



March 18, 2021

Dear Unitholders and Shareholders,

Enclosed are the materials for the 2021 Redemption Offer for units and shares. Please read the materials carefully and make note of both the instructions and deadlines.

After careful assessment of the 2021 business and capital plan, Management recommended and the Board approved a 2021 redemption program budget of \$12.4M, including \$8.4M to complete the SLE and \$4M for “normal” redemptions.

We are pleased that, despite the uncertainty of the previous year, Port Blakely expects to be in the financial position to complete the SLE in 2021, as more fully described in the accompanying materials. The SLE continues to represent a “once in a generation” occurrence. As a family-owned partnership, the Company is providing this liquidity opportunity in the hope that participants will utilize proceeds for estate planning and portfolio balancing purposes.

In deciding whether and to what extent you will participate in this year’s program, you will recall that in December, the third-party appraiser recommended, and the Board approved, a value of \$252 per unit for Port Blakely Tree Farms L.P.

Similar to prior years, we’ve included a description of the valuation process summarizing how the Company arrives at the unit value, and additional financial information to help you make an informed decision. The valuation process document may also be found under “Financial Education” in the Unitholder section of the Eddy Family website. The valuation is a key component for several financial processes at PB; redemptions, reporting to our lenders, and various compensation plans.

If you have questions as you review the attached documents, I encourage you to contact me or Jeff Cook.

Sincerely,

René Ancinas  
Chairman and CEO

Jeff Cook: [jcook@portblakely.com](mailto:jcook@portblakely.com) or (206) 954-5696  
René Ancinas: [rancinas@portblakely.com](mailto:rancinas@portblakely.com) or (206) 661-6671

**Please note that redemption requests from unitholders must be received no later than 5:00 p.m., Seattle, Washington time, on Friday, April 16th, 2021.**

**March 18, 2021**  
**REDEMPTION OFFER**

**UNITS OF PORT BLAKELY TREE FARMS (LIMITED PARTNERSHIP)**  
**AND SHARES OF THE PORT BLAKELY COMPANY**

Port Blakely Tree Farms (Limited Partnership) (“**Partnership**”) hereby offers to redeem for cash limited partnership units (“**Units**”) from the existing holders of Units (“**Unitholders**”) at a price of **\$252.00 per Unit** on the terms set out below.

Unitholders tendering Units must also tender, if they own them, a like number of shares of the common stock (“**Shares**”) of The Port Blakely Company, a Washington corporation and General Partner of the Partnership (“**Company**”). If you own a number of Units that differs from the number of Shares owned, please call Jeffrey T. Cook or Sharene Nelson using the contact information below prior to tendering Units. The Company will pay a redemption price of **\$0.03 per Share** for each Share redeemed. For convenience, the term “Unitholder” when used in this Redemption Offer refers to owners of both Units and Shares, unless the specific context or the language suggests otherwise.

**Redemption Offer.** The Board of Directors of the Company (“**Board**”) and the Company as the General Partner of the Partnership (“**General Partner**”) have established a redemption budget of \$12.4 million for 2021, which at the redemption price of \$252.00 per Unit allows the redemption of up to 49,206 Units, in the aggregate, representing 3.8% of all outstanding Units. The Board also reserves the right to reduce the amount of the redemption budget, and correspondingly the number of Units redeemed, or to terminate the 2021 redemption in certain circumstances as described below in “Amendment or Termination of the Offer.” The General Partner will seek to honor any and all requests for redemption of 500 or fewer Units within the redemption budget, depending on the number of Unitholders who submit Letters of Tender and the number of Units tendered. If the Partnership receives redemption requests that exceed 49,206 Units, then the General Partner, in its reasonable discretion may elect to reduce the number of Units purchased from each participating Unit holder proportionately in relation to the number of Units tendered by all participating Unit holders. The General Partner also may amend or terminate the offer in certain circumstances as described herein.

**The period during which tenders of Units and Shares will be accepted by the Partnership and the Company terminates at 5:00 p.m., Seattle, Washington time, on April 16, 2021 (the “Effective Time”). Units and Shares must be validly tendered and not validly withdrawn as of the Effective Time in order to participate in the Redemption Offer.**

NEITHER THE PARTNERSHIP, ITS GENERAL PARTNER, THE COMPANY, NOR ITS BOARD OF DIRECTORS MAKES ANY RECOMMENDATION WHATSOEVER AS TO WHETHER UNITHOLDERS SHOULD TENDER UNITS AND SHARES PURSUANT TO THIS REDEMPTION OFFER. UNITHOLDERS SHOULD CAREFULLY CONSIDER THE INFORMATION REGARDING THE PARTNERSHIP AND THE COMPANY CONTAINED IN THESE MATERIALS AND SHOULD CONSULT WITH FINANCIAL AND TAX ADVISORS. UNITHOLDERS SHOULD ALSO CONDUCT SUCH FURTHER INVESTIGATIONS OF THE BUSINESS, OPERATIONS AND PROSPECTS OF THE PARTNERSHIP AND THE COMPANY THAT THE UNITHOLDERS AND/OR THEIR FINANCIAL AND TAX ADVISORS DEEM NECESSARY OR APPROPRIATE TO EVALUATE WHETHER UNITS AND SHARES SHOULD BE TENDERED AND, IF SO, IN WHAT AMOUNTS. EACH UNITHOLDER MUST MAKE HIS, HER OR ITS OWN DECISION WHETHER TO TENDER UNITS AND SHARES. NO PERSON HAS BEEN AUTHORIZED TO

MAKE ANY RECOMMENDATION ON BEHALF OF THE PARTNERSHIP, ITS GENERAL PARTNER, THE COMPANY, OR ITS BOARD OF DIRECTORS AS TO WHETHER UNITHOLDERS SHOULD TENDER UNITS AND SHARES PURSUANT TO THIS REDEMPTION OFFER. NO PERSON HAS BEEN AUTHORIZED TO EXPAND UPON ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS REDEMPTION OFFER OTHER THAN THOSE CONTAINED IN THESE MATERIALS. IF GIVEN OR MADE, SUCH RECOMMENDATIONS AND SUCH INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE PARTNERSHIP, ITS GENERAL PARTNER, THE COMPANY, OR ITS BOARD OF DIRECTORS.

Questions and requests for assistance may be directed to the Partnership's Chief Financial Officer or Corporate Controller:

Jeffrey T. Cook 1501 Fourth Avenue, Suite 2150 Seattle, Washington 98101 (206) 621-3270 jcook@portblakely.com	Sharene Nelson 1501 Fourth Avenue, Suite 2150 Seattle, Washington 98101 (512) 963-0582 snelson@portblakely.com
---	--

#### **Procedure for Tendering Units and Shares**

**For a Unitholder to validly tender Units and Shares pursuant to this Redemption Offer, a Letter of Tender form (printed on blue paper and included with these materials) properly completed and duly executed in accordance with the instructions thereto, together with certificates representing the Units and Shares to be tendered, must be received by the General Partner no later than the Effective Time. These materials must be delivered to the Partnership at its principal office or electronically via email or DocuSign, provided however that the certificates representing the Units and Shares must be mailed or delivered to the physical address and may not be delivered electronically. The address and email address for delivery of the materials is as follows:**

Port Blakely Tree Farms  
Attn: Robin Nelson  
1501 Fourth Avenue, Suite 2150  
Seattle, Washington 98101  
Email: rnelson@portblakely.com

All questions as to the validity (including time of receipt) of Letters of Tender will be determined by the General Partner, whose determination shall be final and binding.

In accordance with the Instructions to Complete the Letter of Tender (also printed on blue paper), each Unitholder must specify on his/her/its Letter of Tender form the exact number of Units and Shares the Unitholder is tendering for redemption. When tendering Units, the tendering Unitholder must also tender the same number of Shares, if Shares are owned, for redemption by the Company. If any Unitholder owns a number of Units that is different from the number of Shares owned, or if any Unitholder owns Shares in a different name than the Units, please call Jeffrey T. Cook using the contact information above.

### **Notice of Acceptance for Redemption; Return of Units or Shares**

Unitholders who validly tender Units and Shares will receive a Notice of Acceptance for Redemption (“**Notice**”) which will indicate the number of Units and Shares accepted for redemption by the Partnership and the Company. The Notice will be mailed on or about May 7, 2021 and is subject to the Board’s amendment and termination rights prior to payment, as explained below. Payment for Units and Shares (if any) redeemed will be made on or about May 28, 2021 payable to the order of the tendering Unitholder and/or Shareholder by a credit to the bank/institution account on record with the Partnership and the Company. After payment is made, if the certificate(s) that are tendered represent more Units or Shares than were redeemed, then new certificates for any tendered Units and Shares remaining unpurchased will be prepared and sent to tendering Unitholders without expense to the tendering Unitholders as promptly as practicable following completion of the redemption. The “**Redemption Date**” as used in this Redemption Offer is the date that actual payment of redemption proceeds is made.

**The method of delivery of Shares and Units, the accompanying Letter of Tender and all other required documents is at the election and risk of the tendering Unitholder. Shares and Units will be deemed delivered (and the risk of loss of the related certificates will pass) only when the Shares and Units, the related certificates, and the applicable Letter of Tender are timely and properly received by the Partnership. If delivery is by mail, then registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to ensure delivery prior to the Effective Time.**

### **Withdrawal of Tenders by Unitholders**

Tenders made pursuant to this Redemption Offer may be withdrawn by the Unitholder any time prior to the Effective Time. To be effective, a notice of withdrawal in written or email transmission form must be timely received by the General Partner at its principal office or by email at:

Port Blakely Tree Farms  
Attn: Robin Nelson  
1501 Fourth Avenue, Suite 2150  
Seattle, Washington 98101

Email: [rnelson@portblakely.com](mailto:rnelson@portblakely.com)

Any notice of withdrawal must specify the name of the tendering Unitholder, the number of Units and Shares tendered, and the number of Units and Shares withdrawn, and must be signed by the tendering Unitholder. All questions as to the validity (including time of receipt) of notices of withdrawal will be determined by the General Partner, whose determination shall be final and binding. Units and Shares properly withdrawn prior to the Effective Time shall not be deemed to be validly tendered for purposes of this Redemption Offer.

