SUMMARY
APPRAISAL REPORT
of four
STATE LAND BANKING PARCELS
located in
Yellowstone County, Montana

EFFECTIVE DATE: November 17, 2010

Prepared for:

Tom Konency, Appraiser
Montana DNRC Trust Land Management Division
1625 Eleventh Ave.
P.O. Box 201601
Helena, MT 59620-1601

Prepared by:

Andrew A. D. Rahn IV, ARA
Rahn Land, Inc.
Accredited Rural Appraiser
Montana Certified General Appraiser

RAHN LAND, Inc.
Andrew A.D. Rahn IV, ARA
Accredited Rural Appraiser
Montana Certified General Appraiser

December 10, 2010

Tom Konency, Appraiser
Montana DNRC Trust Land Management Division
1625 Eleventh Ave.
P.O. Box 201601
Helena, MT 59620-1601

RE: Real estate appraisal of four State Land Banking Parcels located in Yellowstone County, Montana.

Dear Mr. Konency:

Pursuant to your request, I have personally inspected and prepared an appraisal of the real property assets associated with the four State Land Banking Parcels located in Yellowstone County, Montana. The properties described herein consist of separate parcels of native rangeland each of which total 640 acres in size. The lands appraised are located in southeastern Montana which has historically been an agricultural market, but has experienced transitional value influences related to development, recreation, and investment influences in rural Montana.

It is my understanding that you are requesting this appraisal for use in the decision making process concerning the potential sale of said subject properties. The effective date of appraisal is November 17, 2010, which is the last date of inspection. The purpose of the appraisal is to provide the client with a credible opinion of current fair market value of the appraised subject properties.

P.O. Box 1013, Bozeman, Montana 59771-1013
406-580-6882
appraisal@andyrahn.com

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appraisal@andyrahn.com

In consideration of locational attributes and market conditions at this time, I have concluded that a valuation analysis for the subject properties should be set forth in a narrative Summary Appraisal Report in compliance with current *Uniform Standards of Professional Appraisal Practice* (USPAP) guidelines. No extraordinary assumptions were made in completing this appraisal. However, two hypothetical conditions were employed as directed by the client. These hypothetical conditions are described in the Scope of Work, as well as through out the report. This appraisal represents a current valuation as defined by USPAP. USPAP is the generally accepted standards for professional appraisal practice in the United States. The objective of this analysis is to estimate the market value of the subject properties on an "as-is" basis including land and appurtenances.

The value determinations presented in this report represent the cash value of the fee simple ownership rights associated with the appraised properties, exclusive of reservations of record. This value conclusion is inclusive of the contributory value of mineral, timber, and water rights associated with the real property. The appraised value is based on an exposure time of less than twelve months and my value conclusion does not include personal property, fixtures, emblements, or intangible items.

Respectfully submitted,

Andrew A. D. Rahn IV

Andrew A. D. Rahn, IV, ARA
Rahn Land, Inc.
Accredited Rural Appraiser
Montana Certified General Appraiser

P.O. Box 1013, Bozeman, Montana 59771-1013
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I. INTRODUCTION

A. Authorization and Scope of Appraisal

The appraiser was authorized to prepare an appraisal of the subject properties by the Montana Department of Natural Resources & Conservation (DNRC) via contract #097410. The contract outlined the terms and conditions of the appraisal assignment, and is included in the Addendum of the report.

As will be identified within this report, the primary objective of this appraisal to provide the client with a credible opinion of current fair market value of the appraised subject properties, and is intended for use in the decision making process concerning the potential sale of said properties. A standard appraisal process will be employed to determine the market value of the real property, subject to any easements, reservations, conveyances, and encumbrances of record. This value includes mineral, water, and timber rights, as these items are considered inherent in the land value and no specific valuation of these rights will be performed. No difference for minerals or lack of minerals can be determined in this market. This process will include all available and current market data and information considered pertinent to the valuation of the subject properties.

In preparing the appraisal, the appraiser conducted research and analysis of the subject properties, the subject area, the general market, and specific sales. This included inspections of each of the subject properties between November 15th and November 17th, 2010. Background property information was gathered from several sources that included the property lessees as well as personnel associated with governmental agencies including the County Assessor, the County Clerk and Recorder, the USDA Farm Services Agency, the Montana Department of Natural Resources, as well as a personal knowledge of the local and surrounding area. As described, the real property consists of four separate parcels each totaling 640 deeded acres.

The appraiser has studied the market and conducted a highest and best use analysis for the subject properties. All of the available sales data has been evaluated for comparability to the subject properties. All three approaches to value, the Cost, Sales Comparison, and Income Approaches were considered.

