APPRAISAL OF

PARCEL #538
62.3 ACRES
CUSTER COUNTY, MONTANA

PREPARED FOR

TOM KONENCY, APPRAISER
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
P. O. Box 201601
Helena, MT 59620-1601

PREPARED BY

GEORGE LUTHER, JR., ARA., ROB BARTHOLOMEW, TRAINEE
LUTHER APPRAISAL SERVICES, INC.
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Effective Date: October 7, 2008
Report Date: October 24, 2008

Luther Appraisal Services, Inc.

Real Estate Appraisal • Consulting • Management

P.O. Box 1745 • Miles City, MT 59301-1745
(406) 234-5201 • FAX (406) 234-9730

October 29, 2008

Tom Konency
DNRC
P. O. 201601
Helena, MT 59620-1601

Dear Mr. Konency:

At your request I have completed an inspection and appraisal of Parcel #538 located approximately 4 road miles northwest of Miles City, in Custer County, Montana.

The report transmitted herewith is composed of 26 pages, plus addendum, covering the findings, facts, and conclusions from the inspection of the property and investigation of market data. The value of the property is defined as market value and has been estimated as of the date of inspection. The market value of the fee simple estate, subject to easements, reservations, restrictions, and/or conveyances of record, as of October 7, 2008 is as follows:

$31,600

The main portion of the report details the development of the market value of the subject and the assumptions and limiting conditions placed on the report by the undersigned. This report has been prepared and governed by the Code of Ethics of the various professional organizations to which I ascribe and the Uniform Standards of Professional Appraisal Practice (USPAP).

The authority for conducting the appraisal was given by Montana Department of Natural Resources and Conservation (DNRC), Attn. Tom Konency, Appraiser for the Montana DNRC, P. O. Box 201601, Helena, MT 59620-1601. The client for this appraisal is Montana Department of Natural Resources and Conservation (DNRC). The intended users of this appraisal report are the Montana Department of Natural Resources and Conservation (DNRC) and the State of Montana Board of Land Commissioners.

The market data contained in this report is to remain confidential and is not to be utilized, disclosed or disseminated outside of this report by any means of communication.

The majority of the subject is in the Airport Impact Zone and Limited Development Area Zone. There are few restrictions for agricultural or residential development, with a list of the restrictions for the zones contained within the report and a map located in the addenda.

I trust this report will be found complete and satisfactory for your needs. If any additional information is needed, please do not hesitate to contact me. Your confidence in allowing me to serve you is greatly appreciated, and I have considered this work a privilege.

Respectfully submitted,

George Luther, Jr., ARA
Certified General Real Estate Appraiser
Montana Certificate #188

Rob Bartholomew
Appraiser Trainee
Montana License #910

George Luther, Jr.
Accredited Rural Appraiser

Summary of Salient Facts

Owner of Record: State of Montana
Administered/Managed by Department of Natural Resources and Conservation (DNRC)

Occupant or Lessee: Moores Sunday Creek Ranch Co.

Property Location: Four road miles west of Miles City

County Custer

Property Rights Appraised: Fee Estate subject to any encumbrances, reservations, conveyances, restrictions, and/or easements of record.

Present Use: Grazing tract

Highest and Best Use (as unimproved): Rural Residential/Part-time

Highest and Best Use (as improved): Rural Residential/Part-time

Property Description: **Acreage**:

Land Type	Acreage
Rangeland	61.2
Roads, Waste	2.0
Total/Fee Acres	63.2

Date of Value: October 7, 2008
Date of Inspection: October 7, 2008
Date of Photographs: October 7, 2008
Date of Report: October 24, 2008

Sales Comparison Approach: $31,600.00

Estimated Market Value: $31,600.00

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Statement of Assumptions and Limiting Conditions

1. LIMIT OF LIABILITY: The liability of Luther Appraisal Services, Inc. and/or subcontractors is limited to the client and to the fee collected. Further, there is no accountability, obligations, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser assumes no responsibility for any costs incurred to discover or correct any deficiencies of any type present in the property; physically, financially, or legally.

2. COPIES, PUBLICATION, DISTRIBUTION, USE OF REPORT: Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report(s) remain the property of the appraiser for the use by the client, the fee being for analytical services only.

The Bylaws and Regulations of the American Society of Farm Managers and Rural Appraisers require each Member to control the use and distribution of each appraisal report signed by such Member; except as hereinafter provided, the client may distribute copies of this appraisal report in its entirety to such third parties as he or she may select; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of the appraisal report. Neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations, news sales or other media for public communications without the prior consent of the appraiser (see last item in following list for client agreement/consent).

3. CONFIDENTIALITY: This appraisal is to be used only in its entirety. No part or portion thereof is to be used by any party without the whole report. All conclusions and opinions concerning the analysis are set forth in the report and were prepared by the appraiser(s) whose signature(s) appear on the appraisal report. No change of any item in the report shall be made by anyone other than the appraiser. The appraiser shall have no responsibility if any such unauthorized change is made.

The appraiser may not divulge the material (evaluation) contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designee as specified in writing except as may be required by the American Society of Farm Managers and Rural Appraisers as they request in confidence for ethics enforcement, or by court of law or body with the power of subpoena.

The appraiser(s) assumes no responsibility for any costs or consequences arising due to the need, or the lack of need for flood hazard insurance. An Agent for The Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

4. INFORMATION USED: No responsibility is assumed for accuracy of the information furnished by work of others, the client, his designee, or public records. We are not liable for such information or the work of possible subcontractors. Be advised that some of the people associated with Luther Appraisal Services, Inc. and possibly signing this report are independent contractors. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other sources thought reasonable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market related information. It is suggested that the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitments of funds or subject property.

