

Land Banking Parcel Appraisals in Chouteau County

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SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

OWNER OF RECORD:

State of Montana (administered by DNRC)
PO Box 201601
Helena, MT 59620-1601

TYPE OF PROPERTY:

Twelve separate parcels of State of Montana-owned
rangeland, located in Chouteau County

LEGAL DESCRIPTION:

See Legal Description section

HIGHEST AND BEST USE:

As agricultural properties, specifically for grazing
livestock on rangeland.

DATE OF VALUE ESTIMATE:

November 10th & 11th, 2005

FINAL OPINION OF VALUE:

(The effective appraisal date for the following parcels was November 10th, 2005)

Township 20 North, Range 11 East

Section 25: S1/2SW1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 35: E1/2NE1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The three parcels in Township 20 North, Range 11 East (in Sections 25, 35, and 36) covered by State Lease #2922 (Strand leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by the lessee's deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as three separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis.

Township 21 North, Range 11 East

Section 27: SW1/4

160 acres @ \$200/acre = \$32,000 (assumes insurable access)

160 acres @ \$130/acre = \$20,800 (as existed on appraisal date)

(The effective appraisal date for the following parcels was November 11th, 2005.)

Township 25 North, Range 5 East

Section 15: S1/2S1/2

160 acres @ \$190/acre = \$30,400 (assumes insurable access)

160 acres @ \$123.50/acre = \$19,760 (as existed on appraisal date)

Section 16: All

640 acres @ \$190/acre = \$121,600 (assumes insurable access)

640 acres @ \$123.50/acre = \$79,040 (as existed on appraisal date)

Section 22: SE1/4NE1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 22: SW1/4NW1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 23: SW1/4NE1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 27: SW1/4SW1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (assumes insurable access)

Township 26 North, Range 15 East

Section 35: E1/2

320 acres @ \$200/ac. = \$64,000 (assumes insurable access)

320 acres @ \$130/ac. = \$41,600 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The two parcels in Township 26 North, Range 15 East (in Sections 35 and 36) covered by State Lease #242 (E-7 Grain & Livestock/Jerry Jenkins leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as two separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis.

ASSUMPTIONS AND LIMITING CONDITIONS

This entire appraisal report, from the Title Page to the last Addenda item is subject to the following:

Assumptions

1. No responsibility is assumed for the legal description provided to me by my client, nor for legal matters or title considerations. The title to the property is assumed to be good and marketable. It is assumed that the existing land use, and any buildings are confined within the boundaries or property lines described and that there are no encroachment or trespass issues.
2. The property is appraised as though free and clear of any and all liens or encumbrances that could affect the marketability of the appraised property.
3. Responsible ownership and competent property management by the landowner is assumed.
4. The information, data, statistics, and opinions provided by others is believed to be reliable and professional, but no warranty is provided here or implied for its accuracy. Any professional studies or reports, land surveys, as well as the land dimensions that were drafted and provided by others are assumed to be correct.
5. That no hidden conditions existed on or in the appraised property, subsoil or structures located on the appraised property that may impact the value of the property; such hidden conditions would extend to an adverse water table condition, or unstable soils or subsoils. No responsibility is assumed for obtaining the engineering expertise necessary to identify any such conditions.
6. Unless I have otherwise clearly stated in this report, I did not observe the existence of any toxic or hazardous material, which may or may not be present on or in the appraised property. I do not have expertise or training in recognizing, detecting, or measuring contamination from any toxic or hazardous material sources; this extends as well to any remediation or compliance cost estimates which involve specific training and knowledge beyond my experience or qualification to deal with. The presence of any such toxic or hazardous materials on or in the property I appraised may well invalidate the opinions and conclusions that are contained in this appraisal report. The client is urged to retain an expert in the field of environmental compliance or remediation if so desired to answer any such questions or concerns.

Limiting Conditions

1. Simply by reason of preparing this appraisal report, I am not required to give further consultations or testimony or to be in attendance in court, or before any commission, agency, arbitrator or body with reference to the appraised property. If a court action or appearance becomes necessary in the interest of my client, the terms of those additional services will be negotiated as separate arrangements at that time.

2. My opinion of value for the appraised property applies only to the type of use and utilization that I discuss and analyze in this report. The opinion of value contained in this specific appraisal report, is not to be used or considered in conjunction with any other value estimation or under any other influence; if so used, it would serve to invalidate the opinion of value I conclude in this appraisal.
3. Possession of this report, or a copy, does not grant the right of publication. The analysis and opinion of value is made for the exclusive use and benefit of the client to whom the report is addressed. Neither all nor part of the contents of this report, including value conclusions, the identity of the appraiser, or the firm to which the appraiser is connected shall be disseminated to the public through advertising or promotions (including any sales activities), public relations, news stories, or directed to any other electronic or print media without the prior written consent and approval of the authoring appraiser. Direct any such correspondence to: Ed Jackson, ARA; PO Box 4288, Bozeman, MT 59772.
4. As the authoring appraiser, I am responsible for the preparation and inclusion of maps, photographs and other exhibits that appear in this report. The exhibits are included to provide visual references to the reader, regarding the appraised property and the comparable properties in the market. The exhibits are general graphic images, and are not intended to impart or infer an exacting level of accuracy.
5. No analysis of the value, or the ownership, of the mineral estate in the appraised property has been made. No value of any personal property or moveable items, or any crop or chattel has been made and none should be inferred unless it is specifically discussed and dealt with in the appraisal.

SCOPE AND SUMMARY OF THE APPRAISAL PROBLEM

The following is a summary of the scope of work relevant to arriving at my opinion of value for the appraised properties:

The problem to be solved in this appraisal report is to provide my client with my opinion of the market value for the fee simple estate in the appraised property. The project involves estimating the value of twelve separate parcels of scattered State-owned rural land located in Chouteau County, Montana. All twelve appraised tracts are leased as of the appraisal date. None of the appraised parcels have legal (insurable) access as of the effective appraisal date. To accomplish the foregoing requires citing the following hypothetical conditions, as per USPAP requirements:

1. At my client's request, I am estimating the market value for the fee simple estate (ownership interest) of the appraised parcels. As noted, the appraised parcels are not fee simple estates; they are all leased to the tenants identified in the Property Description section of this report. As required by USPAP, I am citing a hypothetical condition to allow me to conclude my opinion for the fee simple estate, and not analyze the market effect of the existing leases.
2. My client requested a value estimation assuming access (I will use the term "insurable access" to reflect a means of accessing the property that a title insurance company would likely commit to), and a second estimation of value without access, or the "as is" condition as of the respective parcel as of the effective appraisal date. The value estimation assuming access is also contrary to what exists, and is also an assumption made for the purpose of analysis.
3. Also, at the request of my client, I am estimating the value of each individual identified parcel. The three parcels in Township 20 North, Range 11 East actually form one contiguous tract, and the two parcels in Township 26 North, Range 15 East also form one contiguous tract. In those specific cases, I will also cite a hypothetical condition to allow value estimation for separate individual parcels instead of estimating their value as contiguous tracts.

The total acreage of the appraised properties is 2,880 acres; the individual parcels range in size from 40 to 640 acres.

Part of the data relevant to the appraised property was confirmed on my inspection of the subject properties on November 10th and 11th, 2005. The Montana DNRC provided information pertinent to each of the appraised properties. Additional information was provided by the US Department of Interior: BLM State Office in Billings.

The inspection of the parcels in Township 20 North, Range 11 East and Township 21 North, Range 11 East was attended by Mr. Clive Rooney from the Lewistown office of the Montana DNRC on November 10, 2005. The inspection of the Strand leases in Township 20 North, Range 11 East was also attended by Mr. Leroy Strand, the lessee. I made appointments with the lessees to inspect the appraised properties in Township 25 North, Range 5 on November 11, 2005; Mr. Bill Reichelt and Mr. Dan Danreuther accompanied me on those inspections. The inspections of the appraised properties in

Township 26 North, Range 15 East were also conducted on November 11, 2005; Mr. Brian Gasvoda accompanied me on the inspection of those tracts.

