree farm and overhead are deductible from earnings as ordinary expenses. These expenses flow through as losses and are taxed at the higher marginal income tax rate, thus generating a net tax "yield." This tax yield is additive to the already tax-free quarterly distributions, generating an enhanced overall after-tax yield for our investors.

While most PTP's, both inside this industry and out, have traditionally focused on providing high cash distributions to attract investors, Pope Resources has always had a relatively conservative distribution policy. We have avoided the temptation of attempting to attract investors with high-coupon yields based on the conviction that this can contribute to excessive debt loads and can lead to over-cutting of timberlands. Pope Resources has always considered this high distribution strategy to be more risky, as the combination of a high distribution yield and high debt only works if timberlands are acquired at the right price and markets remain strong. A falling market, high debt loads, and high prices paid for timber properties can lead to financial disaster.

Our company, through its predecessor Pope & Talbot, has been in business for over 150 years by managing for the long term and we intend to continue operating for many more generations. To do this, we will follow a model that has modest, yet sustainable, cash distributions coupled with a capital structure that is designed to weather downturns in our product markets. We will grow when we have the financial resources to do so and when prices are attractive. It's not flashy or sexy, but will assure our long-term survival and, in concert with our advantageous tax structure, will reward our investors with solid after-tax returns on their capital.

SKIN IN THE GAME

The corporate governance scandals that have plagued the capital markets the past few years have certainly shaken investor confidence. The opportunity to grow and build a company is a venture of commitment and trust between an enterprise's owners and its managers. Management at Pope Resources is certainly mindful of the financial commitment you have made by your investment in this company and we take very seriously our stewardship responsibilities on your behalf. The news in 2002 was full of accounting scandals and corporate malfeasance. One of the positive attributes of our small size, the fact that we are off the radar screens of nearly all analysts, is that we have never had the pressure to play the "earnings game." When asked or given the opportunity to "tell our story" we aim to steer clear of hype and provide straightforward, unvarnished opinion about our prospects for the future.

I am a fervent believer in putting your money where your mouth is. As such, I have committed a substantial portion of my personal wealth to the company's future by buying over 17,000 units in the open market in the past few years. I believe it is critical for top management to have "skin in the game" alongside our unitholders and am encouraging our people to think and act along these lines. In my opinion, simply having unit options is not enough. Options reward upside appreciation without any tangible downside risk. I believe it is important for management to have capital that is at risk alongside our other unitholders to reinforce our commitment as stewards of your capital.

While our Board of Directors is small, it is a group of strong and independent-minded members possessing abundant financial skills and business savvy. Nearly half of our directors' compensation is in the form of unit options to support alignment of interest with our unitholders. Operating with integrity is part of our culture and reinforcing that with "tone from the top" is one of my primary responsibilities.

Future distribution policy

One of the more common themes I hear in conversations with unitholders concerns our distribution policy. By way of background, Pope Resources for many years had a long-standing policy of targeting distributions to match unitholders' flow-through tax liability. However, with the tax law change in 1993 that restored the differential tax rate for capital gains, we no longer were generating flow-through tax liability. This meant that any distributions acted as pure tax-free yields. Beginning in 1998, the partnership lowered its quarterly distribution to $0.10 per unit and continued this policy through 2000.

Following six quarters without a distribution (spanning 2001 and the first half of 2002), we resumed paying a modest distribution in the third quarter of 2002. We wanted to establish a distribution level that could weather downturns in our product markets, retain some growth capital for making future investments, and be in compliance with new debt covenants. Following the acquisition of the Columbia tree farm in 2001, our debt covenants limit us to distributing no more than 50% of our net income. Based on these criteria, we set the new quarterly distribution level at five cents per unit beginning in the third quarter of 2002. We will commit to re-examining this distribution policy against this same set of criteria on a regular basis.

What will fuel future growth?

Generically speaking, there are three primary capital engines for business growth: equity capital, debt, and operating cash flow. At today's unit price, our equity is effectively priced too low to use as currency for growth. This limits growth to incremental debt capacity and internal, or organically generated, cash flow.

We substantially increased the debt against our Hood Canal tree farm in 2001 to acquire the Columbia tree farm from Plum Creek. While we have used cash proceeds from the sale of Port Ludlow to help pay off our $17 million credit revolver and take advantage of a one-time opportunity to pay down our timber mortgage, we still ended 2002 with $39 million in total debt. This translates to a debt-to-total-capitalization ratio of 47% (as measured by the book value of our equity), allowing for only a modest amount of incremental debt. While the newly acquired Columbia tree farm has no debt pledged against it, we are mindful of the problems associated with higher debt loads in this industry.

This leaves us in a situation where our near-term growth will be fueled primarily by existing cash balances and internally generated cash flow. We expect free cash flow, defined as net income plus depreciation, depletion, and cost of land sold, minus required debt service and capital expenditures, to range between $2.5 and $3.5 million per year. This will vary based upon fluctuations in log prices, harvest volumes, and other factors that affect our product markets.

The bottom line is that our near-term growth capital is somewhat limited. In the meantime, we will continue to improve our operations and look to leverage our growth capital by either partnering with other investors or patiently waiting for attractive growth opportunities. Longer term, our growth capital will increase when we create more room within our debt covenants or our equity capital becomes a more valuable growth currency.

SEGMENT STRATEGIES FOR GROWING VALUE

With limited growth capital, our efforts will focus on continuing to improve the efficiency, effectiveness, and cost structure of our operations and to continue to emphasize smart, long-term, value-creating decisions on all our lands. Within this construct, we will work diligently to extract as much free cash flow as possible from our lands. We will manage our land assets for optimum long-term value, avoiding the temptation of managing to meet short-term objectives. In our view, managing to external earnings targets that can lead to over-cutting timber in bad markets or having to sell lands at inopportune times.

We intend to manage the assets under our stewardship in as straightforward a manner as possible. We will provide details about our lands, our timber inventory, and our long-term harvest projections. And then we will execute against those plans in the most cost-effective manner possible. Furthermore, we will actively manage our property portfolio, selling higher-and-better-use lands and timberland when it makes economic sense to do so, not based on hitting quarterly or annual earnings targets.

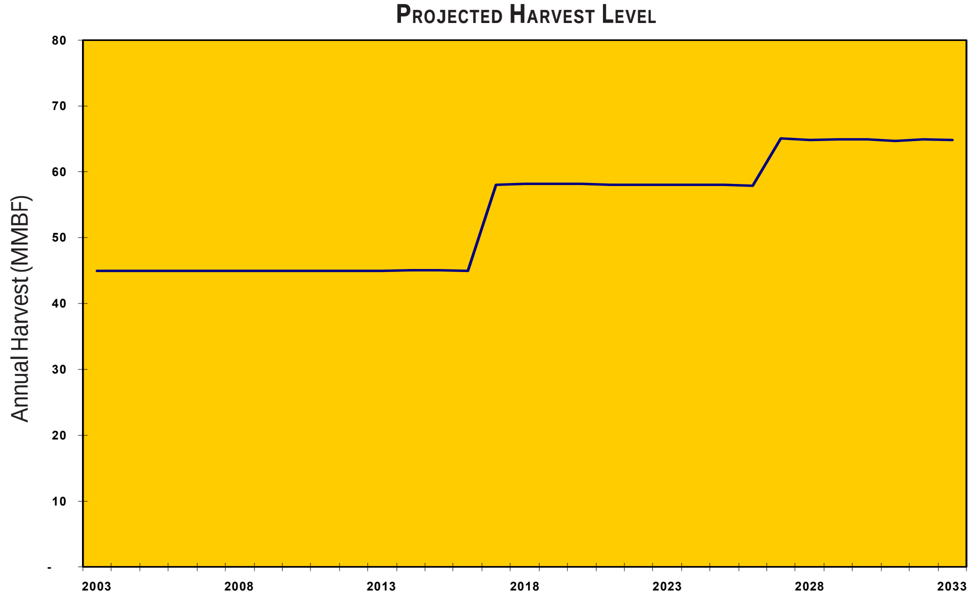
FEE TIMBER Pope Resources, with just over 112,000 acres of fee timberland in the State of Washington, is not a large operation. We are a relatively small player in our local operating areas and as such are price takers rather than market makers in the world of commodity log markets. We have to be nimble and smart to extract the most value out of our annual log sales. With no internal mills to feed, this will often translate into fluctuating the timing of our annual harvest plan within the year to try to capitalize on strong spot markets.

In spite of record low interest rates and the continuing robustness of the U.S. housing market, log and lumber prices have continued to slide over the past few years. The pricing pendulum in global log markets has swung from high prices during the early 1990s “timber famine” (brought about in part by the listing of the Northern Spotted Owl) to low prices in the current environment of oversupply. This re-balancing of global forest products markets has been a function of: a general increase in global wood flows that have acted to mitigate historic price spikes; a strong dollar that has both discouraged U.S. exports while encouraging foreign imports; increased flows of logs from Southern Hemisphere tree farms; the collapse of the traditionally strong Japanese market; and an increased flow of Canadian imports into the U.S.

These changing global market dynamics have not only lowered overall price levels, but have also removed much of the historic price volatility in global log markets. A good example of this phenomenon is in the Japanese export log market. With the deterioration in the Japanese economy coupled with a rising use of engineered wood products and logs and other competing forest products from other producing geographies, U.S. log exports have lost significant market share in Japan over the last five years. The result is a much lower price premium for the Japanese market and an overall U.S. log market that experiences less price volatility. These changes in our markets have placed a greater premium on sound tree farming skills and maintaining a competitive cost structure.

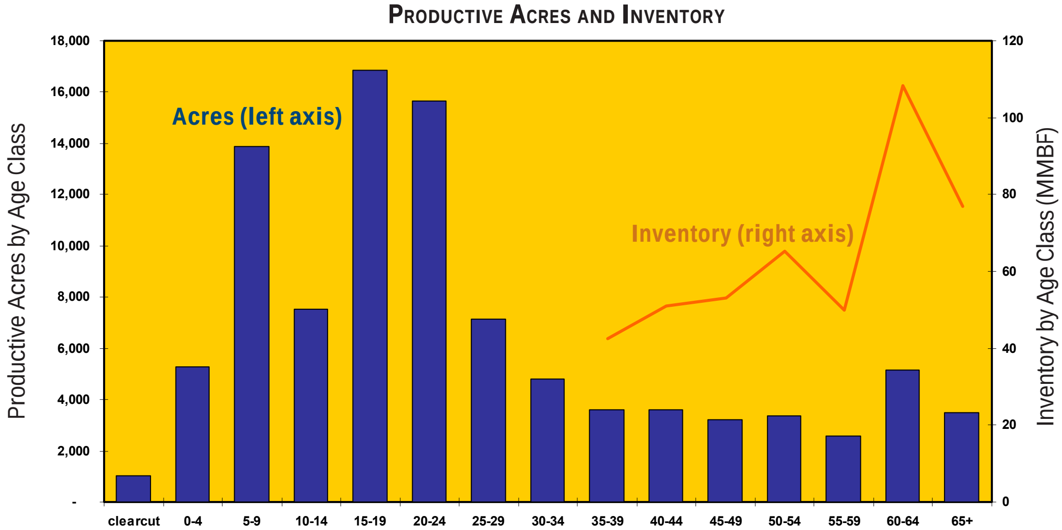
As a tree farmer, we pursue a number of strategies to create value, including boosting the productivity of our lands by fertilization and other yield enhancement techniques. We also work hard to continually improve the understanding of our lands by conducting annual timber cruises (statistical sampling) to keep our merchantable timber inventory current and accurate, and to assess the accuracy of our growth and yield estimates. We take this information and annually update our long-term harvest simulation to assure that we are extracting the optimal amount of value while working within various harvest constraints and maintaining our high stewardship ethic. For example, we apply a non-declining even-flow harvest constraint on our rate of harvest, which stipulates that future harvests will not dip below current levels (see graph below). This enables greater predictability in future harvest volumes and resultant cash flows. Underscoring all these efforts we work to ensure that our cost structure is as lean as possible.

Projected Harvest Level



An important component of creating value is through active portfolio management. We will always have opportunities to add to or subtract from our ownership base to both maximize long-term value and to more evenly distribute the mix of our timber age classes (see graph below). For example, timber stands that are ten years or more away from producing harvestable logs can often be acquired using a higher discount rate relative to more mature stands. We believe such acquisitions, like our purchase of 44,500 acres (less 4,500 acres sold to a third-party) in 2001 from Plum Creek, provide a better opportunity for higher long-term returns on our invested capital. While we continue to scout out opportunities to add to our portfolio of owned acres, the key still remains having a disciplined acquisition approach. Geographic diversification, while important, still takes a back seat to buying at the right price. We believe we are entering a phase in the market where many properties will change hands, and we will be looking for attractive acquisition opportunities to improve the long-term value of our timber portfolio.

PRODUCTIVE ACRES AND INVENTORY



TIMBERLAND MANAGEMENT & CONSULTING Timberland management for third-party owners has been a good business for us. It has added meaningfully to our bottom line while at the same time affording us the operational scale necessary to hire forestry and technical expertise that we could not have otherwise justified. This has allowed us to improve the quality and sophistication of the management services on all the lands under our stewardship. Some of the yield enhancement programs mentioned above are examples of these benefits. In addition, by virtue of the scale gained in managing for others and being engaged in the acquisition/disposition market for timberland properties, we realize opportunities to purchase properties for our own account that would otherwise not have come to our attention. It is very healthy for a small organization such as ours to be intentionally outward-focused and connected to transactional activities in the industry.