5. TESTIMONY AND COMPLETION OF CONTRACT FOR APPRAISAL SERVICES: The contract for appraisal, consultation or analytical service are fulfilled and the total fee payable upon completion of the report. The appraiser(s) or those assisting in the preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part, nor engage in post appraisal consultation with client or third parties except under separate and special arrangement and at additional fee. If testimony or deposition is required because of subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

6. EXHIBITS: The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if included, are included for the same purpose (as of date of photos). Site plans are not surveys unless shown from separate surveyor.

7. LEGAL, ENGINEERING, FINANCIAL, STRUCTURAL, OR MECHANICAL NATURE, HIDDEN COMPONENTS, SOIL: No responsibility is assumed for matters legal in character or nature, nor matters of survey, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report. The legal description is assumed to be correct as furnished by the client, his designee, or as derived by the appraiser.

Please note that no advice is given regarding soils and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek legal assistance), and such.

The appraiser has inspected as far as possible, by observation, the land and the improvements; however it was not possible to personally observe conditions beneath the soil, or hidden structural, or other components. The value estimate considers there being no such conditions that would cause a loss in value. The land or the soil of the area being appraised appears firm, however subsidence in the area is unknown. The appraiser(s) *do not warrant against this condition* or occurrence of problems arising from soil conditions.

The appraisal is based on there being no hidden, unapparent, or apparent conditions of the property site, subsoil, structures or toxic materials which would render it more or less valuable. No responsibility is assumed for any such conditions or for any expertise or engineering to discover them.

8. LEGALITY OF USE: The appraisal is based on the premise that, there is full compliance with all applicable federal, state, and local environmental regulation and unless otherwise stated in the report; further that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local state, federal, and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

9. COMPONENT VALUES: The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

10. INCLUSIONS: Furnishings and equipment or personal property or business operations except as specifically indicated and typically considered as a part of real estate, have been disregarded with only the real estate being considered in the value estimate unless otherwise stated. In some property types, business and real estate interests and values are combined.

11. VALUE CHANGE, MARKET INFLUENCES, ALTERATION OF ESTIMATE BY APPRAISER(S): The estimated market value, which is defined in the report, is subject to change with market changes over time; value is highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The value estimate considers the productivity and relative attractiveness of the property physically and economically in the marketplace.

In cases of appraisals involving capitalization of income benefits, the estimate of market value or investment value or value-in-use is a reflection of such benefits and appraiser's interpretation of income, yields, and other factors derived from general and specific client and market information. Such estimates are limited to the date of the estimate of value; they are thus subject to change as the market and value are naturally dynamic.

The "Estimate of Market Value" in the appraisal is not based in whole or in part upon the race, color, or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

12. CHANGES AND MODIFICATIONS: Appraisal report and value estimate are subject to change if physical, legal entity, or financing different than the envisioned at the time of writing this report becomes apparent at a later date.

13. MANAGEMENT OF THE PROPERTY: It is assumed that property which is the subject of this report will be under prudent and competent ownership and management; neither inefficient nor super-efficient.

14. CONTINUING EDUCATION: The American Society of Farm Managers and Rural Appraisers conduct voluntary programs of continuing education for their designated members: ARA's who meet minimum standards of this program are awarded periodic educational certification, and; designated members signing this report are currently certified under these programs.

15. FEE: The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report or the physical report itself. The compensation (fee) for the preparation of this appraisal report has no relation to the final values reported.

16. CHANGES, MODIFICATIONS: The appraiser, reserves the right to alter statements, analysis, conclusion or any value estimate in the appraisal if there becomes known to us facts pertinent to the appraisal process which were unknown to us at the time of the report preparation.

17. MINERAL RIGHTS, NOISE, AND ENVIRONMENTAL CONCERNS: Mineral rights, noise, and environmental factors have not been given segregated consideration except as noted; they have been treated with the whole.

18. HAZARDOUS MATERIALS: Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl's, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such material on or in the property unless otherwise stated. The appraiser, however, is not qualified to detect such substances or conditions. If the presence of such substances such as asbestos, urea-formaldehyde foam insulation, or other hazardous substances or environmental conditions may affect the value of the property, the value estimate is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

19. HYPOTHETICAL CONDITION:

A. LEASE INTEREST: The tract being valued in this appraisal is subject to a current lease that is under similar area market leases. The appraisal does not take into account the affect of the leases on the property since it considers the surface estate to be transferred not subject to the lease terms and conditions.

20. ACCEPTANCE OF, AND/OR USE OF, THIS APPRAISAL REPORT BY THE CLIENT(S), OR ANY THIRD PARTY, CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS.

Property Identification and Legal Description
The property is a grazing tract that is located 4 road miles west of Miles City with county gravel road access (Sheffield) that borders the property on the southwest for approximately 1/6 mile before turning northeast, bisecting the property. It consists of rangeland use with a total of 63.2 deeded acres and is not structurally improved.

The legal description of the subject property is defined as follows:

Township 8 North, Range 46 East, M.P.M., Custer County, Montana
Section 36: Lots 1, 2, 3, and 4

Purpose and Function of Appraisal
The purpose of this appraisal is to estimate the **MARKET VALUE** of the subject property in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP). It is my understanding that this appraisal is to be issued for the potential sale under the Land Banking Program of said subject property for the owner of the property. The property was inspected on October 7, 2008 with no party accompanying the appraisers. The property was inspected by driving on established roads and trails and walking parts of the property. Property data was gathered from the Custer County Courthouse, FSA office, DNRC, City of Miles City and DOR.

The region was searched for data and sales of rural residential and small tract properties with emphasis on units with similar amenities as the subject. The appraiser has inspected, photographed, and verified the data with the principals or their agents. In most cases, financial data or operating data are estimates based on interviews.