The information regarding the comparable sales I used to estimate the value of the appraised property was confirmed with parties knowledgeable of, or involved in the transactions. Parties contacted for market data and sales confirmations included the Great Falls, Montana office of Farm Credit Services, Mr. David Anderson (real estate appraiser in Havre, Montana), Mr. Rick Gourley (Realtor) of Gourley and Company in Great Falls, Montana, Mr. Roger Axtman (Realtor) of Fort Benton Realty in Fort Benton, Montana, and Mr. Steve Urick (a real estate appraiser in Stanford, Montana). Based on those confirmations I feel that the information is factually accurate and that the sales I used in this report represent arm's length market transactions. I personally visited and photographed all of the comparable sales I used in arriving at my opinion of value for the appraised tracts.

I reviewed the existing and intended use of the appraised property as of the effective appraisal date of November 10th and 11th, 2005, specifically as it related to market demand for similar properties. I also examined the local market regarding the possibility for alternative uses. This process concluded with the highest and best used determination for the appraised property. The appraisal then became a relatively straightforward process of estimating the market value for the fee simple estate in the appraised property using the sales comparison approach to value as of the effective appraisal date. The sales comparison approach utilized the recent historical, comparable transactions that I confirmed with the sources cited above. Only the sales comparison approach to value was utilized in this particular assignment.

In the present market, the appraised property has essentially one land classification to value, which was addressed using sales comparison techniques. There were no building improvements for which to estimate value on the appraised properties. For these reasons, a separate cost approach to value was not included in this particular case.

I did not include an income approach to value in this specific assignment. The income capitalization approach is predicated on the economic theory of anticipation, which holds that present value is indicated by the expectation of future benefits. Future benefits typically refer to the monetary benefits of income and/or reversion. As I noted above, I am estimating the value of the fee simple estate in the appraised properties at the request of my client. I am citing a hypothetical condition to allow me to conclude my opinion for the fee simple estate, and not analyze the market effect of the existing leases. None of the appraised parcels are fenced separately, which is to say that improvements would be required to have an economic rangeland unit that could stand on its own. Also, some of the appraised parcels do not have water sources of their own.

PURPOSE OF THE APPRAISAL – DEFINITION OF VALUE

The intended use of this appraisal is to provide my client with my opinion of the market value for the fee simple estate in the appraised property. All of the twelve appraised parcels are under existing leases. The leases are ten year agreements between the State of Montana and the lessees; the respective parcels are at various points in the lease term. In order to estimate the fee simple value, I am citing a hypothetical condition, as required by the 2005 Edition of USPAP. A hypothetical condition is required when in the context of an appraisal, something is contrary to what actually exists, but is supposed for the purpose of analysis. Further, my client requested a value estimation assuming access (I will use the term “insurable access” to reflect a means of accessing the property that a title insurance company would likely commit to), and a second estimation of value without access, or the “as is” condition of each of the parcels on the effective appraisal date. I am citing a second hypothetical condition regarding estimating the value of the appraised tracts assuming insurable access. The value assuming access is also contrary to what exists, and is also an assumption made for the purpose of analysis.

Lastly, also at the request of my client, I am estimating the value of each individual identified parcel. The three parcels in Township 20 North, Range 11 East form an aggregate contiguous tract, and the two parcels in Township 26 North, Range 15 East also form one contiguous tract. In those specific sections of this report, I will also cite a hypothetical condition to allow value estimations for separate individual parcels instead of estimating their value as larger contiguous tracts.

The effective appraisal date is November 10th, 2005 for the appraised parcels in Township 20 North, Range 11 East, and the parcel in Township 21 North, Range 11 East. The effective appraisal date for the tracts in Township 25 North, Range 5 East, and the parcels in Township 26 North, Range 15 East is November 11th, 2005. The intended user is Mr. Tom Konency, Appraiser at the Montana Department of Natural Resources and Conservation’s Trust Land Management Division.

My opinion of market value is made subject to the following definition of market value from the *Dictionary of Real Estate Appraisal*, Fourth Edition, Appraisal Institute, 2002:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

The condition my opinion of value is predicated upon, is a cash transaction, or in market terms equivalent to cash.

LEGAL DESCRIPTION

Chouteau County, Montana

| <u>Township 20 North, Range 11 East, M.P.M.</u> | <u>Acres</u> |
|---|---------------|
| Section 25: S1/2SW1/4 (Strand lease) | 80.00 |
| Section 35: E1/2NE1/4 (Strand lease) | 80.00 |
| Section 36: All (Strand lease) | 640.00 |
| <u>Township 21 North, Range 11 East, M.P.M.</u> | |
| Section 27: SW1/4 (Tonne lease) | 160.00 |
| <u>Township 25 North, Range 5 East, M.P.M.</u> | |
| Section 15: S1/2S1/2 (Danreuther lease) | 160.00 |
| Section 16: All (Reichelt lease) | 640.00 |
| Section 22: SE1/4NE1/4, SW1/4NW1/4 (Danreuther lease) | 80.00 |
| Section 23: SW1/4NE1/4 (Danreuther lease) | 40.00 |
| Section 27: SW1/4SW1/4 (Danreuther lease) | 40.00 |
| <u>Township 26 North, Range 15 East, M.P.M.</u> | |
| Section 35: E1/2 (Jenkins lease) | 320.00 |
| Section 36: All (Jenkins lease) | <u>640.00</u> |
| Total acres, all parcels | 2,880.00 |

Note to the reader: according to the Department of Interior: BLM 'MT' Plats, there are no Government Lots associated with any of the above described lands.

AREA DATA

In any given market area, there are fundamental market forces that influence the value of real estate. Four of the most basic market forces are the social, economic, environmental/geographic, and governmental/legal factors which interact to provide the foundation for values. The following regional data discussion will take place within the framework of these four basic market forces.

Chouteau County, Montana will serve as the primary region under discussion in the following:

Social Forces

The 2004 census update for Chouteau County indicated a population of 5,575. According to the US Census Bureau, the population of Chouteau County, Montana was 5,970 in the 2000 Census, and 5,452 in the 1990 Census. The most recent 'update' numbers indicate a population loss of 395 persons or nearly 7% from the 2000 Census data.

Paralleling the County trend somewhat, the population of Fort Benton (the county's largest city and County Seat) had a population of 1,507 in 2004, and 1,594 in the 2000 Census figure. These numbers suggest a population loss in Fort Benton of 87 people, or nearly 5½% from the 2000 Census data.

According to the 2000 Census, the top five fastest growing counties in Montana in terms of their respective populations were in order, Ravalli, Gallatin, Broadwater, Jefferson and Lake Counties. All five counties are located in the southwest or west portions of Montana.

Economic Forces

There are three parcels of appraised property located southwest of the town of Square Butte, one parcel located southwest of Geraldine, six located north of Carter, and two parcels located southeast of Big Sandy. Only the most basic services are available at Square Butte, Geraldine and Carter. Basic goods and services are available to local residents in Fort Benton and Big Sandy. Much more in the way of goods, services and supply outlets are available to county residents in Great Falls, located approximately 40 miles southwest of Fort Benton on US Highway 87. Great Falls is becoming a regional shopping/service/supply hub for north central Montana residents.

In addition to the local service economy and employment by Federal, State, County and City agencies/offices, Chouteau County remains very dependent on agriculture and the ag-service sector for its primary economic activity. As of 2002 (the most recent year for which complete Montana Ag-Statistics data is available), Chouteau County ranked 33rd out of the 56 counties in Montana in the production of livestock and livestock products, 1st in the production of all crops, and an aggregate ranking of 2nd in the state for all cash receipts from the sale of principal agricultural products, which includes government payments to producers. Including government payments to producers, the annual "all cash receipts" in Chouteau County for the year 2002 was \$78,347,000.