We believe that ownership of timberlands will continue to shift away from integrated forest products companies and into the hands of financial owners. This trend began in the mid-1980's as investment advisers for pension plans persuaded their clients to allocate a portion of their real estate portfolio to the timberland asset class. We see this trend continuing as forest product markets become more specialized and the historical need for an integrated supply of timber becomes less important. The advantageous tax treatment of flow-through entities relative to traditional corporate entities will also make financial owners increasingly more competitive in bidding for properties. We believe this trend toward change in timberland ownership will benefit companies such as ours who provide third-party services to other owners and managers of timberland.

Based on this ownership trend and the early successes of pioneering timberland investment management organizations (TIMO's), we launched our subsidiary Olympic Resource Management in 1997 as a TIMO for outside investors interested in the timberland asset class. However, with low barriers to entry, we saw a huge proliferation of new TIMO's in the late 1990s. Most of these TIMO's were thinly capitalized and needed successful transactions in order to survive. This resulted in an anomaly in the market, where timberland asset values were increasing or remaining stable while log and lumber prices were falling. So while the first TIMO's did very well for their clients and themselves, this increased competition bid down returns for all participants.

While this anomaly was taking place, we detoured somewhat off our original strategy and focused more on providing third-party management services. For five years we served as western region manager for the world's largest TIMO, the Hancock Timber Resource Group (HTRG). We have also, for the past three years, managed 365,000 acres on behalf of another timberland owner in the West while implementing an orderly liquidation of its timberland holdings. But both of these business assignments are nearing an end as HTRG decided at the end of 2002 to take the management function we performed in-house and our other major assignment is winding down as we complete the disposition of its assets.

We also chose at the end of 2002 to close the forestry consulting offices we had acquired in Canada four years ago. This venture had been launched with the idea it would lead to timberland management opportunities in western Canada. As these opportunities failed to materialize, we made the decision that we did not want to be in the business of operating a stand-alone Canadian forestry consulting operation. In late 2002, we sold a portion of the business and closed the remainder of our Canadian offices.

The combination of a softening in timberland asset values and a major correction in the broader financial markets has caused us to dust off our original TIMO strategy. One effect of the bursting of the technology bubble and the instability of broader financial markets has been to make investments in assets such as timberland more attractive to a broader range of investors. We plan to pursue establishing a fund for investing in timberland properties, in which Pope Resources will be a participant alongside other investors. We believe it is a good time to be investing in timberland and that this vehicle will provide prospective investors with solid, after-tax, risk-adjusted returns while assuring proper alignment of interests. Participating in this fund will also allow Pope Resources to better leverage its limited growth capital into timberland acquisitions that it would otherwise not be able to afford on its own.

Real Estate Owning timberland near an urban area effectively puts us in the real estate business. Our real estate portfolio consists of approximately 2,500 acres of higher-and-better-use (HBU) properties in our immediate West Puget Sound area, which makes us the largest land developer in our local geography. We expect this pipeline of properties to provide ample opportunity to grow value during the next 10 years.

Conducting real estate development activities in the State of Washington, particularly in the Puget Sound basin where our HBU properties are located, is extremely challenging. The state's Growth Management Act (GMA) of 1991, designed to concentrate growth in urban growth areas (UGA) and leave more rural areas with much lower population densities, has changed the landscape of real estate development in Washington and constrained the supply of urban development lands. We recognized the potential impact of the GMA on our properties in the early 1990s and worked diligently to assure that as many of our properties as possible were located within designated UGA boundaries. We were successful in having our properties in Gig Harbor and Bremerton located within these UGA boundaries, and are still in the process of working with the Kingston community to move more of our lands within its UGA boundary.

Following our sale of the Port Ludlow resort assets, we redefined the role we will play in real estate development, focusing on the areas where we can add the most value, as opposed to being vertically integrated across the entire real estate development spectrum. Our strategy will focus on being a master developer, where our activities are concentrated around securing development entitlements and then either selling or partnering with downstream developers. In some cases, we will retain an ownership or development role, but in most cases we will sell properties to other developers who will in turn move dirt, install infrastructure, and subdivide to the end-user level. This will allow us to mitigate risk and concentrate our efforts on where we can add the most value.

Our ownership and management of the historic town of Port Gamble has also benefited from the lessons of Port Ludlow and freed up management attention to work on improving the town's financial performance. In 1999, we secured an important entitlement for this town when it was designated a Rural Historic Town under the GMA. This allows for redevelopment to historic densities while preserving the town's unique architectural charm. We have developed a short-, mid-, and long-term strategy for this town, and we have made good progress towards turning around its historically poor performance. In 2002, following a negotiated settlement with Pope & Talbot, we focused on completing our portion of the environmental cleanup, namely the town and former mill site. Pope & Talbot also began to complete its portion of the cleanup in 2002 by removing a number of former landfill sites outside of town. They will begin to tackle the cleanup of the bay surrounding the former mill site beginning in 2003. These cleanup efforts will allow us to make the necessary water and sewer infrastructure investments that will set the stage for future build-out of the town. As the town marks its 150th birthday in 2003, we are very excited about its future.

We will implement our master developer strategy by maintaining a small but highly skilled real estate staff that will focus primarily on securing land entitlements and, to a lesser extent, pursuing rural residential lot development opportunities. However, we expect revenues and cash flows from land sale "harvests" to be intermittent over time. For the past number of years, our HBU properties have constituted a significant net investment for the Partnership, as we have spent considerable time and money in the pursuit of securing entitlements. Commencing in 2003, and gradually ramping up over the next few years, we expect to see the beginnings of some of this "harvest." Our 205-acre Homestead project at the northern tip of the Kitsap peninsula near Hansville recently received preliminary plat approval for 89 lots, which we will begin marketing to other developers in 2003. In the next few years, we also anticipate completing some bulk land sales and expect to see the first sales from our Gig Harbor and Bremerton projects. We are particularly excited about our 320-acre Gig Harbor project, which should greatly benefit from the scheduled opening in 2007 of a new bridge span connecting Gig Harbor to Tacoma.

General & Administrative Our strategy regarding overhead costs is simple: keep costs to a minimum while still providing the necessary support to operating managers for running their businesses and providing timely and accurate reports to our investor constituents. As our business model has become simpler following the sale of Port Ludlow, the closure of Canadian offices, and the expiration of the HTRG contract in late-2002, we have pared our administrative overhead commensurately.

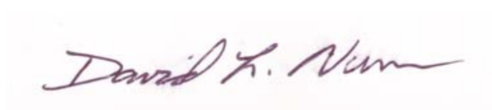
Letter to Unitholders, Continued

Looking ahead to 2003

Despite our strong rebound in profitability in 2002, we see challenging times ahead in 2003. We expect no improvement in log prices as the industry continues to wrestle with oversupply. We also face a formidable challenge in replacing lost third-party fee revenue. It is difficult to predict how long it will take to re-grow this business, as opportunities are often long in the making. However, notwithstanding these less than sanguine prospects, there is no “bunker mentality” here. We feel we have taken the necessary steps in adjusting our cost structure to weather these market conditions and believe we are well positioned to grow.

From a revenue perspective, Pope Resources is a smaller company than it was a few years ago. But it is also a much more profitable company. We have a talented team of managers focused on adding value, and are committed to pursuing our growth strategies within our financial constraints. All the while we pledge to continue to manage costs diligently and prudently. We will operate in a highly principled and disciplined manner, and as fellow owners, will keep our eyes keenly focused on generating cash flow.

This company takes a long-term view of its future. When a company measures its heritage back to the mid-1800s that generational perspective runs deep. Such a perspective is particularly appropriate for a company centered on growing forests where the crop cycle rotates every 45 to 50 years. I am in my early 40’s and have been in and around this industry for over half my life. I pledge to you both youthful vigor and seasoned insights to lead this company to many strongly profitable years in the future. I thank our Board of Directors and our outstanding employees for all of their hard work on your behalf to grow the value that is Pope Resources.



David L. Nunes
President & Chief Executive Officer
March 31, 2003

UNIT PRICE PERFORMANCE

	2002		2001	
	High	**Low**	High	Low
First Quarter	**$ 15.50**	**$ 11.40**	$24.50	$19.50
Second Quarter	**14.60**	**11.70**	20.00	17.00
Third Quarter	**13.23**	**11.70**	20.00	16.30
Fourth Quarter	**11.55**	**9.30**	18.00	14.00

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Forward-looking Statements

"Note: Certain information in this report and in the preceding letter contains forward looking statements within the meaning of federal securities laws. This forward-looking information includes statements about management's plans and the possible results of those plans, as well as information about our prospective business, financial condition and results of operations. Readers should not construe these statements as assurances of future performance because they attempt to predict future events based on plans and known circumstances and trends, which could change as a result of shifts in strategy or unforeseen events. We have included in the attached report to limited partners a list of risks and uncertainties that may cause our results to fall short of our expectations, or that may otherwise negatively affect our business and financial condition. These factors are discussed beginning at page 25 of the report, and you should read these factors carefully. You also should recognize that the plans and projections discussed in this letter and the accompanying report, and the basis for those statements, are effective only as of the date of this letter and will not be updated."

Management's Discussion and Analysis of Financial Condition and Results of Operation

RESULTS OF OPERATIONS

The Partnership operates in three primary business segments: (1) Fee Timber, (2) Timberland Management & Consulting, and (3) Real Estate. Fee Timber operations consist of the growing and harvesting of timber from the Partnership's tree farms. Timberland Management & Consulting encompasses providing timberland management and forestry consulting services to third-party owners of timberlands. Real Estate includes the assets at Port Ludlow that were sold in August of 2001 and other investments in land. Certain of our critical accounting policies are discussed at the end of this section.

The Partnership's consolidated gross revenues in 2002, 2001, and 2000, on a percentage basis by segment, are as follows:

Segment	**2002**	2001	2000
Fee Timber	**72%**	52%	42%
Timberland Management & Consulting	**23%**	20%	22%
Real Estate	**5%**	28%	36%

The Partnership projects that, in 2003, the relative percentages between the Fee Timber, Timberland Management, and Real Estate segments will shift to 85%, 10%, and 5%, respectively, as a result of the loss from expiration of the Hancock Timber Resource Group timberland management contract and closure of the Canadian offices.

Further segment financial information is presented in Note 10 to the Partnership's Consolidated Financial Statements included with this report.

FEE TIMBER

Revenues and Operating Income Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 112,000 acres of fee timber located in western Washington and to a lesser extent from the sale of gravel and cellular communication tower leases. Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2002, are as follows:

Year ended	Timber and Other Forest Products	Mineral & Cell Tower	Total Fee Timber Revenue	Operating Income
December 31, 2002	**$22.4 million**	**$0.9 million**	**$23.3 million**	**$10.2 million**
December 31, 2001	24.1 million	0.9 million	25.0 million	9.2 million
December 31, 2000	20.6 million	0.8 million	21.4 million	12.9 million

Fiscal Year 2002 Compared to 2001 Fee Timber revenue decreased $1.7 million, or 7%, to $23.3 million in 2002 from $25.0 million in 2001. The Partnership in 2002 harvested 45.1 million board feet (MMBF) - up 8.8 MMBF (or 24%) from the 2001 harvest volume of 36.3 MMBF. In spite of this harvest volume difference, annual revenues for 2002 are 7% lower than the prior year's revenues due to the sale of 3,750 acres of land and timber for $5.3 million in 2001. The Partnership's weighted average log price of $488 per thousand board feet (MBF) for the year ending 2002 was down $15/MBF or 3% from the year ending 2001. Operating income increased $1.0 million, or 11%, to $10.2 million in 2002 from $9.2 million in 2001, largely due to the increase in harvest volume.

Fiscal Year 2001 Compared to 2000 Fee Timber revenue increased $3.6 million, or 17%, to $25.0 million in 2001 from $21.4 million in 2000. The increase in revenue is largely the result of the aforementioned sale of 3,750 acres that generated revenue of $5.3 million. A smaller timberland sale from the Hood Canal tree farm generated an additional $0.2 million in revenue in 2001. The 2001 land sale revenue was offset to some degree by an 8% decline in average log prices and a 3% decrease in harvest volume compared to 2000. Operating income declined $3.7 million, or 29%, to $9.2 million in 2001 from $12.9 million in 2000, primarily as the result of an increase in depletion expense recognized from harvested timber.

Depletion expense has increased as a result of the higher average cost basis of the Partnership's timber following the acquisition of the Columbia tree farm (see discussion of depletion accounting policy under Accounting Matters). As discussed below, the decline in average log prices realized, and the decrease in harvest volume also negatively affected operating income. The land sales resulted in operating income of $0.3 million in 2001**.** The Partnership regularly adjusts its timberland portfolio of holdings as part of its active management through acquisitions and dispositions of smaller parcels.

Export Log Market Log revenues from the Partnership's timberland ownership are significantly affected by export log market conditions. Sales to the export market totaled 15%, 20%, and 31% of segment revenues for 2002, 2001, and 2000, respectively. The majority of the Partnership's export log volume is sold to Japan. Indirect sales to the export market totaled 6.3 MMBF, 8.1 MMBF, and 9.1 MMBF, of softwood logs for 2002, 2001, and 2000, respectively. The decrease in volume sold through the export market in 2002 is indicative of the deteriorating export market conditions, a trend that also existed from 2000 to 2001. The average price per MBF realized for export logs sold was $574, $620, and $731 for 2002, 2001, and 2000, respectively.

The 2002 realized average export log price declined 7% from 2001 to 2002 and 14% from 2000 to 2001, driven largely by weak economic conditions in Japan, the growth of engineered wood products, and increased foreign competition in the export log market. Management is not projecting a significant improvement in the export market in the foreseeable future.

