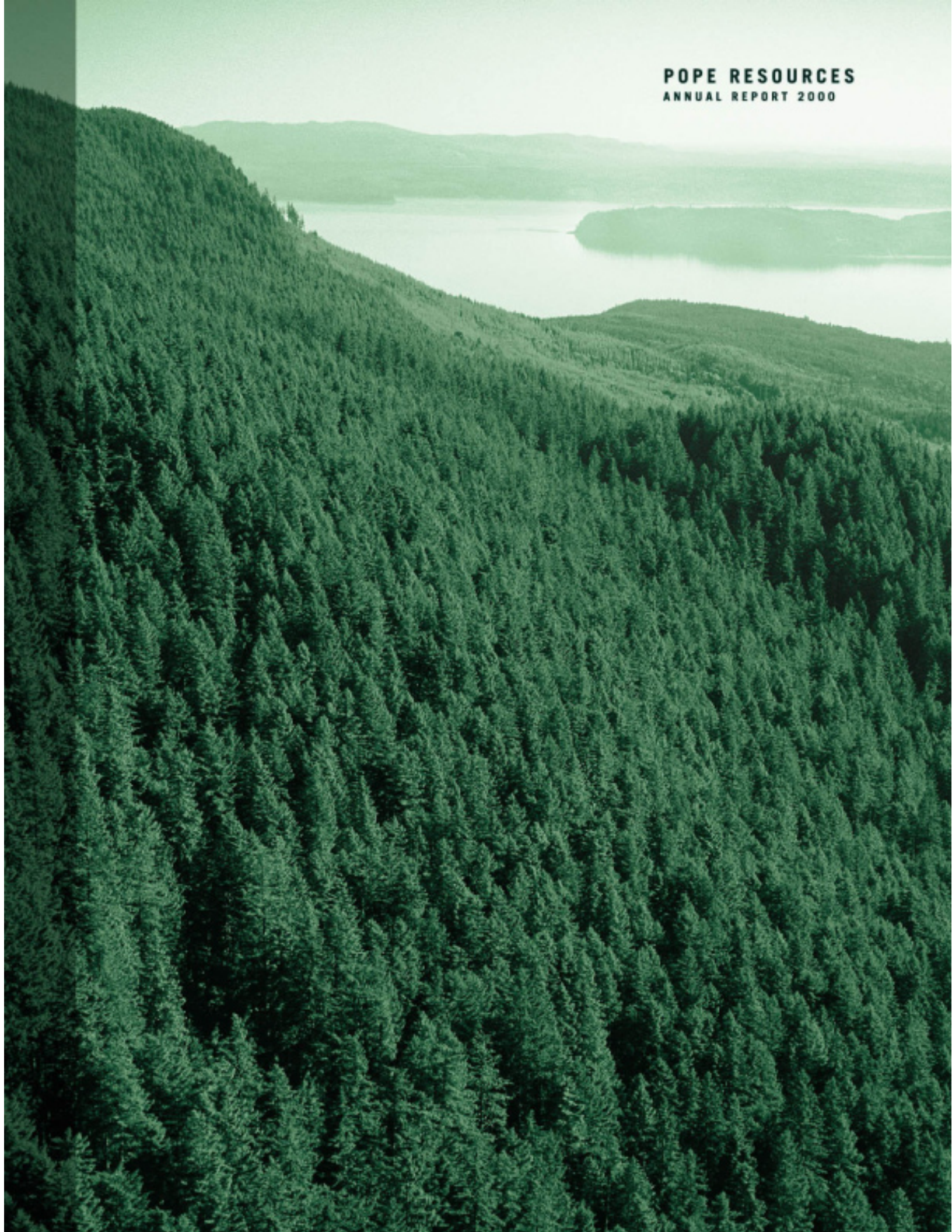


POPE RESOURCES
ANNUAL REPORT 2000



FINANCIAL HIGHLIGHTS

The financial information set forth below for each of the years ending December 31, 1996 through 2000 is derived from the Partnership's audited financial statements. This information should be read in conjunction with the financial statements and related notes included with this report and previously filed with the Securities and Exchange Commission. Per unit amounts reflected below have been restated for the 5 for 1 unit split completed in 1997.

(Dollars in thousands, except per unit data)	2000	1999	1998	1997	1996
Revenues:					
Fee Timber	\$20,657	\$22,796	\$20,404	\$19,486	\$21,569
Timberland Management and Consulting	11,011	11,705	8,906	-	-
Real Estate	18,989	16,352	13,642	10,623	11,444
Total Revenues	50,657	50,853	42,952	30,109	33,013
Total Income/(loss) from Operations	(5,877)	6,680	10,363	4,854	9,818
Net Income/(loss)	(6,251)	5,066	8,792	3,509	8,334
Earnings/(loss) per Unit – Diluted	(1.38)	1.11	1.94	0.78	1.84
Distribution per Unit	0.40	0.40	0.40	0.49	0.82
Total Assets	60,857	66,880	62,706	56,319	54,599
Long-term Debt	12,801	13,282	13,818	14,323	14,678
Partners' Capital	41,280	49,302	45,896	38,911	37,616
Acres Owned/Managed (In Thousands)	655	534	640	74	74
Fee Timber Harvested (MMBF)	37	42	39	33	32
Homes Sold	34	28	13	14	17
Lots Sold	14	48	39	24	39

TO OUR UNITHOLDERS:

Depending on your perspective, the year 2000 either closed out a millennium or ushered in a new one. Either way the year symbolized change and transition. Indeed, 2000 marked a year of significant change and transition for Pope Resources. It was a year of management changes, sharpening of strategic focus, cost reductions, and laying a foundation upon which we intend to build a stronger, more profitable company for the long-term future.

FINANCIAL REVIEW

For the first time in its 15-year history, Pope Resources reported a net loss in 2000 of \$6.3 million. This loss was principally the result of special charges of \$12.1 million, which stem from the decision to record asset writedowns and exit costs of \$10.1 million relating to our planned disposition of certain real estate and forestry consulting operations and a provision for environmental remediation costs of \$2.0 million. Before the special charges, net income for 2000 was \$5.8 million, up slightly from the comparable net income in 1999 of \$5.1 million. Revenue for the two years was essentially flat at \$50.7 million and \$50.9 million for 2000 and 1999, respectively.

SEGMENT RESULTS

Revenue from our largest segment, Fee Timber, declined to \$20.7 million in 2000 from \$22.8 million in 1999, with corresponding operating earnings dropping \$0.9 million to \$12.1 million. This was primarily a result of a decline in harvest of 4.7 million board feet between years and was offset slightly by a modest 1% increase in the average log realization. The decline in harvest volume was due to an increase in 1999 following a 500-acre timberland acquisition and the subsequent harvest of a portion of the acquired tract.

Revenue from our Timberland Management and Consulting segment, which focuses on providing services to third-party owners of timberlands, declined to \$11.0 million in 2000 from \$11.7 million in 1999. This was attributable to a \$1.6 million fall in timberland management revenues offset by a \$0.9 million increase in forestry consulting revenues. The fall in timberland management revenues followed a decrease in acres under management for the Hancock Timber Resource Group (HTRG) and was partially offset by a new management contract, which commenced in the second quarter of 2000. Forestry consulting revenues increased primarily as a result of improved market conditions for our Canadian forestry consulting practice. Segment operating earnings declined to \$0.4 million in 2000, or \$1.3 million before special charges, down from \$2.1 million in 1999. This decline is a function of the higher proportion of forestry consulting revenues and the impact of its lower relative profit margin.

Real estate segment revenues increased \$2.6 million from \$16.4 million in 1999 to \$19.0 million in 2000, driven primarily by more sales of homes and lots in our Port Ludlow development. Segment operating earnings, after special charges of \$11.2 million, declined from a profit of \$0.5 million in 1999 to a loss of \$10.3 million in 2000. Before the special charges, segment earnings improved \$0.4 million, based on improved operating results of the income producing properties at Port Ludlow.

Selling, general and administrative costs decreased \$0.7 million from 1999 to 2000, reflecting cost saving measures taken during the second half of 2000 following the decline in acres under management in our third party timberland management and consulting segment. Other income and expenses, including interest income and expenses, minority interest, and the tax liability in our taxable subsidiaries, improved \$1.2 million between 1999 and 2000. This was a function of an increase in cash and short-term investments and a decline in acres under management, which lowered our minority interest and income tax liability.