**UNLESS THE GENERAL PARTNER, ON ITS OWN BEHALF AND ON BEHALF OF THE PARTNERSHIP, ACTUALLY RECEIVES WRITTEN NOTICE OF WITHDRAWAL OF ANY UNITS AND SHARES, SUCH UNITS AND SHARES WILL BE REDEEMED (SUBJECT TO THE OTHER CONDITIONS AND LIMITATIONS SET FORTH HEREIN) WITHOUT FURTHER ACTION ON THE PART OF THE TENDERING UNITHOLDERS.**

### **Amendment or Termination of Offer**

The General Partner and the Company may amend or terminate this Redemption Offer at any time prior to the Redemption Date upon the occurrence of a material adverse change. For purposes of this Redemption Offer, a “material adverse change” means either of the following: (a) the occurrence of an event, circumstance or condition that did not exist at the time the Redemption Offer commenced, or that did exist but which experienced substantial changes after the commencement date, which in either case would be reasonably expected to result in a substantial decline in the Company’s or the Partnership’s (i) results of operations or financial condition; (ii) prospects for future growth or stability; or (iii) liquidity or capital resources, including without limitation the borrowing capacity or creditworthiness of the Company or the Partnership; or (b) any suspension of trading in the U.S. equity securities markets generally, the escalation of hostilities in any region currently experiencing war or substantial civic unrest, the outbreak of war in an area not presently experiencing international hostilities, the announcement of an epidemic or pandemic (including, for the avoidance of doubt, a protraction or exacerbation of the pandemic currently known as coronavirus or COVID-19), or any general moratorium on banking or extensions of credit affecting insured depository institutions in the United States. In addition, with or without the occurrence of a material adverse change, the Partnership and the Company may amend the maximum number of Shares and Units to be repurchased, without modifying the offer prices therefor, in the Board’s reasonable discretion. In the event of any such amendment, the Effective Time will be extended, if necessary, such that the Effective Time will occur at 5 p.m., Seattle time, on the tenth (10<sup>th</sup>) business day following the announcement of such an amendment. In the event of a termination or amendment of this Redemption Offer, the Partnership and the Company shall not have the obligation to purchase any Units or Shares tendered pursuant to this Redemption Offer (or shall be obligated to purchase only such Units and Shares permitted pursuant to an amendment) and in either case shall promptly return to the tendering Unitholders the certificates for any Units and Shares tendered and not purchased.

### **Purpose of Redemption and Source of Funds**

The Partnership is conducting this limited Redemption Offer because various Unitholders have over time expressed the desire or the need to sell some or all of their Units so as to increase liquidity and their ability to pursue other investments or activities. There is no existing trading market for the Partnership’s Units or the Company’s Shares and liquidity in the Units and Shares is further constrained by the governing documents of the Partnership and the Company. The desire is that the redemption process in addition to other information collected from Unitholders will provide the Board with continuing information as to the level of interest among Unitholders to sell their holdings and provide Unitholders with at least some market for the sale of Units, while at the same time preserving the consolidated ownership among descendants of the founding family members and others who over time have contributed to the Partnership’s success and value.

The cash to be used for the purchase of Units and Shares pursuant to this Redemption Offer will come from the Partnership’s general funds, which could include any cash held at the time payment is made or by drawing upon the Partnership’s existing bank line of credit.

In addition to this Redemption Offer, Unitholders have the opportunity to use the Unitholder Loan Program sponsored by the Partnership. The loan program allows qualifying Unitholders to borrow money from The Commerce Bank of Washington using their Units as collateral. Use of the loan program provides a form of liquidity while allowing Unitholders to retain ownership of their Units. For additional information about the loan program, please call Jeffrey T. Cook or Sharene Nelson at the number referenced above.

The Company is participating in this limited Redemption Offer because its principal asset is its general partnership interest in the Partnership. Accordingly, the Board of Directors of the Company requires Unitholders who want to reduce their ownership in the Partnership to reduce their ownership of the Company correspondingly. The Company will use its limited cash reserves with the Partnership to purchase Shares pursuant to this Redemption Offer.

### **Tax Consequences and Cash Distributions**

The redemption of Units and Shares by tendering Unitholders may be taxable transactions for federal, state, and/or local income tax purposes. Tax consequences may vary depending on the particular facts relating to each selling Unitholder, and no representations with respect to the tax consequences of sale of Units and Shares are hereby made. Each Unitholder is encouraged to consult his/her/its own tax advisor concerning any federal, state, and/or local income tax consequences of redemptions of Units and Shares pursuant to this Redemption Offer.

Any tendering Unitholder whose Units are redeemed pursuant to this Redemption Offer will be responsible for reporting items of taxable income and loss attributable to the Units redeemed during the period in 2021 prior to the Redemption Date. As to the redeemed Units, any tendering Unitholder whose Units are redeemed pursuant to this Redemption Offer will not be entitled to vote those Units on any limited partner matters or to receive any Partnership cash or other distributions thereon declared after the Redemption Date.

Any tendering Unitholder whose Shares are redeemed pursuant to this Redemption Offer will not be entitled to vote those Shares or to receive any Company cash or other dividends thereon declared after the Redemption Date.

### **Fees and Expenses**

Tendering Unitholders will not be obligated to pay brokerage fees or commissions on Units and Shares redeemed by the Partnership and the Company.

### **Outstanding Units – Port Blakely Tree Farms (Limited Partnership)**

As of January 1, 2021, the Partnership had 1,289,220 outstanding Units, which are held of record by 83 persons and/or entities. This number includes 1,288,980 limited partnership Units and 240 general partner units.

### **Outstanding Shares – The Port Blakely Company**

As of January 1, 2021, the Company had 1,293,340 Shares outstanding, which are held of record by 80 persons and/or entities.

### **Certain Information about the Partnership and the Company**

Included herewith are the audited consolidated balance sheet and the audited consolidated statements of operations, partners' capital and cash flows of the Partnership as of and for the fiscal years ended December 31, 2020 and 2019, together with the opinion of Moss Adams LLP, the Partnership's certified public accountants, relating thereto. The Partnership's quarterly reports for interim periods in 2020 are available to any interested Unitholder.

The Company's unaudited balance sheet as of December 31, 2020 and income statement for the years ending December 31, 2020 and 2019, respectively, are included herewith.

### **Valuation of Partnership Units**

The offer price of \$252.00 per Unit in this Redemption Offer was approved by the General Partner based on the September 30, 2020 valuation of Units by an independent third-party valuation firm. A Valuation Summary Report prepared by the third-party valuation firm is included herewith.

### **Valuation of Company Shares**

The offer price of \$0.03 per Share in this Redemption Offer was approved by the Board of the Company based on a September 30, 2020 valuation of Shares by an independent third-party valuation firm. A copy of the valuation report prepared by the third-party valuation firm is available for review by any interested Unitholder at the Company's headquarters.

NEITHER THE PARTNERSHIP, ITS GENERAL PARTNER, THE COMPANY, ITS BOARD OF DIRECTORS, NOR ANY OTHER PERSON MAKES ANY REPRESENTATION THAT THE REDEMPTION PRICE THAT THE PARTNERSHIP OR THE COMPANY OFFERS TO PAY UNDER THIS REDEMPTION OFFER ACCURATELY REFLECTS THE VALUE OF A UNIT OR A SHARE OR AS TO WHETHER THE TERMS OF THE OFFER ARE FAIR, FROM A FINANCIAL POINT OF VIEW, TO THE HOLDERS OF THE UNITS OR THE SHARES.

### **Miscellaneous**

This Redemption Offer is not being made to, nor will the Partnership or Company accept Letters of Tender from, Unitholders residing in any jurisdiction in which this Redemption Offer would not comply with applicable laws and regulations.

#### **THE PARTNERSHIP**

PORT BLAKELY TREE FARMS (LIMITED PARTNERSHIP)

By \_\_\_\_\_  
René I. Ancinas, Chairman and CEO

#### **THE COMPANY**

THE PORT BLAKELY COMPANY

By \_\_\_\_\_  
René I. Ancinas, Chairman and CEO

#### ***Attachments:***

Letter of Tender (*printed on blue paper*)

Instructions to Complete Letter of Tender (*printed on blue paper*)

Valuation Process Narrative with Valuation Glossary of Terms

Partnership Summary Valuation Report

Partnership's Audited Financial Statements: December 31, 2020 and 2019

Company's Unaudited Balance Sheets and Statements of Operations: December 31, 2020 and 2019

## Why is a PB valuation performed?

To determine the current value of the company and our assets, Port Blakely (PB) engages two independent third-party appraisers annually – a timberland and a business appraiser. The timberland appraiser provides a timberland valuation. The business appraiser provides the overall business valuation. The business appraiser uses the timberland appraisal and other factors, outlined below, to establish a fair market value of a PB partnership unit. The valuation is a critical component of several of our financial processes, including redemptions, setting the regular distribution rate, reporting to our lenders, and certain incentive compensation plans. The use of a third-party ensures an impartial and unbiased valuation of the company, a process overseen by the Audit Committee with approval by the Board of Directors.

## Who are the third-party appraisers for the PB valuation?

Our contracts with the third-party appraisers are renewed annually by the Audit Committee. PB weighs factors such as the cost of performing the appraisal, expertise of the appraiser, and familiarity with PB operations in determining which appraisers to recommend to the Audit Committee for the annual valuation. The Audit Committee is responsible for approving the selection of the third-party appraiser.

- Rick La Mont of TAI (<http://www.timberlandappraisal.com/>) performed the 2020 timberland appraisal for the US and NZ. Mr. La Mont has been performing valuations since 1991 and is an industry leader in providing timberland appraisals to support acquisitions and third-party assessments. The TAI appraisal was provided to CFAI for use as one of the inputs in determining the overall company valuation.
- Arlene Ashcraft of CFAI (<https://www.cfai.com/>) performed the 2020 appraisal of the overall PB company. Ms. Ashcraft has performed business appraisals since 2005, including a focus on the forestry industry in the Pacific Northwest. CFAI uses the timberland appraisal, along with other key factors such as the asset, income, market, and dividend approaches as well as the weighting of those approaches and any discounts, to determine the value of one unit of PB.

## What is in the Valuation?

The valuation includes four methods – the asset, income, market, and dividend approaches – to derive an initial fair market value for a single ownership unit of Port Blakely. The final value is then determined by weighting the three approaches and applying the appropriate discounts.