Domestic Log Market Domestic sawlog volumes were 30.6 MMBF, 19.9 MMBF, and 19.1 MMBF in 2002, 2001, and 2000, respectively. The 54% increase in domestic volume sold in 2002 from 2001 represents a shift in volume from the export market to the domestic market together with an overall increase in harvest volume. Average realized domestic log prices per MBF were $535, $560, and $588 in 2002, 2001, and 2000, respectively. Prices realized from domestic log sales declined as the market became saturated with volume that was redirected away from weak export markets. Management expects to continue pursuing heavier sales volumes in domestic markets so long as overseas log markets remain relatively weak.

Other Timber Products Pulp, hardwood, and other log volumes represented 18%, 23%, and 24% of total harvest volume for 2002, 2001, and 2000, respectively. The decrease in other timber volume sold as a percent of total volume in 2002 relative to 2001 and 2000 is due to improved log merchandising. Logs sold as pulp generally command lower prices than logs sold to the domestic market. To the extent log volume can be moved from pulp logs to domestic sawlog sorts, higher revenue is realized. Other log prices were $249, $254, and $283 per MBF for 2002, 2001, and 2000, respectively. The decline in other log prices in 2002 relative to 2001 and 2001 relative to 2000 reflects the overall decline in log prices during the past few years.

Harvest Volumes and Seasonality The Partnership harvested the following timber for each year in the three-year period ended December 31, 2002:

	Softwood Sawlogs		Pulp, Hardwood, and Other		Totals	
	Volume (MMBF)	Price ($/MBF)	Volume (MMBF)	Price ($/MBF)	Volume (MMBF)	Price ($/MBF)
Year						
2002	**36.8**	**$542**	**8.3**	**$249**	**45.1**	**$488**
2001	27.9	577	8.4	254	36.3	503
2000	28.2	634	9.1	283	37.3	549

MMBF = million board feet MBF = thousand board feet

The Partnership's 112,000 acres of timberland consist of the 72,000-acre Hood Canal tree farm and the 40,000-acre Columbia tree farm. The Partnership's Hood Canal tree farm is located in the Hood Canal region of Washington state. Most of this tree farm acreage is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, the Partnership is often able to harvest and sell a greater portion of its annual harvest in the first half of the year when the supply of logs in the marketplace tends to be lower. During 2000 and 2001, harvest activities tapered off towards the end of September or October as the Partnership reached its planned annual harvest volume. During 2002 the seasonality of our timber harvest was significantly reduced. The Columbia tree farm acreage is less accessible during the winter months and, therefore, harvest activities are concentrated in the period between May and November. The overall impact to Fee Timber revenue from the Columbia tree farm acquisition should be a flattening of the seasonal spikes experienced in previous years. The percentage of annual harvest volume harvested by quarter for each year in the three-year period ended December 31, 2002 is as follows:

Year ended	Q1	Q2	Q3	Q4
December 31, 2002	**16%**	**32%**	**27%**	**25%**
December 31, 2001	23%	30%	36%	11%
December 31, 2000	35%	29%	17%	19%

COST OF SALES

Fee Timber cost of sales for each year in the three-year period ended December 31, 2002, are as follows:

Year ended	Depletion	Harvest, Haul and Other	Land Sale Costs	Total
December 31, 2002	**$3.1 million**	**$7.3 million**	**-**	**$10.4 million**
December 31, 2001	6.4 million	6.1 million	0.8 million	13.3 million
December 31, 2000	1.0 million	5.5 million	0.2 million	6.7 million

Depletion costs from harvest activities averaged $68, $55, and $27 per MBF for 2002, 2001, and 2000, respectively. The depletion rate in 2002 represents one full year of harvest from the higher cost basis Columbia tree farm. Blending the higher relative cost basis of the timber on the recently acquired Columbia tree farm with Hood Canal tree farm's historical basis caused the depletion rate per MBF to increase from 2000 to 2002. Depletion costs in 2001 also include $4.4 million in depletion resulting from timberland sales, most notably stemming from the 3,750-acre sale of a portion of the Columbia tree farm.

Harvest, haul and other costs excluding costs resulting from timberland sales averaged $161, $167, and $150 per MBF for 2002, 2001, and 2000, respectively. Harvest costs vary based upon the physical site characteristics of acreage harvested. Land that is difficult to access, or located on steep hillsides, is more expensive to harvest. Haul costs vary based upon the distance between the harvest site and the customer's location. Average harvest, haul, and other costs increased in 2001 as a result of the acquisition of the Columbia tree farm where harvest costs are greater than the Hood Canal tree farm as a result of the former's higher elevation and more mountainous terrain. Costs resulting from timberland sales were $0.8 million and $0.2 million in 2001 and 2000, respectively. The timberland sale costs in 2001 resulted from the aforementioned 3,750 acre sale of a portion of the Columbia tree farm.

OPERATING EXPENSES

Fee Timber operating expenses for each of the three years ended December 31, 2002, 2001, and 2000 were $2.7 million, $2.5 million, and $1.8 million, respectively. Beginning in 2001 operating expenses reflect incremental costs resulting from Columbia tree farm operations.

TIMBERLAND MANAGEMENT & CONSULTING

Revenues and Operating Income

The Timberland Management & Consulting segment earns revenue by providing timberland management and forestry consulting services to timberland owners and managers. An additional aspect of that segment's activities, which management has mothballed in recent years, is the development of timberland property portfolios on behalf of third-party clients. Management is assessing the activation of this strategy in light of new and continuing economic and market developments together with changes in the Partnership's operating capabilities.

Results below include revenue and expense associated with the timberland management contract with Hancock Timber Resource Group (HTRG). The Partnership's subsidiary, ORMLLC, was informed in the fourth quarter of 2002 of HTRG's decision to integrate management of its client properties into operations with the corollary decision not to renew the timberland management contract with ORMLLC.

Revenues and operating income for the Timberland Management & Consulting segment for each year in the three-year period ended December 31, 2002, are as follows:

Year ended	Revenues	Operating Income
December 31, 2002	**$7.3 million**	**$0.9 million ^**
December 31, 2001	9.7 million	1.7 million
December 31, 2000	11.0 million	0.1 million *

^ Net of $0.6 million of restructuring charges.
* Net of $0.9 million in asset impairment and restructuring charges.

Management expects that the non-renewal of the HTRG management contract will result in a reduction of Timberland Management & Consulting revenues of approximately $4.0 million in 2003; however, management is pursuing management opportunities and other strategies that marry our capabilities with what the market is seeking in the way of services.

Fiscal Year 2002 Compared to 2001 Revenue decreased $2.4 million, or 25%, to $7.3 million in 2002 from $9.7 million in 2001. The decrease in revenue resulted from the renegotiation of a timberland management contract in mid-2001. The contract change resulted in a lower management fee offset in part by a larger fee earned upon disposition of the properties managed. Operating income declined $0.8 million or 47%. The decrease in operating income is primarily due to $0.6 million of restructuring charges recorded in the fourth quarter of 2002 following HTRG's decision to not renew the management contract with ORMLLC and the closure of our Canadian forestry consulting offices.

Fiscal Year 2001 Compared to 2000 Revenue decreased $1.3 million, or 12%, to $9.7 million in 2001 from $11.0 million in 2000. The decrease in revenue resulted principally from the aforementioned mid-2001 restructuring of our management contract to manage and sell more than 300,000 acres of industrial forestland in California, Oregon, and Washington. Operating income increased $1.6 million to $1.7 million in 2001 from $0.1 million in 2000. However, excluding the $0.9 million asset impairment charge taken in 2000, operating income increased $0.7 million. The increase in operating income is the result of increasing efficiencies in our Timberland Management & Consulting businesses. The majority of the increase in efficiency resulted from a decrease in staffing to a more appropriate level given business volume.

Operating Expenses

Timberland Management & Consulting operating expenses for each of the three years ended December 31, 2002, 2001, and 2000 were $6.4 million, $8.0 million, and $10.0 million, respectively. Operating expenses decreased in 2002 relative to 2001 as a result of reduced operating expenses in the forestry consulting business in Canada offset by the $0.6 million of restructuring charges recorded following the loss of the HTRG contract and closure the forestry consulting offices in Canada. Operating expenses decreased in 2001 relative to 2000 as a result of cost saving measures taken in response to downward adjustments in HTRG's portfolio of timber properties and inclusion of the $0.9 million asset impairment and restructuring charges in 2000.

IPMB ISSUES

LIMITATION ON EXPENDITURES The 1997 amendment to the Limited Partnership Agreement authorizing the IPMB strategy limits the Partnership's cumulative net expenditures to $5,000,000, including debt guarantees. As of December 31, 2002 cumulative expenditures incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative revenues generated. Therefore, cumulative net expenditures as of December 31, 2002 against the $5,000,000 limit are zero.

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

REAL ESTATE

REVENUES AND OPERATING INCOME

Real Estate segment revenues are derived from land sales and rental income from income-producing properties. Prior to August 2001 Real Estate revenues consisted of the sale of single-family homes and developed lots, undeveloped acreage sales, and rents earned from income producing properties. The majority of revenue and operating income generated by the Real Estate segment in 2001 and 2000 resulted from operations at the resort community of Port Ludlow, Washington. The Partnership sold all the assets and operations in Port Ludlow in August 2001.

SEGMENT RESULTS INCLUDING PORT LUDLOW The discussion that follows includes the operations of the entire Real Estate segment. Revenue and operating loss in 2001 includes Port Ludlow and the remaining portion of the Real Estate segment that is continuing after sale of the Port Ludlow property. Revenues and operating loss for the Real Estate segment for each year in the three-year period ended December 31, 2002, are as follows:

Year ended	Revenues	Operating Loss	Operating Loss Excluding Nonrecurring Items
December 31, 2002	**$1.6 million**	**($1.7) million #**	**($0.8) million**
December 31, 2001	13.1 million	(2.7) million ^	(1.4) million
December 31, 2000	18.2 million	(11.6) million *	(0.4) million

\# Includes $0.7 million of environmental remediation charges related to Port Gamble and $0.2 million of warranty charges related to Port Ludlow.

^ Includes $1.3 million in asset impairment charges related to the sale of Port Ludlow.

* Includes $9.2 million in asset impairment and restructuring charges related to Port Ludlow, and $2.0 million in environmental reediation charges related to Port Gamble.

FISCAL YEAR 2002 COMPARED TO 2001 Revenue generated by the Real Estate segment decreased $11.5 million, primarily due to the sale of Port Ludlow operations in August 2001. Operating loss decreased $1.0 million primarily due to fewer non-cash charges in 2002 ($0.9 million in 2002 and $1.3 million in 2001) and the sale of Port Ludlow in 2001.

FISCAL YEAR 2001 COMPARED TO 2000 Revenue generated by the Real Estate segment decreased $5.1 million, or 28%, to $13.1 million in 2001 from $18.2 million in 2000. The decrease in revenue is primarily due to the sale of Port Ludlow on August 7, 2001. August and September are generally high volume months for both the commercial property and development businesses in Port Ludlow. Operating loss declined $8.9 million, or 77%, to $2.7 million in 2001 from $11.6 million in 2000. The decreased operating loss is primarily due to fewer non-cash charges in 2001 ($11.2 million in 2000 and $1.3 million in 2001). This favorable comparison was partially offset by a $1.0 million decrease in 2001 results compared to 2000 because the portfolio of Port Ludlow income producing properties were not in place for the entire 2001 year.

Segment Results Excluding Port Ludlow The sale of Port Ludlow represented a substantial shift in the nature of our Real Estate segment by focusing our real property assets solely on acquisition, development and resale of residential real estate. As a result, a comparison of reporting periods that included results of operations of Port Ludlow may not present a meaningful comparison with periods that exclude those operations. Real Estate operations following the sale of Port Ludlow ("Continuing Real Estate operations") consist of the rental of residential and commercial properties in Port Gamble and Kingston, and the sale of developed lots at the Seabeck and Grandridge plats. Investments in land at Gig Harbor, Bremerton, Port Gamble, Kingston, and Hansville are also included in the Real Estate segment following the Port Ludlow sale. Revenue and operating loss for the Continuing Real Estate operations for each year in the three-year period ended December 31, 2002 are as follows:

Year ended	Revenues	Operating Loss
December 31, 2002	**$1.6 million**	**($1.5) million ^**
December 31, 2001	1.2 million	(0.9) million
December 31, 2000	1.0 million	(2.7) million *

^ Includes $0.7 million in environmental remediation charges related to Port Gamble.
* Includes $2.0 million in environmental remediation charges related to Port Gamble.

Fiscal Year 2002 Compared to 2001 Revenue generated by the Continuing Real Estate operations increased $0.4 million, or 33% due to the sale of an office building and increased rental revenues generated from Port Gamble residential and commercial properties. Operating loss increased $0.6 million due to the environmental remediation charge of $0.7 million offset by modest increase in earnings from lot sales at the Seabeck and Grandridge plats. All remaining lots from these plats were sold in 2002.

Fiscal Year 2001 Compared to 2000 Revenue generated by the Continuing Real Estate operations increased $0.2 million, or 20%, to $1.2 million in 2001 from $1.0 million in 2000, as a result of a small increase in lots sold at the two remaining land plats of Grandridge and Seabeck. Operating loss decreased as a result of the $2.0 million environmental remediation charge in 2000 that did not recur in 2001.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2002, 2001, and 2000 were $1.0 million, $7.2 million, and $10.2 million, respectively. The decrease in costs of sales in 2002 relative to 2001 was due almost entirely to the sale of Port Ludlow. The decrease in cost of sales in 2001 relative to 2000 reflects the mid-2001 sale of Port Ludlow and resulting decrease in homes sold (from 34 homes in 2000 to 22 homes in 2001).