The market data contained in this report is to remain confidential and is not to be disclosed or disseminated outside of this report by any means of communication.

The authority for conducting the appraisal was given by Montana Department of Natural Resources and Conservation (DNRC), Attn. Tom Konency, Appraiser for the Montana DNRC, P. O. Box 201601, Helena, MT 59620-1601. The client for this appraisal is Montana Department of Natural Resources and Conservation (DNRC). The intended users of this appraisal report are the Montana Department of Natural Resources and Conservation (DNRC) and the State of Montana Board of Land Commissioners.

This appraisal is being reported in a summary report format.

USPAP includes a competency provision that states:

"Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; or alternatively:
1. **disclose the lack of knowledge and/or experience to the client before accepting the assignment; and**
2. **take all steps necessary or appropriate to complete the assignment competently; and**
3. **describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.**

Mr. Luther has been appraising real estate in Montana, Idaho, Wyoming, and North and South Dakota since 1984, and is familiar with the geographical area in which the property is located. The appraiser also believes that he possesses the knowledge and experience to complete this assignment competently. Mr. Bartholomew has been an appraisal trainee with Mr. Luther since August 2007.

Appraisal Dates

Date of Value:	October 7, 2008
Date of Inspection:	October 7, 2008
Date of Photographs:	October 7, 2008
Date of Report:	October 24, 2008

Property Rights Appraised
The property rights appraised encompass the fee estate subject to encumbrances, easements, conveyances, restrictions, and/or reservations of record. *It is noted that the appraiser is not a title specialist, that a complete search of the title was not completed by the appraiser or any associate of the appraiser, and that there can be items contained of record or not of record that the appraiser was not made aware of or has no knowledge of.* There are no known easements or encroachments that detrimentally affect the value of the property. This report will be generally confined to a discussion of the surface rights and will not include a separate value indication for aerial or subsurface interests. The State of Montana will retain all sub-surface interests including oil, gas coal and other minerals, thus only the surface estate is being conveyed.

Definition of Value

Market value as defined within M.C.A. is:

Current fair market value is the price that would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the following factors.
1. The highest and best reasonably available use and its value for such use, provided current use may not be presumed to be the highest and best use;
2. The machinery, equipment, and fixtures forming part of the real estate taken; and
3. Any other relevant factors as to which evidence is offered.

The definition of market value is in terms of cash or on financing terms equivalent to cash.

Present Ownership
This subject property has been operated under a lease with the State of Montana by Moores Sunday Creek Ranch Co. since March 1, 2000. Ownership has been by the State of Montana for several decades.

The subject is not currently listed. The subject property lease data is as follows:

Lease #	Lessee	Amount	AUMs	Term Remaining	Expiration Date
7401	Moores Sunday Creek Ranch Co.	$92.70	15.0	One year, four months	February 28, 2010

Exposure Time Verses Marketing Time

Current professional appraisal standards require an appraiser to estimate the typical marketing and exposure time for the property appraised. "Exposure time" is the estimated length of time the property interest would have been offered in the market **prior to** the hypothetical consummation of a sale at market value on the effective date of the appraisal; exposure time is always presumed to precede the effective date of appraisal. Alternatively, "marketing time" is a consulting term which relates to that amount of time that would be required to sell the property interest at the estimated market value during the period **after** the effective date of the appraisal. An estimate of marketing is not intended to be a predication of a date of sale. It is inappropriate to assume the value as of the effective date of appraisal remains stable during a marketing period.

In applying the market value definition to this appraisal, a reasonable exposure time of 6 to 12 months has been estimated for the subject. Additionally, the appraiser has considered market factors external to this appraisal report and has concluded that a reasonable marketing time for the subject is 6 to 12 months.

AREA/REGIONAL ANALYSIS

The specific market area for the subject is Custer County, principally that area within 10 to 30 miles of Miles City, Montana.

Social Factors
The area is predominantly rural with the major sub-regional and regional trade centers being Miles City and Billings. Further services are available in Billings and Miles City including retail outlets, colleges, and medical facilities. Billings is the largest city in the region with a population base of over 100,000 in the urban area.

High school and a Community College are available in Miles City including K-8. Rural schools are available (K-8) in Kinsey and Kircher along with one private (K-8) school in Miles City. Custer County has an estimated population of 11,188 (2007), down from an estimated population of 11,669 (2000) for a decline of 4.1%. Miles City, the county seat of Custer County, has an estimated population of 8,120 (2006) down from an estimated 8,474 (2000) a 4.2% decline.

Economic Factors
This area is primarily driven by an agricultural economy with several off farm employment opportunities available at local businesses and agencies in Miles City. Miles City provides most of the area's opportunities being a regional trade center. Further employment in the area is with the energy industry, i.e. coal mines at Colstrip, oil and gas fields in Baker and Glendive, Sanjel, and electrical steam generating plants in Colstrip.

Operations in the area consist of cattle ranches, and dry crop and irrigated farms. Most ranches have an adequate feed base with some limited farming of small grains for cash crops and/or livestock feed. Northern Custer and Rosebud Counties along with southern Garfield County have larger grass ranches that have limited or no feed base. Farms located in the area are concentrated along the Yellowstone River, southern Custer, northeastern Rosebud, and northern to southern Fallon Counties. There is a high dependence of ranches in Prairie County and portions of Rosebud, Powder River, and Custer Counties on public lands for grazing. The impact of any potentially higher grazing fees has not been reflected in the overall market.

The Yellowstone Valley irrigated farms grow beets as a cash crop along with limited beans and/or peas. Beets from the Hysham and Forsyth area go to the Western Sugar factory in Billings. Beets grown in the Kinsey to Sidney area are transported and processed at Sidney Sugar in Sidney.