With the portion of the Missouri River designated a National Wild and Scenic River flowing through Chouteau County, some tourism and recreation dollars provide vital economic diversification to local coffers.

Missouri River Medical Center in Fort Benton, and Big Sandy Medical Center provide basic health and medical care to area residents; more diversified medical communities are located in Great Falls, Missoula, and Billings.

Great Falls International Airport in Great Falls provides regional residents with diversified commercial air service. As of the appraisal date, Great Falls' Airport was served by Delta, Northwest, Horizon Air, and Big Sky Airlines.

The primary means of road access to Chouteau County is by US Highway 87, which connects Fort Benton and Big Sandy to Havre on the north, and Great Falls on the south. Montana Highway 80 connects Square Butte and Geraldine in the southern part of the county to Fort Benton in the central part of the county. Interstate Highway 15, the primary north-south highway through Montana can be accessed at Great Falls.

Environmental/Geographic Forces

Chouteau County contains 3,973 square miles in the north central part of Montana. Ranked in terms of land area, it is the 10th largest of the 56 counties in Montana. It is bordered on the north by Liberty and Hill Counties, on the south by Judith Basin and Fergus Counties, on the east by Fergus and Blaine Counties, and on the west by Cascade, Teton and Pondera Counties.

Virtually all of Chouteau County is in the Missouri River drainage basin. A small part of the north edge of the county is in the Milk River drainage basin, which flows into the Missouri east of Glasgow. After departing Chouteau County, the Missouri River then flows in a generally eastern orientation across the state of Montana where it makes its confluence with the Yellowstone River near the Montana/North Dakota border.

Cold winters, and moderate to warm temperatures the balance of the year typify the climate of Chouteau County.

Governmental/Legal Forces

Chouteau County is governed by a Board of County Commissioners, which meets in Fort Benton. Police protection is provided by the Chouteau County Sheriff's Office, which is also headquartered in Fort Benton.

There are elementary, junior high, and high schools located in Fort Benton, Big Sandy, Highwood and Geraldine. There are additionally five rural elementary schools scattered throughout the county.

There is no zoning in effect on any of the appraised properties.

The State of Montana assesses an *ad valorem* property tax on county property; the property tax is technically levied by the Chouteau County Assessor's Office, and collected by the Chouteau County Treasurer's Office. The revenue generated by the property tax is used to fund public schools, as well as other State and County agencies. Residents are also assessed an income tax by the State of Montana.

Conclusion

The appraised properties are scattered rural parcels of rangeland ranging in size from 40 acres to 640 acres. The historical use of the appraised property is agricultural, specifically for grazing livestock.

Chouteau County is primarily a rural county very dependent on agriculture for its primary economic activity. While there is some emerging recreational influence in the market areas of the appraised tracts, the fundamental market influence as of the appraisal date still continues to be agricultural.

NEIGHBORHOOD DATA

The neighborhood of the appraised property is essentially the areas of Chouteau County north of Carter, southeast of Big Sandy, southwest of Geraldine, and southwest of Square Butte.

The immediate neighborhood surrounding the subject properties consists of neighboring farm and ranch ownerships, and farm and ranch headquarters. None of the appraised properties are located adjacent to existing towns.

Only very basic services are available to neighborhood residents in the communities of Carter, Geraldine and Square Butte. More in the way of goods and services are available in the towns of Big Sandy, and Fort Benton (the Chouteau County seat).

Diversified commercial air service is available to neighborhood residents at the Great Falls International Airport. As of the appraisal date, the Great Falls Airport was being served by Delta Airlines, Northwest, Alaska/Horizon Airlines, and Big Sky Airlines.

US Highway 87 connects Fort Benton (and Big Sandy) with Havre to the northeast, and Great Falls to the southwest. Montana Highway 80 connects Square Butte and Geraldine in the southern part of the county to Fort Benton, located in the central part of the county.

PROPERTY DESCRIPTION

In this section, I provide summary descriptions of the identified parcels in Chouteau County which may be included in the State of Montana's Department of Natural Resources and Conservation's (DNRC) Land Banking program. As authorized by Montana's Land Banking Statute (MCA 77-2-361 through 77-2-367), land banking refers specifically to the process of selling various parcels of State-owned land and using the proceeds from the sales to purchase other land, easements, or improvements that are likely to provide a greater (or equal) revenue to the trust fund.

There are twelve identified parcels of State of Montana-owned property in Chouteau County; the parcels range in size from 40 to 640 acres. The total of the twelve identified parcels is 2,880.00 acres.

In the interest of consistency, I will describe the tracts in the order they appear in the Legal Description section of this report. Following are summary descriptions of the eleven appraised parcels:

Township 20 North, Range 11 East, M.P.M.

Section 25: S $\frac{1}{2}$ SW $\frac{1}{4}$

This parcel contains 80 acres. This is State Lease #2922, which has a ten year term, running through February 28, 2008. The existing lease is in the name of Leroy Strand of Geyser, MT. I inspected this parcel on November 10, 2005 with Mr. Clive Rooney (of Montana DNRC), and Mr. Leroy Strand (the lessee).

The topography is rolling. The elevation ranges from approximately 4,000 feet above sea level to a little over 4,100 feet across the tract.

There is no perimeter fence, and no cross-fence, on this parcel. There do not appear to be any State-installed range improvements on this tract. There do not appear to be any utilities available to this tract.

There is seasonal water only (early water), in the form of a small stockwater reservoir on the east edge of the tract.

There is no existing legal access. This parcel is a little over four air miles east of the county road.

There was good grass cover on this tract as of the effective appraisal date.

Section 35: E $\frac{1}{2}$ NE $\frac{1}{4}$

This parcel contains 80 acres; it is also covered under State Lease #2922. As noted, the lease has a ten year term running through February 28, 2008. The existing lease is in the name of Leroy Strand. I inspected this tract on November 10, 2005 with Mr. Clive Rooney (Montana DNRC) and Mr. Leroy Strand (the lessee).

The topography is rolling. The elevation ranges from just under 4,100 feet to just over 4,100 feet across the tract.

There is no perimeter fence, and no cross-fence on this tract. There do not appear to be any State-installed range improvements on this tract. There do not appear to be any utilities available to this tract.

There is a stocktank on the northern portion of this tract, which is filled by a water line from a spring. The spring emanates from the southeast side of Round Butte on the lessee's deeded land, approximately a mile to the northwest. The waterline and the stock tank were installed by the lessee.

There is no legal access to this parcel. This parcel is a little over four air miles east of the county road.

There was good grass cover on this tract as of the effective appraisal date.

Section 36: All

This tract contains 640 acres; it is also covered under State Lease #2922. As noted, the lease has a ten year term running through February 28, 2008. The existing lease is in the name of Leroy Strand. I inspected this tract on November 10, 2005 with Mr. Clive Rooney (Montana DNRC) and Mr. Leroy Strand (the lessee).

The topography ranges from rolling on the north part of the section, to broken and steep on the south side. The elevation ranges from nearly 4,200 feet on the north side down to just under 3,700 feet on part of the south side.

There is no perimeter fence, and no cross-fence on this tract. There do not appear to be any State-installed range improvements on this tract. There do not appear to be any utilities available to this tract.

There are two springs of note on this section. There is a spring on the east side of the section (with a stock tank), and a second spring in the west-central part of the section. There is a reservoir at the site of the spring on the west-central part of the section, and two small reservoirs on the east side of the section, and another on the north-central part of the section.

There is no legal access to this parcel. This parcel is a little over four air miles east of the county road.

There was good grass cover on this tract as of the appraisal date.

NOTE TO THE READER: The three parcels in Township 20 North, Range 11 East (in Sections 25, 35, and 36) covered by State Lease #2922 (Strand leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by the lessee's deeded land. At the request of my client, a separate value will be allocated to each individual tract. In the valuation section of the report which follows, a hypothetical condition will be cited (as required by USPAP) to allow for dealing with these appraised parcels in that manner. The hypothetical condition will be explained in the valuation section of this report.