Cost of sales in the Real Estate segment are expected to be more in-line with 2002 results for the next few years. Following the sale of Port Ludlow, the Partnership's operations will no longer include the building and selling of homes. Real Estate cost of sales will consist of miscellaneous land sales over the next few years as the Real Estate segment works to shepherd larger land investments through the entitlement process with the ultimate goal of selling the properties or positioning them for possible joint venture development.

Operating Costs

Real Estate operating expenses for each of the three years ended December 31, 2002, 2001, and 2000 were $2.3 million, $8.6 million, and $19.6 million, respectively. The decrease in operating expenses in 2002 relative to 2001 is due to the sale of Port Ludlow offset by the $0.7 million environmental remediation charge related to Port Gamble in 2002. The decrease in operating expenses (as discussed below) in 2001 relative to 2000 is also due to the sale of Port Ludlow offset by the $2.0 million environmental remediation charge related to Port Gamble in 2000. Operating expenses in Port Ludlow included the cost of operating several commercial properties and the cost of administering the Partnership's real estate development activities in Port Ludlow.

Following the sale of Port Ludlow, operating expenses of the Real Estate segment are expected to be more in-line with 2002 results. The number of employees in the Real Estate segment has decreased to five full-time and up to eight part-time employees at December 31, 2002 from 66 full-time and up to 122 part-time employees at December 31, 2000.

IMPAIRMENT AND RESTRUCTURING COSTS

In connection with the sale of the Port Ludlow assets, the Partnership recorded asset impairment and restructuring charges of $9.2 million in 2000. As a result of continued negotiations surrounding the sale, an additional $1.3 million in asset impairment charges were recorded in March 2001.

ENVIRONMENTAL REMEDIATION COSTS

The Partnership has an accrued liability of $0.6 million and $1.4 million at December 31, 2002 and 2001, respectively. The accrual represents estimated environmental remediation charges in and around the townsite of Port Gamble. Port Gamble is a historic town that was owned by P&T for decades until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to lease the mill site at Port Gamble until January 2002 when a settlement agreement was signed between the Partnership and P&T, which divided up the responsibility for paying environmental remediation charges in Port Gamble. The mill site had an operating lumber mill through 1995 that was dismantled by the end of 1996. The liability recorded represents management's estimate of the Partnership's share of Port Gamble environmental remediation charges.

Activity in the environmental remediation liability consists of the following:

Year Ended	Balances at the Beginning of the Period	Charged to Costs and Expenses	Deductions	Balances at the End of the Period
December 31, 2002	**$1,409,000**	**$730,000**	**$1,510,000**	**$629,000**
December 31, 2001	1,870,000	-	461,000	1,409,000
December 31, 2000	120,000	1,956,000	206,000	1,870,000

Management is monitoring remediation activities at the Port Gamble townsite. The liability level as of December 31, 2002 appears to be adequate to address the remaining remediation and monitoring activities that are expected to be necessary to complete the remediation project.

SEASONALITY

Real Estate operations have historically been very seasonal as a result of the resort properties at Port Ludlow. After the sale of the Port Ludlow assets, Real Estate operations are not expected to be seasonal in the future.

GENERAL AND ADMINISTRATIVE (G&A)

FISCAL YEAR 2002 COMPARED TO 2001 G&A costs decreased $1.2 million, or 24%, to $3.9 million in 2002 from $5.1 million in 2001. The decrease is due to continued efforts to realize cost savings from the Partnership's administrative departments following the sale of operations at Port Ludlow offset by $0.1 million of restructuring charges incurred in 2002. The Partnership expects G&A costs will be less than $3.0 million for the year ending December 31, 2003.

FISCAL YEAR 2001 COMPARED TO 2000 G&A costs decreased $2.1 million, or 30%, to $5.1 million in 2001 from $7.3 million in 2000. This decrease is the result of downsizing in anticipation of the 2001 sale of Port Ludlow. The majority of the decrease was from a reduction in administrative staff to 17 at the end of 2001 from 41 at the end of 2000.

OTHER INCOME/EXPENSE

FISCAL YEAR 2002 COMPARED TO 2001 Net interest expense decreased $0.1 million to $2.9 million in 2002 from $3.0 million in 2001. The modest decrease is due to a slight decrease in debt outstanding in 2002.

Fiscal Year 2001 Compared to 2000 Net interest expense increased $2.3 million to $3.0 million in 2001 from $0.7 million in 2000, as a result of the Partnership's acquisition of the Columbia tree farm in March 2001. The acquisition resulted in additional mortgage debt of $30 million and revolving credit of $17 million (the latter of which was paid off through proceeds from the sale of Port Ludlow and cash generated from operations).

TAXES

Fiscal Year 2002 Compared to 2001 An income tax benefit of $0.8 million was recorded in 2002 compared to an expense of $0.4 million in 2001. The income tax benefit in 2002 is the result of reducing the allowance on a deferred tax asset relating to net operating losses from a subsidiary in Canada that was liquidated in the fourth quarter of 2002.

Fiscal Year 2001 Compared to 2000 The provision for income taxes increased $0.7 million to $0.4 million tax expense in 2001 from a tax benefit of $0.3 million in 2000 as a result of improved operating results in the Partnership's Timberland Management & Consulting segment. This business segment is conducted through corporate entities that are subject to federal and state income tax.

MINORITY INTEREST

Fiscal 2002 Compared to 2001 The minority interest charge decreased $24,000 to $147,000 in 2002 from $171,000 in 2001. The decrease in minority interest is due to the reduction in operating income from the Partnership's timberland management activities following HTRG's decision not to renew its management contract with ORMLLC.

Fiscal Year 2001 Compared to 2000 The minority interest charge increased $0.2 million to $0.2 million from zero in 2000. The increase in minority interest is a result of improved operating results in the Partnership's Timberland Management & Consulting segment.

SUPPLEMENTAL SEGMENT INFORMATION

The following table provides comparative operating information for the Partnership's segments:

	Three months ended Dec 31,		Twelve months ended Dec 31,	
(In thousands)	**2002**	2001	**2002**	2001
Revenues				
Fee Timber	**$5,873**	$7,297	**$23,298**	$24,999
Timberland Management & Consulting	**1,672**	1,793	**7,295**	9,703
Real Estate	**221**	153	**1,599**	13,143
Total	**$7,766**	$9,243	**$32,192**	$47,845
EBITDDA				
Fee Timber	**$3,345**	$4,811	**$13,363**	$15,656
Timberland Management & Consulting	**(94)**	68	**1,109**	1,927
Real Estate	**(337)**	(423)	**(1,610)**	(2,250)
General & administrative	**(993)**	(1,188)	**(3,558)**	(4,750)
Total	**$1,921**	$3,268	**$9,304**	$10,583
Depreciation, depletion and amortization				
Fee Timber	**$751**	$4,355	**$3,164**	$6,466
Timberland Management & Consulting	**40**	57	**190**	242
Real Estate	**12**	14	**57**	459
General & administrative	**97**	167	**453**	531
Total	**$900**	$4,593	**$3,864**	$7,698
Operating income				
Fee Timber	**$2,594**	$456	**$10,199**	$9,190
Timberland Management & Consulting	**(134)**	11	**919**	1,685
Real Estate	**(349)**	(437)	**(1,667)**	(2,709)
General & administrative	**(1,078)**	(1,448)	**(3,864)**	(5,110)
Total	**$1,033**	($1,418)	**$5,587**	$3,056

QUARTER TO QUARTER COMPARISONS

The following table compares net income for the three months ended December 31, 2002 with the three months ended December 31, 2001 and with the three months ended September 30, 2002 with a reconciliation of major items making up the variance.

(In thousands, except per unit data)	Q4 2002 vs. Q4 2001 Total	Q4 2002 vs. Q4 2001 Per Unit	Q4 2002 vs. Q3 2002 Total	Q4 2002 vs. Q3 2002 Per Unit
Income (loss)				
4th Quarter 2002	$696	$0.15	$696	$0.15
3rd Quarter 2002	-	-	1,063	$0.24
4th Quarter 2001	(2,051)	($0.45)	-	-
Variance	$2,747	$0.60	($367)	($0.09)
Detail of earnings variance				
Fee Timber				
Log price realizations (A)	$274	$0.06	$124	$0.03
Log volumes (B)	2,577	0.57	(335)	(0.08)
Timberland sale income, before depletion	(4,524)	(1.00)	-	-
Depletion	3,618	0.80	67	0.01
Other Fee Timber	193	0.04	165	0.04
Timberland Management & Consulting				
Management fee changes	(9)	-	(14)	-
Other Timberland Management & Consulting	(136)	(0.03)	(659)	(0.15)
Real Estate				
Operating results from sold Real Estate	57	0.01	-	-
Other Real Estate	31	0.01	(159)	(0.04)
General & administrative costs	370	0.08	(120)	(0.03)
Interest expense	138	0.03	(15)	-
Other (taxes, minority int., interest inc.)	158	0.03	579	0.13
Total change in earnings	$2,747	$0.60	($367)	($0.09)

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

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

General The Partnership generates operating cash flow through the sale of timber products, by providing timberland management and consulting services, and to a lesser extent by selling timberland and land for development. An additional source of operating cash is payments received on a note receivable from the purchaser of the Port Ludlow assets. This note, secured by homes and lots in Port Ludlow, has a balance of $1.9 million at December 31, 2002, and matures in August 2004. Significant recurring cash usage includes capital expenditures to replant and fertilize trees, maintain an adequate road system on the Partnership's tree farms, invest in the Partnership's development properties, fund annual debt payments on the timberland mortgage and local improvement district debt, and fund quarterly cash distributions. The Partnership had two major customers in 2002 representing 21% and 13% of consolidated revenues. One of those major customers was HTRG. HTRG informed the Partnership in the fourth quarter of 2002 that they would not be renewing their timberland management contract in 2003. As of December 31, 2002 the Partnership has $6.6 million in cash. The Partnership may incur additional debt in the future to fund timberland purchases. The Partnership does not currently have a line of credit.

Cash Position The Partnership's overall cash and cash equivalents increased to $6.6 million at year-end 2002 from $1.0 million at year-end 2001.

Working Capital Working capital (including cash) increased $4.8 million to $3.8 million at year-end 2002 from ($1.0) million at year-end 2001, and the current ratio was 1.74 to 1 and .77 to 1 at year-end 2002 and 2001, respectively. The increase in the current ratio was due to positive cash flow generated during 2002. In 2001 the current ratio decreased to .77 to 1 from 5.4 to 1 in 2000 due primarily to the sale of assets and operations in Port Ludlow that generated $10.2 million in cash, offset by the acquisition of the Columbia tree farm.

Operations In 2002 consolidated net cash provided by operations was $9.0 million as compared to $11.2 million in 2001. The decrease in cash flow from operations is attributable primarily to a 2001 timberland sale, which resulted in $5.3 million of cash flow that did not recur in 2002. This was offset by an increase in harvest activity together with an increase in cash collected on a contract receivable in 2002 relative to 2001. The contract receivable is from the purchaser of the assets at Port Ludlow. Cash flow from operations before changes in working capital provided $7.7 million with a decrease in working capital providing $1.3 million.

In 2002 cash flow from operations of $9.0 million together with $0.5 million in proceeds from the sale of an office building were used to fund $2.2 million in fixed asset expenditures, $1.1 million in long term debt paydowns, and $0.5 million in unitholder distributions.

In 2001 consolidated net cash provided by operations was $11.2 million including $5.3 million of cash generated from the sale of timberland, an increase of $1.2 million, or 12%, from the $10.0 million provided in 2000. Cash flow from operations before changes in working capital provided $8.0 million, with the decrease in working capital providing $3.2 million.

In 2001, cash flow from operations combined with cash reserves were used to fund $14.4 million of the Columbia tree farm acquisition and $2.0 million in other capital expenditures, plus make debt payments of $3.5 million. Cash provided by operating activities in 2000 was used for cash payments to unitholders of $1.8 million, capital expenditures of $2.9 million, repayment of long-term debt of $0.4 million, and a minority interest distribution of $0.2 million.

Investing Activities The cash needed to meet the Partnership's capital expenditures, investments and other requirements in 2002 was generated principally from internal cash flows. In 2001 the Partnership funded the purchase of the Columbia tree farm from cash generated from internal cash flows combined with $10.2 million in cash received from the sale of Port Ludlow and $30.0 million in Columbia tree farm mortgage financing.

Capital expenditures by segment, excluding the Columbia tree farm acquisition, over the past three years were as follows:

(In thousands) **Segment**	**2002**	2001	2000
Fee Timber	**$1,315**	$1,161	$1,047
Timber Management & Consulting	**179**	142	193
Real Estate	**491**	452	1,440
Other	**173**	240	178
Total	**$2,158**	$1,995	$2,858

Capital expenditures during 2002 consisted primarily of $1.2 million in reforestation, road building and fertilization for the Partnership's tree farms and $0.5 million in capitalized property improvements at the Port Gamble townsite and the Partnership's other land investments. Remaining 2002 capital expenditures consisted of miscellaneous equipment and vehicle purchases.

During 2001 the Partnership expended $54.6 million to purchase the Columbia tree farm, using $30 million in mortgage financing, $10.2 million from the Port Ludlow sale proceeds and $14.4 million from internal cash flows. Bridge financing in the form of a revolving debt facility was used to fund $17 million of the Columbia tree farm acquisition until the Port Ludlow sale and cash generated from operations were used to pay off the revolving debt facility. Other capital expenditures in 2001 totaled $2 million, down 31% from the $2.9 million spent in 2000, primarily due to reduced activity in the Real Estate segment.

