

APPRAISAL REVIEW REPORT
Proposed Land Banking Sale
Rock Creek, Northwest of Deer Lodge
Section 10, T10N-R8W
Powell County, Montana
May 22, 2007

Prepared for:
State of Montana
Department of Natural Resources and Conservation
Trust Land Management Division
Real Estate Management Bureau
1625 11th Avenue
Helena, MT 59620

Prepared by:
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Client & Intended Users of Review:

The clients and intended users are the State of Montana, the Board of Land Commissioners, the Department of Natural Resources and Conservation (DNRC), and the Southwest Land Office.

Intended Use and Purpose of Review:

The purpose of the review is to provide the clients with an opinion of the credibility of an opinion of current fair market value of the appraised subject property. The review will be used in an administrative determination process for setting a minimum bid price for a potential sale of the subject property at auction. An opinion of the quality of the appraisal report as well as this reviewer's opinion of the credibility of the value estimated will be reported. The appraisal was submitted by Kraig Kosena, of Kembel, Kosena & Company, Inc., Missoula, MT.

Subject Property, Location & Owner of Record:

The subject property is approximately 640 acres, of rolling to steep, partially-timbered terrain. The subject property's legal description is Section 10, Township 3 North, Range 8 West, Powell County, Montana. The subject property is located about 7 miles northwest of Deer Lodge, MT. Gravel roads service the subject's immediate area. The subject property is known as Rock Creek, with the Rock Creek Ditch bisecting the property. The Owner is the State of Montana. The reader is referred to the narrative, maps, and photos in the appraisal report itself for more information about the subject property.

Date of Appraisal, Estate Appraised & Date of Review:

The effective date of the appraisal and the subject's last inspection date is April 3, 2007. The appraisal report date is May 4, 2007. Per appraisal instructions, although the subject property is leased, the subject property was appraised in fee simple interest as a **hypothetical condition**. The definition of value is contained in the appraisal report. No separate valuation was done for timber, minerals, or water rights. The effective date of the review is May 22, 2007. This review is not a stand alone document and is expressly interrelated to the appraisal report.

Clients & Intended Users and Purpose & Use Of the Appraisal:

The clients and intended users of the appraisal report are the State of Montana, the Land Board and the Department of Natural Resources and Conservation (DNRC). The purpose of the appraisal is to provide the clients with a credible opinion of current fair market value of the appraised subject property for use in the decision making process regarding setting the minimum bid price for the potential sale of said subject property at auction.

Appraisal Estimate of Value:

The appraiser reported a subject property value of \$800,000. The value was based on the following estimate of value:

640 acres X \$1,250/acre = \$800,000

Scope of Review:

The reviewer will be reviewing and making an opinion of the quality of the appraisal, along with providing an opinion of the credibility of the value reported. The reviewer's opinion of appraisal quality will be based almost completely on the material submitted in the report. Limited use will also be made of information on the cadastral system, such as legal descriptions, maps, aerial photos and topography maps, keep in the reviewer's workfile, and a physical viewing of the subject property. The comparable sales were not inspected and were only "viewed" through use of the appraisal report. The reviewer's valuation opinion is limited to an orientation prospective of the appraiser's opinion, i.e., "the appraiser's opinion of value appears high, low, appropriate, or unsupported", etc. In the development of this reviewer's opinion of the credibility of the value estimated, an **extraordinary assumption** has been made that the material about the subject property and on the comparable sales, along with other market information submitted in the appraiser's report is credible.

Highest and Best Use:

The appraisal report determined that the Highest and Best Use of the subject property as Vacant would be for a rural residential/recreational development in conformance with other developments in the area. The appraiser further concluded that the Highest and Best Use as Improved is not applicable. This reviewer concurs with the Highest and Best Use determinations made. The reader is referred to the appraisal report for the actual analysis.

Subject Property Data & Analysis Summary:

The appraiser appears to have provided sufficient information on and done an adequate analysis of, the subject property, the neighborhood and the market in general. In this reviewer's own development of an opinion of the credibility of the value reported, an **extraordinary assumption** has been made by this reviewer that this material is credible.