Township 21 North, Range 11 East, M.P.M.

Section 27: SW $\frac{1}{4}$

This tract contains 160 acres. This parcel is covered by State Lease #2686; it is a ten year lease term running through February 28, 2007. The existing lease is in the name of Charles R. and Glenda K. Tonne of Geraldine, MT. I inspected this tract on November 10, 2005 with Mr. Clive Rooney of the Montana DNRC.

The topography ranges from rolling to steep and broken; as the Property Map indicates, much of the tract is steep and broken. The elevation ranges from a little under 3,300 feet (in the southwest part of the property) to a little over 3,600 feet (on the east side of the property).

There is a fence on the north line of this tract, consisting primarily of four strands of barbed wire on wood and/or steel posts in average condition. The fence has wood braces. The balance of the tract is fenced in with the adjoining deeded land. There do not appear to be any State-installed range improvements on this parcel. There do not appear to be any utilities available to this tract.

There is a small stock water reservoir that was dry on my inspection of the property. The reservoir does not drain a large amount of acreage, and would appear to only be in a position to capture early season water.

There is no legal access to this parcel. The tract is approximately one air mile east of the county road.

There was above average grass cover on this tract as of the appraisal date.

Township 25 North, Range 5 East, M.P.M.

Section 15: S $\frac{1}{2}$ S $\frac{1}{2}$

This tract contains 160 acres. The parcel is covered by State Lease #5688; it is a ten year lease term running through February 28, 2009. The existing lease is in the name of Janet Danreuther of Loma, MT. I inspected this property on November 11, 2005 with Mr. Bill Reichelt (adjoining deeded landowner) and Mr. Dan Danreuther (lessee's son).

The topography ranges from rolling to broken. As the Property Map indicates, most of this parcel is broken topography. The elevation ranges from approximately 3,050 feet to approximately 3,150 feet across the tract.

There is a fence on the east side of this tract, consisting primarily of four strands of barbed wire on wood posts in average condition. The balance of the property is fenced in with the adjoining deeded land. There do not appear to be any State-installed range improvements on this parcel. There do not appear to be any utilities available to this tract.

This tract does not have its own water source.

There is no legal access to this property. The county road lies approximately one air mile to the south.

There was good grass cover on this parcel as of the appraisal date.

Section 16: All

This tract contains 640 acres; it is covered by State Lease #1465. Lease #1465 has a ten year lease term running through February 28, 2012. The existing lease is in the name of Reichelt Land & Cattle of Carter, MT. I inspected this tract on November 11, 2005 with Mr. Bill Reichelt and Mr. Dan Danreuther.

The topography ranges from gently sloping to broken; as you can see from the Property Map, most of the section is 'breaks' rangeland. The elevation ranges from approximately 3,050 feet at the southeast corner of the section to approximately 3,150 feet on the north edge of the section.

There is a fence on the south, west and north sides of this section. The fence typically consists of four strands of barbed wire on wood posts in average condition. There do not appear to be any State-installed improvements. There do not appear to be any utilities available to this tract.

There is a stock water well located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$. The lessee installed the well approximately 20 years ago. I have a copy of a water analysis report by Western Testing Laboratory in Great Falls, Montana which indicates that the water is safe for consumption by dairy and beef cattle, sheep, swine and horses. There is also a small reservoir in the NW $\frac{1}{4}$. The lessee is also responsible for building the reservoir, and upgraded the structure approximately 10 years ago. The reservoir appears to capture early season water. It was dry on my property inspection.

There is no legal access to this tract; it is a little over one air mile from the county road.

There was above average grass cover on this parcel as of the appraisal date.

Section 22: SE $\frac{1}{4}$ NE $\frac{1}{4}$

This tract contains 40 acres; it is covered by State Lease #5688. This lease is a ten year agreement that runs through February 28, 2009. The existing lease is in the name of Janet Danreuther. I inspected this tract on November 11, 2005 with Mr. Bill Reichelt and Mr. Dan Danreuther.

The topography is broken to steep; this parcel is strictly breaks rangeland. The elevation ranges between approximately 3,050 feet and 3,100 feet across the tract.

There is a fence on the east side of this tract; the balance is fenced in with adjoining deeded land. The fence appears to be typically four strands of barbed wire on wood posts in average condition. There do not appear to be any State-installed range improvements. There are no utilities to this parcel.

This tract does not have its own source of stock water.

There is no legal access to this parcel; it is approximately $\frac{1}{2}$ air mile north of the county road.

There was good grass cover on this parcel (considering the topography) as of the appraisal date.

Section 22: SW $\frac{1}{4}$ NW $\frac{1}{4}$

This tract contains 40 acres; it is also covered by State Lease #5688. As noted above, the lease has a 10 year term running through February 28, 2009. The existing lease is in the name of Janet Danreuther. I inspected this parcel on November 11, 2005 with Mr. Bill Reichelt and Mr. Dan Danreuther.

This parcel has some breaks rangeland on its northeast corner, and the balance of the topography is very gently rolling. The elevation is approximately 3,100 feet across the tract.

There is a fence on the west, south, and approximately half of the east side; the fence is primarily four strands of barbed wire on wood and/or steel posts in average to good condition. There do not appear to be any State-installed range improvements on this tract. There are no utilities available at this parcel.

There is no independent water source for this tract.

There is no legal access to this parcel; the county road is approximately one air mile to the southeast.

There was good grass cover on this tract as of the appraisal date, with a high percentage of tame pasture (crested wheat grass).

Section 23: SW $\frac{1}{4}$ NE $\frac{1}{4}$

This tract contains 40 acres; it is also covered under State Lease #5688. As noted, the lease has a 10 year term running through February 28, 2009. The lease is in the name of Janet Danreuther. I inspected this parcel on November 11 with Mr. Bill Reichelt and Mr. Dan Danreuther.

This is another parcel with strictly breaks rangeland. The elevation ranges between 3,050 and 3,100 feet across the tract.

There is no fence on this tract; it is fenced in with adjoining deeded land. There do not appear to be any State-installed range improvements. There are no utilities to this parcel.

There is no independent water source on this tract.

There is no legal access to this tract. The county road is approximately $\frac{1}{2}$ air mile south of this parcel.

There was good grass cover on this parcel (considering the steep terrain) as of the appraisal date.

Section 27: SW $\frac{1}{4}$ SW $\frac{1}{4}$

This tract contains 40 acres. This parcel is also covered under State Lease #5688. The lease has a ten year term, it runs through February 28, 2009, and the lease is in the name of Janet Danreuther. I inspected this parcel on November 11, 2005 with Mr. Bill Reichelt and Mr. Dan Danreuther.

This tract combines some 'river bottom' topography, with some breaks grazing and some bench topography above the breaks. The north side of this tract is close to the Teton River, but not technically on the river. The elevation ranges from a little under 3,000 feet on the north side of the tract, to approximately 3,080 feet on the south side.

There is a fence on the south and west sides of this tract. The fence is a four strand barbed wire fence on wood and/or steel posts in average condition. There do not appear to be any State-installed range improvements on this parcel. There are no utilities to this tract.

This parcel does not have its own water source.

There is no legal access to this parcel. The county road is a little over one air mile away to the northeast.

There was average grass cover on this tract as of the appraisal date.

Township 26 North, Range 15 East, M.P.M.

Section 35: E½

This tract contains 320 acres. This tract is covered by State Lease #242. The lease is a ten year agreement running through February 28, 2007; the lease is in the name of E-7 Grain and Livestock Company & Jerry L. Jenkins. I inspected this tract on November 11, 2005 with Mr. Brian Gasvoda.

This property has primarily rolling to broken topography. The elevation ranges from a little under 3,300 feet to a little over 3,400 feet across the parcel.

The property is fenced on all sides except the south side. The fence consists primarily of four strands of barbed wire on wood and/or steel posts in average to good condition. There do not appear to be any State-installed range improvements. There are no utilities to this tract.