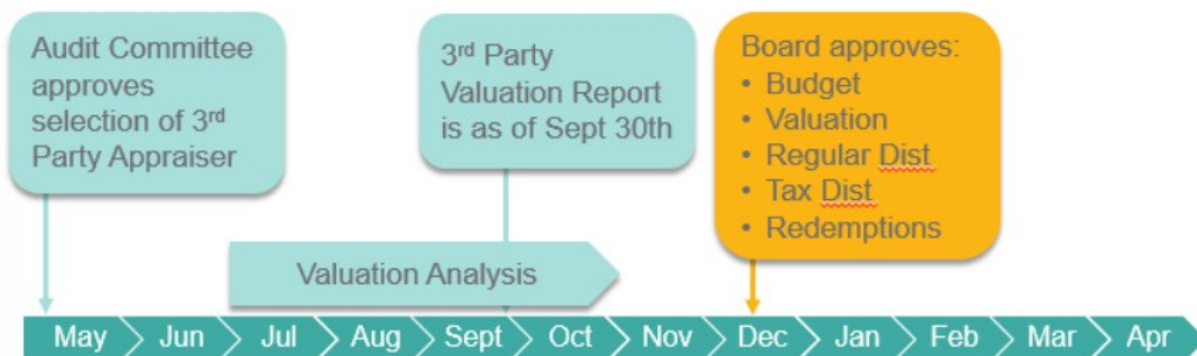
- Asset approach
  - CFAI uses an approach in calculating the asset method called the Net Asset Invested Capital Value (NAICV) method. This method starts with the asset value that is determined by TAI and then adjusts for a market derived discount for lack of control based on comparison to selected publicly traded guideline companies.



- Income approach
  - This method estimates the value of the company based on the company's ability to produce income in the future. This method starts by estimating future income, which is then adjusted for the time value of money (i.e. that money in the present is more valuable than money in the future).
- Market approach
  - This method estimates the value of the company by comparison to selected publicly traded guideline companies. In selecting companies for comparison, the goal is to find companies that are in the same or similar industries as PB and that have as many other similar characteristics as possible (e.g. financial leverage, future growth prospects, etc.).
- Dividend approach
  - This method compares PB's distribution yield to selected publicly traded guideline companies to determine an estimate of value.
- Weighting
  - After assessing the value of the company using the four methods above, the third-party valuator determines how much to weight each approach by ranking their relative importance to calculate the final value.
- Discounts
  - Discounts are standard practice in valuations and are determined by the third-party appraiser.
  - For the PB valuation there are two:
    1. A discount for lack of control is embedded in the asset approach. This discount reflects that unitholders do not have direct access to the assets of the company.
    2. A discount for lack of marketability. This discount reflects that PB is a closely held company with restrictions on who may own units of the company and a limited ability to buy and sell ownership units.

## What is the annual process for PB valuation?

Each year PB works through an established process for the valuation for the company. The process has three main components; *engagement*, *analysis*, and *delivery*. The timeline below provides a summary of the annual cadence of the process.



- **Engagement:** The Audit Committee approves the selection of the independent third-party appraiser in the May Audit Committee meeting.
- **Analysis:** During the valuation process, the PB team provides data to the third-party appraisers, including details of financial performance and inventory, growth, and harvest information. Management meets with the timberland appraiser to discuss financial assumptions and with the business appraiser to discuss business updates and financial and operational performance.
- **Approval:** The third-party business appraiser determines the fair market value of a unit of PB and presents their analysis and conclusion to the Audit Committee. The Audit Committee reviews the valuation and if appropriate, recommends the valuation to the Board of Directors for approval. Following the Audit Committee's recommendation, the Board of Directors approves the valuation.

## How does the valuation process relate to the other key PB processes?

- **Redemption Program:** The PB unit value determined in the valuation is used as the redemption price in the next year's redemption program.
- **Distribution Rates:** In setting the regular distribution rate, PB targets a distribution yield (distribution / valuation) of 1.5%-2.0%. This is in line with the historical dividend yield for the S&P 500. The target distribution yield of 1.5%-2.0% is a guideline only, and the actual yield may be higher or lower as determined by the Board.
- **Reporting to creditors:** Our lenders require an annual appraisal of the assets used as collateral for loans.
- **Long Term Incentive Program (LTIP):** The Board of Directors and select members of management receive a portion of their compensation under the LTIP program. LTIP awards payouts are based on the 4-year average growth of the PB unit value.

## **Valuation Glossary of Terms**

---

Upon final approval by the Board, the Summary Valuation Report discussing the valuation analysis is shared with shareholders and unitholders. The following glossary of terms may be helpful to reference.

**Capital Structure** – A company's combination of debt and equity financing.

**Distribution Yield** – Distributions divided by unit value.

**Fair Market Value** – The price at which the property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms-length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

**Minority Interest** – Ownership of less than 50% of a company. All Port Blakely unitholders are minority interest holders, each individually owning less than 50% of the total units and shares.

**Multiples** – A multiple is a financial ratio that allows for the comparison of two companies. An example is a price-to-earnings (P/E) ratio, which compares the price of a unit or stock to earnings per unit or stock.

**NAICV (Net Asset Invested Capital Value)** – The approach used by CFAI to calculate the asset value. The NAICV method starts with the asset value that is determined by the timber appraiser and then adjusts for a market derived discount for lack of control based on comparison to selected publicly traded guideline companies.

**Publicly Traded Guideline Companies** – Public companies selected by the valuation firm to serve as a benchmark in evaluating PB's performance. All companies own substantial industrial timberland holdings. In 2020, the guideline companies were Acadian Timber Corp., CatchMark Timber Trust, Inc., PotlatchDeltic Corporation, Rayonier, Inc., and Weyerhaeuser Company.



December 8, 2020

Mr. Jeffrey Cook  
Port Blakely Companies  
1501 Fourth Avenue, Suite 2150  
Seattle, WA 98101

RE: Summary September 30, 2020 Port Blakely Tree Farms (Limited Partnership) Unit Valuation

Dear Mr. Cook:

Columbia Financial Advisors, Inc. (CFAI) was retained by Port Blakely Tree Farms, Limited Partnership (Port Blakely or the Partnership), to appraise the fair market value of the Limited Partnership units of Port Blakely Tree Farms, L.P., on a minority interest basis, as of September 30, 2020, for the following purposes:

- Estate planning of the unitholders
- Redemption of unitholders interests
- Calculation of benefits for management compensation plans

Fair market value is considered to represent a value at which a willing seller and willing buyer, both being informed of the relevant facts about the business, could reasonably conduct a transaction, neither person acting under compulsion to do so. Among other factors, this appraisal takes into consideration all elements of appraisal listed in Internal Revenue Service Ruling 59-60, which generally outlines the valuation of stocks of closely held companies and includes the following:

1. The nature of the business and history of the enterprise.
2. The economic outlook in general and condition and outlook of the specific industry in particular.
3. The book value of the stock and the financial condition of the business.
4. The earning capacity of the company.
5. The dividend-paying capacity.
6. Whether or not the enterprise has goodwill or other intangible value.
7. Sales of stock and the size of the block to be valued.
8. The market prices of stocks of corporations engaged in the same or similar lines of business whose stocks are actively traded in a free and open market, either on an exchange or over the counter.

#### **Choice of Valuation Approaches**

Compared to the prior year's appraisal, the same methods were utilized—an income approach, a market approach, a dividend method, and an asset approach.

The income and market approach were conducted on a similar basis to the prior year, incorporating market changes and Port Blakely (company-specific) changes, including changes in the Partnership's

fundamentals (revenue and profitability changes), discontinued operations (PLS), land base changes (sales and fire), capital structure changes, the SLE in 2020, and future performance outlook.

The income approach used a forecast of future long-term sustainable earnings based on the Partnership's historical performance but incorporating future market expectation and operational changes (log prices, expense structure, discontinued operations, change in sustainable harvest from timberland acquisition/fire damage).

The market approach used a similar publicly traded guideline cohort to the prior year, and multiples were selected to apply to the Partnership's earnings, revenues and book value of invested capital based on comparative performance and growth expectations.

The asset approach utilized the same comparable publicly traded guideline companies to develop a market derived value indication for the Partnership and implied discount for lack of control.

The dividend method also used the same publicly traded guideline companies. Their yield (annual distributions divided by their per share price as of the valuation date), was used to determine an appropriate yield for the Partnership's future expected annual distributions and develop an indicated value for the Partnership's equity on a minority interest basis.

The indicated values developed by each method are included in the table on the following page.

#### **Weighting of Approaches**

Amongst the valuation methodologies, weighting was accorded as follows: the asset based approach (55%), the income approach (20%), the dividend (distribution) method (15%), and market approach (10%). This weighting was unchanged compared to the prior year and was based on the merits and disadvantages of each approach. This resulted in a concluded publicly traded value of \$417.955 million for Port Blakely before adjustment for the lack of marketability of the subject units and addition of excess capital termed "liquidating assets" (not added in prior year).

#### **Discount for Lack of Marketability**

Port Blakely's partnership interests have no current or anticipated public market. This lack of marketability is mitigated by some factors such as the Partnership's payment of distributions, average annual unit redemptions, and the overall attractiveness of this industry sector. Given these factors, a 25% discount to the minority marketable value was determined (unchanged from the prior year).

#### **Liquidating Assets**

Given the near-term likelihood of a unit repurchase (return of excess capital), the estimated amount (\$17.0 million) was added to the concluded value net of the discount for lack of marketability, resulting in an indicated equity value of **\$330.466 million**.

#### **Summary**

Considering all the relevant factors surrounding Port Blakely and considering the illiquidity of the limited partnership units, the fair market value, as of September 30, 2020, of Port Blakely's limited partnership units was **\$252.00 per unit**.

The per unit value increased by 8.6% compared to the prior year. Removing the impact of the SLE (reduction in units), and changes in cash and interest bearing debt, the Partnership's total enterprise value (TEV) declined 5.6% year-over-year. Partnership operations (PLS discontinuation, SLE, fires, etc.) and the macroeconomic environment changed materially year-over-year (COVID spurred recession and business interruptions, recession onset), with a decline in equity pricing for the comparable guideline companies year-over-year (4.5%). The sale of timberlands and the impact of fire served to reduce the Company's NAICV, an indication of value that receives material weight. This was more than offset by the Partnership's decrease in units, increase in cash/excess capital and reduction in interest bearing debt, resulting in a per unit increase year-over-year.

<i>Figures in Thousands, except per unit</i>	9/30/2020 Indicated Value (\$000)
Income Approach	
Capitalization of Free Cash Flow - After-tax	\$358,400
Capitalization of Free Cash Flow - Pretax	\$328,300
Market Approach	
Publicly Traded Companies	\$363,100
Asset Approach	
Adjusted Net Asset Value	\$463,400
Dividend Approach	
Capitalization of Dividends	\$367,300
Indicated Minority, Marketable Value	\$417,955
Discount for Lack of Marketability	(\$104,489)
	\$313,466
Plus: Liquidating Assets	<u>\$17,000</u>
	\$330,466
Units Outstanding	<u>1,313.399</u>
Fair Market Value Per Unit (Limited Partner)	<u><u>\$252.00</u></u>

Our opinion is based on the information, research, and analysis contained in the September 30, 2020 Appraisal Report. To the best of our knowledge and belief, the statements of fact contained in the valuation report are true and correct. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the unbiased professional analysis, opinions, and conclusions of CFAI and the individuals involved in this appraisal. CFAI's compensation is in no way contingent on an action or event resulting from the analysis, opinions, or conclusions in, or the use of, the valuation report. Neither CFAI nor the individuals involved in the appraisal, have any present or contemplated future interest in the subject property, or any other interest which might tend to prevent making a fair and unbiased appraisal.