Markets for livestock are through public auction barns or order buyers. Public auctions are located at Miles City, Baker, and Billings, MT; Belle Fourche and St. Onge, SD; and Bowman, ND. On-feed lots are prevalent in area irrigation projects for back grounding feeding and some limited finishing feeding.

Mineral activity in the area is limited to oil, gas, and coal. Coal mines are located at Colstrip and Decker with other developable deposits located near Miles City, Broadus, Circle and Ashland. The principal oil and gas activity is located in the Cabin Creek, Corral Creek, and associated fields in Richland, Dawson, Fallon and Prairie Counties.

Recreational uses of the area are especially prevalent for hunting and fishing. This provides an economic stimulus during the fall hunting season. Tourism provides a limited economic impact in the area with it lagging behind the minerals and agricultural industries.

Governmental Factors

Government programs contribute to the local operations through the FSA farm programs. Custer County has shown the following agricultural cash receipts along with government payments (in millions) for the year of 2003 to 2005.

County/Year		Livestock	Crop	Sub. Total	Govt. Pmts.	Total Cash	%Govt	%Lvstk	%Crop
Custer	2003	34,827	6,972	41,799	3,845	45,644	8.4	76.3	15.3
	2004	36,044	6,000	42,044	1,971	44,015	4.5	81.9	13.6
	2005	32,293	7,618	39,911	6,064	45,975	13.2	70.2	16.6

Environmental Factors

Predominant land use in the area is for livestock ranches with some areas of concentrated farming. Part time farms and rural residential properties are generally located within 1 to 30 miles of Miles City. The part time farms are more scattered in location and are quite often located near a major river, while the rural residential properties tend to be more often clustered. The area is characterized by several major drainages: Yellowstone River, Tongue River, Rosebud Creek, and Powder River. Terrain runs from open and rolling to hilly with some areas of rougher breaks along the Yellowstone River and other more isolated areas. Most stands of Ponderosa Pine are located south of the Yellowstone River in the areas with scoria outcropped hills.

Custer County has an estimated total 2,428,486 surface acres and Rosebud County is at 3,413,869 acres.

Access to the area is via I-94 that connects Billings, MT to the North Dakota border through the cities of Hysham, Forsyth, Miles City and Glendive. The main north/south highway in the area is MT 59 that connects Jordan to Broadus and on into Wyoming. U. S. Highway 12 connects Roundup east via I-94, through Melstone, Forsyth, Miles City, Baker and on into Bowman, North Dakota. Several paved secondary, gravel, and dirt county roads provide access and service throughout the area. Regional air services are available in Billings, MT, Bismarck, ND and Rapid City, SD with pending commuter service for Miles City.

Trends

The area around Miles City has several outlying subdivisions of varying sizes and configurations scattered among farms and ranches. North of the Yellowstone River the largest subdivision is the Bergerson Ranchettes which is about 30 years old. The newest is the Doeden subdivision to the south-southeast with larger tracts and fewer in quantity. There are several smaller tracts in the Kinsey area to the northeast, most of which were farmsteads that were severed off of the irrigated unit. The area along Highway 59 North and the Kinsey highway just off of Highway 59 North have several tracts that have been sold in the past with one smaller subdivision about 15 miles north of Miles City.

Tract land tends to be in demand, especially in the Yellowstone and Tongue River Valleys around Miles City. The supply of available properties is short with very few selling by realtors.

The Pine Hills to the east and northeast of Miles City from 12 to 25 miles distance has three subdivisions (two-smaller and one larger). The two smaller are developed and/or sold out with the larger one (Sundial) having issues with both legal and physical access to the tracts.

Tracts nearer the river are in demand along with ones in the river valley areas. Listing and marketing time on ones with location, access, and amenities are from 3 to 8 months. There are a couple on minor subdivisions due to location, improvements, and pricing that have been on the market for a more extended period of time.

SUBJECT PROPERTY DESCRIPTION

Location and Access

Parcel#: 538

Legal Description: T8N, R46E, Section: 36, Lots 1, 2, 3, and 4

Total Acres: 63.2

Access: County gravel road to and across property

Location: Four road miles west of Miles City

Terrain/Drainage: Undulating and sloping gradually to the northwest with small drainages

Soils: Degrand loam (37B), 0-4% slopes Chinook fine sandy loam (35C), 2 -8% slopes, Ethridge silty clay loam (39A), 0-2 slopes and Vendome gravelly sandy loam (12E), 8-35% slopes, Cabbert-Havre loams (18E), 0-35 slopes.

Water: No developed livestock water

Water Right(s) None on file with DNRC

Fences: Property is fenced on the south side with wood and steel posts consisting of 5 strands of barbed wire in average condition. The east side has primarily wood posts with four wires in poor condition. The fence on the east side seems to be located inside the boundary of the property but a survey would need to be completed to determine this as fact.

Land Description:

Rangeland:	61.2 Acres
Roads, Waste:	2.0 Acres
Total:	63.2 Acres

AUMs:	15.0	Acres Grazed	61.2
Ac/AUM	4.0	Other Acres	2.0

Lessee: Moores Sunday Creek Ranch Co.

Amount:	$92.70	$/AUM:	$6.18
Expiration:	2/28/2010	$/Net Acre:	$1.52
		$/Gross Acre:	$1.47

Utilities Available: Montana Dakota Utilities
Range Telephone Cooperative

Detriments/Hazards: There are no major hazards or detriments with the unit that would adversely affect the property that is not inherent in the area. No fuel storage was noted during field inspection. The parcel is within the Airport Impact Zone, with the majority of the parcel also being within the Limited Development Area.