The appraiser made an **extraordinary assumption** that the subject property has legal access when in fact the subject property does not. However, per instructions, and for purposes of analysis, the appraiser is to appraise landlocked both with the **hypothetical condition** of having legal access and then without legal access, but only if evidence, (sales), exists in the subject's market area to support the without access value. This extraordinary assumption/hypothetical condition inconsistency is lessened in relevance because no sales without access appear to exist in the subject's market area. Also, the appraiser has included the appraisal instructions and scope of work as part of the report addenda. For informational purposes, USPAP defines Hypothetical Condition as: that which is contrary to what exists but is supposed for the purpose of analysis. USPAP defines Extraordinary Assumption as: an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

Use of the **extraordinary assumption/ hypothetical condition** concerning the legal access is not believed to have affected the assignment results given the lack of landlocked sales in the subject's market area.

Appraisal Report Valuation Summary:

The appraiser considered the Sales Comparison Approach to be the only applicable guide to the value of the parcel, and this reviewer concurs.

The Sales Comparison Approach involves a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments to the sales prices based on the elements of comparison. Also described as, direct comparison of the subject property to actual sales of similar properties in the market place, in which these sales are then adjusted for market-recognized differences. The appraiser used the bracketing technique in the process.

The appraiser appears to have done a thorough search of the subject's market area for comparable sales and other market data, done a sufficient job in description/explanation and a reasonable analysis of the information.

The reader is referred to the narrative and charts in the actual appraisal report for the appraiser's descriptions, analysis and conclusions. Again, in this reviewer's own development of value, this reviewer has made the **extraordinary assumption** that the comparable sales and other market information is credible.

Comments:

This reviewer did follow up with the appraiser in order to validate why the subject property was only valued with the condition/assumption of legal access. The appraiser confirmed that no landlocked sales were found in the subject's market area, thus only the one value was developed. Consequently, this reviewer finds the report is acceptable and that it appears credible. The material appears complete, the data appears adequate and relevant, the adjustments appear proper, the appraisal methods and techniques appear appropriate, and the analysis, opinions and conclusions appear appropriate and reasonable.

This review is not a stand alone document and is expressly interrelated to the appraisal report.

Conclusion of Value:

This reviewer did not replicate the steps completed by the original appraiser. This reviewer has concluded that the work under review is credible and in compliance with the applicable development standards and has been extended to this reviewer's value opinion development process on the basis of an **extraordinary assumption** by the reviewer. It is this reviewer's opinion that the appraisers' opinion of the market value of \$800,000 for the subject property is well supported and appropriate.

Thomas J. Konency, Montana DNRC TLMD Appraiser

Dated: May 22, 2007

ASSUMPTIONS AND LIMITING CONDITIONS

The certification of the appraiser appearing in the appraisal review report is subject to the following conditions and to such other specific and limiting conditions as set forth in the review report.

1. The appraiser will not be responsible for matters of a legal nature affecting either the property being appraised or the title to it. Except for information that was provided or uncovered during the research involved in performing the appraisal review and ordinarily employed by real estate appraisers, no opinion is intended to be expressed for legal matters or that would require specialized knowledge or investigation. The appraiser assumes that the title is good and marketable, ("free and clear"), and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership and/or competent management. Unless otherwise mentioned in this review report, the property is appraised as if owned in fee simple title without encumbrances.
2. The appraiser assumes that the legal descriptions furnished are correct and the appraiser has not surveyed the property. Acreage of land types and measurements of improvements are based on physical inspection of the property or information provided unless otherwise noted in the report. Sketches or drawings in this report are included to assist the reader in visualizing the property. They are not to be considered a legal survey or engineer's plan of any kind. Any and all other sketches, drawings, maps, etc., are also provided for informational purposes only and are not for any legal reference. Access has been investigated only to the satisfaction of the appraiser. No assurance of legal access, or lack of, is expressed or implied as a legal opinion. The same is true of encroachment and trespass issues.
3. The appraiser has noted in the appraisal review report any adverse conditions, (such as, but not limited to, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, flood planes, etc), observed during the routine inspection of the subject property, and/or adjacent properties, or that was discovered during the normal research involved in performing the appraisal review. Unless otherwise stated in this report, the appraiser has no knowledge of any hidden or unapparent conditions of the property, and/or adjacent properties, or adverse environmental conditions, (including, but not limited to, the presence of hazardous wastes, toxic substances, etc), that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal review report must not be considered as an environmental assessment of the property. Concerns about soil conditions, actual condition of improvements or systems, or property conformity to zoning, building, fire, ADA, and other such applicable laws, regulations, rules and codes, should all be referred to the proper experts.