Columbia Financial Advisors, Inc.  
Arlene Ashcraft, CFA, ASA  
Principal

# CONFIDENTIAL

*The information contained in this report is confidential and for the private use of the Unitholders, Directors, and Staff of Port Blakely Tree Farms (Limited Partnership). This information may not be publicly disclosed or revealed to other parties without the written consent of the General Partner. The General Partner may be contacted at: The Port Blakely Company, 1501 Fourth Avenue, Suite 2150, Seattle, Washington 98101-2524, (206) 624-5810.*



## 2020 Consolidated Financial Statements

## CONTENTS

---

2	<i>Report of Independent Auditors</i>
4	<i>Consolidated Balance Sheets</i>
5	<i>Consolidated Statements of Income &amp; Other Comprehensive Income</i>
6	<i>Consolidated Statements of Partners' Capital &amp; Accumulated Other Comprehensive Income</i>
7	<i>Consolidated Statements of Cash Flows</i>
8	<i>Notes to Consolidated Financial Statements</i>

---

### ADVISORS

#### Legal Counsel

Davis Wright Tremaine  
1201 Third Avenue, Suite 2200 Seattle,  
WA 98101-3045  
206-622-3150

#### Independent Auditors

Moss Adams LLP  
805 SW Broadway, Suite 1200  
Portland, OR 97205-9959  
503-242-1447

#### Tax Advisors

Bancroft Buckley Johnston & Serres LLP  
1501 Fourth Avenue  
Seattle, WA 98101-1662 (206) 682-4840

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of  
The Port Blakely Company

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Port Blakely Tree Farms (Limited Partnership) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and other comprehensive income, partners' capital and accumulated other comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Port Blakely Tree Farms (Limited Partnership) and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Portland, Oregon  
March 8, 2021

**PORT BLAKELY TREE FARMS (Limited Partnership) and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**

As of December 31, 2020 and 2019

**ASSETS**

	December 31,	
	2020	2019
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,002,300	\$ 18,528,000
Trade accounts receivable, net	6,078,600	7,248,200
Log inventory	1,215,000	1,413,000
Timber under contract	-	540,600
Other receivables and deposits	4,749,900	4,360,200
	<u>21,045,800</u>	<u>32,090,000</u>
<b>TIMBER AND TIMBERLANDS</b>	<u>269,375,600</u>	<u>277,639,400</u>
<b>REAL ESTATE</b>		
Other real estate assets and contracts	<u>479,600</u>	<u>887,700</u>
<b>OTHER ASSETS</b>		
Property and equipment, net	4,762,400	5,111,800
Deferred charges and other assets, net	<u>1,246,400</u>	<u>1,241,000</u>
	<u>6,008,800</u>	<u>6,352,800</u>
<b>ASSETS OF DISCONTINUED OPERATIONS</b>	<u>20,739,800</u>	<u>23,810,500</u>
<b>TOTAL ASSETS</b>	<u>\$ 317,649,600</u>	<u>\$ 340,780,400</u>

**LIABILITIES AND PARTNERS' CAPITAL**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 9,618,300	\$ 9,244,900
Current portion of deposits and other liabilities	193,300	250,800
Current portion of deferred compensation	1,437,100	3,055,800
Revolving line of credit	10,000,000	-
Current obligations on notes payable	<u>7,050,000</u>	<u>7,050,000</u>
	<u>28,298,700</u>	<u>19,601,500</u>
<b>LONG-TERM OBLIGATIONS</b>		
Notes payable, less current obligations	176,050,000	195,100,000
Deposits and other liabilities, less current portion	578,600	726,300
Deferred compensation, less current portion	<u>1,864,800</u>	<u>2,127,700</u>
	<u>178,493,400</u>	<u>197,954,000</u>
<b>LIABILITIES OF DISCONTINUED OPERATIONS</b>	<u>1,462,200</u>	<u>3,399,300</u>
<b>TOTAL LIABILITIES</b>	<u>208,254,300</u>	<u>220,954,800</u>
<b>PARTNERS' CAPITAL</b>	<u>109,395,300</u>	<u>119,825,600</u>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<u>\$ 317,649,600</u>	<u>\$ 340,780,400</u>

See accompanying notes to consolidated financial statements.

**PORT BLAKELY TREE FARMS (Limited Partnership) and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME & OTHER COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2020 and 2019

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2020	2019
<b>FORESTRY OPERATIONS</b>		
Revenues from harvesting	\$ 121,301,400	\$ 95,624,000
Harvesting costs and timber depletion	(65,062,100)	(55,586,100)
	<u>56,239,300</u>	<u>40,037,900</u>
Revenues from log trading	21,050,000	35,902,900
Costs of sales from log trading	(20,636,700)	(34,557,700)
	<u>413,300</u>	<u>1,345,200</u>
Revenues from carbon sales	11,920,700	8,337,800
Costs of carbon sales	(1,184,600)	(3,591,500)
	<u>10,736,100</u>	<u>4,746,300</u>
<b>GROSS PROFIT</b>	<b>67,388,700</b>	<b>46,129,400</b>
Other operating expenses	(10,119,900)	(10,721,400)
General and administrative expenses	(16,241,800)	(13,922,500)
Casualty loss of timber and timberland	(2,365,400)	(3,000)
Gains on forestry land sales	2,961,700	6,321,900
Other operating income	<u>520,800</u>	<u>444,000</u>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>42,144,100</b>	<b>28,248,400</b>
Foreign exchange loss	(435,000)	(237,700)
Interest and other income, net	266,000	223,000
Interest expense	(8,517,000)	(9,102,400)
Income tax benefit	<u>-</u>	<u>4,132,700</u>
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>33,458,100</b>	<b>23,264,000</b>
<b>NET LOSS FROM DISCONTINUED OPERATIONS, NET OF \$0 TAX</b>	<b>(1,133,600)</b>	<b>(5,506,300)</b>
<b>NET INCOME</b>	<b>32,324,500</b>	<b>17,757,700</b>
<b>UNREALIZED GAIN ON FOREIGN CURRENCY HEDGE</b>	<b>1,293,300</b>	<b>79,000</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b><u>\$ 33,617,800</u></b>	<b><u>\$ 17,836,700</u></b>
Weighted average units outstanding during the year	1,357,991	1,428,760
Net income per weighted average unit	<u>\$ 23.80</u>	<u>\$ 12.43</u>

See accompanying notes to consolidated financial statements.

**PORT BLAKELY TREE FARMS (Limited Partnership) and Subsidiaries**  
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL & ACCUMULATED OTHER COMPREHENSIVE INCOME  
For the Years Ended December 31, 2020 and 2019

	General Partner Units	Limited Partner Units	Accumulated Other Comprehensive Income	Total Capital
BALANCE, December 31, 2018	\$ 20,200	\$ 114,197,600	\$ -	\$ 114,217,800
Net income	3,000	17,754,700	-	17,757,700
Regular Distributions	(800)	(4,746,500)	-	(4,747,300)
Tax Distributions	(400)	(3,481,200)	-	(3,481,600)
Redemptions of 14,652 units at \$273 per unit	-	(4,000,000)	-	(4,000,000)
Unrealized gain on foreign currency hedge	-	-	79,000	79,000
BALANCE, December 31, 2019	22,000	119,724,600	79,000	119,825,600
Net income	5,700	32,318,800	-	32,324,500
Regular Distributions	(800)	(4,815,300)	-	(4,816,100)
Tax Distributions	(1,400)	(7,780,100)	-	(7,781,500)
Redemptions of 109,299 units at \$232.00 per unit; 24,179 units at \$252.00 per unit	-	(31,450,500)	-	(31,450,500)
Unrealized gain on foreign currency hedge	-	-	1,293,300	1,293,300
BALANCE, December 31, 2020	<u>\$ 25,500</u>	<u>\$ 107,997,500</u>	<u>\$ 1,372,300</u>	<u>\$ 109,395,300</u>
Units outstanding at:				
December 31, 2019	240	1,422,458	-	1,422,698
December 31, 2020	240	1,288,980	-	1,289,220

See accompanying notes to consolidated financial statements.

**PORT BLAKELY TREE FARMS (Limited Partnership) and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2020 and 2019

	Years Ended December 31,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 33,458,100	\$ 23,264,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,174,400	1,131,900
Depletion and road amortization	9,963,100	9,756,900
Gains from sale of property and equipment	(178,400)	(23,400)
Gains on forestry land sales	(2,961,700)	(6,321,900)
Deferred tax liability	-	(4,132,700)
Casualty loss from conversion of timber and timberlands	2,365,400	3,000
Changes in operating assets and liabilities		
Receivables and deposits, net	2,073,200	(6,539,400)
Log inventory	(285,300)	1,410,500
Other real estate assets and contracts, net	408,100	388,400
Deferred charges and other assets	(5,400)	143,900
Accounts payable and accrued expenses	539,400	509,500
Deposits and other liabilities	(205,200)	250,700
Deferred compensation	(1,881,600)	(3,904,300)
Net cash provided by operating activities - continuing operations	44,464,100	15,937,100
Net cash provided by operating activities - discontinued operations	8,172,400	2,946,300
Net cash provided by operating activities	52,636,500	18,883,400
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Timber and timberland acquisitions	(46,000)	(48,153,000)
Timber and timberland improvements	(4,101,400)	(4,004,900)
Proceeds from sale of timber and timberlands, net of closing costs	3,902,300	9,749,800
Additions to property and equipment	(879,700)	(641,100)
Proceeds from sales of property and equipment	233,100	119,600
Net cash provided by (used in) investing activities - continuing operations	(891,700)	(42,929,600)
Net cash provided by (used in) investing activities - discontinued operations	1,288,300	(225,600)
Net cash provided by (used in) investing activities	396,600	(43,155,200)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	10,000,000	-
Proceeds from notes payable	-	80,000,000
Payments on notes payable	(19,050,000)	(37,850,000)
Cash distributed to partners	(12,597,600)	(8,228,900)
Redemptions paid to partners	(31,450,500)	(4,000,000)
Net cash provided by (used in) financing activities - continuing operations	(53,098,100)	29,921,100
Net cash provided by (used in) financing activities - discontinued operations	(1,769,500)	(1,102,800)
Net cash provided by (used in) financing activities	(54,867,600)	28,818,300
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,834,500)	4,546,500
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	21,274,400	16,727,900
End of year	19,439,900	21,274,400
Less cash and cash equivalents of discontinued operations at year end	10,437,600	2,746,400
Cash and cash equivalents of continuing operations at year end	\$ 9,002,300	\$ 18,528,000
Cash paid for interest	\$ 8,894,800	\$ 9,266,500

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 – GENERAL

Port Blakely Tree Farms (Limited Partnership) is organized under the laws of the State of Washington. Its business activities include industrial timber operations and trading of logs. As of December 31, 2020, 145,907 acres of the partnership's timberland holdings are located in the Pacific Northwest and 38,453 hectares are located in New Zealand. In 2020, the partnership closed its Pacific Northwest log trading business unit.