Easements, etc.: Custer County gravel road borders the parcel for 1/6 of a mile on the southwest than turns northeast bisecting the property.

Comments: The property borders the Fort Keogh Experiment Station on its south side and to the east is land owned by the City of Miles City where the local airport (Frank Wiley Field) is located. There is an active gravel pit located on city property approximately ¼ mile to the east of subject property. The parcel lies within the Airport Influence Area and with an estimated 46 acres in the Limited Development Area. To the north and west are private lands. Access to the Yellowstone River and the City of Miles City is four road miles to the east. Montana Highway 59 is located three road miles to the northeast. The parcel is an irregular long and narrow rectangular parcel.

Taxes and Assessments

Office records indicate that the property is not assessed for taxes based upon the land classification being exempt (State owned). For the 2007 tax year, the subject is not assessed or taxed on the real property. This property taxable market value is $2,854 for the 2007 tax year. The estimated real estate taxes based on similar properties in the area would be, at a minimum, $49.00 as a grass tract.

Mineral Rights

A detailed search was not undertaken to ascertain the exact status of the mineral estate on the subject property. Minerals have traditionally been transferred in partial interest, (1/4 to 1/2 of the existing rights to seller) when a property surface rights are sold. **In the case of the subject tract, all rights to the subsurface oil, gas, coal and other mineral interests are being retained by the State of Montana.**

Environmental Considerations

The property is not listed on the State National Priority List or the Federal Superfund List or on the EPA's website as of date of valuation. The appraiser has made no investigation of any environmental or hazardous material considerations on the subject, nor is qualified to complete such an investigation.

Climatic Conditions

This parcel is subject to all of the weather that occurs in the area. The climatic history for the property and the surrounding areas based upon National Weather Service records are noted in the following table.

Station	Avg. Total Precipitation	Avg. Snowfall	Avg. Growing Season	# of Years
Miles City	12.9"–13.1"	23"–32.8"	130–150 days	90

Highest and Best Use:

Highest and best use is defined as, "that use which will yield the greatest net return to the land in the foreseeable future, or that legal use which will yield to the land the highest present value". The 12th Edition of The Appraisal of Real Estate defines highest and best use as:

> "the reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported and financially feasible and that results in the highest value."

The definition forms the essence of the highest and best use analysis. The property's use must be:

(1) legally permissible
(2) physically possible
(3) financially feasible
(4) maximally productive

Consideration is given to trends based upon recent land sales, economic factors, and strength of the local market. An analysis of the Highest and Best use of the property forms the basis of valuation for the subject. Highest and Best Use serves as a guide in the selection of comparables to be used in the analysis of the subject property. In the case of agricultural valuations, the replacement cost new less physical depreciation of the building improvements is seldom fully recognized in the area market.

The definition above is applied specifically to the Highest and Best Use of the land. It is recognized in cases where a site has existing improvements, the Highest and Best Use may very well be determined to be different from existing use. The existing use will continue however, unless and until the land value in its highest and best use exceeds the total value of the property in its existing use.

Determination of Highest and Best Use results from the appraiser's judgment and analytical skills according to these definitions. The use determined from analysis represents an opinion, not a determination of fact. In this analysis consideration must be given to that range of uses which are appropriate for the subject property in order to support its highest value. Consideration must be given to alternative uses as well as existing use, the types of market available in the area and the surrounding land use types.

Custer County has no county wide zoning. There are very few limitations upon the legal use of the subject. Surrounding land use in the immediate area is predominately an agricultural land use, i.e. livestock and small grain production, livestock research center would be the most typical land use of similar property located in the neighborhood.

"As if" Vacant Analysis:

In considering the use of the subject property, I have given consideration to its current use, as well as uses to which it is capable of being adapted. Consideration must be given to the uses recognizing the limitations imposed by governmental regulations, i.e. zoning regulations, and by attitudes of typical investors of properties of this type, in the location under study.

Legal Limitations:
The entire parcel is within the Airport Impact Zone with a majority of the parcel being within the Limited Developed Area.

AIRPORT INFLUENCE AREA LIMITATIONS

In an Airport Impact Zone and Limited Development Area Zone, the following regulations shall apply:

1. Uses permitted outright. In an Airport Impact Zone, the following uses and their accessory uses are permitted outright:

a. Facilities and operations at the Airport.
b. Farm use, excluding livestock feed or sales yard and accepting those uses set forth in subsection 2 of this section.

2. Conditional Uses. In Limited Development Area Zones, the following uses and their accessory uses may be permitted when authorized in accordance with the requirements of this ordinance:

a. Farm accessory buildings and uses.
b. Mining, quarrying, or other extraction activity, including the processing of refining of one or other raw materials.
c. Utility facility necessary for public service.
d. Golf course.
e. Park, playground, other public recreation site of facility, or community service facility owned and operated by a governmental agency or non-profit community organization.
f. Veterinary clinic, animal pound or kennel.
g. Private or public grounds and buildings for games, sports, riding arenas, race tracks and similar activities.
h. Water supply and treatment facility.
i. Manufacturing and warehousing.
j. Travelers accommodation facilities.
k. Retail and wholesale trade facilities.
l. Residential use and development therefore.

3. Use Limitations. In a limited Development Area Zone, the following limitations and standards shall apply to all uses permitted, unless a variance has been approved in accordance with Section VII, 4:

a. In approach surface zones from the runway end to four thousand five hundred (4,500) feet from the end of the Runway, no meeting place for the public or private purposes which is designed to accommodate more than 25 persons at any one time shall be permitted.

b. Mining or quarry operation will not be permitted if such use will allow or cause ponding which is likely to attract birds.

c. No use permitted by subsection (2) (c) of this section shall permit any power lines to be located in Runway Protection Zones and any power line located within an approach zone shall be in conformance with designated approach slope ratios as defined in Montana Codes Annotated, Title 67, Chapters 4, 5, and 6, FAA FAR Part 77 and other local ordinances that regulate the height of objects.

d. No use permitted by this section shall be allowed if such use is likely to attract an unusual quantity of birds which are normally considered high flight.