SPECIAL CHARGES

The magnitude of the asset impairment and exit costs totaling \$10.1 million primarily reflects investments made in Port Ludlow over many years that did not prove out economically. In the context of trying to package Port Ludlow for sale, the company anticipated that it would ultimately be unsuccessful in recouping its original investment on decisions to expand the golf course, build a new Inn, and provide for other infrastructure enhancements. On top of that, asset writedowns were taken against the Canadian forestry consulting practice purchased in 1998, which failed to produce the bottom line results envisioned when the original acquisition decision was made. Additionally, infrastructure in the form of people and systems that had been built up over the last five years to handle a broad range of perceived business opportunities needs to be scaled back to a more appropriate size. The cost to undergo this recalibration represents an additional component of the special charges.

Pope Resources, in concert with its predecessor company, Pope & Talbot, Inc., is beginning a process to address environmental contamination in and around the town of Port Gamble that stems from Pope & Talbot, Inc.'s operation of a sawmill and other facilities for much of the past 150 years. Pope Resources is setting aside a \$2.0 million provision for environmental remediation that represents an approximation of its negotiated portion of these costs. To begin this cleanup process, the company has entered into a Voluntary Cleanup Program under the guidance of the Washington State Department of Ecology. The overall cleanup process is expected to last several years.

MANAGEMENT CHANGES

In May of 2000, Gary Tucker retired as President & CEO. During his tenure of almost five years, Gary did much to position the company for future growth by launching our subsidiary Olympic Resource Management (ORM). ORM was successful in generating new sources of revenue in third-party timberland management and forestry consulting. With the formation of ORM, we were also successful in attracting new talent into the company, which will help build a foundation for future growth. To fill Gary's shoes and set the stage for long-term leadership of the company, the Board decided to bring in both a proven veteran and promote from within. On September 1, 2000, the Board appointed Allen E. Symington as Chairman & CEO and David L. Nunes was promoted to President & COO. Collectively, we bring over 50 years of experience throughout the forest products industry. Since September, we have been working very hard to define the company's near-term and long-range future. After an extensive assessment of the company's business lines and growth opportunities, in December we outlined the key strategies that will shape that future.

NEW STRATEGIES

Pope Resources has a 150-year heritage that has richly endowed the company with land and timber assets. In addition to these outstanding natural resources, we have assembled an exceptional team of professionals in all facets of timberland ownership and management. We intend to capitalize on this expertise by growing the company and positioning it for the next 150 years. The four strategies that will guide us as we move forward are as follows: focus on timberland ownership and management; lessen the intensity of our real estate development activities; shed other non-core operations; and reduce administrative and overhead costs.

TIMBERLAND OWNERSHIP AND MANAGEMENT

Pope Resources, through its subsidiary ORM, was successful in capitalizing on its timberland management expertise by launching a third-party timberland management business in 1997. Together with the company's own 72,000-acre timberland base, ORM manages over 600,000 acres of industrial timberland in the western U.S. and British Columbia. This strategy and its associated operating scale allowed the company to assemble an impressive in-house staff of management and technical expertise. Today, this team of professionals manages timberland holdings for Pope Resources and third-party timberland owners. In addition, they provide forestry consulting services to other owners and managers of timberland. This complementary set of services represents the thrust of the company's future business direction. Additionally, these third-party business relationships add value to our core timberland holdings by providing economies of scale, added professional expertise, and lower overall cost as a result of profits from this incremental third-party revenue.

EXIT FROM PORT LUDLOW REAL ESTATE DEVELOPMENT ACTIVITIES

Since its inception in 1985, Pope Resources has dedicated substantial capital and management attention to real estate development activities and management of resort properties in the community of Port Ludlow, Washington. In addition, the company owns a number of higher and better use (HBU) properties, principally on the Kitsap Peninsula (west of Seattle), where we are in various stages of securing development entitlements.

While the company will continue to own and/or manage real estate properties, we will look to narrow our real estate development activities to those areas where we believe we can add the most value. Accordingly, we will focus our future real estate development activities on obtaining and protecting entitlements for subsequent development. We have a number of such residential and mixed-use properties on the Kitsap Peninsula, including projects in Gig Harbor, Bremerton, Kingston, Port Gamble, and Hansville. Port Gamble is an example of such a property that we will continue to own and manage where significant entitlement efforts are needed prior to the inception of land development activities. We will look to sell entitled properties to other developers or perhaps partner with developers who bring specific expertise to a property.

As part of this strategic assessment, we have come to recognize that our ownership and operation of Port Ludlow's resort and residential development activities require more of an investment in capital and human resources than we are prepared to make. Accordingly, we intend to exit from the ownership and management of these Port Ludlow resort and real estate development activities. We recently signed a definitive purchase and sale agreement with HCV Pacific Partners LLC to sell all of our resort and real estate development assets located in Port Ludlow. This sale is expected to close in the second quarter of 2001.

The Port Ludlow assets include the 37-room Heron Beach Inn, a 300-slip saltwater marina, a 27-hole championship golf course, conference center, commercial center, RV park, a restaurant/lounge and related facilities, and water and sewer utilities serving the area. It also includes the remaining undeveloped land that will complete the build-out of this resort community. We believe that HCV will contribute its considerable residential and resort development experience in providing for a successful future for Port Ludlow. We are excited for the community of Port Ludlow to be gaining such a qualified community developer.

SALE OF CANADIAN FORESTRY CONSULTING PRACTICE

In late 1998, Pope Resources acquired Simons Reid Collins (SRC), a Canadian forestry consulting practice. The primary driver in this acquisition was to grow the company's third-party timberland management business in Canada. SRC managed 62,000 acres of private Canadian timberland for ORM's largest U.S. client HTRG. ORM wanted to build upon this base of third-party timberland management and expand it to include management of forest tenures in western Canada. Separately, we saw SRC's forestry consulting practice, which provides support to forest tenure holders and related government agencies throughout western Canada, as a natural fit with this strategy.

Following our internal assessment, we have concluded that the Canadian forestry consulting business is outside of our long-term strategic focus. We will continue to manage HTRG's timberlands in Canada as part of our U.S. based third-party timberland management business. The company, therefore, intends to sell its Canadian forestry consulting business, with offices in Vancouver and Edmonton and annual sales of approximately \$3.5 million, during 2001. We expect to conclude a sales transaction by year-end to an experienced third party, which will manage the existing business and prepare it for future growth.

REDUCE ADMINISTRATIVE AND OVERHEAD COSTS

Based on the decision to exit both Port Ludlow and the Canadian forestry consulting businesses, reductions in support staff will also need to be made. Collectively, these operations comprise a significant part of our employee base and their sale will require a commensurate reduction in our support infrastructure. The timing of these reductions in support staff will be determined by the corresponding timing of the transactions. Impacted employees will receive advance notification and be supported in their transition with both a severance package and outplacement services. We expect to emerge from this process with a more focused and efficient business model.

REDEPLOYMENT OF CAPITAL, FUTURE GROWTH IN TIMBERLAND OWNERSHIP

The sale of these two business lines will allow the company to redeploy capital to add to its fee timberland base or make other attractive investments (including the repurchase of Pope Resources' partnership units). The resultant sales proceeds, when combined with existing debt capacity, will enable the company to expand its timberland ownership by at least 50% over the next few years. We expect that we are entering a period where large timberland holdings will be more reasonably priced than they have been for the past five to ten years. A more focused business model with streamlined overhead costs will also free up capital for value-adding investments.

We have recently made a significant stride toward growing our timberland asset base with the recently-announced \$54 million acquisition from Plum Creek Timber Company, Inc. of nearly 44,500 acres of industrial timberland in southwest Washington. This acquisition, which closed March 29, 2001, accomplishes an important strategic goal for the company. Like many western timberland owners, Pope Resources' Hood Canal timberlands have a bimodal distribution of age classes. This means we own a large quantity of acres containing mature timber and an even larger land base with relatively immature timber, creating an age-class gap in between. We established a goal to remedy this situation by acquiring lands that will fill this age class gap in such a way as to even out future cash flows generated from the company's timberland holdings.