Under the partnership agreement, the general partner, The Port Blakely Company, has exclusive authority and responsibility for managing the business affairs of the partnership. Each general and limited partner is allocated partnership net income or loss on a pro-rata basis according to the number of weighted average units in the partnership held by each partner. The Board of Directors of the general partner determines on an annual basis the amount and timing of cash to be distributed to the partners, including distributions relating to income tax obligations of the partners arising from allocable taxable income generated by the partnership. The liability of the limited partners for partnership debts or obligations is limited to the partners' total capital and interest in any undistributed assets of the partnership. The partnership agreement remains in force through 2034.

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

As used herein, "Company" refers to the partnership together with all of its wholly owned subsidiaries. The Company's financial statements are presented on a consolidated basis, and all significant intercompany balances and transactions have been eliminated in consolidation.

#### Cash and Cash Equivalents

Cash and cash equivalents include money market funds and other highly liquid short-term investments where maturity is three months or less at the date of purchase. Such short-term investments are normally convertible into cash in known amounts and are insignificantly affected by market interest rate fluctuations. Management estimates that the fair value of all financial instruments at December 31, 2020 and 2019, does not differ materially from the aggregate carrying value recorded in the accompanying consolidated balance sheets.

#### Trade Accounts Receivable

Accounts receivable are stated at net realizable value. Management estimates an allowance for doubtful accounts based on historical experience and other available information. The allowances for doubtful accounts were \$23,400 and \$32,500 at December 31, 2020 and 2019, respectively.

#### Log Inventory

Inventory consists of logs held for sale and is stated at the lower of cost or net realizable value.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)****Timber and Timberlands**

Timber and timberlands are stated at historical cost less depletion for timber harvested and accumulated amortization of certain logging road construction costs. Historical cost includes original acquisition costs, expenditures for tree planting, road construction, and similar betterments. Depletion of timber is based on the annual timber volume harvested in relation to the estimated recoverable timber volumes. Recoverable standing timber volumes are estimated for the purpose of determining timber depletion rates applicable to the cost of timber volumes harvested. 75% of permanent road construction costs are amortized utilizing a straight-line method over 15 years. The remaining 25% of permanent road construction costs are recorded as land improvements and are not amortized. Temporary spur road construction costs are amortized over the extraction and subsequent plantation period of approximately three years. Carrying costs, including road maintenance and property tax, are expensed as incurred.

**Timber Purchase Commitments**

The Company may enter into contracts with other timberland owners to harvest merchantable timber on specified tracts prior to contractual termination dates.

For short term contracts, if title passes on the contract date, the timber purchase commitment is included in timber under contract until harvest. If title passes when harvested, purchase costs are included in cost of sales from log trading as incurred.

For long term contracts, if title passes on the contract date, the timber purchase commitment is included in timber and timberlands until harvest. If title passes when harvested, purchase costs are included in harvesting costs and timber depletion as incurred.

**Property and Equipment**

Land, buildings, improvements, and property and equipment are stated at cost net of accumulated depreciation. Expenses for improvements and replacements exceeding \$5,000 are capitalized and routine maintenance and repairs are expensed as incurred. Depreciation charged against capitalized assets is included in other operating expenses and computed utilizing straight-line methods based on estimated useful lives of the assets, which range from three to thirty-nine years. Depreciation expense for leasehold improvements subject to operating leases is provided primarily on the straight-line method over the shorter of the asset life or lease term. Gains or losses recognized on the sale or disposal of capitalized assets are included in interest and other income, net. Property and equipment are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

**Financial Instruments and Concentrations of Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalent deposits in banks and other financial institutions in excess of federally insured limits, customer trade accounts receivable, other receivables, and deposits relating to the acquisition of supplies or services for future delivery.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign Currency Remeasurement**

South Blakely Trust and Tauranga Barge Company are foreign subsidiaries and maintain their records of account in New Zealand dollars. Since financing is primarily denominated and repayable in U.S. dollars, the functional currency is deemed to be the U.S. dollar. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Nonmonetary assets and liabilities are translated at historical exchange rates. Income statement accounts associated with nonmonetary assets and liabilities are translated at historical exchange rates. All other income statement accounts are translated at average monthly exchange rates prevailing during the year. Net foreign currency transaction and remeasurement losses totaled \$435,000 and \$237,700 in 2020 and 2019, respectively, and are included in foreign exchange loss.

**Revenue Recognition**

The Company adopted Accounting Standards Codification Topic 606 Revenue from Contracts (ASC 606), the comprehensive new revenue recognition accounting standard update, on January 1, 2019, using the cumulative effect method. The adoption of the new revenue recognition guidance did not materially affect the Company's Consolidated Balance Sheets, Consolidated Statement of Income and Other Comprehensive Income, or Consolidated Statement of Cash Flows.

In conjunction with ASC 606, the Company has adopted ASU 2017-05 "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." As a result of this adoption, the Company will recognize gains or losses on forestry land sales in Income from Operations.

**Income Taxes**

The Company is not subject to federal or state income taxes at the entity level because, as a partnership, it is considered a pass-through entity. The partners separately account for their pro-rata share of the Company's items of taxable income, deductions, losses and credits. Therefore, no provision is made in the accompanying consolidated financial statements for liabilities for federal or state income taxes, because such tax liabilities are the responsibility of the partners.

The partnership has traditionally distributed sufficient cash to its general and limited partners to meet their federal and state income tax obligations arising from allocable taxable income generated by the partnership. Such distributions are made on an estimated basis. Management believes that amounts distributed, or to be distributed, for 2020 and 2019 are sufficient to satisfy the partners' income tax obligations.

Two entities included in the consolidated results of the Company, Port Blakely Communities, Inc. (PBC) and Tauranga Barge Company (TBC), are subject to income taxes at the entity level. PBC is subject to U.S. income tax law. TBC is subject to New Zealand income tax law.

Another entity included in the consolidated results of the Company, South Blakely Trust (SBT), is considered a pass-through entity for U.S. federal income taxes but is treated as a complying trust under New Zealand law and is an entity responsible for New Zealand income tax obligations. SBT has incurred net taxable losses since inception in 1994, but foreign taxes will be imposed pursuant to New Zealand tax law when taxable income is generated in excess of accumulated net taxable losses from New Zealand operations or from interest payments or deemed payments by SBT to the partnership.



**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

PBC, TBC, and SBT recognize deferred tax assets and liabilities for the future tax consequences of temporary differences between income recorded for financial statements purposes and for income tax purposes. Deferred tax assets represent tax benefits that have already been recorded for book purposes but will be recorded for tax purposes in the future. Deferred tax liabilities represent income that has been recorded for book purposes but will be reported as taxable income in the future. Deferred tax assets are assessed for impairment when some or all of the deferred tax assets are expected to not be realized.

The Company calculated deferred tax assets to be \$452,700 and \$430,300 in 2020 and 2019, respectively, reflecting the benefits of \$2,155,800 and \$2,049,100 in 2020 and 2019, respectively, in net operating loss carryforwards. Realization is dependent on generating sufficient taxable income that can utilize the loss carryforwards. Management established a full valuation allowance of \$452,700 and \$430,300 as of December 31, 2020 and 2019, respectively, because on the basis of available evidence, it was more likely than not the entire deferred tax asset would not be realized. The amount of the deferred tax asset and the valuation allowance could change if the estimates of future taxable income during the carryforward period are increased.

The Company calculated deferred tax liabilities to be \$0 in 2020 and 2019. In 2019, the Company recognized a deferred tax benefit of \$4,132,700 when a previously recorded deferred tax liability was reversed. The reversal reflects the Company's expectation that it will be possible to indefinitely defer payment of its New Zealand Non-Resident Withholding Tax on intercompany interest.

The Company accrues interest and penalties related to unrecognized tax benefits as a component of income tax expense and current taxes payable. There were no interest or penalties recorded in 2020 and 2019.

The Company reviews a recognition threshold and measurement process for accounting for uncertain tax positions, including related reviews of matters such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and the country of New Zealand.

**Redemptions and Unit-based Employee Compensation**

Independent appraisals are used to determine the estimated fair market value of a unit of ownership of the Company. The estimated fair market value is approved by the Board of Directors of the corporate General Partner to determine payments to unitholders for units redeemed and benefits to key employees under certain deferred compensation plans of the Company.

**Use of Estimates**

The Company prepares the consolidated financial statements in accordance with U.S. generally accepted accounting principles. This requires management to make reasonable estimates and supportable assumptions during the reporting period and at the date of the consolidated financial statements. The estimates and assumptions affect the reported amounts of assets, liabilities and partners' capital, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses. Actual results may differ from those estimates and assumptions.

**NOTE 3 – DISCONTINUED OPERATIONS**

In June 12, 2020, the Board of Directors of the General Partner approved a resolution to discontinue the Company's PLS International business unit. Exiting the log trading business represents a strategic shift to focus on the Company's core business of sustainable forestry. This decision was made in response to long-term changes in the global log export market that reduced the Company's ability to operate PLS International profitably. PLS International completed its operations, including final customer sales, in the third quarter of 2020.

Balances related to PLS International in the Company's Consolidated Balance Sheets, Consolidated Statement of Income and Other Comprehensive Income, and Consolidated Statement of Cash Flows have been reported as discontinued operations for all periods presented.

The following table summarizes the operating results of the Company's discontinued operations for the years ended December 31, 2020 and 2019, as presented in "Net loss from discontinued operations" in the Consolidated Statements of Income and Comprehensive Income.