There is a stock water reservoir on the east side of the tract. There was water in the pond on the inspection date.

The property has no legal access. The county road is ½ air mile west of this parcel.

There was good grass cover on this tract as of the appraisal date.

Section 36: All

This tract contains 640 acres; it is also covered by State Lease #242. As noted above, it is a ten year lease term, running through February 28, 2007. The lease is in the name of E-7 Grain and Livestock Company and Jerry L. Jenkins. I inspected this property on November 11, 2005 with Mr. Brian Gasvoda.

The property has rolling to broken topography. The elevation ranges from a little over 3,300 feet on the north side to a little over 3,500 feet on the south side of the section.

The section is fenced on all sides except the east side. The fence consists primarily of four strands of barbed wire on wood and/or steel posts in average condition. There do not appear to be any State-installed range improvements on this section. There are no utilities to this tract.

There is a stock water reservoir in the north half of the section; there was water in the reservoir on the inspection date. There is also a well in the northeast quarter of the section.

The property has no legal access. The county road is one air mile west of this tract.

There was good grass cover on this tract as of the appraisal date.

NOTE TO THE READER: The two parcels in Township 26 North, Range 15 East (in Sections 35 and 36) covered by State Lease #242 (E-7 leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by deeded land. At the request of my client, a separate value will be allocated to each individual tract. In the valuation section of the report which follows, a hypothetical condition will be cited (as required by USPAP) to allow for dealing with these appraised parcels in that manner. The hypothetical condition will be explained in the valuation section of this report.

ANALYSIS OF HIGHEST AND BEST USE

Market forces create market value. When the purpose of an appraisal is to develop an opinion of market value, the analysis of highest and best use identifies the most profitable competitive use to which the appraised property can be put. Because market value estimations are based on use, highest and best use is the foundation of any credible opinion of value.

As defined in *The Dictionary of Real Estate Appraisal, Fourth Edition*, (Appraisal Institute, U.S., 2002), highest and best use is defined 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 analysis tests for the highest and best use of the property as if vacant, and as improved. A property that contains building improvements may have a highest and best use which is different than the existing use. In such cases, the existing use will continue unless/until the vacant land value at it's highest and best, exceeds the sum of the value in it's existing use, plus the cost to remove any existing buildings or other improvements.

The following discussion will test for the four basic criteria. The highest and best use must be:

1. Physically possible
2. Legally permissible
3. Financially feasible
4. Maximally productive

Physically Possible

Technically speaking, several different uses of the appraised parcels could be physically possible. The appraised properties are twelve different parcels, ranging in size from 40 to 640 acres, and totaling 2,880 acres; all of the appraised tracts are located in Chouteau County. The tracts are relatively remote parcels of State of Montana-owned land, and all are under existing grazing leases with tenants at varying stages of existing ten year lease agreements. There are three parcels located southwest of Square Butte, one tract just southwest of Geraldine, six parcels located north of Carter, and two tracts located southeast of Big Sandy. The historical and present use of the appraised property is agricultural. As of the appraisal date, the dominant market for property similar to the subjects also tends to be agricultural.

There are cases of increasing recreational influences in this market area as well.

The existing use of all of the appraised parcels is certainly physically possible.

Legally Permissible

In the valuation section of this report which follows, I am estimating the market value for the fee simple estate (ownership interest) of the appraised parcels. As of the effective appraisal date, the appraised parcels are not fee simple estates; they are all leased to the tenants identified in the Property Description section of this report. As required by USPAP, I am citing a hypothetical condition to allow me to conclude my opinion for the fee simple estate, and not analyze the market effect of the existing leases. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends.

My client requested a value estimation assuming access (I will use the term “insurable access” to reflect a means of accessing the property that a title insurance company would likely commit to), and a second estimation of value without access, or the “as is” condition as of the appraisal date. The value estimation assuming access is also contrary to what exists, and is also an assumption made for the purpose of analysis.

The appraised properties are not zoned by Chouteau County, nor are there any rural or special improvement districts in the area. The present (and historical) agricultural use is legally permissible. In specific cases where there may be more recreational influences, the recreational uses and the agricultural uses tend to co-exist and are not distinguishable from one another but for the fact that recreational buyers are not dependent upon the agricultural production to acquire the property at the outset, or to maintain and build the property after the purchase.

Buyers with recreational motives tend to need an insurable/legal means of accessing the property, and as noted above, none of the appraised parcels appear to have insurable access as of the appraisal dates. In view of this fact that all of the appraised properties lack an insurable access, I did not find evidence in the local market of any trend, or a potential competitive use that would figure to supplant the present agricultural use of the subject properties as the most likely use that would result in the highest value.

Financially Feasible

The appraised property is financially feasible as an agricultural property if the typical costs associated with producing livestock on the property can be met or exceeded from the sale of the commodities produced on the land, OR, if the operation can be subsidized using liquid capital from other sources.

There appears to be strong demand in the broader market for “add-on” rangeland properties similar to the appraised properties.

Maximally Productive

Highest and best uses of land tend to typically be long-term uses.

The historic use of the appraised property has been agricultural, which in recent years has provided a comparatively small (on a percentage basis) but consistent return to the landowners of similar properties.

Without insurable access, it does not appear that the appraised parcels are in a likely position to compete in the recreational market.

For the reasons brought forth earlier under the previous headings, a continuation of the agricultural use being carried out on the appraised parcels appears to be the maximally productive use the properties as of the effective appraisal date.

Conclusion

Based upon my analysis of the appraised property as vacant, and as if improved, there appears to be no use that is physically possible, legally conforming, and financially feasible which would produce a greater overall return than the following highest and best use as of the effective appraisal dates of November 10th and 11th, 2005:

As agricultural properties, specifically for grazing livestock on rangeland.

SALES COMPARISON APPROACH

In the sales comparison approach, the appraiser develops an opinion of value by analyzing the sales (or listings, offers, etc.) of similar properties and comparing these properties with the subject property. The typical sales comparison approach follows these basic procedures:

1. The market is researched to obtain information about transactions involving properties similar to the property being appraised.
2. The appraiser verifies that the information on the comparable transactions is factually accurate and that the sales involve “arms-length” market transactions.
3. The appraiser identifies the relevant units of comparison (for example, the price per acre, square foot, front foot, animal unit, etc.) and proceeds to a comparative analysis based on the appropriate unit of comparison. The relevant transactions are compared to the appraised property using several separate elements of comparison. If/when appropriate, the comparable transactions are adjusted to account for differences which may exist between the sale (or other comparable transaction) and the subject property.
4. The indicated values derived from the comparable transactions are reconciled into the appraiser’s opinion of value for the appraised property.

The most appropriate unit of comparison for purposes of analyzing the comparable sales and relating them to the twelve separate parcels of appraised properties is dollars per acre.

Elements of Comparison

Elements of comparison are the characteristics of properties, and transactions involving properties, which cause the prices paid for real estate to vary. The comparable sales were analyzed for differences in the property rights conveyed, financing terms, market conditions, and location/physical characteristics.

I am appraising the fee simple estate of the appraised properties. All of the comparable sales essentially conveyed the fee simple estate of the respective property; no adjustment was necessary on the basis of property rights conveyed.

The condition I am appraising the subject property for is cash, or in market terms equivalent to cash. Of the thirteen sales used to estimate the value of the appraised parcels, only two (sales 3 and 8) sold on contract arrangements with the seller. In these two instances, substantial cash down payments secured the transactions, and no difference in the sale price could be determined that was attributable to the contract terms. No adjustment for financing terms was necessary for the comparable transactions used in this report.