FINANCING ACTIVITIES The Partnership decreased its interest bearing debt by $0.4 million as a result of normal principal payments of $1.1 million offset by new local improvement district debt of $0.7 million. In 2001 the Partnership increased its interest-bearing debt by $26.5 million during the year through issuance of the $30 million new mortgage on the Hood Canal tree farm used to purchase the Columbia tree farm, and by paying down $3.5 million in existing long-term debt. In 2000,The Partnership decreased its interest-bearing debt by $0.4 million.The Partnership's debt-to-total-capital ratio was 47% at the end of 2002, as compared with 49% at the end of 2001. At December 31, 2002 the Partnership was in material compliance with all covenants and other obligations relating to its outstanding credit facilities.

The Partnership did not sell any of its partnership units in 2002 or 2001. However, in 2001 the Partnership paid $162,000 to repurchase 10,000 units in a privately negotiated transaction from one unitholder.

The Partnership paid $0.5 million in distributions during 2002, which represents two quarterly distributions of five cents per unit. Management plans to continue making distributions of five cents per unit per quarter in 2003 so long as the funds are available therefor. Management will periodically examine the distribution policy to ensure it meets the long-term objective of maximizing Partnership value. There were no such distributions in 2001. In 2000 the Partnership paid $1.8 million in distributions.

CASH FLOW VARIABLES AND TIMING

The Partnership has the following variabilities, among others, in its other sources of additional funds.

PAYMENTS ON PORT LUDLOW NOTE The Partnership received a note from the purchaser of the Port Ludlow assets in the amount of $5.8 million.That note is secured by a deed of trust on a defined set of lots and homes under construction at Port Ludlow. At December 31, 2002 the balance of the note was $1.9 million. Payments are due on the note as the underlying properties securing the note are sold.The note matures in August 2004.

Fee Timber Harvest Management has discretion to increase or decrease the level of logs cut and thereby may increase or decrease net income and cash flow, assuming log prices and demand remain stable. Management's current plan is to harvest approximately 45 million board feet of timber from its tree farms in 2003. Since harvest plans are based in part on demand and pricing, and in part on our harvest capacity, actual harvesting may vary subject to management's ongoing review. Moreover, in years when management increases harvest to provide stronger cash flow or to meet increased demand, that strategy will drive one of two primary actions in subsequent years.Those actions are to either reduce harvests – and, correspondingly, cash flow – or expend additional funds to acquire additional resources, as the Partnership did with the Columbia tree farm acquisition, to bridge the resulting age class or volume gaps in its timber base.

Timber Management Property Disposition In connection with one of the Partnership's timberland management contracts, a fee for disposition services is earned when properties belonging to that client are sold. In 2002 the Partnership generated $0.9 million in service fee revenue as a result of these disposition efforts. Fees earned in 2003 from similar services are contingent on closing transactions that are difficult to predict.

Real Estate Disposition The Partnership may realize value from its Continuing Real Estate operations through a sale, or possibly through a joint venture with an experienced land developer.The Partnership does not expect significant sales revenue from this source within the next three years.

Risks and Uncertainties

A number of known risks, some of which are discussed below, as well as various unknown risks and uncertainties, may cause the Partnership's revenues to fall short of management's expectations. Although certain statements in this report are forward looking in nature, these known and unknown risks make it impossible for management to predict with any degree of certainty either quantitative factors such as cash flow, results of operations or financial condition, or qualitative factors such as management's plans, objectives, or responses to various events or occurrences. Readers therefore should recognize that statements other than those of historical fact are not guarantees or assurances of future performance, but are "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Some of our forward looking statements can be identified by the use of predictive terms such as "expect," "anticipate," "will," "might," "may," and words of similar meaning or construction.The following section discusses some of the known risks that may cause the Partnership's actual financial results to fall materially short of management's expectations, or that may cause management to deviate from its expressed intentions or predictions. Readers should also recognize that this list is not exhaustive, and in addition to those factors listed below, a wide range of risks faced by most or all participants in the timber industry or in international trade, as well as various unexpected events or conditions, may adversely impact our business.

Competition Generally The Partnership competes against much larger companies in each of its business segments. We compete with these companies for management and line personnel, as well as for purchases of relatively scarce capital assets such as land and standing timber and for sales of our products.These larger competitors may have access to larger amounts of capital and significantly greater economies of scale, and they may be better able to absorb the risks of our line of business. Moreover, the timber industry has experienced significant consolidation in recent years, and as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors increases. While management believes the partnership is at a competitive advantage over some of these companies because of management's attempts to diversify our asset base, we cannot assure readers that competition will not have a material and adverse effect on our results of operations or our financial condition.

FeeTimber Competition and Demand Issues FeeTimber revenue is generated primarily through the sale of softwood logs to the domestic and export markets located in western Washington. The market for these products is significantly affected by fluctuations in U.S. and Japanese economies. The market for the Partnership's timber products is generally negatively affected by the rise in engineered lumber products that substitute for solid-sawn products. The rise in the use of engineered lumber products results in less of a premium for larger-diameter Douglas-fir logs. Many of the engineered wood products are made from lower quality logs, which over time has eroded log prices and created more of a "commoditization" of wood fiber. While timber sold is expected to realize lower prices with the rise in engineered wood products, wood fiber is expected to remain an important commodity that management expects will continue to be used extensively for building.

The proximity of lumber mills to the timberland supplying these mills is important to the Partnership's profitability. Western Washington has experienced a trend towards consolidation of lumber mills to fewer, larger volume manufacturers. Local demand for the Partnership's products has remained strong through the trend towards consolidation of lumber mills in western Washington. If in the future that consolidation leads to less local competition for wood fiber, the Partnership's profitability could be negatively impacted.

Canadian lumber imports have increased over the last few years as a result, in part, of the protracted trade dispute between the U.S. and Canada, in which the U.S. imposed duties on Canadian lumber imports. Because these duties were based upon the average cost per MBF to produce lumber in Canada, they had the inadvertent effect of increasing Canadian production as producers worked to lower their per unit costs and thus lower their export duties, as measured on a per MBF basis. This resulted in an increase of Canadian lumber imports, which has had a negative impact on domestic lumber prices. Lower domestic lumber prices tend to decrease the price of logs sold domestically. The impact to log prices of any eventual settlement to the trade dispute between the U.S. and Canada is difficult to predict.

The Partnership's ability to grow and harvest timber can be significantly impacted by legislation to restrict or stop forest practices. Restrictions to 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 Over 76% of Timberland Management & Consulting revenue in 2002 was generated through two clients. One of those clients, HTRG, representing 56% of the revenue in the Timberland Management & Consulting segment, decided not to renew their contract with ORMLLC for 2003. The second client has renewed their contract, which now expires October 31, 2003. The Partnership is working to expand its customer base through market outreach efforts. The current market for timber products and timberland is relatively weak, which the Partnership believes may create additional management and consulting opportunities as prospective clients look to lower costs and improve efficiencies. However, we cannot assure readers that these plans will prove viable or that management will successfully implement those plans.

REAL ESTATE The value of the Partnership's real estate investments is subject to changes in the economic and regulatory environment. The Partnership's real estate investments are long-term in nature, which raises the risk of unforeseen changes in the economy or laws surrounding development activities having an adverse affect on the Partnership's investments.

CONTRACTUAL OBLIGATIONS, COMMERCIAL COMMITMENTS AND CONTINGENCIES

The Partnership's commitments at December 31, 2002 consist of its revolving term loan, performance bonds, and operating leases entered into in the normal course of business. See "Quantitative and Qualitative Disclosures About Market Risk" for required principal payments on outstanding fixed-rate debt.

The Partnership also has total debt totaling $39.2 million with the contractual maturities described in Note 4 of Partnership's Consolidated Financial Statements included with this report.

Other long-term obligations include the Partnership's $0.6 million contingent liability as of December 31, 2002 for environmental remediation in and around the Port Gamble townsite and $0.2 million liability for a supplemental employment retirement plan. The Partnership expects to spend $0.4 million of these liabilities in 2003 and $0.4 million thereafter. During 2002 the Partnership increased the environmental liability by $0.7 million following advice of environmental consultants that the costs to complete the remediation project were expected to exceed the original estimate.

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

Obligation or Commitment	Total	Payments Due By Period/ Commitment Expiration Period Less than 1 year	1-3 years	4-5 years	After 5 years
Total debt	$39,239,000	$1,574,000	$3,255,000	$2,976,000	$31,434,000
Performance bonds	100,000	-	-	-	-
Capital lease obligations	-	-	-	-	-
Operating leases	342,000	212,000	130,000	-	-
Unconditional purchase obligations	-	-	-	-	-
Other long term obligations	829,000	430,000	40,000	40,000	319,000
Total contractual obligations	$40,510,000	$2,216,000	$3,425,000	$3,016,000	$31,753,000

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures in 2003 are currently expected to be approximately $2 million, however, these expenditures could be increased or decreased as a consequence of future economic conditions. The Partnership expects that the funds for these expenditures will be generated internally through operations and externally through financing.

GOVERNMENT REGULATION

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

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

ACCOUNTING MATTERS

ACCOUNTING STANDARDS IMPLEMENTED

In August 2001 the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Statement 144 supercedes Statement 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of, and supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of. Statement 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and eliminates the exception to consolidation of a subsidiary for which control is likely to be temporary. This Statement was implemented on January 1, 2002 and did not have a significant impact on the Partnership's consolidated balance sheet or statement of operations.

SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," is effective for fiscal years ending after December 15, 2002 and amends SFAS 123, "Accounting for Stock Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the Statement amends the disclosure requirements of Statement 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Partnership has adopted the disclosure requirements in SFAS 148 in the December 31, 2002 consolidated financial statements.

PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In June 2001 the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations. Statement 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Statement 143 will be effective for fiscal year 2003 and the Partnership does not expect the impact of implementation of this Statement on January 1, 2003, on its consolidated balance sheet or statement of operations to be material.

In June 2002 the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred, rather than when an entity has committed itself to an exit plan as previously allowed under Issue 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability. This Statement is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Partnership does not expect the impact of implementation of this Statement on January 1, 2003 on its consolidated balance sheet or statement of operations to be material.

FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Statement elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year end. The disclosure requirements are effective for annual and interim periods ending after December 15, 2002. The Partnership does not expect the impact of implementation of this Statement on January 1, 2003 on its consolidated balance sheet or statement of operations to be material.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Depletion Depletion represents the cost of timber harvested and is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber by the volume of merchantable timber. Merchantable timber is defined as timber that is equal to or greater than 40 years of age.

The cost of replanting acres harvested is initially capitalized to pre-merchantable timber. After 40 years, such costs are reclassified from pre-merchantable to merchantable timber and are then incorporated into the cost base for purposes of calculating the depletion rate. The cost of acquiring the Columbia tree farm was allocated to the age classes of timber purchased and are rolled into merchantable timber inventory when those stands turn 40 years old.

Inventory volumes take into account the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's properties, including the new Forests and Fish law that supplements Washington State's forest practice regulations to provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions. The timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes periodic statistical sampling of the timber (cruising) with annual adjustments made for estimated growth and the depletion of areas harvested. To calculate the depletion rate the Partnership has determined that a combined pool representing costs and volume of both the Hood Canal and Columbia tree farms is the most appropriate method to use.

The Partnership's decision to calculate a pooled rate representing both tree farms (versus a separate rate for each tree farm) gave considerable weight to a key reason for the Columbia tree farm acquisition: namely, to fill in an age class gap on the Hood Canal tree farm. A combined pool approach is consistent with the way in which the tree farms are managed as a single investment. Given that the tree farms are managed as a single investment it was deemed appropriate to apply one rate to both tree farms even though the cost basis for each are different.

Depletion expense in 2002 of $2.7 million would have been approximately $0.5 million higher had the Partnership calculated depletion expense using separate pools in 2002.

Fertilization Costs The Partnership fertilized stands in 2002 that it expects to harvest within five to ten years. In 2002 $0.3 million of these costs have been capitalized and will be depleted as the fertilized stands are harvested.

Road Costs The cost of building and significant resurfacing work on permanently maintained roads is capitalized. Capitalized road costs are expensed as timber is harvested by applying an amortization rate representing the capitalized road costs divided by estimated merchantable inventory (as used in the depletion calculation discussed above) to the volume of timber harvested during the reporting period. The cost of building temporary roads and maintaining roads is expensed as incurred.

During 2002 the Partnership capitalized $0.4 million of road costs, depleted $0.4 million of capitalized road costs, and expensed $0.5 million for road maintenance and temporary roads.

Environmental Remediation The environmental remediation liability represents estimated payments to be made to remedy and monitor certain areas in and around the townsite of Port Gamble. Port Gamble is a historic town that was operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T leased the mill site at Port Gamble through January 2002, when it signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

The environmental remediation liability is based upon an estimate of the Partnership's portion of the clean-up costs under this agreement. During 2002 the environmental liability increased $0.7 million as a result of costs to complete the Partnership's share exceeding the original estimate. While the majority of the Partnership's portion of the clean up efforts are complete, there remains the possibility that the remaining remediation or monitoring activities may exceed estimates resulting in an additional environmental remediation charge.

Deferred Tax Assets The Partnership has a United States subsidiary corporation that has $1.3 million of deferred tax assets as of December 31, 2002. The majority of this balance represents net operating loss carryforwards resulting from the liquidation of our subsidiary in Canada. The Partnership forecasts that the United States subsidiary corporation will earn income over the next five years resulting in the utilization of this tax asset.

Land Development Costs Our Real Estate department is working to bring properties to the point where physical construction of the properties' planned end use can begin. The extent of such efforts varies from property to property but the process for each discrete parcel has elements in common with other parcels. We refer to these efforts as the "Entitlement Process." The Entitlement Process may consist of one or more of the following steps: obtaining the necessary amendments to a county's comprehensive plan, pursuing zoning adjustments, developing site plans and a preliminary plat for the property, ensuring adequate access to the property, and making available necessary access to utilities (such as water, power and sewer).