Acquiring these Plum Creek timberlands, a well-managed property containing over 200 million board feet of standing timber inventory, will significantly fill the age-class gap of our existing 72,000-acre fee timberland base and provide for more stable harvest levels over the next 25 years. It increases our fee ownership by over 60% and diversifies our product markets between Puget Sound, southwest Washington, and northwest Oregon. We have acquired this property during a period in the business cycle where we are experiencing log prices that are below long-term trend lines. As a long-term owner of timberlands we consider this an opportune time to buy.

We will finance the acquisition with a mixture of senior debt and a short-term revolving credit facility. As such, we expect this acquisition to be dilutive to Pope Resources' earnings for a period of one to two years. This acquisition is squarely aligned with our decision to focus the company around timberland ownership and management, and is in line with our stated mission of adding long-term value for our unitholders.

DISTRIBUTION POLICY

For the last several years, it has been the company's practice to make regular quarterly distributions of 10 cents per unit. Effective in 2001, Pope Resources has decided to return to its historical distribution practice. The determination of the amount of unitholder distributions will be made once a year – probably during the fourth quarter – and will be calibrated to cover the estimated flow-through tax liability of partnership earnings to our unitholders. If there is no flow-through tax liability, there will be no distribution. The return to this historic practice will retain capital needed in the business to grow the company's timberland asset base.

LOOKING AHEAD

In summary, we are turning an important corner for the company. While writedowns, especially of a magnitude such as those we have recorded at year-end 2000, are tough medicine, it was time to face squarely those issues that dilute value. The aforementioned strategies embody a commitment to see this process through. Pursuit of these strategies will place Pope Resources on a solid foundation for future growth. Strategically, we will be much more focused on owning and managing timberland properties. This will put us in a better position to take advantage of future business opportunities to grow the company in a manner that is consistent with our vision of adding value for our unitholders. We are confident we are on the right road to value creation and we thank our unitholders and our employees for their continued support.



Allen E. Symington
Chairman & CEO



David L. Nunes
President & COO

11-YEAR FINANCIAL SUMMARY

(Dollars in thousands, except per-unit amounts)	2000	1999	1998	1997
Results of operations:				
Revenues:				
Fee Timber	\$ 20,657	\$ 22,796	\$ 20,404	\$ 19,486
Timberland Management & Consulting	11,011	11,705	8,906	
Real Estate	18,989	16,352	13,642	10,623
Total revenues	50,657	50,853	42,952	30,109
Costs and expenses				
Cost of sales	16,970	15,799	12,120	10,937
Operating expenses	19,270	19,441	12,510	7,445
Selling, general and administrative expenses	8,193	8,933	7,950	6,873
Impairment, exit, and environmental remediation costs	12,101			
Depreciation and depletion	2,899	2,683	2,053	1,647
Total costs and expenses	56,534	44,173	32,580	25,255
Income/(loss) from operations	(5,877)	6,680	10,363	4,854
Net interest expense	700	1,039	788	1,008
Equity in losses of joint venture	-	-	217	337
Income tax expense/(benefit)	(326)	259	310	
Minority interest	-	(316)	(256)	
Net income/(loss)	(6,251)	5,066	8,792	3,509
Per unit results:				
Net income/ (loss) -Diluted	\$ (1.38)	\$ 1.11	\$ 1.94	\$ 0.78
Distributions	0.40	0.40	0.40	0.49
Partners' capital	9.12	10.90	10.16	8.61
Weighted average units outstanding (000)	4,528	4,523	4,519	4,519
Diluted units (000)	4,528	4,548	4,534	4,526
Cash Flow:				
Net cash provided by operating activities	\$ 9,973	\$ 8,347	\$ 9,152	\$ 5,820
Investing activities	2,539	3,764	5,582	3,515
Distributions to unitholders	1,811	1,810	2,260	1,763
Payment/(issuance) of long-term debt	424	497	2,594	333
* EBITDDA	(2,978)	9,047	11,943	6,164
Financial position:				
Working capital	27,058	15,720	12,685	13,816
Land and timber, net of depletion	25,411	28,002	27,973	26,095
Buildings and equipment, net of depreciation	11,996	15,921	16,028	10,944
Total assets	60,857	66,880	62,706	56,319
Long-term debt	12,801	13,282	13,818	14,323
Partners' capital	41,280	49,302	45,896	38,911
Financial Ratios:**				
Current Ratio	5.4	5.0	5.5	6.1
Total Debt to Total Capitalization	24%	22%	24%	27%
Debt to EBITDDA	(4.3)	1.5	1.2	2.3
Return on Assets	-10%	8%	15%	6%
Return on Equity	-14%	11%	21%	9%
Unit Trading Prices:				
High	\$ 25.75	\$ 35.00	\$ 32.50	\$ 31.00
Low	18.88	27.88	24.06	17.40
Year End	24.50	29.25	32.50	30.00
Market capitalization (year end - millions)	111	132	147	136
Timber harvest (MMBF)	37.3	42.0	38.9	33.2
Employees (full time equivalent)	241	257	157	88

* EBITDDA = Net income before interest expense, interest income, taxes, depreciation, depletion, and amortization

** Financial Ratios: 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 partner's capital

	1996	1995	1994	1993	1992	1991	1990
	\$ 21,569	\$ 26,399	\$ 19,083	\$ 25,716	\$ 10,004	\$ 8,692	\$ 9,060
	11,444	9,763	11,002	8,615	15,469	17,649	18,933
	33,013	36,162	30,085	34,331	25,473	26,341	27,993
	12,160	13,437	12,947	10,787	13,366	15,616	
	6,410						
	4,625	6,367	5,232	5,289	3,899	5,122	
	1,458	1,559	1,334	1,679	2,248	1,232	1,189
	23,195	19,804	18,179	16,076	17,265	20,738	
	9,818	14,799	10,572	16,576	5,960	4,371	5,519
	1,106	1,326	1,439	1,751	902	1,108	1,605
	378	383	240				
	8,334	13,090	8,893	14,825	5,058	3,263	3,914
	\$ 1.84	\$ 2.90	\$ 1.93	\$ 3.00	\$ 0.86	\$ 0.55	\$ 0.67
	0.82	1.06	0.72	1.20	0.14	0.15	0.18
	8.32	7.30	5.48	4.51	4.68	3.96	3.56
	4,519	4,520	4,605	4,938	5,883	5,883	5,883
	4,519	4,520	4,605	4,938	5,883	5,883	5,883
	\$ 12,330	\$ 17,040	\$ 7,416	\$ 20,071	\$ 6,571	\$ 6,338	\$ 4,919
	2,581	3,564	4,137	1,206	5,089	2,916	2,105
	3,706	4,790	3,260	5,560	811	894	1,059
	3,289	7,663	(1,201)	(2,572)	744	2,949	1,348
	10,898	15,975	11,666	18,255	8,208	5,603	6,708
	14,635	12,297	12,991	9,030	10,684	6,649	10,110
	26,077	27,068	24,443	21,455	21,226	20,561	19,573
	9,600	9,040	9,484	9,642	10,207	8,768	8,145
	54,599	54,147	52,879	48,101	51,236	48,941	50,221
	14,678	17,992	25,545	24,348	21,720	20,204	23,654
	37,616	32,988	24,824	20,875	27,548	23,301	20,932
	9.5	7.1	8.4	4.6	10.2	2.6	3.4
	29%	36%	51%	54%	44%	49%	55%
	1.3	1.1	2.2	1.3	2.6	3.6	3.5
	15%	24%	18%	30%	10%	7%	8%
	24%	45%	39%	61%	20%	15%	20%
	\$ 23.40	\$ 21.80	\$ 18.80	\$ 16.40	\$ 10.10	\$ 7.80	\$ 7.90
	15.80	15.25	14.40	9.60	6.40	4.45	4.90
	20.00	20.80	16.80	14.80	9.70	6.40	4.90
	90	94	77	73	57	38	29
	31.6	37.9	29.7	36.3	20.0	24.2	27.0
	56	62	56	80	78	71	63

** Financial Ratios (continued): Debt to EBITDDA = Long-term debt divided by EBITDDA
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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note: Certain information in this report constitutes forward-looking statements within the meaning of federal securities laws. Forward-looking information, which includes forecasted business divestitures and asset purchases, is subject to risks, trends, and uncertainties that could cause actual results to differ materially from those projected. Those uncertainties include but are not limited to changes to (a) regulations that affect the Partnership's ability to harvest timber and develop real estate and (b) changes in economic conditions, which can have a significant effect on the price the Partnership can obtain for its timber, real estate, and other investments.