The adjustment for market conditions is sometimes called a time adjustment; it refers to the trend in market conditions between the point in time when a comparable sale was transacted and the effective date of the appraisal. Over the intervening time period, the market price level may have remained relatively stable, or it may have changed (either appreciating, or depreciating). The thirteen comparable sales cover a time frame from July of 2000 to May of 2005, or a little over five years before the effective appraisal date. Of the thirteen total comparable sales, two took place in 2000, one took place in 2001, two took place in 2002, two took place in 2003, five took place in 2004, and one is a 2005 sale. The effective appraisal date is November 10th, and November 11th, 2005 (depending on the specific parcel). With limited data to draw upon, it appears that the market for properties similar to the appraised parcels has been stable to increasing, over the time frame covered by the comparable sales. While there may have been some appreciation in market conditions, it appears that location and/or physical characteristics were a more compelling factor in determining price differences. More discussion will follow in this section of the report regarding the locations of the comparable sales and their physical characteristics, and their comparability to the property I am appraising. No specific percentage adjustment could be supported based solely on prevailing market conditions.

My analysis for differences involving location and physical characteristics was done concurrently. In the market for properties similar to the appraised parcels, the two factors appear to interrelate to a large degree. The sales vary widely in size. In the market areas covered by my research, there is not a consistent, supportable price difference based solely on given size thresholds. No adjustment could be supported by the available market evidence relative to the property sizes covered by the comparable sales. A bracketing adjustment will be used in the following value estimation to resolve some factors relating to location and/or physical characteristics. Bracketing is the simple process of concluding above the value indication provided by a sale with characteristics that appear to be interpreted as inferior in the market, and/or below the value indication from a comparable sale with characteristics that appear to be interpreted as superior in the market.

The value of the twelve separate appraised parcels will be estimated in the following. The parcels will be valued in the same order in which they are described in the Legal Description, and Property Description sections of this report. The information on the thirteen comparable sales will be summarized first, then the individual comparable sales that were relied upon as the most compelling indications of the market in each area will be cited and discussed in concluding a value estimation for each respective appraised tract.

Hypothetical Conditions

1. I am estimating the market value for the fee simple estate (ownership interest) of the appraised parcels. As of the effective appraisal date, the appraised parcels are not fee simple estates; they are all leased to the tenants identified in the Property Description section of this report. As required by USPAP, I am citing a hypothetical condition to allow me to conclude my opinion for the fee simple estate, and not analyze the market effect of the existing leases. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends.

2. My client requested a value estimation assuming access (I will use the term “insurable access” to reflect a means of accessing the property that a title insurance company would likely commit to), and a second estimation of value without access, or the “as is” condition as of the appraisal date. The value estimation assuming access is also contrary to what exists, and is also an assumption made for the purpose of analysis.
3. Also, at the request of my client, I am also estimating the value of each individual identified parcel. The three parcels in Township 20 North, Range 11 East actually form one contiguous tract, and the two parcels in Township 26 North, Range 15 East also form one contiguous tract. In those specific sections of this report, I will also cite a hypothetical condition to allow a value estimation for separate individual parcels instead of estimating their value as contiguous tracts.

Access Adjustment

As noted above, my client requested my opinion of value for the identified parcels as they existed on my inspection date (also the effective date of value) without insurable access, and another value estimation assuming insurable access.

My opinion is that the market evidence is rather inconsistent in documenting the market effect of properties that sell with and without insurable access. Neighboring landowners can provide their own access to a property that would otherwise not have insurable access; in such cases the purchase price may or may not indicate a loss in value because of a lack of insurable access. To that particular buyer, there was not an access issue that needed to be remedied. Sale 5 would be an example. The property purchased in sale 5 did not have insurable access, and it was purchased by an adjoining landowner who stated that the price was discounted because of the lack of “legal access”. However, it would appear from the consideration paid for the sale 5 property, the buyer paid a market level price. So despite the buyer’s calculation that the price was and should be discounted, the consideration that was paid does not necessarily support a discount.

A notable issue relevant to properties in the market that do not have insurable access is that there is a problematic relationship with the definition of “market value”. A neighboring landowner may be willing to purchase a property without insurable access, and may even be willing to pay a market level price, or may conceivably be willing to pay above the market to acquire the property. But under such circumstances, a typical motivation is a desire to avoid having an outside party gaining ownership of a property which borders or is surrounded by, the neighbors existing ownership. Again, under these conditions, the value may not comply with the definition of market value which typically states (in part) that the price is “the most probable price for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale and assuming neither the buyer or seller are under undue duress.” If there is only one, or two, etc. bordering landowners who can conceivably supply their own access to a captive piece of property which has come up for sale, the market is arguably not a competitive market. If other interested parties cannot see a way to perfect access to a piece of property without being enjoined in a legal contest over access, is that circumstance “requisite to a fair sale”? How does a hypothetical marketing effort for a property without insurable access compare to the marketing of a property where all parties are able to access the property and weigh whether a possible purchase of the property would be prudent, and in their own self-interest?

Clearly (in typical cases) a property without insurable access finds the number of potential buyers constrained to neighboring landowners, or parties willing to enjoin others in a (possible or probable legal) contest to perfect their access to the property. A property without insurable access does not (typically) have equal exposure to an open and competitive market. Whether or not buyers of property without insurable access will elect to pay a market level price, is not totally predictable. When a potential purchaser (for instance, a neighboring landowner) knows that the market for the property is less than open and competitive, my opinion is that in at least a substantial percentage of cases, a price that is below market level will result due to the factor of perceived advantage on the part of the neighboring landowner, or other parties who are willing/able to contest the access issue.

In view of the foregoing, it is my opinion that under typical circumstances (not all circumstances), a discount from the documented market value of property is the most reasonable conclusion. If the evidence is viewed in the broader context, and documented with a larger body of market evidence, a discount is the most typical result of exposing for sale properties which do not have insurable access.

Following is a typical, representative example involving smaller rural properties in a nearby market area. This support for an adjustment is based on the sales in September, 2005 of two rangeland parcels southeast of Cascade, in Cascade County, Montana (Cascade County is the adjoining county on the southwest side of Chouteau County). The same seller (the estate of Astrid Merrett) sold two tracts of rangeland. One 200 acre property with access sold for a little over \$500 per acre. A 160 acre property without insurable access was listed for \$500 per acre, and was ultimately sold for \$325 per acre due to the problematic access. Two landowners joined the 160 acre property and could have provided access. A possible prescriptive use access would have been expensive and time consuming to pursue (via litigation). The loss in value due to the lack of insurable access is 35%.

It is my opinion that instances of landowners giving buyers of land without insurable access free and open access rights across adjoining private land may become more rare going forward. I feel this may be especially true when recreational motives are evidenced and/or when the sales are to individuals from outside of the area. In the north-central Montana rural land market, there are now potential buyers without a prior connection to a neighborhood, to whom existing landowners are hesitant to provide easements or other means of insurable access.

Some cases in support of the changing nature of the market for rural Chouteau County properties are sales 2, 4, and 7. These properties were sold to people from outside their respective neighborhoods. In the past, the typical buyers would have been neighbors or other existing area agricultural operators. The buyers of these properties, unlike most of their neighbors, are not necessarily dependent on the production from the land paying for the property at the outset, or maintaining and improving the property after the purchase. Because the Chouteau County rural land market (and other similar historical agricultural areas as well) is starting to change in this regard, the adjustment for lack of insurable access demonstrated by the Cascade County rangeland sales appears to be reasonable.

Land Value Estimation

Following is a brief summary of the information regarding the thirteen comparable transactions used to estimate the value of the twelve individual appraised parcels. A complete analysis sheet for each of the

comparable sales, along with a photo and a map locating the sales, appears in the Addenda section of this report.