	Years Ended December 31,	
	2020	2019
Revenues from log trading	\$ 41,194,800	\$ 76,557,400
Costs of sales from log trading	(34,508,400)	(73,451,300)
General and administrative expenses	(3,821,200)	(2,099,100)
Other operating expenses	(4,276,100)	(6,609,100)
Other operating income	18,400	63,200
Interest and other income, net	293,800	98,100
Interest expense	(34,900)	(65,500)
<b>NET LOSS FROM DISCONTINUED OPERATIONS</b>	<b>\$ (1,133,600)</b>	<b>\$ (5,506,300)</b>

The following table summarizes assets and liabilities of the Company's discontinued operations for the years ended December 31, 2020 and 2019, as presented in "Assets of discontinued operations" and "Liabilities of discontinued operations" in the Consolidated Balance Sheets.

	Years Ended December 31,	
	2020	2019
Cash and cash equivalents	\$ 10,437,600	\$ 2,746,300
Trade accounts receivable, net	-	385,000
Log inventory	-	7,048,300
Other receivables and deposits	83,800	940,000
Property and equipment, net	10,215,700	12,539,800
Deferred charges and other assets, net	2,700	151,000
<b>ASSETS OF DISCONTINUED OPERATIONS</b>	<b>\$ 20,739,800</b>	<b>\$ 23,810,400</b>
Accounts payable and accrued expenses	\$ 943,500	\$ 1,094,500
Current obligations on notes payable	-	1,163,600
Notes payable, less current obligations	-	605,900
Deferred compensation, less current portion	518,700	535,300
<b>LIABILITIES OF DISCONTINUED OPERATIONS</b>	<b>\$ 1,462,200</b>	<b>\$ 3,399,300</b>

**NOTE 3 – DISCONTINUED OPERATIONS (continued)**

See Note 8 — Property and Equipment, for a summary of the depreciation, amortization, capital expenditures and the gain attributed to the assets already sold from the Company’s discontinued operations.

**NOTE 4 – REVENUE RECOGNITION**

A majority of our revenue is derived from sales of delivered logs and from the sale of carbon units. We account for revenue in accordance with ASC 606, Revenue from Contracts with Customers, which we adopted on January 1, 2019, using the cumulative effect method. The adoption of the new revenue recognition guidance did not materially affect our Consolidated Balance Sheets, Consolidated Statement of Income and Comprehensive Income, or Consolidated Statement of Cash Flows.

**Performance Obligations**

A performance obligation, as defined in ASC 606, is a promise in a contract to transfer a distinct good or service to a customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue at the point in time, or over the period, in which the performance obligation is satisfied.

Performance obligations associated with delivered log sales are typically satisfied when the logs are delivered to our customers’ mill or delivered to an ocean vessel in the case of export sales. Customers are generally invoiced shortly after logs are delivered, with payment generally due within 30 days or less of the invoice date.

Performance obligations associated with the sale of carbon units are typically satisfied when we have transferred the ownership of the carbon units to the buyer. Payment is typically due immediately upon transferring the carbon units.

**Contract Estimates**

Substantially all of the company’s performance obligations are satisfied as of a point in time. Therefore, there is little judgment in determining when control transfers for our business segments as described above. For log and carbon unit sales, the transaction price generally equals the amount billed to our customers for logs and carbon units delivered during the account period.

**Contract Balances**

In general, customers are billed and a receivable is recorded as we ship and/or deliver logs. We generally receive payment shortly after products have been received by our customers. Contract asset and liability balances are immaterial.

**Revenue by Business Unit**

The following table shows disaggregated revenue by business unit. The Company has two continuing business units – U.S. Forestry, which owns and operates timberland in the Pacific Northwest and N.Z. Forestry, which owns and operates timberland in New Zealand. PLS International, which exports logs from the U.S. to foreign customers, was discontinued in 2020.

**NOTE 4 – REVENUE RECOGNITION (continued)**

Revenues as of December 31, 2020					
	U.S. Forestry	N.Z. Forestry	Total from Continuing Operations	Total from Discontinued Operations	Total
Revenues from harvesting	\$ 79,227,000	\$ 42,074,400	\$ 121,301,400	\$ -	\$ 121,301,400
Revenues from log trading	-	21,050,000	21,050,000	41,194,800	62,244,800
Revenues from carbon sales	775,000	11,145,700	11,920,700	-	11,920,700
Total revenue by business unit	<u>\$ 80,002,000</u>	<u>\$ 74,270,100</u>	<u>\$ 154,272,100</u>	<u>\$ 41,194,800</u>	<u>\$ 195,466,900</u>

Revenues as of December 31, 2019					
	U.S. Forestry	N.Z. Forestry	Total from Continuing Operations	Total from Discontinued Operations	Total
Revenues from harvesting	\$ 58,181,400	\$ 37,442,600	\$ 95,624,000	\$ -	\$ 95,624,000
Revenues from log trading	-	35,902,900	35,902,900	76,557,400	112,460,300
Revenues from carbon sales	1,735,000	6,602,800	8,337,800	-	8,337,800
Total revenue by business unit	<u>\$ 59,916,400</u>	<u>\$ 79,948,300</u>	<u>\$ 139,864,700</u>	<u>\$ 76,557,400</u>	<u>\$ 216,422,100</u>

**NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITY**

The Company's New Zealand forestry operation is exposed to foreign exchange currency risk. The Company uses derivative financial instruments to mitigate the financial impact of exposure to this risk.

Accounting for derivative financial instruments is governed by ASC Topic 815, Derivatives and Hedging (ASC 815). In accordance with ASC 815, the Company records its derivative instruments at fair value as either assets or liabilities in the Consolidated Balance Sheets. Changes in the instruments' fair value are accounted for based on their intended use. Gains and losses on derivatives that are designated and qualify for cash flow hedge accounting are recorded as a component of accumulated other comprehensive income and reclassified into earnings when the hedged transaction materializes. The ineffective portion of a hedge will be recognized immediately in earnings. The Company had no hedge ineffectiveness in 2020 and 2019.

The functional currency of the Company's New Zealand forestry operation is the U.S. Dollar. The New Zealand forestry operation receives the majority of its revenues in U.S. Dollars, but pays for the majority of its costs in N.Z. Dollars, exposing the operation to foreign currency risk. The New Zealand operation typically hedges 80% of its estimated foreign currency exposure with respect to the following twelve months forecasted costs and up to 50% of the forward 12 to 18 months forecasted costs. As of December 31, 2020, foreign currency exchange contracts had maturity dates through March 2022.

**NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITY (continued)**

Foreign currency exchange contracts hedging foreign currency risk on operating costs qualify for cash flow hedge accounting. The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value based on the difference between the contracted derivative price and the estimated current derivative price. The estimated current derivative price is based on the foreign exchange rate at the end of the reporting period.

Gains or losses on hedges are reclassified into earnings when the hedge matures. Losses on foreign currency cash flow hedges totaled \$459,600 in 2020 and \$749,600 in 2019. These losses are included in harvesting costs, other operating expenses, and general administrative expenses on the Consolidated Statements of Income & Other Comprehensive Income.

**NOTE 6 – FAIR VALUE MEASUREMENTS**

The carrying amount of cash and cash equivalents reported on our consolidated balance sheets approximate fair value as we maintain them with various high-quality financial institutions. We disclose the fair value of our financial instruments based on the fair value hierarchy using the following three categories:

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

Investment Assets at Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,500	\$ -	\$ -	\$ 2,500
Foreign Currency Hedge	-	1,372,300	-	1,372,300
	<u>\$ 2,500</u>	<u>\$ 1,372,300</u>	<u>\$ -</u>	<u>\$ 1,374,800</u>
Investment Assets at Fair Value as of December 31, 2019				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,500	\$ -	\$ -	\$ 2,500
Foreign Currency Hedge	-	79,000	-	79,000
	<u>\$ 2,500</u>	<u>\$ 79,000</u>	<u>\$ -</u>	<u>\$ 81,500</u>

Money market funds are stated at fair value, as determined by quoted market prices. None of the Company's financial instruments are held for trading purposes.

See Note 5 – Derivative Financial Instruments and Hedging Activity for information regarding the Balance Sheet classification of the Company's foreign currency hedge.

**NOTE 7 – TIMBER AND TIMBERLANDS**

Timber and timberlands, recorded at historical costs, consisted of the following at December 31:

	2020	2019
Merchantable timber, net of depletion	\$ 135,169,300	\$ 139,631,400
Timberlands and related properties	61,245,500	61,753,300
Plantations and immature timber	63,428,900	67,260,000
Logging roads, net of amortization	9,531,900	8,994,700
	<u>\$ 269,375,600</u>	<u>\$ 277,639,400</u>
Depletion expense	\$ 8,538,000	\$ 8,320,700
Road amortization expense	1,425,100	1,436,200
Total depletion and road amortization charge against earnings	<u>\$ 9,963,100</u>	<u>\$ 9,756,900</u>

The Company occasionally enters into tax-deferred (like-kind) exchange transactions to acquire and sell timber and timberlands. The Company uses a qualified escrow account to facilitate like-kind exchange transactions. In 2020, no exchanges were entered into by the Company. In 2019 exchanges, the Company applied proceeds from 425 acres in Washington to purchases of 80 acres in Washington.

In 2020, the Company was impacted by a fire that impacted 9,540 gross acres of timberland property in Oregon. Damage included 8,560 net productive acres, consisting of 5,960 acres of merchandisable timber and 2,600 acres of plantation trees. A loss of \$2,365,400 was recognized as an adjustment to the carrying amount of timber and timberlands and as a deduction before income from operations.

The table that follows summarizes the timberland transactions for the years ended December 31:

	2020		2019	
	Acres	Amount	Acres	Amount
Acquisitions	90	\$ 15,900	9,030	\$ 48,153,000
Deposits on subsequent acquisitions	-	\$ 30,100	-	\$ -
Sales, net of closing costs	790	\$ 3,902,300	3,330	\$ 9,749,800
Gain on forestry land sales	-	\$ 2,961,700	-	\$ 6,321,900

**NOTE 7 – TIMBER AND TIMBERLANDS (continued)****Timber Cutting Commitments**

In connection with its New Zealand forestry operations, the Company pays land rent associated with certain timber cutting rights on lands adjacent or near to portions of the Company's timberlands.

An agreement in Waimate Forest, New Zealand, extending to 2028, requires the Company to replant areas where timber was harvested up to this date. After 2028, the agreement extends on an annual basis. The owner of the land can terminate the lease 45 years after giving the Company notice, and the Company can terminate the lease 1 year after giving the owner notice. Expenses under this agreement were \$19,500 in both 2020 and 2019. There was no harvest activity related to this agreement in 2020 or 2019.