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

STRATEGIC FOCUS

In December 2000, the Partnership announced plans to narrow its strategic focus. In accordance with this shift, the Partnership signed an agreement to sell its residential development and income-producing properties and operations in the resort community of Port Ludlow, Washington. The 320-acre property in Gig Harbor is also included in the agreement to sell Port Ludlow; however, as a result of questions regarding the availability of utilities, the Gig Harbor property is not expected to be included in the closed transaction. This transaction is expected to close in the first half of 2001. The Partnership is also seeking a buyer for its forestry consulting business in British Columbia and expects to sell that operation also in the first half of 2001. Asset impairment and exit costs of \$10.1 million related to these transactions were recorded in 2000. Proceeds from these sales will be reinvested in new timberland assets that are in the process of being acquired from Plum Creek.

The Partnership will retain some operations in the Real Estate segment in 2001, but those operations will be significantly reduced from prior years. Operations will consist primarily of adding value to Real Estate investments through obtaining zoning and other permitting necessary for future development. Revenue in the Real Estate segment, following the disposition in 2001, is expected to primarily consist of residential and commercial property rents (that will partially offset the cost of holding the property), and of revenue from the sale of land to developers or investors. Real Estate holdings that will remain following the disposition of Port Ludlow are for the most part in Kitsap County, Washington.

The Partnership's focus following these disposition activities will be on ownership and management of timberlands, and consulting for owners of such properties. In 2001, the Partnership plans to use a combination of proceeds from the sale of Port Ludlow and additional debt financing to pursue timberland acquisitions. In February 2001, the Partnership entered into an agreement to purchase approximately 44,500 acres of timberland in southwest Washington from Plum Creek for \$54.0 million. This transaction is expected to close by April 2001. It will be referred to as the Columbia Tree Farm.

ASSET IMPAIRMENT AND EXIT COSTS

Asset impairment and exit costs recorded in the fourth quarter of 2000 relate to management's plan to dispose of certain operations and relate to the following:

Port Ludlow	\$ 9.2 million
Forestry Consulting	.5 million
Timberland Management	.1 million
Software under development	<u>0.3 million</u>
Total	\$ 10.1 million

Management formalized the plan to divest of these assets and reduce headcount in December 2000. Management anticipates the Port Ludlow disposition will be completed during the first half of 2001, and the disposition of the Canadian forestry consulting operations by the end of 2001.

ENVIRONMENTAL REMEDIATION

Environmental remediation charges of \$2.0 million result from an estimate of environmental clean up costs in and around the townsite of Port Gamble. The Partnership has been the owner of the Town of Port Gamble and adjacent upland areas (the "Site") since December 3, 1985. Pope & Talbot, Inc. (P&T) formerly owned and operated the Site, including the former sawmill and related waste disposal areas.

Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Site to applicable State standards is between \$10.0 million and \$13.0 million. Although the Partnership was not responsible for creating any of these environmental conditions, the Washington Model Toxics Control Act imposes strict, joint and several liability on "potentially responsible persons" who include the current owner/operator of contaminated property. P&T is also strictly, jointly and severally liable as the former owner/operator when the release of contaminants occurred, and the generator of the contaminants.

The Partnership and P&T have made significant progress toward resolving the allocation of liability for Port Gamble cleanup costs. The environmental remediation liability at year-end is based upon an estimate of the Partnership's portion of the clean up costs, and represents the low end of an estimated range of \$1,870 to \$3,000.

FEE TIMBER

Fee Timber revenue is earned from the harvest and sale of logs from the Partnership's 72,000-acre tree farm located in the Hood Canal area of Washington. Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2000 are as follows:

Year ended	Revenues	Operating income
December 31, 2000	\$20.7 million	\$12.1 million
December 31, 1999	22.8 million	13.0 million
December 31, 1998	20.4 million	11.6 million

Fee Timber revenue and operating income declined 9% and 7%, respectively, during the year ended December 31, 2000. The decline in revenue and operating income is primarily due to a decrease in volume harvested that was partially offset by a small improvement in prices. Both revenue and operating income increased 12% during 1999 due to an increase in volume harvested. The increase in 1999's harvest volume resulted from the January 1999 acquisition of 500 acres and subsequent logging of a portion of the acquired tract. The Partnership harvested the following timber over the past three years:

Year	Softwood Sawlogs		Pulp, Hardwood, and Other		Totals	
	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF
2000	28.2	\$634	9.1	\$283	37.3	\$549
1999	32.1	\$628	9.9	\$255	42.0	\$542
1998	28.6	\$583	10.3	\$268	38.9	\$500

MMBF = million board feet
MBF = thousand board feet

Log revenues from the Partnership's timberland ownership are significantly affected by export log market conditions. Sales to the export market totaled 32%, 33%, and 29% of segment revenues for 2000, 1999, and 1998, respectively. The majority of the Partnership's export log volume is sold to Japan. Indirect sales to the export market totaled 9.1 MMBF, 11.1 MMBF, and 8.6 MMBF of softwood logs for 2000, 1999, and 1998, respectively. The decrease in volume sold to the export market in 2000 was consistent with the overall reduction in harvest volumes. The average price per MBF realized for export logs sold was \$731, \$694, and \$681 for 2000, 1999, and 1998, respectively. Average export price realized in 2000 increased from 1999 due to an increase in the quality of logs sold to the export market in 2000. In 1999, the Partnership benefited from an improved market in Japan that resulted in an increase in export prices and the proportion of harvest volume sold to the export market.

Domestic sawlog volumes were 19.1 MMBF, 21.0 MMBF, and 20.0 MMBF in 2000, 1999, and 1998, respectively. The decrease in volume sold domestically is consistent with the overall decline in harvest volume in 2000. The increase in domestic log volume in 1999 reflects increased timber harvest resulting from the Partnership's aforementioned timberland acquisition. Average domestic log prices per MBF were \$588, \$593, and \$541 for 2000, 1999, and 1998, respectively. The decrease in domestic log prices in 2000 reflects the overall slowing of the domestic economy. The increase in domestic log prices in 1999 is the indirect result of improved export market conditions. As prices improved in the export market, volume was diverted from the domestic to the export market, which in turn increased domestic prices in 1999.

Pulp, hardwood, and other log volumes were 9.1 MMBF, 9.9 MMBF, and 10.3 MMBF, for 2000, 1999, and 1998, respectively. Other log volumes were also down as a result of the decline in overall harvest volumes in 2000. Other log volumes decreased in 1999, as the Partnership did not harvest as many lower quality timber stands that tend to generate a larger proportion of pulp logs. Other log prices were \$283, \$255, and \$268 per MBF for 2000, 1999, and 1998, respectively.

The Partnership's tree farm is located in the Hood Canal region of Washington State. Most of the tree farm acreage owned by the Partnership is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, the Partnership tends to harvest and sell a greater portion of the annual harvest in the first half of the year when the supply of logs tends to be lower. Towards the end of September or October, harvest activities taper off as the Partnership reaches the planned annual harvest volume. The mild winter in late 2000 combined with a slowing U.S. economy has resulted in relatively low timber prices in the fourth quarter of 2000. The outlook for log prices in the first half of 2001 is not positive due to the large supply of logs and lumber on the market while the U.S. economy appears to be in decline.

The Hood Canal tree farm has a large number of acres with mature timber and an even larger number of acres with relatively immature trees resulting in an age class gap. The age class gap will have a negative impact on the inventory of trees available for harvest beginning in about ten years. The Partnership is attempting to mitigate the effect of the age class gap through a combination of timber harvest deferral and the acquisition of timberlands with timber age classes that fill in the gap on the Hood Canal tree farm.

TIMBERLAND MANAGEMENT AND CONSULTING

Timberland Management and Consulting earns revenue by providing management and consulting services to timberland owners and investors. The majority of this segment's operations are derived through providing management and consulting services to two customers.

Year ended	Revenues	Operating income
December 31, 2000	\$11.0 million	\$0.4 million*
December 31, 1999	11.7 million	2.1 million
December 31, 1998	8.9 million	3.8 million

* Includes \$0.9 million in asset impairment and exit costs.