Comparable Lane Sales Summary

| <u>Sale</u> | <u>Date</u> | <u>Total Acre Size</u> | <u>Acres of Rangeland</u> | <u>Price per Acre of Rangeland</u> |
|-------------|-------------|----------------------------|-------------------------------|--|
| 1 | 5-05 | 6,238 | 3,091 | \$205 |
| 2 | 11-04 | 992 | 745 | \$260 |
| 3 | 9-04 | 1,600 | 396 | \$160 |
| 4 | 7-04 | 586 | 145 | \$203 |
| 5 | 12-00 | 120 | 120 | \$250 |
| 6 | 8-04 | 815 | 815 | \$265 |
| 7 | 11-03 | 4,945 | 4,945 | \$190 |
| 8 | 5-02 | 7,782 | 4,592 | \$115 |
| 9 | 7-00 | 3,554 | 2,441 | \$200 |
| 10 | 3-04 | 1,064 | 712 | \$230 |
| 11 | 11-03 | 3,813 | 3,525 | \$200 |
| 12 | 2-02 | 2,364 | 483 | \$200 |
| 13 | 5-01 | 3,346 | 1,302 | \$200 |
| Subjects | 11-05 | 2,880 | 2,880 | |

The information on the thirteen comparable sales summarized above indicates a value range of \$115 to \$265 per acre; ten of the thirteen sales indicate a value range of \$200 to \$265 per acre. The sales cover a broad area of Chouteau County. Three of the sales are located in western Blaine County, and one is in western Fergus County.

Only one of the comparable sales (sale 5) is a ‘puritan’, which is to say involved only the sale of rangeland, with no other land classes or buildings in the sale. Sale 5 sold for \$250 per acre. Two other sales (sales 6 and 7) were sales of rangeland, and had relatively small allocations in the purchase price to modest building improvements; these two sales indicate rangeland values of \$265 and \$190 per acre respectively. The rest of the sales are mixed sales of rangeland, cropland, and in some cases buildings

and/or “other considerations”. Chouteau County is (speaking generally) primarily a dry cropland farming area, so the high percentage of mixed land class sales is not unusual in this particular market area. The pure rangeland sale, and the sales of rangeland with only modest buildings are not applicable to all of the appraised parcels, but they provide good market support to the land value allocations made to the rangeland in the mixed sales. Further explanation will be provided in the individual valuations of the appraised parcels.

The appraised parcels will be valued in the same order in which they are described in the Legal Description, and the Property Description sections of this report, as follows:

Township 20 North, Range 11 East

There are three individual appraised parcels in this township (listed below), an 80 acre tract in Section 25, an 80 acre tract in Section 35, and all of Section 36. The appraised parcel in Sections 25 has a small reservoir which captures only early season water; the parcel in Section 35 does not have a water source of it's own (there is a stock tank on a pipeline, fed by a spring on adjoining deeded land), and Section 36 has it's own water sources.

The most comparable sales for use in estimating the value of the three appraised parcels in this township are sales 1, 10, 11, 12, and 13, which indicate a value range of \$200 to \$230 per acre.

The high-priced sale of the five was sale 10, which sold for \$230 per acre. Sale 10 had a water-line providing stock water, and also had part of the Phantom Coulee Reservoir on the property. There was a recreational influence on this property that doesn't appear to be present to the same extent at the appraised tracts. A conclusion below \$230 per acre is indicated by sale 10.

The other four sales indicate a very consistent value range of \$200 to \$205 per acre. Sales 1 and 13 have stock water, and sales 11 and 12 have arrangements for access to stock water. Based on the greater weight of the market evidence, my estimation of the market value for the fee simple estate in the appraised parcels, as of the effective appraisal date of November 10, 2005 was as follows:

Assuming insurable access: \$200 per acre

As is on the appraisal date: \$130 per acre

Section 25: S1/2SW1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 35: E1/2NE1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The three parcels in Township 20 North, Range 11 East (in Sections 25, 35, and 36) covered by State Lease #2922 (Strand leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by the lessee's deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as three separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends.

Township 21 North, Range 11 East

The only parcel in this township is in Section 27; it is a 160 acre tract. This property has a small reservoir that would appear to save early season water.

This parcel is in the same market area as the tracts in Township 20 North, Range 11 East. That being the case, the same comparable sales will be used to estimate the value of this property.

The most comparable sales for use in estimating the value of the three appraised parcels in this township are sales 1, 10, 11, 12, and 13, which indicate a value range of \$200 to \$230 per acre.

The high-priced sale of the five was sale 10, which sold for \$230 per acre. Sale 10 had a water-line providing stock water, and also had part of the Phantom Coulee Reservoir on the property. The water resources and recreational influence appears to have influenced the price paid for the rangeland segment of the property. A conclusion below \$230 per acre is indicated by sale 10.

The other four sales indicate a very consistent value range of \$200 to \$205 per acre. Sales 1 and 13 have stock water, and sales 11 and 12 have arrangements for access to stock water. Based on the greater weight of the market evidence, my estimation of the market value for the fee simple estate in the appraised parcels, as of the effective appraisal date of November 10, 2005 was as follows:

Assuming insurable access: \$200 per acre

As is on the appraisal date: \$130 per acre

Section 27: SW1/4

160 acres @ \$200/acre = \$32,000 (assumes insurable access)

160 acres @ \$130/acre = \$20,800 (as existed on appraisal date)

Township 25 North, Range 5 East

There are six individual appraised parcels in this township; one parcel each in Sections 15, 16, 23, and 27, and two parcels in Section 22. Section 16 has a stock water well that was installed by the lessee; it is limited in the amount of water it will produce, but is a reliable source of livestock water. None of the other parcels have an independent source of livestock water.

The most comparable market evidence to use in estimating the value of these tracts comes in the form of sales 1 through 5; these five sales indicate a value range of \$160 to \$260 per acre.

The high indications come from sales 2 and 5, which sold for \$260 and \$250 per acre respectively. Sale 2 was sold to a buyer with recreational motivation; the property had the Teton River on it, and the accompanying wildlife habitat. These same factors do not appear to be present on the appraised parcels, certainly not to the same extent. Sale 5 was a defensive purchase by the neighboring landowner who did not want to see the land end up going to another party. The sale 5 property appears to be very close to, if not touching the Teton River, and may have had some recreational appeal in the market but for its lack of legal (insurable) access. The buyer of sale 5 indicated that the lack of legal access substantially diminished the value of the tract, but the price paid appears to be a market level price notwithstanding those representations. The factors relating to the sales 2 and 5 properties indicate a price lower than \$250 per acre for the appraised property.

The low indication from sale 3 is \$160 per acre. The rangeland on this sale tends to be interspersed with cropland, which generally speaking tends to limit the utility of the grass to utilization with aftermath grazing. Because of the restricted use of the rangeland on sale 3, a conclusion higher than \$160 per acre is indicated for the subject parcels.

Sales 1 and 4 indicate \$205 and \$203 per acre respectively. Most of the rangeland on sale 1 is fenced and has a good source for stock water. The buyer of sale 4 had recreational motivations and purchased a combination CRP/rangeland unit; there is good bird habitat on this sale. Sales 1 and 4 both sold subject to factors that would appear to make them superior to the appraised units.

The preceding discussion's bracketing adjustments lead to a conclusion higher than \$160 per acre and lower than \$203 per acre for the appraised tracts.

My estimation of the market value for the fee simple estate in the appraised parcels, as of the effective appraisal date of November 11, 2005 was as follows:

Assuming insurable access: \$190 per acre

As is on the appraisal date: \$123.50 per acre

Section 15: S1/2S1/2

160 acres @ \$190/acre = \$30,400 (assumes insurable access)

160 acres @ \$123.50/acre = \$19,760 (as existed on appraisal date)

Section 16: All

640 acres @ \$190/acre = \$121,600 (assumes insurable access)

640 acres @ \$123.50/acre = \$79,040 (as existed on appraisal date)

Section 22: SE1/4NE1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 22: SW1/4NW1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 23: SW1/4NE1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 27: SW1/4SW1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (assumes insurable access)

Township 26 North, Range 15 East

There are two parcels in this township, one each in Sections 35 and 36. Both tracts appear to have reliable livestock water. Section 35 has a reservoir (there was water in it on my inspection date), and Section 36 has a reservoir (had water on my inspection date) and a well.