An agreement in Matakana Island, New Zealand extends until 2029 or until all timber under the cutting right is harvested. Amounts payable under this contract decrease as timber is harvested under the cutting right. Expenses under this agreement were \$56,180 and \$131,980 in 2020 and 2019, respectively. New Zealand harvest revenues associated with this arrangement were \$3,966,560 and \$4,219,700 for 2020 and 2019, respectively.

In 2019, an additional agreement was signed for forestry rights in Matakana Island, New Zealand. There is no termination date under this agreement. Under the agreement, the Company can apply to replant areas and harvest additional rotations under the forestry right. The Company is required to provide two years notice for any stands to be harvested. The owner is required to provide a minimum of one-year notice indicating whether they wish to have the land handed back or they agree to another rotation. The Company intends to replant each block, if agreed by the owner. Expenses under this agreement were \$51,880 and \$54,780 in 2020 and 2019, respectively. New Zealand harvest revenues associated with this arrangement were \$2,236,470 and \$827,800 for 2020 and 2019, respectively.

**Timberland Leases**

The Company receives land rent associated with certain timberland access and timber cutting rights. Timberland leases expire at various dates through 2032. Future minimum rent receipts required under operating lease agreements for the year ending December 31 are as follows:

2021	\$	230,700
2022		217,500
2023		209,500
2024		186,100
2025		74,100
Thereafter		<u>182,900</u>
Total	\$	<u><u>1,100,800</u></u>



**NOTE 8 – PROPERTY AND EQUIPMENT**

Property and equipment, net, consisted of the following at December 31:

	2020		
	Continuing Operations	Discontinued Operations	Total
Land and land improvements	\$ 379,500	\$ 16,718,300	\$ 17,097,800
Machinery and equipment	5,222,500	3,868,200	9,090,700
Non-operating buildings and improvements	4,489,400	768,700	5,258,100
Office furniture and equipment	5,697,100	562,600	6,259,700
Subtotal	15,788,500	21,917,800	37,706,300
Accumulated depreciation and amortization	(11,026,100)	(11,702,100)	(22,728,200)
Total property and equipment, net	\$ 4,762,400	\$ 10,215,700	\$ 14,978,100
Depreciation and amortization charged against earnings	\$ 1,174,400	\$ 1,329,700	\$ 2,504,100
(Gain)/loss recognized on disposal of property and equipment included in interest and other income, net	\$ (178,400)	\$ (293,900)	\$ (472,300)
	2019		
	Continuing Operations	Discontinued Operations	Total
Land and land improvements	\$ 365,000	\$ 16,718,300	\$ 17,083,300
Machinery and equipment	5,185,000	10,483,400	15,668,400
Non-operating buildings and improvements	4,395,700	798,100	5,193,800
Office furniture and equipment	5,553,100	800,700	6,353,800
Subtotal	15,498,800	28,800,500	44,299,300
Accumulated depreciation and amortization	(10,387,000)	(16,260,700)	(26,647,700)
Total property and equipment, net	\$ 5,111,800	\$ 12,539,800	\$ 17,651,600
Depreciation and amortization charged against earnings	\$ 1,131,900	\$ 1,728,000	\$ 2,859,900
(Gain)/loss recognized on disposal of property and equipment included in interest and other income, net	\$ (23,400)	\$ (68,700)	\$ (92,100)

The Company purchased property and equipment related to discontinued operations of \$161,500 and \$386,900 in 2020 and 2019, respectively. The Company received cash receipts from the sale of property and equipment related to discontinued operation of \$1,449,800 and \$161,300 in 2020 and 2019, respectively.

In October 2020, PLS International entered into a Sale and Purchase Agreement to sell property in Longview, Washington to a buyer for a purchase price of \$13,450,000. The transaction is expected to close by July 2021. This property is included in discontinued operations.



## NOTE 9 – NOTES PAYABLE

Amounts due under various notes were as follows at December 31:

	2020	2019
Note payable, principal of \$90,000,000, secured by timberlands in Washington, fixed annual interest rate of 6.39%, interest due quarterly, principal payments of \$675,000 due quarterly commencing September 2015, maturity date of September 2024.	\$ 6,750,000	\$ 18,450,000
Note payable, principal of \$52,000,000, secured by timberlands in Washington, fixed annual interest rate of 6.01%, interest due quarterly, principal payments of \$390,000 due quarterly commencing June 2015, maturity date of March 2030.	37,830,000	39,390,000
Note payable, principal of \$30,000,000, secured by timberlands in Washington, fixed annual interest rate of 6.24%, interest due quarterly, principal payments of \$225,000 due quarterly commencing September 2015, maturity date of September 2024.	5,250,000	9,150,000
Note payable, principal of \$12,000,000, secured by timberlands in Washington, fixed annual interest rate of 3.79%, interest due quarterly, principal payments of \$90,000 due quarterly commencing June 2015, maturity date of September 2024.	8,730,000	9,090,000
Note payable, original principal of \$17,000,000, secured by timberlands in Washington, fixed annual interest rate of 3.72%, interest due quarterly, principal payments of \$127,500 due quarterly commencing March 2019, maturity date of March 2026.	14,280,000	14,790,000
Note payable, original principal of \$34,000,000, secured by timberlands in Washington, fixed annual interest rate of 4.08%, interest due quarterly, principal payments of \$255,000 due quarterly commencing March 2019, maturity date of March 2027.	30,260,000	31,280,000
Note payable, original principal of \$30,000,000, secured by timberlands in Washington, fixed annual interest rate of 3.25%; interest only payments due quarterly, no principal payments; maturity date of December 2034.	30,000,000	30,000,000
Note payable, original principal of \$50,000,000, secured by all inventory and accounts receivable and certain Oregon timberlands; fixed annual interest rate of 5.10%; interest only payments due quarterly; no principal payments; maturity date of May 2029.	50,000,000	50,000,000
Note payable, original principal of \$9,500,000, secured by real and personal property in Longview, Washington, fixed annual interest rate of 5.4%, principal fully amortized over 10 years, maturity date of July 2021.	-	1,769,500
	183,100,000	203,919,500
Less current obligations	(7,050,000)	(8,213,600)
Notes payable, less current obligations	<u>\$ 176,050,000</u>	<u>\$ 195,705,900</u>

**NOTE 9 – NOTES PAYABLE (continued)**

At December 31, 2020, notes payable includes \$0 related to discontinued operations. At December 31, 2019, notes payable includes \$1,769,500 related to discontinued operations, including \$1,163,600 in current obligations.

Future long-term maturities of notes payable for the five years ending December 31 and thereafter are as follows:

2021	\$ 7,050,000
2022	7,050,000
2023	5,700,000
2024	13,290,000
2025	3,090,000
Thereafter	<u>146,920,000</u>
Total	<u><u>\$ 183,100,000</u></u>

During 2020, the Company entered into a revolving operating note and loan agreement with a lender that permits the Company to borrow up to \$30,000,000. This total is secured by timberlands in Washington and matures in March 2025. The amounts drawn are subject to a variable interest rate of 2.65% at December 31, 2020. The Company pays an annual commitment fee of 0.10% of the unused portion of the commitment.

During 2018, the Company renewed a revolving operating note and loan agreement with a lender that permitted the Company to borrow up to \$40,000,000. In 2020, this contract was amended and restated permitting the Company to borrow up to \$20,000,000. This total is secured by timberlands in Oregon and Port Blakely Accounts Receivable and Inventory and matures in November 2023. The amounts drawn are subject to a variable interest rate of LIBOR plus 1.65% or 2.0% at December 31, 2020. The Company pays an annual commitment fee of 0.15% of the unused portion of the commitment.

The amounts of credit available under the Revolving Loan Facility is reduced by amounts drawn. Unused credit available as of December 31 is as follows:

	<u>2020</u>	<u>2019</u>
Credit limit	\$ 50,000,000	\$ 40,000,000
Amounts drawn	<u>(10,000,000)</u>	<u>-</u>
Unused credit available	<u><u>\$ 40,000,000</u></u>	<u><u>\$ 40,000,000</u></u>

Management believes the Company is in compliance with all loan covenant calculations for all of the above notes at December 31, 2020 and 2019.

**NOTE 10 – RETIREMENT, DEFERRED COMPENSATION AND INCENTIVE PLANS****Defined Contribution Plans**

Substantially all employees of the Company who reside in the United States and meet specified service requirements are included in a trustee, profit sharing retirement plan qualified under Section 401 of the Internal Revenue Code. The plan requires matching contributions of 50% of the first 6% of each employee's qualified elective deferrals. The plan also requires contributions to the plan to be based on a minimum of 3% of the annual compensation for each employee, subject to the limits under Section 401(a) (17) of the Internal Revenue Code, and provides for additional contributions at the discretion of the Board of Directors of the General Partner. The plan further provides for qualified salary reduction agreements under Internal Revenue Code Section 401(k).

Substantially all employees of the Company who reside in New Zealand and meet specified service requirements are included in a retirement savings plan similar to that offered to employees in the United States. The plan requires matching contributions of 50% of the first 6% of each employee's qualified elective deferrals. The plan also requires contributions to the plan to be based on a minimum of 3% of the annual compensation for each employee, and provides for additional contributions at the discretion of the Board of Directors of the General Partner. Participants direct the employer contributions into various qualified retirement plans.

**Deferred Compensation Plan**

The Company maintains a nonqualified deferred compensation plan for certain select key management employees whereby eligible employees may voluntarily elect to defer a percentage of future cash compensation until a future date determined by the employee. The plan is unfunded and benefits paid are from the general assets of the Company. Additionally, the plan provides for an annual contribution by the Company to each participant's account equal to the annual contribution that would have been made to the participant's Qualified Profit Sharing Plan account but for the limitation of Section 401(a) (17) of the Internal Revenue Code. Participant account balances under this plan earn interest, recorded as compensation expense, at an average prime rate, less one-half percent, which was 2.75% at December 31, 2020. At December 31, 2020 and 2019, amounts owed to participants under this plan were \$2,258,400 and \$4,111,900, respectively, and are included in deferred compensation. Of these balances, December 31, 2020 and 2019 includes \$497,400 and \$535,300, respectively, related to discontinued operations.

**Management Long Term Incentive Plan**

On January 1, 2012, the Company adopted the Long Term Incentive Plan (2012 Plan). Under the terms of the 2012 Plan, participants are granted target award amounts to be valued at the time of plan maturity. Awards are valued based on the growth of the Company's partnership units over the life of the plan award to share in the future appreciation, if any, of the value of the Company. The fair market value of the partnership units is approved by the Board of Directors of the General Partner and is used to calculate a compound annual growth rate achieved over the life of the plan. The Company accounts for the plan using the intrinsic-value method by recognizing compensation expense for the excess of fair market value of the partnership units at the end of each period over the base price plus any applicable minimum threshold hurdle rates, less any applicable per unit distribution to unitholders. This excess is then calculated over the requisite performance period for all award amounts. Amounts earned under the plan are subject to applicable vesting schedules, and vested award values are settled in cash at the expiration of the appropriate term.