Revenue and operating income declined 6% and 81%, respectively, in 2000. The decrease in revenue resulted from a decrease in acres under management for HTRG. Operating income declined in 2000 due to \$0.9 million of asset impairments and exit costs combined with a decrease in operating income earned through providing timberland management services to HTRG. The Partnership managed over 500,000 acres for HTRG during most of 1999. As a result of changes in HTRG's client mix, acres under management for HTRG during most of 2000 declined to just over 200,000. While revenue was significantly reduced by the reduction in acres under management, the effect on operating income was even greater as a result of the decline in economies of scale.

Total acres under management for HTRG may continue to change as HTRG's client portfolios are adjusted. The current contracts covering management services provided in the western United States and British Columbia each run for one year beginning January 1, 2001. As of December 31, 2000, ORMLLC (together with its Canadian subsidiary) was managing 218,000 acres of HTRG timberland in Washington, Oregon, California, and British Columbia.

As part of its strategy to expand service offerings to third-party owners of timberlands, Management worked throughout 2000 to market its timberland management services. In March 2000, a new contract was signed to manage an additional 365,000 acres in California, Oregon, and Washington. In addition to timberland management services, ORMLLC is providing timberland disposition services on these properties. Revenue from the disposition services is

expected to have a positive impact on 2001 revenue and operating income. This will be partially offset by a reduction in management contract revenue as the properties are sold.

In 1999, Timberland Management and Consulting revenue increased 31% while operating income declined 45%. Both of these changes resulted from the Partnership's acquisition of Simon Reid Collins' timberland management and forestry consulting business in British Columbia and Alberta. The forestry consulting portion of these operations are expected to be sold in the first half of 2001.

REAL ESTATE

The majority of revenue and operating income generated by the Real Estate segment results from operations at the resort community of Port Ludlow, Washington. The Partnership signed an agreement to sell the assets and operations in Port Ludlow. This transaction is expected to close during the first half of 2001. The discussion that follows includes operations of both Port Ludlow and the portion of the Real Estate segment that will continue after the Port Ludlow sale is complete.

Real Estate segment revenues are derived from residential development and income-producing properties. Residential development consists of the sale of single-family homes, developed lots, and undeveloped acreage. These activities span approximately 3,000 acres of the Partnership's ownership and are concentrated in Port Ludlow. Income-producing properties consist of the following properties in Port Ludlow: the 37-room Heron Beach Inn on Ludlow Bay, a 300-slip saltwater marina, a 27-hole championship golf course, a commercial center, an RV park, a restaurant/lounge and related facilities, and the water and sewer utilities serving the area.

Real Estate operations following the sale of Port Ludlow will 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 will also be included in the Real Estate segment following the Port Ludlow sale.

Revenues and operating income/(loss) for the Real Estate segment for each year in the three-year period ending December 31, 2000, are as follows:

Year ended	Revenues	Operating income/(loss)
December 31, 2000	\$19.0 million	\$ (10.3) million *
December 31, 1999	16.4 million	0.5 million
December 31, 1998	13.6 million	2.9 million

* Includes \$11.2 million in asset impairment, exit, and environmental remediation charges.

Revenue generated in the Real Estate segment increased 16% in 2000 as a result of an increase in homes sold at the resort community of Port Ludlow. The majority of the 21% increase in Real Estate segment revenues in 1999 was the result of the Partnership's purchase of the remaining interest in the Heron Beach Inn in December of 1998, which resulted in the Partnership consolidating the Inn's revenues and expenses. Operating income declined \$10.8 million as a result of \$11.2 million in asset impairment, exit, and environmental remediation charges. Excluding those charges, operating income increased \$0.4 million in 2000 reflecting improved operating results at the income producing properties in Port Ludlow. Operating income in 1999 declined due to a decrease in undeveloped land sales from 1998.

In 2000, Port Ludlow generated revenue of \$10.9 million through the sale of six developed lots and 34 homes. This compared to 1999 revenue of \$7.2 million through the sale of six lots and 28 homes and 1998 revenue of \$4.6 million through the sale of 13 lots and 21 homes.

Prospective home and lot buyers often pay an earnest money deposit in anticipation of completing the eventual purchase. The Partnership does not record a sale when earnest money deposits are received, but does track the sales backlog which represents total sales dollars expected to be recorded once these properties are sold. Port Ludlow's residential development backlog of sales was approximately \$4.9 million as of December 31, 2000. This compares to sales backlogs of \$4.6 million and \$0.9 million as of December 31, 1999 and 1998, respectively.

Income-producing properties' revenue increased 8% from 1999 as a result of more residents moving into the area and improved marketing cooperation between the Heron Beach Inn, golf course, and marina. Income-producing property revenue in 1999 increased 40% to \$7.0 million due to the Partnership's purchase of the remaining interest in the 37-room Heron Beach Inn on Ludlow Bay in December of 1998. Prior to 1998 the Partnership participated in a joint venture that owned and operated the Inn. As a joint venture partner, only the Partnership's share of profit from the joint venture was included in non-operating income/loss. On December 31, 1998, the joint venture was dissolved and the Partnership acquired the entire interest in the Inn, and has subsequently included the Inn's revenues and expenses in operating income during 2000 and 1999.

Revenue and operating loss for the Real Estate segment excluding Port Ludlow for each year during the three-year period ending December 31, 2000 are as follows:

Year ended	Revenues	Operating income/(loss)
December 31, 2000	\$1.8 million	\$(2.0) million *
December 31, 1999	3.3 million	0.5 million
December 31, 1998	5.0 million	2.9 million

* Includes \$2.0 million in environmental remediation charges.

The decline in Real Estate segment revenue (exclusive of Port Ludlow) from 1998 and 1999 to 2000 is due to a reduction in sales of undeveloped acreage. Other sources of revenue and operating income including Port Gamble and developed lot sales at Seabeck have not fluctuated significantly. The \$2.0 million environmental remediation charge in 2000 is due to environmental contamination in and around the townsite of Port Gamble.

SELLING GENERAL AND ADMINISTRATIVE (SG&A)

SG&A decreased \$0.7 million in 2000. The decrease is due to cost saving measures taken in the last half of 2000 following the decline in acres under management for HTRG. SG&A expenses are expected to continue to decline in 2001 with the divestiture of real estate operations in Port Ludlow and forestry consulting in British Columbia. SG&A increased \$1.0 million in 1999 due to the additional administrative infrastructure necessary following the acquisition of the Heron Beach Inn and forestry consulting business in British Columbia.

OTHER INCOME/EXPENSE

Interest income increased in 2000 as a result of an increase in cash and short-term investments. The decrease in interest income in 1999 is the result of a decline in the average balance of cash and short-term investments following the Partnership's acquisition and debt retirement of the Heron Beach Inn in December 1998.

The provision for income taxes and minority interest decreased in 2000 due primarily to the loss of operating income as a result of the decline in acres under management for HTRG.

LIQUIDITY AND CAPITAL RESOURCES

Funds generated internally through operations and externally through financing will provide the required resources for the Partnership's plans to increase timberland acres owned and other capital expenditures. Management intends to increase the Partnership's debt-to-total capitalization ratio to participate in investments in timberland, if the investments meet the Partnership's requirements of return and provide a good fit with the Partnership's portfolio of properties.

In 2001, the Partnership plans to use a combination of proceeds from the sale of Port Ludlow and additional debt financing to pursue timberland acquisitions. In February 2001 the Partnership entered into an agreement to purchase approximately 44,500 acres of timberland in southwest Washington from Plum Creek. The Partnership expects to close on this transaction by April 2001. Management considers its capital resources to be adequate for its current plans. At December 31, 2000, the Partnership had available an unused \$20 million bank loan commitment.

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 27 million board feet of softwood timber from the Hood Canal Tree Farm in 2001. Since harvest plans are based on demand and pricing, actual harvesting may vary subject to management's ongoing review.

For the year ended December 31, 2000, cash provided by operating activities was \$10.0 million and overall cash and cash equivalents increased \$5.0 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, and repayment of long-term debt of \$0.4 million.

In 1999, cash provided by operating activities was \$8.3 million and overall cash and cash equivalents increased \$2.3 million. Cash provided by operating activities in 1999 was used for cash payments to unitholders of \$1.8 million, capital expenditures of \$3.8 million, and repayment of long-term debt of \$0.5 million. Capital expenditures in 1999 included \$1.3 million for the acquisition of 500 acres of timberland.