The most comparable sales for use in estimating the value of the appraised parcels were sales 1, 6, 7, 8, and 9. These five sales indicate a value range of \$115 to \$265 per acre.

The high indication comes from sale 6, which sold for \$265 per acre. This property is located more proximally in the Bear Paw Mountains, which is a slightly higher rainfall area, and demonstrates more recreational influences than the area of the appraised parcels. Due to these considerations, a conclusion below \$265 per acre is indicated for the subject tracts.

The low indication comes from sale 8, which sold for \$115 per acre of rangeland. This property is located in the Lone Tree Bench area of southern Blaine County; it is a remote area, and historically a slightly drier range site than the area of the subjects. The broader market evidence also indicates the buyer may have succeeded in paying a slightly below market price for the property. A conclusion above \$115 per acre is indicated by sale 8.

The remaining sales (sales 1, 7, and 9) indicate a narrow value range of \$190 to \$205 per acre.

My estimation of the market value for the fee simple estate in the appraised parcels, as of the effective appraisal date of November 11, 2005 was as follows:

Assuming insurable access: \$200 per acre

As is on the appraisal date: \$130 per acre

Section 35: E1/2

320 acres @ \$200/ac. = \$64,000 (assumes insurable access)

320 acres @ \$130/ac. = \$41,600 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The two parcels in Township 26 North, Range 15 East (in Sections 35 and 36) covered by State Lease #242 (E-7 Grain & Livestock/Jerry Jenkins leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as two separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends.

RECONCILIATION

In the valuation process, more than one approach to value is often applied; when this is the case the separate approaches typically result in different estimations of value. Resolving the differences among more than one value indication is the process termed reconciliation.

Only the sales comparison approach to value was used in arriving at my opinion of value for the appraised property. This approach resulted in the following:

(The effective appraisal date for the following parcels was November 10th, 2005)

Township 20 North, Range 11 East

Section 25: S1/2SW1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 35: E1/2NE1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The three parcels in Township 20 North, Range 11 East (in Sections 25, 35, and 36) covered by State Lease #2922 (Strand leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by the lessee's deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as three separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis.

Township 21 North, Range 11 East

Section 27: SW1/4

160 acres @ \$200/acre = \$32,000 (assumes insurable access)

160 acres @ \$130/acre = \$20,800 (as existed on appraisal date)

(The effective appraisal date for the following parcels was November 11th, 2005.)

Township 25 North, Range 5 East

Section 15: S1/2S1/2

160 acres @ \$190/acre = \$30,400 (assumes insurable access)

160 acres @ \$123.50/acre = \$19,760 (as existed on appraisal date)

Section 16: All

640 acres @ \$190/acre = \$121,600 (assumes insurable access)

640 acres @ \$123.50/acre = \$79,040 (as existed on appraisal date)

Section 22: SE1/4NE1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 22: SW1/4NW1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 23: SW1/4NE1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (as existed on appraisal date)

Section 27: SW1/4SW1/4

40 acres @ \$190/acre = \$7,600 (assumes insurable access)

40 acres @ \$123.50/acre = \$4,940 (assumes insurable access)

Township 26 North, Range 15 East

Section 35: E1/2

320 acres @ \$200/ac. = \$64,000 (assumes insurable access)

320 acres @ \$130/ac. = \$41,600 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The two parcels in Township 26 North, Range 15 East (in Sections 35 and 36) covered by State Lease #242 (E-7 Grain & Livestock/Jerry Jenkins leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as two separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis.

In the present market, the appraised property has essentially one land classification to value, which was addressed using sales comparison techniques. There were no building improvements for which to estimate value on the appraised properties. For these reasons, a separate cost approach to value was not included in this particular case.

I did not include an income approach to value in this specific assignment. The income capitalization approach is predicated on the economic theory of anticipation, which holds that present value is indicated by the expectation of future benefits. Future benefits typically refer to the monetary benefits of income and/or reversion. As I noted above, I am estimating the value of the fee simple estate in the appraised properties at the request of my client. I am citing a hypothetical condition to allow me to conclude my opinion for the fee simple estate, and not analyze the market effect of the existing leases. None of the appraised parcels are fenced separately, which is to say that improvements would be required to have an economic rangeland unit that could function on its own. Also, some of the appraised parcels do not have water sources of their own.

There was good data available for use in the sales comparison approach. I consider the results very reliable.

CERTIFICATION

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

- The statements of fact contained in the report are true and correct;
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinion, and conclusions.
- I 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.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My 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 or 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.
- My reported analyses, opinion, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Uniform Standards of Professional Appraisal Practice* (USPAP).
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, I am current in continuing education reporting under the State of Montana's Board of Real Estate Appraisers requirements.
- As of the date of this report, I am current in continuing education requirements mandated for designated members of the American Society of Farm Managers and Rural Appraisers.

The condition I am appraising the subject property for is cash, or in market terms equivalent to cash.

After reviewing all of the steps taken in the appraisal process, my opinion of the market value for the fee simple estate in the appraised property as of the effective appraisal dates of November 10th and November 11th, 2005 was:

(The effective appraisal date for the following parcels was November 10th, 2005)

Township 20 North, Range 11 East

Section 25: S1/2SW1/4

80 acres @ \$200/acre = \$16,000 (assumes insurable access)

80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 35: E1/2NE1/4

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80 acres @ \$130/acre = \$10,400 (as existed on appraisal date)

Section 36: All

640 acres @ \$200/acre = \$128,000 (assumes insurable access)

640 acres @ \$130/acre = \$ 83,200 (as existed on appraisal date)

NOTE TO THE READER: The three parcels in Township 20 North, Range 11 East (in Sections 25, 35, and 36) covered by State Lease #2922 (Strand leases) form one contiguous parcel. The contiguous parcel of State land is surrounded by the lessee's deeded land. At the request of my client, a separate value will be allocated to each individual tract. The market would typically deal with the contiguous parcels as one tract. As required by USPAP, I am citing a hypothetical condition to allow for dealing with these appraised parcels as three separate units. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for purposes of analysis.

Township 21 North, Range 11 East

Section 27: SW1/4

160 acres @ \$200/acre = \$32,000 (assumes insurable access)

160 acres @ \$130/acre = \$20,800 (as existed on appraisal date)

(The effective appraisal date for the following parcels was November 11th, 2005.)

Township 25 North, Range 5 East

Section 15: S1/2S1/2

160 acres @ \$190/acre = \$30,400 (assumes insurable access)

160 acres @ \$123.50/acre = \$19,760 (as existed on appraisal date)

Section 16: All

640 acres @ \$190/acre = \$121,600 (assumes insurable access)

640 acres @ \$123.50/acre = \$79,040 (as existed on appraisal date)

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Township 26 North, Range 15 East

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The problem to be solved in this appraisal report is to provide my client with my opinion of the market value for the fee simple estate in the appraised property. The project involves estimating the value of twelve separate parcels of scattered State-owned rural land located in Chouteau County, Montana. All twelve appraised tracts are leased as of the appraisal date. None of the appraised parcels have legal (insurable) access as of the effective appraisal date. To accomplish the foregoing requires citing the following hypothetical conditions, as per USPAP requirements:

1. I am estimating the market value for the fee simple estate (ownership interest) of the appraised parcels. As noted, the appraised parcels are not fee simple estates; they are all leased to the tenants identified in the Property Description section of this report. As required by USPAP, I am citing a hypothetical condition to allow me to conclude my opinion for the fee simple estate, and not analyze the market effect of the existing leases. A hypothetical condition is defined as: that which is contrary to what exists, but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends.
2. My client requested a value estimation assuming access (I will use the term “insurable access” to reflect a means of accessing the property that a title insurance company would likely commit to), and a second estimation of value without access, or the “as is” condition as of the respective parcel as of the effective appraisal date. The value estimation assuming access is also contrary to what exists, and is also an assumption made for the purpose of analysis.

Respectfully submitted,

Ed Jackson, ARA