For projects where changes to zoning or comprehensive plan ("Comp Plan") provisions are required, costs incurred in the Entitlement Process prior to securing such changes will be expensed. The rationale for this is that there are too many uncertainties and contingencies attached to zoning and Comp Plan changes. Where the zoning and/or Comp Plan is inconsistent with the planned project, the probability of success is sufficiently low that expensing of costs pursuant to such rezone or Comp Plan amendments is deemed appropriate. For projects not requiring a rezone or change to a Comp Plan (or, once such changes are secured if applicable), Entitlement Process costs for such projects will be capitalized. Such capitalized costs will include salary costs to the extent that an employee's efforts are primarily dedicated to furthering development of the project.

During 2002 the Partnership capitalized $0.3 million and expensed $0.8 million of land development costs.

Accounting for Unit Options The Partnership accounts for employee unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit.

Unit options granted have an exercise price not less than the fair value of the Partnership's unit price on the date of the grant. Had compensation expense for unit option grants been recognized based on the fair value at the grant date consistent with the Black-Scholes method described in SFAS No. 123, Accounting for Stock-Based Compensation, the Partnership's net income would have included a $0.3 million expense for the cost of options vesting during 2002.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

As of December 31, 2002, the Partnership had $39.2 million of fixed rate debt outstanding with a fair value of approximately $43.1 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by $2.7 million.

Since the Partnership's currently outstanding debt is fixed rate, net income and cash flows are not affected when market interest rates change.

FOREIGN CURRENCY RISK

The Partnership's Timberland Management & Consulting activities in British Columbia resulted in U.S. $1.4 million in revenue and $1.7 million in expenses in 2002 that were denominated in Canadian dollars. During the fourth quarter of 2002 the Partnership closed its offices in Canada and expects future Canadian dollar denominated transactions not to be material.

As of December 31 (In thousands)	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	**$6,627**	$1,047
Accounts receivable, net of allowance for doubtful accounts of $15 and $31	**1,768**	1,119
Work-in-progress	**175**	518
Current portion of contracts receivable	**23**	25
Prepaid expenses and other	**325**	505
Total current assets	**8,918**	3,214
Properties and equipment, at cost		
Land and land improvements	**20,179**	19,358
Roads and timber, net of accumulated depletion of $18 and $15	**50,316**	52,191
Buildings and equipment, net of accumulated depreciation of $5 and $6	**3,335**	4,269
Total properties and equipment	**73,830**	75,818
Other assets		
Contracts receivable, net of current portion	**2,721**	4,806
Other	**1,319**	349
Total other assets	**4,040**	5,155
Total assets	**$86,788**	$84,187
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable	**$546**	$275
Accrued liabilities	**1,739**	1,700
Restructuring	**466**	-
Environmental remediation	**430**	909
Current portion of long-term debt	**1,574**	1,075
Minority interest	**203**	225
Other current liabilities	**168**	9
Total current liabilities	**5,126**	4,193
Long-term debt	**37,665**	38,592
Other long-term liabilities	**399**	729
Commitments and contingencies		
Partners' capital (units outstanding: 4,518 and 4,518)	**43,598**	40,673
Total liabilities and partners' capital	**$86,788**	$84,187

Consolidated Statements of Operations

Years ended December 31 (In thousands, except per unit data)	2002	2001	2000
Revenues			
Fee Timber	**$23,298**	$24,999	$21,444
Timberland Management & Consulting	**7,295**	9,703	11,011
Real Estate	**1,599**	13,143	18,202
Total revenues	**32,192**	47,845	50,657
Costs and expenses			
Cost of sales			
Fee Timber	**(10,364)**	(13,271)	(6,784)
Real Estate	**(990)**	(7,160)	(10,186)
Total cost of sales	**(11,354)**	(20,431)	(16,970)
Operating expenses			
Fee Timber	**(2,735)**	(2,538)	(1,765)
Timberland Management & Consulting	**(5,793)**	(8,018)	(9,996)
Real Estate	**(1,546)**	(7,442)	(8,448)
Environmental remediation	**(730)**	-	(1,956)
Asset impairment	-	(1,250)	(9,205)
Restructuring costs	**(673)**	-	(940)
Unallocated general & administrative	**(3,774)**	(5,110)	(7,254)
Total operating expenses	**(15,251)**	(24,358)	(39,564)
Operating income (loss)			
Fee Timber	**10,199**	9,190	12,895
Timberland Management & Consulting	**919**	1,685	75
Real Estate	**(1,667)**	(2,709)	(11,593)
Unallocated general & administrative	**(3,864)**	(5,110)	(7,254)
Income (loss)	**5,587**	3,056	(5,877)
Other income (expense)			
Interest expense	**(3,324)**	(3,443)	(1,273)
Interest income	**430**	482	573
Total other expense	**(2,894)**	(2,961)	(700)
Income (loss) before income taxes and minority interest	**2,693**	95	(6,577)
Income tax benefit (expense)	**788**	(356)	326
Income (loss) before minority interest	**3,481**	(261)	(6,251)
Minority interest	**(147)**	(171)	-
Net income (loss)	**$3,334**	($432)	($6,251)
Earnings (loss) per unit			
Basic	**$0.74**	($0.10)	($1.38)
Diluted	**$0.74**	($0.10)	($1.38)

Consolidated Statements of Partners' Capital

In thousands

	General Partners	Limited Partners	Total
January 1, 2000	$923	$48,379	$49,302
Net loss	(83)	(6,168)	(6,251)
Translation gain	-	13	13
Comprehensive loss	(83)	(6,155)	(6,238)
Equity based compensation	-	27	27
Distributions	(24)	(1,787)	(1,811)
December 31, 2000	$816	$40,464	$41,280
Net loss	(6)	(426)	(432)
Translation loss	-	(13)	(13)
Comprehensive loss	(6)	(439)	(445)
Partnership unit repurchase	-	(162)	(162)
December 31, 2001	$810	$39,863	$40,673
Net Income	44	3,290	3,334
Translation gain	1	42	43
Comprehensive income	45	3,332	3,377
Distributions	(6)	(446)	(452)
December 31, 2002	**$849**	**$42,749**	**$43,598**

Weighted average units outstanding	**12/31/2002**	12/31/2001	12/31/2000
Basic	**4,518**	4,526	4,528
Diluted	**4,519**	4,526	4,528

Consolidated Statements of Cash Flows

Years ended December 31 (In thousands)	2002	2001	2000
Cash flows from operating activities			
Cash received from customers	**$33,997**	$44,918	$51,026
Cash paid to suppliers and employees	**(21,841)**	(30,897)	(40,515)
Interest received	**416**	490	585
Interest paid, net of amounts capitalized	**(3,382)**	(3,264)	(1,200)
Income taxes (paid)/received	**(185)**	(10)	77
Net cash provided by operating activities	**9,005**	11,237	9,973
Cash flows from investing activities			
Capital expenditures	**(2,158)**	(1,995)	(2,858)
Proceeds from sale of fixed assets	**482**	7	319
Proceeds from the sale of Port Ludlow	-	10,151	-
Columbia tree farm acquisition	-	(54,555)	-
Net cash used for investing activities	**(1,676)**	(46,392)	(2,539)
Cash flows from financing activities			
Cash distributions to unitholders	**(452)**	-	(1,811)
Issuance of long-term debt	-	30,000	-
Repayment of long-term debt	**(1,110)**	(3,460)	(424)
Purchase of Partnership units	-	(162)	-
Minority interest distribution	**(187)**	(58)	(239)
Net cash provided (used) for financing activities	**(1,749)**	26,320	(2,474)
Net increase (decrease) in cash and cash equivalents	**5,580**	(8,835)	4,960
Cash and cash equivalents			
Beginning of year	**1,047**	9,882	4,922
End of year	**$6,627**	$1,047	$9,882
Reconciliation of net income (loss) to net cash provided by operating activities			
Net income (loss)	**$3,334**	($432)	($6,251)
Noncash charges to income			
Cost of land sold	**189**	777	31
Minority interest	**165**	156	-
Depreciation and amortization	**779**	1,290	1,898
Depletion	**3,085**	6,408	1,001
Unit option compensation	-	-	27
Asset impairment	-	-	5,651
Loss on retirement of property and equipment	**292**	16	-
Increase (decrease) in cash from changes in operating accounts			
Accounts receivable	**(649)**	814	(351)
Work in progress	**343**	7,541	4,012
Contracts receivable	**2,087**	(3,174)	663
Other current assets	**158**	50	(5)
Deferred tax assets	**(980)**	107	273
Loan fees and other	**32**	(60)	(203)
Accounts payable and accrued liabilities	**336**	(129)	456
Restructuring	**441**	(630)	655
Environmental remediation	**(780)**	(461)	1,750
Deposits	**24**	(437)	85
Deferred profit	**22**	(568)	340
Other long-term liabilities	**84**	-	(21)
Other, net	**43**	(31)	(38)
Net cash provided by operating activities	**$9,005**	$11,237	$9,973

Supplemental Disclosure of non-cash investing and financing activities:

During 2002 the Partnership incurred Local Improvement District debt of $682 which represents capitalized improvement to the properties.

During 2001in connection with its sale of Port Ludlow the purchaser assumed $476 of liabilities from the Partnership.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged principally in managing timber resources on its own properties as well as those owned by others. The managing general partner is Pope MGP, Inc. The Partnership operates in three business segments: Fee Timber, Timberland Management & Consulting, and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management & Consulting represents management and consulting services provided to third party owners of timberlands. Real Estate consists of obtaining entitlements for properties that have been identified as having value as developed residential or commercial property and operating the Partnership's existing commercial and residential properties in Kitsap County, Washington. Prior to August 2001 Real Estate included the sale of single-family homes and various commercial property operations. As described in Note 2, the majority of those real estate operations were sold during 2001.

PRINCIPLES OF CONSOLIDATION

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

MINORITY INTEREST

Minority interest represents Pope MGP, Inc.'s interest in the Investor Portfolio Management Business (IPMB) (see Note 9) and has been classified as a current liability since the minority interest's share in income is generally distributed on an annual basis.

USE OF ESTIMATES IN FINANCIAL STATEMENTS

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

COST OF SALES

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

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and contracts receivable. Foreign sales represent 6% 68% and 73% of the Partnership's accounts receivable balance as of December 31, 2002, 2001, and 2000, respectively. The Partnership limits its credit exposure by considering the creditworthiness of potential customers. Losses from accounts receivable have historically been less than $10,000. An allowance for doubtful accounts was recorded in the Canadian subsidiary of $33,000 in 2000. In 2001 and 2002 $31,000 and $15,000 of the original allowance remained, respectively. Use of the allowance for doubtful accounts in 2002 is attributed to the decision to close the Canadian subsidiary in 2002. The Partnership regularly assesses the collectibility of its accounts receivables and recognizes an allowance as appropriate. The Partnership believes that the allowance for doubtful accounts is adequate to absorb estimated losses.

CONTRACTS RECEIVABLE

The Partnership sells land parcels under contracts requiring a minimum cash down payment of 20% and having financing terms of up to eight years at interest rates of 10%. The Partnership reduces credit risk on contracts through collateral on the underlying land and down payment requirements. Over the past several years, there have been a steadily declining number of outstanding contracts receivable, as few new land sales have been transacted on this basis. Existing contracts are paying off as they come due or as the result of refinancing obtained from other parties on more favorable terms.

At December 31, 2002, minimum principal payments on contracts receivable for the next five years are due as follows:

2003	$23,000
2004	1,976,000
2005	22,000
2006	21,000
2007	342,000
Thereafter	360,000

Minimum principal payments due in 2004 includes a $1.9 million note receivable resulting from the Port Ludlow sale as discussed in Note 2. This note is secured by homes and lots in Port Ludlow and payments on this note are due as the properties are sold.

INCOME TAXES

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

PROPERTY, EQUIPMENT, AND ROADS

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. The Partnership capitalizes the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Capitalized roads are depleted as timber is harvested. The road depletion rate is calculated by dividing the cost of capitalized roads at the beginning of the year by merchantable timber inventory. The resulting rate is applied to timber harvested during the year to determine road depletion expense.

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations (See Note 2).

TIMBER

The depletion rate is calculated by dividing estimated merchantable timber inventory by the cost basis of merchantable inventory as of the beginning of the year. A single depletion rate is calculated and utilized for both tree farms. The cost of replanting acres harvested is initially capitalized as a part of pre-merchantable timber. Then, after 40 years such costs are reclassified from pre-merchantable to merchantable timber and are then incorporated into the cost basis for purposes of calculating the depletion rate. The cost of acquiring the Columbia tree farm was allocated to the age classes of timber purchased and are rolled into merchantable timber inventory when those stands turn 40 years old. The combined depletion rate is then applied to all timber volume harvested which results in depletion expense.

REVENUE RECOGNITION

Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes and upon receipt of adequate down payment. The Partnership uses the installment method of accounting for real estate sales transactions until 20% of the contract sales value has been collected, at which time the full accrual method of accounting is used. Management fees and consulting service revenues are accrued as the services are provided. Accounts receivable includes earned but unbilled services of $21,000 and $283,000 at December 31, 2002 and 2001, respectively.

STOCK BASED COMPENSATION

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit. During 2000 $27,000 in compensation expense was recognized for the issuance of 5,206 unit options to a member of the board of directors for interim management services.