With the only other regulatory oversight being the county planning board and county commissioners on subdividing land or surveying/selling individual parcels. The current use as a grazing tract is not foreseen as being in conflict with the best use of the site as if vacant.

Physically Possible Uses:
The uses considered for the subject property must be physically possible. The property has been used in the past for agricultural purposes of which it is suited for. The soils, terrain, or area do not physically limit many uses. Among these uses there can be some limited crop production, communication towers, rural residential or grass tract. To utilize the tract for grazing fencing would have to be completed and water on site or off site developed. This property appears to have been utilized in the past with the adjoining property.

The market activity suggests a range of probable uses, grazing, cropland/hayland, gravel mining or the possible sale of some small tract(s), none of which seems to be physical conflict with the highest and best use "as if" vacant.

Financially Feasible Use:
The subject in its current use only supports the concept that it is financially feasible to operate it as an add-on or part of a larger agricultural unit. As to other uses it could be utilized as a part-time farm or rural residential, but other limitations might apply. The use as agricultural is consistent with other land uses adjoining the property.

Maximally Productive Use:
The property as to cash on and return of cash is not producing within the acceptable ranges of the market for vacant properties, as in itself, to be the maximally productive use of the subject property "as vacant". As part of a larger agricultural operation it would be producing within acceptable ranges. As stand-alone the property is indicating some other uses besides pure agricultural, such as a part-time tract, as being a higher maximally productive use.

The highest and best use of the property, as vacant, is as a rural residential tract or part-time farm.

Highest and Best Use "as improved":
The area properties used for agricultural purposes are improved with dwelling(s), machinery and livestock work/storage buildings. To utilize the tract for grazing, fencing would have to be completed and water on site or off site developed. This property appears to have been utilized in the past with the adjoining property. The subject tract has no building improvements. If it was improved with building improvements, it would likely be as a residential or part time use.

Conclusion:
Due to location and access, the property, would be considered a rural residential use and part-time, either vacant or improved.

THE APPRAISAL PROCESS

The appraisal or valuation process is divided into seven steps to allow a systematic approach in valuation of the subject. The process includes:

Definition of the Problem

A. Identification of real estate
B. Identification of property rights to be valued
C. Date of value estimate
D. Use of appraisal
E. Definition of value
F. Other limiting conditions

Preliminary Analysis and Data Selection and Collection General

General	*Specific*
A. Social	A. Site and Improvements
B. Economic	B. Sales
C. Government	C. Cost
D. Environmental	D. Income/Expense

Highest and Best Use

A. Land as though vacant
B. Property as improved

Land Value Estimated

Application of the Three Approaches

A. Cost Approach
B. Income Capitalization Approach
C. Sales Comparison Approach

Reconciliation of the Value Indications and Final Value Estimate

Report of Defined Value

When sufficient data and information is available, the final conclusion of value is estimated after careful correlation of values obtained from the three approaches to value. These include the cost, sales comparison, and income approaches. However, with some properties it is not possible or feasible to obtain adequate information and utilize all three approaches. The appraiser typically applies those which have adequate data to give a reliable value estimate.

All three of the traditionally acceptable approaches to value have been given consideration in this appraisal. In the final analysis, the appraisal process and its corresponding approaches to value are predicated largely on the principle of substitution which implies that a prudent or knowledgeable purchaser will not pay more for a property than he or she could purchase an equally desirable substitute property. On the other hand, a prudent or knowledgeable seller will sell for no less than what similar properties are selling for unless under undue duress. The appraiser has conducted a detailed research for similar market transactions and other related and relevant market information including an individual analysis of buyers' and sellers' activities and motivations.

In the **COST APPROACH** to value, the estimated depreciated reproduction cost of the buildings and on-site improvements are determined after taking physical depreciation (wear and tear), functional obsolescence (which is caused by a problem within the structure caused by poor design or obsolescence), and external obsolescence (loss of value due to factors outside of the property).

The **INCOME CAPITALIZATION APPROACH** estimates the anticipated gross income available to the landlord. From this figure, deductions are made for operating expenses to determine a net rental income. The anticipated net income is then capitalized into an indicated value from the demonstrated returns developed from comparable sales.

The **SALES COMPARISON APPROACH** assumes there are an adequate number of similar properties which have sold within a reasonable period of time. The appraiser uses the concept of comparing the subject property with actual market transactions to deduce the amount that the subject would likely bring if offered for sale on the open market.

Each sale is compared to the subject property for variation of features, and to ascertain market parameters and characteristics. The following characteristics were considered for potential elements of comparison: conditions of sale, financing terms, location, land quality and productivity, size, and other amenities or factors which may have an effect on value.

Use of the matching pairs concept helps to isolate and quantify certain elements of comparison. A dollar adjustment is then made to the comparable property to make it similar to the subject. If the comparable is inferior or less desirable in an element of comparison a positive adjustment is needed to bring the property up to the subject. Conversely, if the comparable is above the subject, a negative adjustment is needed to bring the property to a similar comparison to the subject.

The three approaches, if applied properly and when adequate data is available should indicate a reasonable range of value. After all of the factors are analyzed and weighed by the appraiser a reconciliation statement will be made to support and justify which approach is the most applicable in the valuation of this subject property.