The Partnership plans to discontinue making quarterly partnership distributions during 2001. The Partnership plans to make an annual distribution to cover the estimated flow-through tax liability incurred by unitholders as a result of owning the Partnership's units.

COMMITMENTS AND CONTINGENCIES

The Partnership's commitments consist of performance bonds, letters of credit, and operating leases entered into in the normal course of business. As described above, the Partnership recorded a \$1.8 million contingent liability in 2000 for environmental remediation in and around the Port Gamble townsite. 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 financial condition or results of operations.

FINANCIAL INFORMATION ABOUT SEGMENTS

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

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2000 and 1999

ASSETS

(Thousands)	2000	1999
Current assets:		
Cash and cash equivalents	\$ 9,882	\$ 4,922
Accounts receivable	1,933	1,583
Work in progress	1,504	12,033
Current portion of contracts receivable	490	587
Prepaid expenses and other	555	550
Assets held for sale (Notes 2 and 3)	18,790	-
Total current assets	33,154	19,675
Properties and equipment:		
Land and land improvements	9,899	15,611
Roads and timber, net of accumulated depletion of \$11,025 and \$10,024	12,394	12,391
Buildings and equipment, net of accumulated depreciation of \$6,841 and \$14,358	3,847	15,921
Total properties and equipment	26,140	43,923
Other assets:		
Contracts receivable (net of current portion)	1,167	1,733
Unallocated amenities and project costs	-	1,356
Other	396	193
Total other assets	1,563	3,282
Total assets	\$ 60,857	\$ 66,880

LIABILITIES AND PARTNERS' CAPITAL

Current Liabilities:		
Accounts payable	\$ 761	\$ 1,084
Accrued liabilities	2,449	2,011
Environmental remediation	1,870	-
Current portion of long-term debt	442	406
Minority interest	128	366
Deposits	446	88
Total current liabilities	6,096	3,955
Long-term debt	12,801	13,282
Deferred profit	680	341
Commitments and contingencies (Notes 4 and 10)		
Partners' capital (units outstanding: 4,528 and 4,528)	41,280	49,302
Total liabilities and partners' capital	\$ 60,857	\$ 66,880

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2000, 1999, and 1998

(Thousands, except per unit information)	2000	1999	1998
Revenues			
Fee timber	\$ 20,657	\$ 22,796	\$ 20,404
Timberland management and consulting	11,011	11,705	8,906
Real estate	18,989	16,352	13,642
Total revenues	50,657	50,853	42,952
Costs and expenses			
Fee Timber			
Cost of sales	(6,784)	(7,566)	(6,842)
Operating expenses	(1,730)	(2,207)	(2,001)
	(8,514)	(9,773)	(8,843)
Timberland management and consulting			
Operating expenses	(9,639)	(9,643)	(5,087)
Impairment and exit costs	(940)	-	-
	(10,579)	(9,643)	(5,087)
Real estate			
Cost of sales	(10,186)	(8,233)	(5,287)
Operating expenses	(7,901)	(7,591)	(5,422)
Impairment and exit costs	(9,205)	-	-
Environmental remediation	(1,956)	-	-
	(29,248)	(15,824)	(10,709)
Selling, general, and administrative	(8,193)	(8,933)	(7,950)
Income/(loss) from operations	(5,877)	6,680	10,363
Other income (expense)			
Interest expense	(1,273)	(1,298)	(1,406)
Interest income	573	259	618
Equity in losses of joint venture	-	-	(217)
Total other expense	(700)	(1,039)	(1,005)
Income/(loss) before income taxes and minority interest	(6,577)	5,641	9,358
Income tax benefit/(provision)	326	(259)	(310)
Income/(loss) before minority interest	(6,251)	5,382	9,048
Minority interest	-	(316)	(256)
Net income/(loss)	\$ (6,251)	\$ 5,066	\$ 8,792
Net income			
Allocable to general partners	\$ (83)	\$ 67	\$ 117
Allocable to limited partners	(6,168)	4,999	8,675
Net income/(loss)	\$ (6,251)	\$ 5,066	\$ 8,792
Earnings/(loss) per unit			
Basic	\$ (1.38)	\$ 1.12	\$ 1.95
Diluted	\$ (1.38)	\$ 1.11	\$ 1.94
Weighted average units outstanding			
Basic	4,528	4,523	4,519
Diluted	4,528	4,548	4,534

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

YEARS ENDED DECEMBER 31, 2000, 1999, and 1998

(Thousands)	General Partners	Limited Partners	Total
January 1, 1998	\$ 539	\$ 38,372	\$ 38,911
Net Income	117	8,675	8,792
Distributions	(24)	(1,783)	(1,807)
December 31, 1998	\$ 632	\$ 45,264	\$ 45,896
Net Income	67	4,999	5,066
Translation loss	(1)	(37)	(38)
Comprehensive income	66	4,962	5,028
Issuance of Partnership units		188	188
Distributions	(24)	(1,786)	(1,810)
December 31, 1999	\$ 674	\$ 48,628	\$ 49,302
Net loss	(83)	(6,168)	(6,251)
Translation gain	-	13	13
Comprehensive income	(83)	(6,155)	(6,238)
Equity based compensation		27	27
Distributions	(24)	(1,787)	(1,811)
December 31, 2000	\$ 567	\$ 40,713	\$ 41,280

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2000, 1999, and 1998

(Thousands)	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 51,026	\$ 50,055	\$ 41,294
Cash paid to suppliers and employees	(40,515)	(40,006)	(30,693)
Interest received	585	234	609
Interest paid, net of amounts capitalized	(1,200)	(1,394)	(1,663)
Income taxes paid	77	(542)	(395)
Net cash provided by operating activities	9,973	8,347	9,152
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(2,858)	(3,764)	(2,496)
Proceeds from sale of fixed assets	319	-	-
Business combinations	-	-	(2,476)
Joint venture investment	-	-	(610)
Net cash used for investing activities	(2,539)	(3,764)	(5,582)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash distributions to unitholders	(1,811)	(1,810)	(2,260)
Repayment of long-term debt	(424)	(497)	(2,594)
Issuance of Partnership units	-	188	-
Minority interest distribution	(239)	(208)	-
Net cash used for financing activities	(2,474)	(2,327)	(4,854)
Net increase (decrease) in cash and cash equivalents	4,960	2,256	(1,284)
CASH AND CASH EQUIVALENTS			
Beginning of year	4,922	2,666	3,950
End of year	\$ 9,882	\$ 4,922	\$ 2,666
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net (loss)/income	\$ (6,251)	\$ 5,066	\$ 8,792
Land sold through tax-deferred exchange	-	-	(2,677)
Cost of land and timber sold	31	1,200	946
Minority interest	-	316	256
Land resale expenditures	-	(7)	(66)
Depreciation and depletion	2,899	2,686	2,053
Unit option compensation	27	-	-
Loss on equity in joint venture	-	-	217
Deferred profit	340	(147)	(48)
Asset impairment	5,651	-	-
INCREASE (DECREASE) IN CASH FROM CHANGES IN OPERATING ACCOUNTS			
Accounts receivable	(351)	(944)	41
Work in progress	4,012	(834)	(1,353)
Contracts receivable	663	71	919
Accounts payable and accrued liabilities	2,861	1,007	280
Other long-term liabilities	(21)	(20)	(118)
Deposits	358	16	(8)
Loan fees and other	(203)	10	(82)
Other, net	(43)	(73)	-
Net cash provided by operating activities	\$ 9,973	\$ 8,347	\$ 9,152

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

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, and real estate development activities in the northwest region of the United States. The managing general partner is Pope MGP, Inc. Operating activities are classified into three segments: Fee Timber, Timberland Management and Consulting, and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management and Consulting represents management and consulting services provided to third party owners of timberlands. Real Estate includes the sale of single-family homes, finished lots and undeveloped acreage, and various commercial property operations.

Principles of consolidation: The consolidated financial statements include the accounts of the Partnership and its subsidiaries. Significant 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 (see Note 11) and has been classified as a current liability as 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 U.S. 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.

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.