**NOTE 10 – RETIREMENT, DEFERRED COMPENSATION AND INCENTIVE PLANS  
(continued)**

The 2012 Plan is subject to terms of four years with cliff-vesting at the end of each four-year term. The directors of The Port Blakely Company have discretion over granted awards. Each award is denominated in a target value dollar amount. A performance schedule determines the unsecured amount the Company promises to pay. The maximum amount that can be paid for any award is 300% of the target value, and the amount paid is based on appreciation of the unit value over the four-year performance period. As of December 31, 2020 and 2019, the units have a fair market value of \$252 and \$232, respectively. In 2020, \$1,536,100 in awards were granted and \$209,100 in awards were forfeited. In 2019, \$1,406,900 in awards were granted and \$0 in awards were forfeited.

In 2020, payment of \$1,216,200 was made to settle employee awards related to the 2016 Plan with a maturity date of December 31, 2019. In 2019, payment of \$2,180,600 was made to settle employee awards related to the 2015 Plan with a maturity date of December 31, 2018.

Detail of 2012 Plan balances at December 31, 2020, is as follows:

	Unit Value on Award Date	Target Value Awards	Total Plan Value	Accrued Plan Value at 12/31/2020	Unaccrued Plan Value at 12/31/2020
2017 Plan - Maturity Date 12/31/2020	\$ 220	1,030,700	823,900	823,900	-
2018 Plan - Maturity Date 12/31/2021	\$ 239	1,116,900	516,000	387,000	129,000
2019 Plan - Maturity Date 12/31/2022	\$ 273	1,352,200	-	-	-
2020 Plan - Maturity Date 12/31/2023	\$ 232	<u>1,479,800</u>	<u>1,405,400</u>	<u>351,300</u>	<u>1,054,100</u>
		<u>\$ 4,979,600</u>	<u>\$ 2,745,300</u>	<u>\$ 1,562,200</u>	<u>\$ 1,183,100</u>

In the table above, the Accrued Plan Value at December 31, 2020 includes \$21,400 related to discontinued operations.

**NOTE 10 – RETIREMENT, DEFERRED COMPENSATION AND INCENTIVE PLANS  
(continued)**

Detail of 2012 Plan balances at December 31, 2019, is as follows:

	<u>Unit Value on Award Date</u>	<u>Target Value Awards</u>	<u>Total Plan Value</u>	<u>Accrued Plan Value at 12/31/2019</u>	<u>Unaccrued Plan Value at 12/31/2019</u>
2016 Plan - Maturity Date 12/31/2019	\$ 191	998,500	1,216,200	1,216,200	-
2017 Plan - Maturity Date 12/31/2020	\$ 220	1,075,700	521,000	390,700	130,300
2018 Plan - Maturity Date 12/31/2021	\$ 239	1,170,000	-	-	-
2019 Plan - Maturity Date 12/31/2022	\$ 273	1,406,900	-	-	-
		<u>\$ 4,651,100</u>	<u>\$ 1,737,200</u>	<u>\$ 1,606,900</u>	<u>\$ 130,300</u>

**Board of Directors Long Term Incentive Plan**

The Board of Directors of the General Partner received awards under the 2012 Plan. The Company accrues a liability in accounts payable and accrued liabilities and in general and administrative expenses when the obligation to pay the General Partner is known at the end of each four year vesting period. At December 31, 2020 and 2019, the accrued liability to the Board of Directors was \$152,900 and \$232,600, respectively. The unvested award amount for directors was \$361,300 and \$103,400 at December 31, 2020 and 2019, respectively. The Company does not hold a liability for the unvested awards for directors.

**NOTE 10 – RETIREMENT, DEFERRED COMPENSATION AND INCENTIVE PLANS  
(continued)**

Amounts charged to expense under all plans were as follows as of December 31:

	2020		
	Continuing Operations	Discontinued Operations	Total
Qualified Profit Sharing Plans	\$ 862,900	\$ 137,500	\$1,000,400
Nonqualified Deferred Compensation Plan	151,200	18,200	169,400
Nonqualified Management Long Term Incentive Plan	1,140,600	21,400	1,162,000
Nonqualified Board of Directors Long Term Incentive Plan	152,900	-	152,900
	<u>\$ 2,307,600</u>	<u>\$ 177,100</u>	<u>\$2,484,700</u>
	2019		
	Continuing Operations	Discontinued Operations	Total
Qualified Profit Sharing Plans	\$ 682,400	\$ 205,600	\$ 888,000
Nonqualified Deferred Compensation Plan	245,600	27,400	273,000
Nonqualified Management Long Term Incentive Plan	(1,504,600)	-	(1,504,600)
Nonqualified Board of Directors Long Term Incentive Plan	232,600	-	232,600
	<u>\$ (344,000)</u>	<u>\$ 233,000</u>	<u>\$ (111,000)</u>

**NOTE 11 – BUSINESS CONCENTRATIONS**

In 2020, revenues from U.S. forestry operations with four customers were 30%, 19%, 13%, and 10% and revenues from New Zealand forestry operations with two customers were 20% and 12%. Revenues from discontinued operations with three customers were 18%, 15% and 13%.

In 2019, revenues from U.S. forestry operations with two customers were 30% and 15% and revenues from New Zealand forestry operations with three customers were 18%, 14%, and 13%. Revenues from discontinued operations with two customers were 22% and 13%.

In 2020, payments from discontinued operations to one vendor were 21%. In 2019, payments from discontinued operations to one vendor were 11%.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The Company paid \$749,800 and \$881,800 in 2020 and 2019, respectively, to The Port Blakely Company for its management functions. The Port Blakely Company is allocated approximately 0.02% of partnership net income or loss based on its ownership of general partnership units. In 2015, Mr. René Ancinas assumed the role of the Chairman of The Port Blakely Company as well as retaining his role as the Chief Executive Officer of the Company and The Port Blakely Company and is allocated approximately 0.22% and 0.19% of partnership net income or loss based on his ownership of limited partnership units in 2020 and 2019, respectively.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES****Unitholder Loan Program**

The Company sponsors an arrangement to facilitate loans (Loan Program) between The Commerce Bank of Washington (Bank) and the partnership's unitholders (Borrower). Under the terms of the Loan Program, the Bank provides loans to Borrowers subject to the Bank's loan underwriting criteria and the Borrower's credit worthiness and collateral availability. Loans approved by the Bank are supported by the Borrower's pledge of his/her partnership units as collateral and the Company's agreement to purchase the pledged units from the Bank if the Borrower defaults on the loan. No Borrower has defaulted on a loan under the Loan Program. The maximum potential commitment for all loans under the Loan Program is \$5,000,000. No liabilities were recorded in the Company's financial statements at December 31, 2020 and 2019.

At December 31, 2020, the loans outstanding under the Loan Program were as follows:

<u>Origination Date</u>	<u>Current Balance</u>	<u>Maturity Date</u>	<u># of Units Pledged</u>
7/24/2018	\$ 150,000	6/30/2021	1,256
8/4/2020	<u>267,800</u>	7/31/2021	<u>3,663</u>
Total	<u>\$ 417,800</u>		<u>4,919</u>

At December 31, 2019, the loans outstanding under the Loan Program were as follows:

<u>Origination Date</u>	<u>Current Balance</u>	<u>Maturity Date</u>	<u># of Units Pledged</u>
4/20/2015	\$ 2,499,800	6/30/2020	14,147
7/24/2018	150,000	6/30/2020	1,256
3/13/2019	<u>20,500</u>	3/31/2020	<u>550</u>
Total	<u>\$ 2,670,300</u>		<u>15,953</u>

**Lease Obligations**

The Company leases office space and equipment in various locations with terms expiring through 2024. Office space operating leases were \$441,100 and \$420,500 in 2020 and 2019, respectively, and were recorded in general and administrative expenses.

Future required minimum operating lease payments under these agreements for the years ending December 31 are as follows:

2021	\$ 448,000
2022	415,100
2023	384,300
2024	<u>100,700</u>
Total minimum lease payments	<u>\$ 1,348,100</u>

**NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)****Pending or Threatened Litigation**

The Company is subject to claims and legal actions that may arise in the ordinary course of business. The Company is currently engaged in an environmental remediation action in Washington state. Although the costs of remediation are likely to be material, the Company believes that the cost of remediation will be covered by insurance policies. Management does not believe that any other pending claims or legal actions in the ordinary course of business will materially affect the Company's financial position or results of operations.

**NOTE 14 – SUBSEQUENT EVENTS**

Subsequent events are significant events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued. The Company has evaluated subsequent events through March 8, 2021, which is the date the consolidated financial statements were available to be issued.



## The Port Blakely Company

### Balance Sheets

As of December 31, 2020 and December 31, 2019

(Unaudited)

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash	\$ -	\$ -
Receivable	143,260	232,631
Tax Deposits to IRS	-	-
Investment in Port Blakely Tree Farms	23,930	22,613
Investment in Island Timber Company	10,802	10,379
Investment in Blakely Pacific Limited	636	636
	<u>\$ 178,627</u>	<u>\$ 266,259</u>
<b>Liabilities and Capital</b>		
Accounts Payable	\$ -	\$ -
Long Term Incentive Plan	287,544	305,620
Common Stock	190	190
Stock Retirement	(5,979)	(1,793)
Retained Earnings	(103,128)	(37,759)
	<u>\$ 178,627</u>	<u>\$ 266,258</u>

## The Port Blakely Company

### Statements of Operations

For the Twelve Months Ended December 31, 2020

and the Twelve Months Ended December 31, 2019

(Unaudited)

	<u>2020</u>	<u>2019</u>
<b>Revenues</b>		
Management Fees	\$ 749,831	\$ 881,841
Equity Income (Loss)		
Port Blakely Tree Farms	3,531	2,099
Island Timber Company	423	(205)
Blakely Pacific Limited	-	-
	<u>753,784</u>	<u>883,735</u>
<b>Expenses</b>		
Directors Fees	596,670	577,820
Long Term Incentive Plan	214,556	(265,318)
Accounting Services	275	-
Legal Fees	-	-
State Income and B&O Taxes	7,405	10,531
Federal Income Tax	248	2,965
Miscellaneous	-	-
	<u>819,154</u>	<u>325,998</u>
<b>Net Income (Loss)</b>	<u>\$ (65,369)</u>	<u>\$ 557,737</u>