Strengths and weaknesses of each approach must be redressed correlating the final estimate from the indicated values. In the case of the appraisal, the cost and income approaches were not applicable or necessary in the valuation of the property. The cost approach was not used because the subject does not have building improvements and the income approach was not used because rural residential tracts and part-time farms purchasers are not motivated by the income production of the property.

SALES COMPARISON APPROACH

In the sales comparison approach to value, a "market-in-exchange" concept provides a basis upon which buyers weigh the benefits of ownership. Simply, a buyer will not pay more for a property when he or she can purchase an equally desirable substitute property. It is this concept which maintains a competitive market for real estate.

With the sales comparison approach the appraiser attempts to quantify individual property differences by comparing one property to another. The approach assumes there are property characteristics which are measurable and when compared to other sold properties, results in quantified and supported market adjustment. The subject property is then compared to properties which have sold. The comparable properties are then adjusted to the subject property and a range of value is determined. There are two accepted adjustment techniques. In the lump sum or macro approach, adjustments are made on the total sales price. The more accepted process is the unit value technique where adjustments are typically made on a per acre basis. The second approach is used in this appraisal.

The sales comparison approach employs four basic economic principles which the appraiser must consider in arriving at a value estimate. These principles are Supply and Demand, Balance, Substitution, and Externalities. The principles are interrelated and dependent upon one another.

The principle of substitution holds that a property will not sell for more than a comparable property with like utility. If there is a lack of comparable sales with characteristics similar to the subject property, the reliability of the sales comparison approach will be reduced. In our case, there have been an adequate number of comparable sales with features which are similar to the subject property.

The appraiser made a search of the market area for sales of similar properties to the subject. This search included sales in Custer County that have occurred since 2005. A total of five sales were identified that had similar land uses and improvements to the subject. Of these, four were the most similar to the property. These five sales are summarized below.

Market Data Discussion

The market data contained in this report is to remain confidential and is not to be disclosed, utilized, or disseminated outside of this report by any means of communication.

Sale # 1	Date: 6/7/2006	29.36 Acres	$954.00/Acre
Land	$954/Acre	Buildings None	$/Acre
% Rangeland	100%	Non-Fee AUMs	$/AUM

Sale of undeveloped property from out of state owner to local individuals. Electric and phone available with no developed water. Access to property is by county gravel road. No improvements located on property. Parcel is fenced on two sides. Property would be similar in access and improvements and slightly inferior in location. This property is smaller in size.

Sale # 2	Date: 2/12/2007	Acres 40.0	$413.00/Acre
Land	$413/Acre	Buildings	$/Acre
% Rangeland	100%	Non-Fee AUMs	$/AUM

Seller and buyer are from out of state. Located 20 miles northeast of Miles City this property has physical access (dirt trail) but no defined legal access. No utilities or water are located on property. Location and access are inferior to the subject.

The market data contained in this report is to remain confidential and is not to be disclosed, utilized, or disseminated outside of this report by any means of communication.

Sale # 3	Date: 1/2/2004	19.37 Acres	$700.00/Acre
Land	$700/Acre	Buildings	$/Acre
% Rangeland	100%	Non-Fee AUMs	$/AUM

Older sale that was purchased by local buyer who also purchased the property that adjoins on the east and south. Access is by Highway 59 which borders the property on the west side. No building improvements located on sale. Utilities were available just off the property. The property is located 2 miles northwest of Miles City or 3 miles northeast of subject. This property would have slightly superior access with location being above. This property is much smaller than subject.

Sale # 4	Date: 1/2/2004	47.33 Acres	$700.00/Acre
Land	$700/Acre	Buildings	$/Acre
% Rangeland	100%	Non-Fee AUMs	$/AUM

Purchased at the same time by the same buyer as Sale 3 from local land owner. Property adjoins Sale 3 on the northwest. Access would be by a State Highway. There were no building improvements on property at time of sale. Access and site location are superior to subject with improvements being similar. This sale is smaller than subject.

Sale # 5	Date: 3/25/2005	279.61 Acres	$500.00/Acre
Land	$500/Acre	Buildings	$/Acre
% Rangeland	100%	Non-Fee AUMs	$/AUM

Property sold by local land owner to buyer from the Miles City area. Property is located 4 miles southeast of Miles City on State Highway 59 which borders the property on the west side. There were no building improvements on property at time of sale. This property has slightly superior location and access than subject with land improvements being similar to slightly superior on sale. This property is much larger than subject.

Adjustment Process

As discussed previously, the adjustment method utilized is the unit value method based on a dollar per deeded acre unit. Critical to this process is the recognition of the differences in land use types and building on the subject and to each sale it is compared. Before any adjustments can be made for quality, location, size, etc., each sale has to be directly compared to the subject's land use and building mix and any differences between the sale and subject's land use and building mix adjusted.

Once each sale has been adjusted to the subject's land use and improvement mix, (which is at $0.00 for each sale since they have the same land use and are vacant) the other adjustments can be made, i.e. time, size, quality, and location. These adjustments are derived through the concept of paired sales analysis. With pairing of comparable sales the parameters of valuation within the market are isolated.

The factors of comparability include terms of sale, time trends of values (increasing, stable, or decreasing), productivity (quality), location or access and condition of property at the time of sale. The units of comparison were analyzed on a price per deeded (fee) acre basis.

Pairing of various sales in the market to determine time, quality, land use and condition, and locational adjustments were completed. Pairing of sales indicated the following.