Principal payments on contracts receivable for the next five years are due as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 490
2002	160
2003	69
2004	43
2005	43

Unallocated amenities and project costs: Unallocated amenities and project costs represent indirect development costs for long-term real estate development projects. These costs are expensed based on anticipated project sales of residential dwellings and lots over the life of the project.

Properties and equipment: Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. Depletion of logging roads and costs of fee timber harvested are provided at rates based on unrecovered costs and estimated recoverable volume of softwood timber.

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 cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss by a charge against current operations (See Note 2).

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. The Partnership uses the installment method of accounting for real estate sales transactions until 20% to 25% 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 \$376 and \$896 at December 31, 2000 and 1999, respectively.

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.

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. Noncash investing activities in 1998 include \$2,677 of proceeds from land sales received by tax-deferred exchange facilitators and utilized to purchase other real property on behalf of the Partnership and the assumption of \$2,239 in debt for the acquisition of real property.

New Accounting Standards: Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Partnership will adopt SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position, results of operations, or cash flows of the Partnership.

In December 1999, Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements was issued. SAB No. 101 summarizes the SEC's views in applying accounting standards generally accepted in the United States of America to revenue recognition in financial statements. The adoption of SAB No. 101 in 1999 did not have a material impact on the Partnership's financial statements.

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

2. *ASSET IMPAIRMENT*

In the fourth quarter of 2000 the Partnership recorded asset impairment charges and exit costs as part of management's plan to focus on owning and managing timberlands and divesting of a certain portion of its real estate and forestry consulting operations. As a result of this initiative, results of operations in 2000 include charges for estimated asset impairment and exit costs.

The Partnership signed a sales agreement to sell the Partnership's real estate assets in Port Ludlow during 2000. Those assets and operations consist of a golf course, marina, 37-room inn, water and sewer services, commercial properties and homes and lots for retail sale. The agreement provides for cash proceeds of approximately \$20 million and is expected to close in the second quarter of 2001. As a result, management recorded asset impairment and exit costs of \$9.2 million.

Operations at Port Ludlow produced revenues of \$17,211, \$13,092 and \$8,603, and net operating loss of \$8,325, \$17 and \$25 during the years ended December 31, 2000, 1999 and 1998, respectively.

The Partnership recognized additional asset impairment and exit costs of \$940 which represent the expected loss incurred on the sale of forestry consulting operations in British Columbia and the cost of reorganizing timberland management operations.

Management anticipates completing the disposition of the forestry consulting operations by the end of 2001.

3. *ASSETS HELD FOR SALE*

Assets held for sale represent assets that the Partnership expects to sell during 2001 in connection with the disposition of Real Estate operations at Port Ludlow and forestry consulting in British Columbia. Assets held for sale consist of the following:

Work in progress	\$ 7,279
Buildings and Equipment	7,477
Land	2,979
Unallocated amenities	1,055
Total	\$18,790

4. BUSINESS COMBINATIONS

In December of 1998 the Partnership acquired assets comprising the forestry consulting and timberland management business of H.A. Simons Ltd. This acquisition was structured primarily as an "earnout," where the Partnership is required to make contingent payments over five years provided the acquired operation meets or exceeds specified profitability levels from business outside of the United States. The Partnership was not required to make a payment on the earnout agreement based on results of operations in 1999 or 2000.

The assets acquired have been used to provide forestry consulting services in Canada, Jamaica and Argentina and manage 60,000 acres of timberland in British Columbia. The Partnership intends to sell the forestry consulting business in the first half of 2001 but retain the timberland management business.

In December 1998 the Partnership acquired the remaining 50% interest in a joint venture that the Partnership participated in to own and operate the 37-room Heron Beach Inn on Ludlow Bay in western Washington, which is part of operations for the Real Estate segment in 1999 and 2000. As a result of this acquisition the Partnership owns 100% of the Inn and the Inn's operations have been included in the consolidated financial statements for 1999. Prior to the acquisition, the Partnership owned 50% of the joint venture and losses from the joint venture were recorded on the equity method. The purchase price and the Partnership's basis in the dissolved joint venture were allocated to assets and liabilities acquired.

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. The provision/ (benefit) for income taxes relating to taxable subsidiaries of the Partnership consists of the following:

	2000	1999	1998
Current	\$ (298)	\$ 263	\$ 278
Deferred	(28)	(4)	32
Total	\$ (326)	\$ 259	\$ 310

The following schedule reconciles net income/(loss) reported for financial statement purposes to consolidated taxable income:

	2000	1999	1998
Net income/(loss) per financial statements	\$ (6,251)	\$ 5,066	\$ 8,792
Undistributed subsidiary corporation (income)/loss	2,217	371	(1,226)
Difference in reporting depreciation and depletion	(106)	(40)	(326)
Cost basis of land, timber and homes sold	155	139	316
Deferred profit on real property sold	61	224	(177)
Asset impairment and environmental accrual	10,066	-	-
Deferred gain from land exchange	-	-	(2,771)
Other	107	108	-
Taxable income	\$ 6,249	\$ 5,868	\$ 4,608

6. LONG-TERM DEBT

Long-term debt at December 31 consists of:

	2000	1999
Mortgage note payable to an insurance company, with interest at 9.65%, collateralized by timberlands, with a minimum monthly payment of \$136 and maturing May 2022	\$ 12,930	\$ 13,298
Local improvement district assessments, with interest ranging from 6.5% to 8%, due through 2009	197	253
Other	116	137
	13,243	13,688
Less current portion	(442)	(406)
Total long-term debt	\$ 12,801	\$ 13,282

The Partnership has a \$20 million revolving term loan agreement. There was no balance outstanding on the agreement as of December 31, 2000 and 1999. The agreement expires on June 30, 2002.

The Partnership debt agreements contain certain financial statement ratio covenants and have tangible net worth requirements. The minimum net worth requirements for the bank and the insurance company notes were \$25,388 as of December 31, 2000. The net worth requirements increase each year by a percentage of the current year's net income. The mortgage note payable also includes debt repayment provisions in the event that timber harvests exceed specified levels. The Partnership was in compliance or obtained a waiver from the lender for these covenants as of December 31, 2000.

Principal payments on long-term debt for the next five years are due as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 442
2002	482
2003	527
2004	577
2005	603

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, and variable rate debt, for which the carrying amount of each approximates fair value. The fair value of contracts receivable was determined based on current yields for similar contracts. The fair value of fixed rate debt having a carrying value of \$13,127 and \$13,551 has been estimated based on current interest rates for similar financial instruments and totals \$14,845 and \$14,113 as of December 31, 2000 and 1999, respectively.

8. 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 300,000 units have been reserved for issuance under the plan. 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 60,618 and 28,250 at December 31, 2000 and 1999, respectively. Unit options outstanding were as follows:

	<u>Number of units (in thousands)</u>	<u>Weighted average strike price per unit</u>
Balance, January 1, 1997	-	-
Granted	42.5	\$20.00
Exercised	-	-
Balance, December 31, 1997	42.5	\$20.00
Granted	50.0	\$26.50
Exercised	-	-
Balance, December 31, 1998	92.5	\$23.50
Granted	57.5	\$27.90
Exercised	(8.6)	\$21.80
Balance, December 31, 1999	141.4	\$25.40
Granted	120.7	\$22.30
Exercised	-	-
Expired	(77.1)	\$25.30
Balance, December 31, 2000	185.0	\$23.40

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 in compensation expense was recognized for the issuance of 5,206 unit options to a member of the board of directors for interim oversight 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 method described in SFAS No. 123, Accounting for Stock-Based Compensation, the Partnership's net income would have been adjusted to the pro forma amounts indicated below:

	2000	1999	1998
Net income/(loss) as reported	(6,251)	5,066	8,792
Pro forma net income/(loss) under SFAS No. 123	(6,479)	4,819	8,658

The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	2000	1999	1998
Expected life	5 years	5 years	5 years
Risk-free interest rate	5.90%	6.00%	5.00%
Dividend yield	2.10%	1.40%	1.50%
Volatility	0.49	0.49	0.49

9. EMPLOYEE BENEFITS

Employees with six months of service are eligible to receive benefits under a defined contribution plan. 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 was required to contribute 3% of eligible employee compensation into the plan during 1999 and 1998.

The Partnership contributed the following amounts to the plan: \$190, \$308, and \$230 for December 31, 2000, 1999, and 1998, respectively.