Unit options granted have an exercise price not less than the fair value of the Partnership's unit price on the date of the grant. Had compensation expense for unit option grants been recognized based on the fair value at the grant date consistent with the Black-Scholes method described in SFAS No. 123, Accounting for Stock-Based Compensation, the Partnership's net income (loss) would have been adjusted to the pro forma amounts indicated in the following table.

In thousands, except per unit amounts	**2002**	2001	2000
Net Income (loss) as reported	**$3,344**	($432)	($6,251)
Add back employee unit based compensation expense recognized	**-**	-	-
Subtract proforma compensation expense under SFAS 123	**(309)**	(373)	(228)
Pro forma net income (loss) under SFAS No. 123	**3,035**	(805)	(6,479)
As reported			
Basic	**$0.74**	($0.10)	($1.38)
Diluted	**$0.74**	($0.10)	($1.38)
Proforma income (loss) per unit			
Basic	**$0.67**	($0.18)	($1.43)
Diluted	**$0.67**	($0.18)	($1.43)

Unit options used in the calculation of proforma SFAS 123 compensation expense for 2002, 2001, and 2000 were 68,525, 40,250, and 44,313, respectively. The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	2002	2001	2000
Expected life	**5 years**	5 years	5 years
Risk-free interest rate	**4.04%**	4.97%	5.90%
Dividend yield	**2.20%**	1.75%	2.10%
Volatility	**49%**	56%	49%

FOREIGN CURRENCY TRANSLATION

The Canadian dollar has been determined to be the functional currency for our operations in the Canadian subsidiary. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the year. There were no significant foreign exchange gains or losses in the years presented.

COMPREHENSIVE INCOME (LOSS)

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

INCOME (LOSS) PER PARTNERSHIP UNIT

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

Years ended December 31 (In thousands)	**2002**	2001	2000
Weighted average units outstanding			
Basic	**$4,518**	$4,526	$4,528
Dilutive effect of unit options	**2**	-	-
Diluted	**$4,520**	$4,526	$4,528

Unit options outstanding that were not included in the calculation of income (loss) per partnership unit as they were anti-dilutive were 317,052, 185,562 and, 185,000 in 2002, 2001, and 2000, respectively.

STATEMENT OF CASH FLOWS

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

RECLASSIFICATIONS

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

ACCOUNTING STANDARDS IMPLEMENTED

In August 2001 the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Statement 144 supercedes Statement 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of, and supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of. Statement 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and eliminates the exception to consolidation of a subsidiary for which control is likely to be temporary. This Statement was implemented on January 1, 2002 and did not have a significant impact on the Partnership's consolidated balance sheet or statement of operations.

SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," is effective for fiscal years ending after December 15, 2002 and amends SFAS 123, "Accounting for Stock Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the Statement amends the disclosure requirements of Statement 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Partnership has adopted the disclosure requirements in SFAS 148 in the December 31, 2002 consolidated financial statements.

PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In June 2001 the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations. Statement 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Statement 143 will be effective for fiscal year 2003 and the Partnership does not expect the impact of implementation of this Statement on January 1, 2003, on its consolidated balance sheet or statement of operations to be material.

In June 2002 the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred, rather than when an entity has committed itself to an exit plan as previously allowed under Issue 94-3. This Statement also establishes that fair value is the objective for initial measurement of the liability. This Statement is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Partnership does not expect the impact of implementation of this Statement on January 1, 2003 on its consolidated balance sheet or statement of operations to be material.

FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Statement elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year end. The disclosure requirements are effective for annual and interim periods ending after December 15, 2002. The Partnership does not expect the impact of implementation of this Statement on January 1, 2003 on its consolidated balance sheet or statement of operations to be material.

NOTE 2. ASSET DISPOSITIONS

In August of 2001 the Partnership sold its real estate assets in Port Ludlow, Washington. The assets and operations consist of a golf course, marina, 37-room inn, water and sewer services, commercial property leases, and homes and lots for retail sale. The Partnership received $10.2 million in cash, a $5.8 million note secured by homes and lots in Port Ludlow and the purchaser assumed $0.5 million in liabilities upon closing of the sale. The balance of the note receivable at December 31, 2002 and 2001 was $1.9 million and $3.9 million, respectively.

The Partnership recorded asset impairment and restructuring charges of $9.2 million in 2000 and as a result of continued negotiations surrounding the sale, an additional $1.3 million in asset impairment cost was recorded in March 2001.

NOTE 3. LONG-TERM DEBT

Long-term debt at December 31 consists of:

(In thousands)	**2002**	2001
Mortgage note payable to an insurance company, with interest at 9.65%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**$12,259**	$12,799
Mortgage note payable to an insurance company, with interest at 7.63%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**26,206**	26,717
Local improvement district assessments, with interest ranging from 5.87% to 8%, due through 2013	**774**	151
	39,239	39,667
Less current portion	**(1,574)**	(1,075)
Total long-term debt	**$37,665**	$38,592

The Partnership's debt agreements contain a required debt service coverage ratio and a debt to market capitalization ratio. Additionally, distributions are limited to 50% of net income, excluding distributions made to offset income tax expense resulting from ownership of the Partnership units. As of December 31, 2002, the Partnership was in compliance with its loan covenants.

At December 31, 2002 principal payments on long-term debt for the next five years are due as follows (in thousands):

2003	$1,574
2004	1,642
2005	1,613
2006	1,613
2007	1,363
Thereafter	31,434

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, accounts payable, and accrued liabilities, for which the carrying amount of each approximates fair value based on current market interest rates or their short-term nature. The fair value of fixed rate debt having a carrying value of $39.2 million and $39.7 million has been estimated based on current interest rates for similar financial instruments and totals $43.1 million and $41.9 million as of December 31, 2002 and 2001, respectively.

NOTE 5. INCOME TAXES

The Partnership is not subject to income taxes. Instead, partners are taxed on their share of the Partnership's taxable income, whether or not cash distributions are paid. However, the Partnership is subject to income taxes through operations in several of its taxable subsidiaries. The following tables provide information on the impact of income taxes in those taxable subsidiaries. Consolidated Partnership earnings are reconciled to earnings before income taxes in taxable subsidiary entities as follows:

(In thousands)	**2002**	2001	2000
Consolidated Partnership income (loss) before income taxes (less minority interest)	**$2,546**	($76)	($6,577)
Less: Income (loss) earned in entities that pass-through pre-tax earnings to the partners	**2,920**	71	(4,033)
Income (loss) subject to income taxes:			
Domestic	**128**	221	(1,095)
Foreign	**(502)**	(368)	(1,449)
Total income subject to taxes	**($374)**	($147)	($2,544)

The Partnership's Canadian subsidiary has never generated taxable income. The provision for income taxes relating to other taxable subsidiaries of the Partnership consists of the following income tax benefit (expense):

(In thousands)	**2002**	2001	2000
Current	**($187)**	($82)	$298
Deferred	**975**	(274)	28
Total	**$788**	($356)	$326

A reconciliation between the federal statutory tax rate and the Partnership's effective tax rate is as follows:

	2002	2001	2000
Statutory tax on income	**34%**	34%	34%
Income (loss) earned in entities that pass-through pre-tax earnings to the partners	**(37%)**	(25%)	(21%)
Liquidation of Canadian subsidiary	**(34%)**	-	-
Fully reserved operating losses in subsidiaries	**10%**	383%	(8%)
Other	**(2%)**	(17%)	-
Effective income tax rate	**(29%)**	375%	5%

The net deferred income tax assets include the following components:

(In thousands)	**2002**	2001	2000
Current (included in prepaid expenses and other)	**$208**	$230	$142
Non current (included in other assets)	**1,045**	44	239
Total	**$1,253**	$274	$381

The deferred tax assets (liabilities) are comprised of the following:

(In thousands)	**2002**	2001	2000
Net operating loss carryforward	**$907**	-	-
Employee related accruals	**221**	230	323
Depreciation	**3**	(26)	(44)
Other	**122**	70	102
	$1,253	$274	$381

As of December 31, 2002 the Partnership's taxable subsidiaries have operating losses generated in the U.S. from liquidation of the subsidiary in Canada of $2.7 million.This net operating loss expires, if unused, in December 31, 2022. No valuation allowance is considered necessary as the Partnership expects to generate taxable income in its corporate subsidiaries to utilize the deferred tax assets recorded at December 31, 2002.

NOTE 6. UNIT OPTION PLAN

The Partnership's 1997 Unit Option Plan authorized the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 1,500,000 units have been reserved for issuance under the plan of which there are 1,176,200 units remaining. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant.The options generally become exercisable annually over a four-year period and have a maximum term of ten years. Unit options vested were 118,085, 90,562, and 60,618 at December 31, 2002, 2001, and 2000, respectively. Vested unit options had weighted average exercise prices of $20.65, $22.91, and $23.69 at December 31, 2002, 2001, and 2000, respectively. Unit options outstanding were as follows:

	Number of units (in thousands)	Weighted average price per unit
Balance, January 1, 2000	141.40	$25.39
Granted	120.70	22.30
Exercised	-	-
Expired	(77.10)	(25.30)
Balance, December 31, 2000	185.00	23.40
Granted	50.80	21.30
Exercised	-	-
Expired	(50.20)	(23.35)
Balance, December 31, 2001	185.60	22.84
Granted	178.70	12.45
Exercised	-	-
Expired	(40.50)	(21.45)
Balance, December 31, 2002	**323.80**	**$17.28**

The following table summarizes information about unit options outstanding at December 31, 2002:

Price range	Options outstanding	Weighted average exercise price options outstanding	Options exercisable	Weighted average exercise price options exercisable	Weighted average remaining contractual life (years)
$ 9 - $ 14	164,711	$12.46	17,211	$12.03	9.5
$ 15 - $ 19	53,179	19.34	38,179	19.23	7.9
$ 20 - $ 24	80,445	22.64	40,695	22.12	7.1
$ 25 - $ 30	25,500	27.25	22,000	27.16	6.6
Total	323,835	$17.28	118,085	$20.65	7.6

NOTE 7. EMPLOYEE BENEFITS

Employees with at least six months of service are eligible to receive benefits under a defined contribution plan (the plan). During 2002 and 2001 the Partnership matched 50% of the employees' contribution up to 8% of compensation. In the first half of 2000 the Partnership made a voluntary contribution of 3% of eligible employee compensation. In the last half of 2000 the Partnership matched 50% of the employees' contribution up to 8% of compensation.

The Partnership's contributions to the plan amounted to $57,000, $103,000, and $190,000, for each of the years ended December 31, 2002, 2001, and 2000, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Restructuring The Partnership decided in the fourth quarter of 2002 to close its two timberland consulting offices in Canada. Additionally the Partnership closed two offices in Oregon and one office in British Columbia following notification by Hancock Timber Resource Group (HTRG) that they would not be renewing their management contract with

Olympic Resource Management LLC in 2003. As a result of these office closures and reduction in employees the Partnership recorded a $0.7 million restructuring charge in the fourth quarter of 2002. Costs included in the restructuring charge are severance, lease costs, and losses on computer and software equipment used to service the HTRG contract. Spending from the restructuring charge in 2002 was $0.2 million. The remaining $0.5 million is expected to be paid in 2003.

Environmental Remediation The Partnership has an accrual for estimated environmental remediation costs of $0.6 million, $1.4 million and $1.9 million as of December 31, 2002, 2001 and 2000, respectively. Of this amount $0.4 million is expected to be expended in 2003. The accrual represents estimated payments to be made to remedy and monitor certain areas in and around the townsite of Port Gamble. Port Gamble is a historic town that was operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T leased the mill site at Port Gamble through January 2002, when it signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Port Gamble townsite and surrounding area to applicable State standards is $10.0 million to $13.0 million. The environmental remediation liability at year-end is based upon an estimate of the Partnership's portion of the clean-up costs under this agreement.

Performance Bonds In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had performance bonds of $100,000 and $270,000 outstanding at December 31, 2002 and 2001, respectively.

Operating Leases The Partnership has non-cancelable operating leases for automobiles, office space, and computer equipment. The lease terms are from 12 to 36 months. Rent expense under the operating leases totaled $219,000, $949,000, and $1,579,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

Future minimum rental payments required under non-cancelable operating leases are as follows:

Year	Amount
2003	$212,000
2004	101,000
2005	29,000

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

NOTE 9. RELATED PARTY TRANSACTIONS AND MINORITY INTEREST

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

The minority interest represents Pope MGP, Inc.'s interest in the IPMB. The 1997 amendment to the Limited Partnership Agreement authorizing management to pursue the IPMB specifies that net income from the IPMB will be split using a sliding scale allocation method, commencing with 80% to ORM, Inc., a subsidiary of Pope Resources, and 20% to Pope MGP, Inc. The sliding scale allocation method will allocate income evenly between ORM, Inc. and Pope MGP, Inc. once net income from the IPMB reaches $7.0 million in a fiscal year. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to $5.0 million.. As of December 31, 2002 cumulative revenue from IPMB exceeds cumulative IPMB expenditures.

A director of Pope MGP, Inc. is also a director of Pope & Talbot, Inc. (P&T). In 2001 and 2000, the Partnership received annual lease payments of $75,000 from P&T for lease of a log sorting and storage site (referred to above as the mill site) at Port Gamble, Washington.

NOTE 10. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management & Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 112,000 acres of fee timberland in Washington State. The Timberland Management & Consulting segment during 2002 managed over 400,000 acres of timberland properties for third-parties and provided timberland consulting services throughout Canada and the Western United States. Timberlands under management were in Washington, Oregon, California, and British Columbia. For the year ended December 31, 2002 there were two major customers representing 21% and 13% of consolidated revenue. In 2001 there was one major customer with 9% of consolidated revenue. For the year ended December 31, 2000 there were also two major customers with 17% and 11% of consolidated revenues.