4. The appraiser is not an expert in minerals, mineral rights, timber, timber volumes, crops, farm programs or water requirements and rights. Unless otherwise noted, only surface rights will be appraised or reviewed with no value specifically allotted to the mineral rights or deposits. Timber values, if considered a part of the report, will rely on proper experts, as will farm programs. Typically, growing crops are not considered in the appraisal report. Usually it is assumed the water rights have been secured or perfected, with their value generally considered an inherent part of the land value, with any deviation from this to be included in the report. Rental and lease agreements, conservation plans, options and other situations may also require reliance on proper experts.

5. The appraiser has obtained information, opinions, estimates, surveys, plans, maps and information on regulations, restrictions and studies, etc., from various sources including the property owner, agent, or manager, as well as from real estate professionals, government agencies, appraisers and other sources. Unless otherwise noted, the sources are considered reliable and the information is complete and correct. However, the appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.

6. The appraiser assumes no responsibility or liability for future conditions, about which information was not supplied or readily available or was not public knowledge at the time the appraisal is made, nor for the effect of events, which might concern the value of the subject property subsequent to date of appraisal. Montana is a non-disclosure state and as such sales prices of real estate are not publicly recorded. Therefore, with few consolidated sources of sales information existing, and no obligation to release or verify information by many of the parties associated with the transactions, sales of comparable properties may not be known by this appraiser, and absolute verification of the sales found may not be possible.

7. The Scope of Work has been noted in the report. All extraordinary assumptions and hypothetical conditions, including, but not limited to, satisfactory completion and repairs or alterations, will be noted in the appraisal report. It is assumed there will be consistency with all the plans, estimates, specifications, planned work, projections, or requirements, initially provided. Deviation from those items may affect the value reported. Great effort has been taken to eliminate all error in identifying, developing and processing the report. However, if errors or omissions are found, they will have to be reviewed to see if they will affect the opinion of value reported.

8. The appraiser will not disclose the contents of this appraisal review report except as provided for in the Uniform Standards of Professional Appraisal Practice, and/or applicable federal, state, or local laws, rules or regulations. The appraiser is not obligated to/by any unauthorized use of this report by third parties or the “extraction” of only parts of the report and attempting to apply those parts in any other process or to reach a conclusion.

9. It is assumed that there has not been any significant change, physical or otherwise, to the subject property between the inspection date and date the report is signed.

APPRAISER'S CERTIFICATION: This review appraiser certifies and agrees that:

1. I have no present or prospective interest in the property that is the subject of this report and review, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in the appraisal review report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
2. My employment and/or compensation for performing this appraisal review or any future or anticipated appraisal reviews was not conditioned on any agreement or understanding, written or otherwise, that I would report (or develop or present any analysis, opinions or conclusions supporting) a predetermined specific value, a predetermined minimum or maximum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific event or action, or the subsequent event directly related to the use of this appraisal review report.
3. I have taken into consideration the factors that have an impact on value in the development of my opinion of market value for the subject property. I have noted in the appraisal review report any adverse conditions, (such as, but not limited to, needed repairs, depreciation, the presence of hazardous materials, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing the appraisal review. I have considered these adverse conditions in my analysis of the property value to the extent that I had market evidence to support them, and have commented about the effect of the conditions on the marketability of the subject property.
4. I have not knowingly withheld any significant information from the appraisal review report that would have an impact on value and I believe, to the best of my knowledge, that all statements and information in the appraisal review report are true and correct. I have stated in this appraisal review report only my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the limiting conditions specified in this appraisal review report.
5. To the best of my knowledge, I have performed this appraisal review in conformity with the Uniform Standards of Professional Appraisal Practice. I have personally analyzed and prepared all the conclusions and opinions about the real estate that are set forth in this appraisal review report. If I have relied on significant real property appraisal or review assistance from any individual(s) in the performance of the appraisal review or preparation of the appraisal review report, I have named such individual(s) and disclosed the specific tasks performed in the appraisal review report. I certify that any individual(s) so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in the appraisal review report; therefore, any change made to the appraisal review is unauthorized and I take no responsibility for it.

Thomas J. Konency, Montana DNRC TLMD Appraiser

Dated: May 22, 2007