Sales Adjustment Grid

Sale #	Subject	1	2	3	4	5
Date	October 10, 2008	6/7/2006	2/12/2007	1/2/2004	1/2/2004	3/25/2005
Size	63.2	29.36	40.0	19.37	47.33	279.61
Sales Price		$28,500	$16,500	$13,560	$33,131	$139,800
CE Price		$28,500	$16,500	$13,560	$33,131	$139,800
$/Acre		$954.00	$413.00	$700.00	$700.00	$500.00
Land Adj. & Bldg.		0	0	0	0	0
Adj. Price		$954	$413	$700	$700	$500
Time Adj		$0	$0	$120	$120	$ 86
Time Adj. Price		$954	$413	$820	$820	$586
Quality		Above	Above	Above	Above	Above
Size		Smaller	Smaller	Smaller	Smaller	Larger
Location		Above	Below	Sl Above	Sl Above	Sl Below
Access/Other		Similar	Below	Above	Above	Above-
Overall		Superior	Inferior	Superior	Superior	Inferior
Net Adjustments		-300	200	-180	-200	20
Adjusted price		$654	$613	$640	$620	$606
% Net Adjustments		31	49	9	11	21

In consideration of any trends in value a time adjustment can be isolated. In the specific area of the subject, there is one sale/resale that shows a compounded 5.7% rate through June, 2006. There are several other sales in the same subdivision that show a rate of 0.3% to 10.3% when compared to the resale. The rate used for this appraisal is 5.0% from June, 2000 through April, 2007 based on the resale with some support from other sales in the same market area. Sale 1 being the resale was not adjusted for time.

For the analysis of quality, size, access and location the five sales are adjusted based upon paired sales from a subdivision that had seven confirmed vacant sales (including Sale 1 above) from 1999 to 2007. The sales are adjusted for time at 5.7% based on the resale in this subdivision.

Sale Price	Acres	$/Acres	Date	Location in subdivision	Adjusted for time 5.7% annually	$/Acre
$15,400	20.64	746	8/98	NE	7.25	$1,114
$16,155	21.54	750	8/98	NE	7.25	$1,121
$19,084	29.36	650	6/00	W Central	7.25	$ 971
$33,000	45.38	727	10/99	W Central	7.25	$1,086
$15,600	21.88	713	9/02	W Central	4.58	$ 919
$19,400	23.84	814	1/03	Central	4.25	$1,032

All five of the sales are considered above the subject in terms of quality. The subject, with a county road bisecting the property and the restrictions imposed upon the property because of the airport zoning restrictions would be considered under all the comparables in terms of quality.

Sale 1 was given an overall adjustment of -$300 based upon superior location in an organized subdivision, area and size. Sale 2 was adjusted at $200 because of a lack of defined legal access and location. Sale 3 was adjusted at -$180 per acre because of superior location and access. Sale 4, being similar to Sale 3, was adjusted at -$200 per acre being almost 1.5 times larger than Sale 3. The only adjustment made to Sale 5 is for size and it was adjusted at $20 per acre. The five sales were given an overall net adjustment rather than separate adjustments. The market is not as refined to isolate out the specific areas of differences in a paired sales analysis, thus the overall adjustment was made to each sale.

After overall adjustments were made to the sales they show a range of $606 to $654 per acre. The sale at $606 per acre would be at the top end for the subject because it has not been adjusted for quality. The appraisers were not able to find a sale that could define this particular aspect of the subject. However, there is an older sale that gives an indication of the lower end of the market. This sale sold for $300.00 per acre in March, 1999 containing 58.38 acres located along a paved highway. After adjusting for time (5.0% annually) and size it would indicate a value of $445 per acre. Therefore the subject is indicated between $445 and $606 per acre. Given the issues of quality, the subject would be at the lower end for this market or at $500.00 per acre.

Sales Comparison Approach Summary

63.2	deeded (fee acres)	x	$500.00	/acre	=	$31,600

Reconciliation of Approaches to Value

Neither the Cost Approach nor the Income Approach were deemed necessary or needed in the valuation of the subject property.

Only one approach, the Sales Comparison Approach, is applicable and necessary in the valuation of the subject. The Sales Comparison Approach utilized sales that were the most similar to the subject property. The range of adjusted sales prices was from $$445 to $606 per acre. There were no land or improvement adjustments made with all the sales being vacant land of similar uses.

In the case of the market data and the support and weaknesses of the Sales Comparison approach, the concluded value for the tract is considered to be the most reliable based on the area market and the analysis and support of the data. Therefore, I have estimated the market value of the subject property, as of October 7, 2008 at $31,600.

CERTIFICATION OF APPRAISER(S)

We certify to that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

3. We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.

4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. (The "estimate of value" in the appraisal report is not based in whole or in part upon the race, color, or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.)

5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice, 2008 Edition.*

8. We have made a personal inspection of the property that is the subject of this report.

9. No one provided significant real property appraisal assistance to the person signing this report.

10. This report has been made in conformity with and is subject to the Code of Professional Ethics and Standards of the American Society of Farm Managers and Rural Appraisers. To the best of my knowledge and belief, the statements of fact contained in this report upon which the analysis, opinions, and conclusions expressed are true and correct.

11. The American Society of Farm Managers and Rural Appraisers conduct voluntary programs of continuing education for their designated members. ARAs who meet the minimum standards of these programs is awarded periodic educational certification. As of the effective date of this report, Mr. Luther has completed the requirements of the continuing education program.

12. All contingent and limiting conditions are contained herein and no one other than the undersigned have prepared the analysis, or set forth conclusions and opinions concerning the real estate that is the subject of this appraisal assignment.

13. Mr. Luther is a General Certified Real Estate Appraiser, Montana Certificate #188. Mr. Bartholomew is an Appraisal Trainee, Montana License #910.

The market value on the State of Montana lands (Tract 538), as of October 7, 2008 is:

*****Thirty One Thousand and Six Hundred Dollars *****

$31,600.00

George Luther, Jr., ARA
Montana Certified General Real Estate Appraiser
Certificate #188

Robert M. Bartholomew
Appraisal Trainee
License #910