The Partnership closed its Canadian consulting offices in the fourth quarter of 2002. In addition, as a result of the integration of timberland management into its own operations, Hancock Timber Resource Group notified the Partnership in the fourth quarter of 2002 that they would not be renewing their management contract in 2003. Hancock Timber Resource Group represented 13%, 9%, and 11% of consolidated Partnership revenue in 2002, 2001, and 2000, respectively. Following this change the Timberland Management & Consulting segment manages approximately 158,000 acres for third-parties in Washington, Oregon, and California.

The Real Estate segment built and sold homes and lots, managed several commercial properties including a marina, golf course, sewer and water facilities, and leased commercial properties. The majority of these operations were sold in August 2001. After the disposition, Real Estate consists of the sale of developed lots from two separate land development projects, the management of over 2,000 acres of early stage development properties, and the rental of residential and commercial properties in Port Gamble and Kingston, Washington. All of the Partnership's real estate activities are in Washington State.

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

(In thousands)	**2002**	2001	2000
Revenues			
Fee Timber	**$23,428**	$25,019	$21,444
Elimination of intersegment amounts	**(130)**	(20)	-
Fee Timber (External)	**23,298**	24,999	21,444
Timberland Management and Consulting	**8,611**	11,204	11,263
Elimination of intersegment amounts	**(1,316)**	(1,501)	(252)
Timberland Management and Consulting (External)	**7,295**	9,703	11,011
Real Estate	**1,657**	13,146	18,225
Elimination of intersegment amounts	**(58)**	(3)	(23)
Real Estate (External)	**1,599**	13,143	18,202
Total revenue	**33,696**	49,369	50,932
Elimination of intersegment amounts	**(1,504)**	(1,524)	(275)
Total revenue (External)	**$32,192**	$47,845	$50,657

(In thousands)	**2002**	2001	2000
Operating income/(loss)			
Fee Timber	**$9,880**	$8,630	$12,781
Elimination of intersegment amounts	**319**	560	114
Fee Timber (External)	**10,199**	9,190	12,895
Timberland Management and Consulting	**1,228**	2,261	1,095
Elimination of intersegment amounts	**(309)**	(576)	(1,020)
Timberland Management and Consulting (External)	**919**	1,685	75
Real Estate	**(1,647)**	(2,705)	(12,499)
Elimination of intersegment amounts	**(20)**	(4)	906
Real Estate (External)	**(1,667)**	(2,709)	(11,593)
Unallocated General and Admin	**(3,874)**	(5,130)	(7,254)
Elimination of intersegment amounts	**10**	20	-
Unallocated General and Admin (External)	**(3,864)**	(5,110)	(7,254)
Operating income	**5,587**	3,056	(5,877)
Elimination of intersegment amounts	-	-	-
Operating income (External)	**$5,587**	$3,056	($5,877)
Depreciation and depletion			
Fee Timber	**$3,164**	$6,520	$1,044
Timberland Management and Consulting	**190**	241	208
Real Estate	**57**	402	1,110
Unallocated General and Admin	**453**	535	537
Total	**$3,864**	$7,698	$2,899
Identifiable assets			
Fee Timber	**$68,361**	$70,712	$19,653
Timberland Management and Consulting	**205**	492	708
Real Estate	**5,264**	4,019	30,813
Unallocated General and Admin	**12,958**	8,964	9,683
Total	**$86,788**	$84,187	$60,857
Capital and land expenditures			
Fee timber	**$1,315**	$55,716	$1,047
Timberland management and consulting	**179**	142	193
Real estate	**491**	452	1,440
Unallocated General and Admin	**173**	240	178
Total	**$2,158**	$56,550	$2,858

Revenues by product line for the years ended December 31, 2002, 2001, and 2000 are as follows:

(In thousands)	**2002**	2001	2000
Sales of forest products			
Domestic	**$19,695**	$19,982	$9,417
Export, indirect	**3,603**	5,017	6,182
Sales of homes, lots, and undeveloped acreage	**871**	7,647	11,249
Fees for service			
Domestic	**6,634**	10,983	20,472
Foreign	**1,389**	4,216	3,337
Total Revenue	**$32,192**	$47,845	$50,657

NOTE 11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED IN THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	Revenues	Income (loss) from operations	Net income (loss)	Net income (loss) per Partnership unit basic	Net income (loss) per Partnership unit diluted
2002					
First quarter	**$5,837**	**$738**	**$12**	**-**	**-**
Second quarter (1)	**9,935**	**1,852**	**1,563**	**0.35**	**0.35**
Third quarter	**8,654**	**1,964**	**1,063**	**0.24**	**0.24**
Fourth quarter (2)	**$7,766**	**$1,033**	**$696**	**0.15**	**0.15**
2001					
First quarter (3)	$10,805	$62	($417)	($0.09)	($0.09)
Second quarter	15,332	1,890	624	$0.14	$0.14
Third quarter	12,465	2,522	1,412	$0.31	$0.31
Fourth quarter	$9,243	($1,418)	($2,051)	($0.46)	($0.46)

(1) Includes $0.7 million or $0.16 per diluted unit increase in the environmental remediation liability in Port Gamble, $0.2 million increase or $0.04 per diluted unit in the liability for home warranty repairs at Port Ludlow, offset against a $0.5 million or $0.11 per diluted unit tax benefit resulting from recognition of the benefit of tax losses generated as a result of the liquidation of the Canadian subsidiary.

(2) Includes $0.7 million or $0.15 per diluted unit in restructuring costs following expiration of HTRG's timberland management contract and closure of the timberland consulting offices in Canada offset against a $0.4 million tax benefit resulting from the restructuring of the Canadian subsidiary.

(3) Includes $1.3 million or $0.28 per diluted unit in asset impairment costs resulting from the sale of Port Ludlow assets, which closed in August 2001.

Independent Auditors' Reports

Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership
Poulsbo, Washington

We have audited the accompanying consolidated balance sheet of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2002, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for the year ended December 31, 2002. Our audit also included the consolidated financial statement schedule listed in the index at Item 15 as of and for the year ended December 31, 2002. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule as of and for the year ended December 31, 2002, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

KPMG LLP
Seattle, Washington
February 7, 2003

Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership
Poulsbo, Washington

We have audited the accompanying consolidated balance sheet of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2001, and the related consolidated statements of operations, partners' capital, and cash flows for each of the two years in the period ended December 31, 2001. Our audits also included the consolidated financial statement schedule listed in the index at Item 15. These financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Deloitte & Touche LLP
Seattle, Washington
February 22, 2002

11-YEAR FINANCIAL SUMMARY

(Dollar amounts are in thousands, except per unit data)	**2002**	2001	2000	1999
Results of Operations				
Revenues				
Fee Timber	**$23,298**	$24,999	$21,444	$23,467
Timberland Management & Consulting	**7,295**	9,703	11,011	11,705
Real Estate	**1,599**	13,143	18,202	15,681
Total revenues	**32,192**	47,845	50,657	50,853
Costs and expenses:				
Cost of sales	**11,354**	20,431	16,970	15,799
Operating expenses	**10,074**	17,998	20,209	20,092
General and administrative expenses	**3,774**	5,110	7,254	8,282
Impairment, exit, and environmental remediation costs	**1,403**	1,250	12,101	-
Total operating costs and expenses	**26,605**	44,789	56,534	44,173
Income from operations	**5,587**	3,056	(5,877)	6,680
Depreciation, depletion, and amortization	**3,864**	7,698	2,899	2,683
Net interest expense	**2,894**	2,961	700	1,039
Income tax expense/(benefit)	**(788)**	356	(326)	259
Minority interest	**147**	171	-	316
Net income/(loss)	**$3,334**	($432)	($6,251)	$5,066
Per Unit Results				
Net income/(loss)	**$0.74**	($0.10)	($1.38)	$1.11
Distributions	**$0.10**	$0.00	$0.40	$0.40
Partners' capital	**$9.65**	$8.99	$9.12	$10.90
Weighted average units outstanding (000)	**4,519**	4,526	4,528	4,548
Cash Flow				
Net cash provided by operating activities	**$9,005**	$11,237	$9,973	$8,347
Investing activities	**1,676**	46,392	2,539	3,764
Distributions to unitholders	**452**	-	1,811	1,810
Payment/(issuance) of long-term debt	**1,110**	(26,540)	424	497
EBITDDA #	**9,304**	10,583	(2,978)	9,047
Free cash flow #	**$4,119**	$2,509 *	($7,997)	$4,681
Financial Position				
Working capital	**$3,792**	($979)	$26,642	$15,720
Land and timber, net of depletion	**70,495**	71,549	25,411	28,002
Buildings and equipment, net of depreciation	**3,335**	4,269	11,996	15,921
Total assets	**86,788**	84,187	60,857	66,880
Long-term debt	**37,665**	38,592	12,685	13,282
Partners' capital	**43,598**	40,673	41,280	49,302
Financial Ratios #				
Current Ratio	**1.7**	0.8	5.4	5.0
Total Debt to Total Capitalization	**47%**	49%	24%	22%
Debt to EBITDDA	**4.2**	3.7	(4.4)	1.5
EBITDDA to Interest Expense	**2.8**	3.1	(2.3)	7.0
Return on Assets	**4%**	(1%)	(10%)	8%
Return on Equity	**8%**	(1%)	(14%)	11%
Enterprise value / EBITDDA	**9.9**	10.4	(42.8)	16.5
Unit Trading Prices #				
High	**$15.50**	$24.50	$25.75	$35.00
Low	**9.30**	14.00	18.88	27.88
Year End	**10.11**	14.75	24.50	29.25
Market capitalization (year end - $ millions)	**46**	67	111	132
Enterprise value (year end - $ millions)	**78**	105	114	141
Fee Timber Harvest (MMBF)	**45.1**	36.3	37.3	42.0
Employees at December 31, (full time equivalent) ^ #	**79**	123	241	257

Definitions:

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

11-Year Financial Summary

1998	1997	1996	1995	1994	1993	1992
$20,985	$19,694	$21,772	$26,604	$19,083	$25,716	$10,004
8,906	-	-	-	-	-	-
13,061	10,415	11,241	9,558	11,002	8,615	15,469
42,952	30,109	33,013	36,162	30,085	34,331	25,473
12,120	10,937	12,160	13,437	12,947	10,787	13,366
13,355	9,773	7,275				
7,105	4,545	3,760	6,367	5,232	5,289	3,899
-	-	-	-	-	-	-
32,580	25,255	23,195	19,804	18,179	16,076	17,265
10,363	4,854	9,818	14,799	10,572	16,576	5,960
2,053	1,647	1,458	1,559	1,334	1,679	2,248
788	1,008	1,106	1,326	1,439	1,751	902
310	-	-	-	-	-	-
256	-	-	-	-	-	-
$8,792	$3,509	$8,334	$13,090	$8,893	$14,825	$5,058
$1.94	$0.78	$1.84	$2.90	$1.93	$3.00	$0.86
$0.40	$0.49	$0.82	$1.06	$0.72	$1.20	$0.14
$10.16	$8.61	$8.32	$7.30	$5.48	$4.51	$4.68
4,534	4,526	4,519	4,520	4,605	4,938	5,883
$9,152	$5,820	$12,330	$17,040	$7,416	$20,071	$6,571
5,582	3,515	2,581	3,564	4,137	1,206	5,089
2,260	1,763	3,706	4,790	3,260	5,560	811
2,594	333	3,289	7,663	(1,201)	(2,572)	744
11,943	6,164	10,898	15,975	11,666	18,255	8,208
$3,805	$2,069	$5,469	$2,840	$6,068	$15,057	$2,214
$12,685	$13,816	$14,635	$12,297	$12,991	$9,030	$10,684
27,973	26,095	26,077	27,068	24,443	21,455	21,226
16,028	10,944	9,600	9,040	9,484	9,642	10,207
62,706	56,319	54,599	54,147	52,879	48,101	51,236
13,818	14,323	14,678	17,992	25,545	24,348	21,720
45,896	38,911	37,616	32,988	24,824	20,875	27,548
5.5	6.1	9.5	7.1	8.4	4.6	10.2
24%	27%	29%	36%	51%	54%	44%
1.2	2.4	1.4	1.1	2.2	1.3	2.7
8.5	4.3	7.9	9.3	6.2	7.7	4.7
15%	6%	15%	24%	18%	30%	10%
21%	9%	24%	45%	39%	61%	20%
12.8	20.1	9.8	6.7	8.6	4.8	6.2
$32.50	$31.00	$23.40	$21.80	$18.80	$16.40	$10.10
24.06	17.40	15.80	15.25	14.40	9.60	6.40
32.50	30.00	20.00	20.80	16.80	14.80	9.70
147	136	90	94	77	74	57
158	147	102	111	103	98	78
38.9	33.2	31.6	37.9	29.7	36.3	20.0
157	88	56	62	56	80	78

Definitions (continued):

Enterprise value / EBITDDA = Average of beginning and ending enterprise value divided by EBITDDA

Weighted Average Units Outstanding = Weighted average units outstanding for the year plus the effect of dilutive unit options outstanding

Free cash flow = net income plus depreciation, depletion, and cost of land sold less principal payments and recurring capital expenditures

Enterprise value = market capitalization less cash plus total debt outstanding

Footnotes

* The purchase of the Columbia tree farm in 2001was not included in the calculation of free cash flow.

^ As of January 1, 2003 there were 64 employees as a result of restructuring.

\# Unaudited

Unitholder Information

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Vice President and Chief Financial Officer

STOCK EXCHANGE LISTING

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

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ANNUAL MEETING

No annual meeting is required for the Partnership.

FORM 10-K

Additional copies of this report and Pope Resources' Report on Form 10-K are available without charge upon written request to:

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