10. COMMITMENTS AND CONTINGENCIES

Environmental remediation: As of December 31, 2000, the Partnership has recorded an accrual of \$1,870 for estimated environmental remediation costs in and around the townsite of Port Gamble. Port Gamble is an historical town that was built and operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite and other assets were spun off into the Partnership. P&T leased the mill site at Port Gamble through 1995. The liability recorded represents management's estimate of the Partnership's share of the remediation costs.

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 Partnership and P&T have made significant progress toward resolving the allocation of liability for Port Gamble cleanup costs. The environmental remediation liability at year-end is based upon an estimate of the Partnership's portion of the clean up costs, and represents the low end of an estimated range of \$1,870 to \$3,000.

Performance bonds and letters of credit: In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds and letters of credit to ensure completion of certain public facilities. The Partnership had performance bonds and letters of credit totaling \$458 and \$610 outstanding at December 31, 2000 and 1999, respectively.

Operating leases: The Partnership has non-cancelable operating leases for office and computer equipment. The lease terms are from 12 to 36 months. Rent expense under the operating leases totaled \$563, \$558, and \$421 for the years ending December 31, 2000, 1999, and 1998, respectively.

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

<u>Year</u>	<u>Amount</u>
2001	\$ 558
2002	140
2003	79
2004	41
2005	4

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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 financial condition or results of operations.

11. RELATED PARTY TRANSACTIONS AND MINORITY INTEREST

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

The minority interest represents Pope MGP, Inc.'s interest in the IPMB. The 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 \$7,000 in a fiscal year. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to \$5,000, including debt guarantees. The Partnership has incurred approximately \$258 of net expenditures and debt guarantees through December 31, 2000.

A director of Pope MGP, Inc., is also a director of Pope & Talbot, Inc. (P&T). In 2000, 1999, and 1998, the Partnership received lease payments of \$75 from P&T for lease of a log sorting and storage site at Port Gamble, Washington.

The Partnership holds a promissory note from the retired president and CEO of the Partnership with a balance of \$271 at December 31, 2000, 1999 and 1998. The note bears interest at 6.48% and was cancelled in January 2001 in consideration for a Port Ludlow residence.

The Partnership contracted with a relative of the retired President and CEO to locate opportunities to expand the IPMB business. The Partnership paid \$62, \$120, and \$121 to the individual during 2000, 1999, and 1998, respectively.

12. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management and Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 72,000 acre tree farm in the Hood Canal area of Washington State. The Timberland Management and Consulting segment manages over 500,000 acres of timberland properties for third parties and provides timberland consulting services throughout Canada and the Western United States. Timberlands under management are in Washington, Oregon, California and British Columbia. Major customers include two customers with 10% and 9%; 17% and 11%; and 21% and 9% of total revenues for 2000, 1999, and 1998, respectively.

The Real Estate segment builds and sells homes and lots and manages several commercial properties including a marina, golf course, sewer and water facilities and other commercial properties. All of the Partnership's real estate development activities are in Washington State.

Prior to 2000 the Partnership combined the timberland management and consulting segment with fee timber. As a result of the Partnership's change in strategic focus during 2000 the Partnership now has three segments and has restated segments for all years presented. 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. Details of the Partnership's operations by business segment for the years ended December 31 were as follows:

	2000	1999	1998
Revenues:			
Fee Timber	\$ 20,657	\$ 22,796	\$ 20,404
Timberland Management and Consulting	11,011	11,705	8,906
Real estate	18,989	16,352	13,642
Total	50,657	50,853	42,952
Operating income/(loss):			
Fee Timber	12,113	13,020	11,560
Timberland Management and Consulting	152	1,877	3,224
Real Estate	(10,888)	(95)	2,527
Other	(7,254)	(8,122)	(6,948)
Total	(5,877)	6,680	10,363
Depreciation and depletion:			
Fee Timber	1,044	1,188	825
Timberland Management and Consulting	208	213	37
Real Estate	1,110	799	731
Other	537	486	460
Total	2,899	2,686	2,053
Identifiable assets:			
Fee Timber	19,653	18,567	16,196
Timberland Management and Consulting	708	1,226	780
Real Estate	30,813	36,862	36,461
Other	10,558	10,225	9,269
Total	61,732	66,880	62,706
Capital and land expenditures:			
Fee Timber	1,047	2,664	782
Timberland Management and Consulting	193	255	532
Real Estate	1,440	424	5,613
Other	178	421	697
Total	2,858	3,764	7,624

Revenues by product line for the years ending December 31, 2000, 1999, and 1998 are as follows:

	2000	1999	1998
Sales of forest products:			
Domestic	\$ 9,417	\$ 15,108	\$ 14,547
Export, indirect	6,182	7,688	5,857
Sales of homes, lots, and undeveloped acreage	11,249	9,254	8,631
Fees for service:			
Domestic	20,472	16,495	13,917
Foreign	3,337	2,308	-
Total Revenue	\$ 50,657	\$ 50,853	\$ 42,952

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Revenues	Income/(loss) from Operations	Net Income/ (loss)	Net Income/ (loss) per Partnership unit - Diluted
2000				
First quarter	\$13,449	\$2,476	\$2,367	\$0.52
Second quarter	14,096	1,795	1,457	0.32
Third quarter	12,119	1,115	871	0.19
Fourth quarter	10,993	(11,263)	(10,946)	(2.41)
1999				
First quarter	\$12,566	\$2,994	\$2,567	\$0.57
Second quarter	14,228	2,904	2,488	0.55
Third quarter	14,349	2,321	2,089	0.46
Fourth quarter	9,710	(1,539)	(2,078)	(0.47)
1998				
First quarter	\$9,948	\$2,791	\$2,337	\$0.52
Second quarter	14,313	5,011	4,547	1.01
Third quarter	12,574	3,395	2,941	0.65
Fourth quarter	6,117	(834)	(1,033)	(0.24)

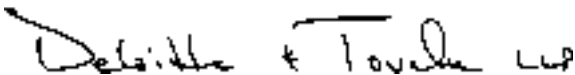
Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, partners' capital and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the index at Item 14 (a) (2). 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 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 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
Seattle, Washington
February 27, 2001

DIRECTORS

Douglas E. Norberg
*President and Partner, Retired
Wright, Runstad & Company
Seattle, Washington*

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

Joseph O. Tobin II
*Private Investor
San Francisco, California*

Allen E. Symington
*Chairman and Chief Executive Officer
Pope Resources
Poulsbo, Washington*

Marco F. Vitulli
*President
Vitulli Ventures, Ltd.
Bellevue, Washington*

OFFICERS

Allen E. Symington
*Chairman and Chief Executive Officer
Pope Resources
Poulsbo, Washington*

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

Thomas R. Gilkey
*Vice President
Timberlands*

Charles W. Goodbrand
*Vice President and General Manager
ORM Resources Canada Ltd.*

Thomas A. Griffin
*Vice President
Commercial Properties*

Gregory M. McCarry
*Vice President
Real Estate*

Thomas M. Ringo
Vice President and Chief Financial Officer

HEADQUARTERS

Olympic Resource Management
19245 10th Avenue NE
Poulsbo, Washington 98370
Phone: (360) 697-6626
Fax: (360) 697-1156
Web site: www.orm.com

STOCK EXCHANGE LISTING

Units trade on The NASDAQ Stock Market
under the symbol POPEZ

INVESTOR CONTACT

Any questions or information requests can be referred to:
Thomas M. Ringo
Vice President and Chief Financial Officer
(360) 697-6626, extension 520

UNIT TRANSFER AGENT AND REGISTRAR

ChaseMellon Shareholder Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(800)356-2017
www.chasemellon.com

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:

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

INDEPENDENT ACCOUNTANTS

Deloitte & Touche LLP
700 Fifth Avenue, Suite 4500
Seattle, Washington 98104

UNIT PRICE PERFORMANCE BY QUARTER

	2000		1999	
	High	Low	High	Low
First Quarter	\$29.25	\$18.00	\$30.75	\$27.88
Second Quarter	\$25.00	\$20.00	\$35.00	\$29.75
Third Quarter	\$21.00	\$18.13	\$34.00	\$31.63
Fourth Quarter	\$25.50	\$19.25	\$33.00	\$29.25