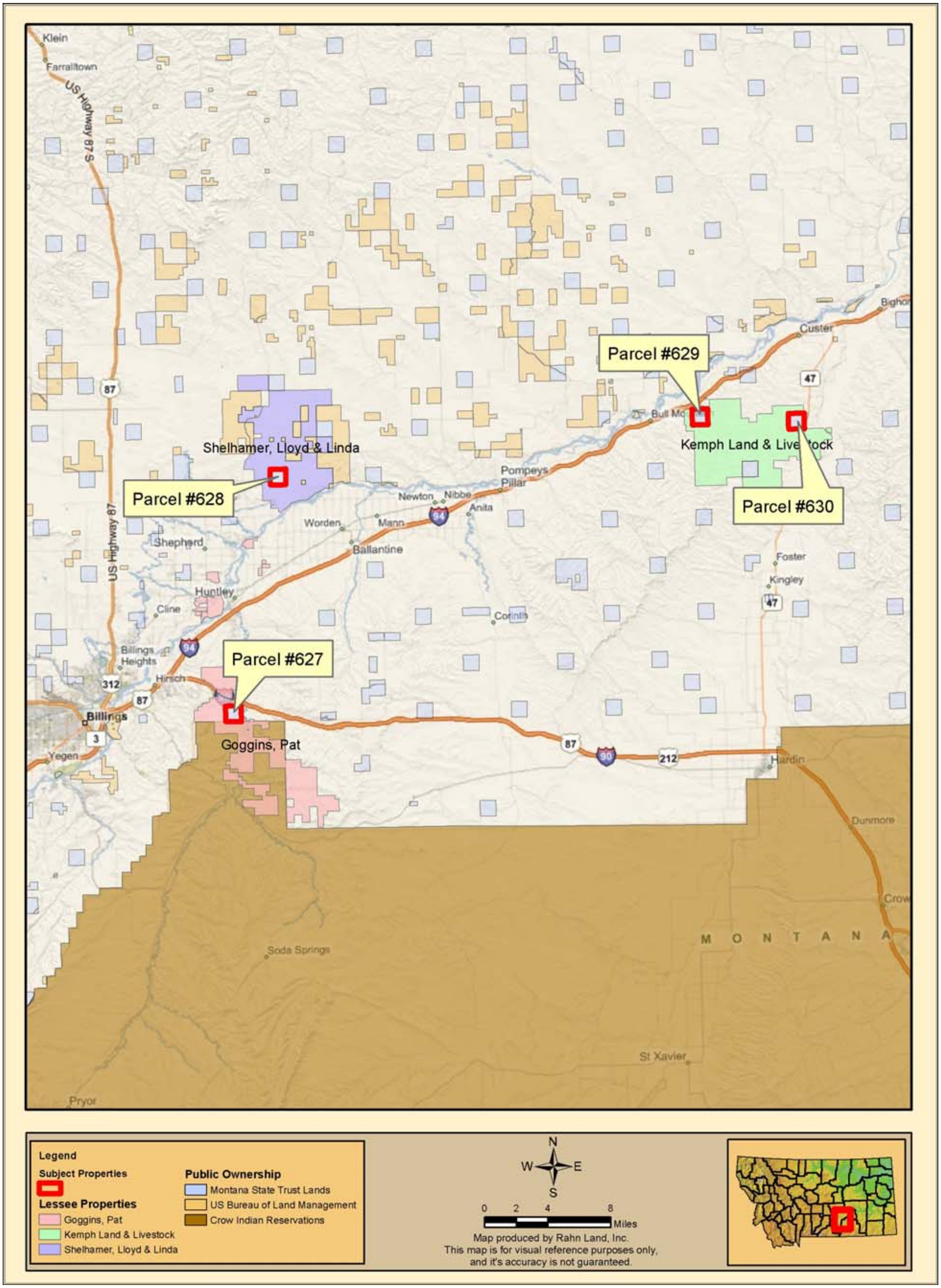
There are two hypothetical conditions that will be employed in this report, as directed by the client. The first hypothetical condition is that the properties are in a fee simple estate, when in fact they are currently leased and the lessees hold a leased fee interest in the properties. The client holds a leasehold interest in the subject properties. However, as directed by the client, the parcels are to be appraised in this assignment as fee simple estates. Secondly, only one of the four subject properties has legal access. The remaining three parcels are remote tracts which are surrounded by private lands for which no access easements are present. In addition to appraising these subject properties in the "as is" condition which is without legal access, the client has directed the appraiser to value the properties under the hypothetical condition that the properties do have legal access. These parcels will be valued in an “as is” condition, without legal access, and also under the hypothetical condition of having legal access.

Montana is a non-disclosure state where land sale prices and the terms of rural real estate transactions are not public information. There are no centralized sources of sale data and no obligatory requirements for sale participants to release price data and some sales are subject to confidentiality agreements. The appraiser acquires sales data from transaction participants (such as buyers, sellers, brokers, attorneys, and closing agents) as well as other real estate and valuation professionals such as appraisers and real estate agents. The willingness of these sources to share confidential sales data with the appraiser is based on the agreement that the appraiser will keep that data confidential and use with the utmost discretion. The appraiser’s professional practice is depended on maintaining the confidentiality of sales data, and the appraiser has verbally assured all the providers of confidential sales data that the data will remain confidential.

Given that this report may be made available to the public, the confidential sales data will not be included in the report. A separate Sales Addenda will include the confidential sales data, and this addenda is included by reference to the report, but will not be available to the public. The reviewers of the appraisal report will have access to the Sales Addenda, but once the appraisal is reviewed, the Sales Addenda will be returned to the appraiser to be kept in the appraiser’s files. The Sales Addenda is not considered to be public information.

The client is hereby notified that it is possible that there are area sales of which the appraiser has no knowledge, or for which reliable sale data could not be confirmed. There may also be other sales which the appraiser is aware of, but which are not included for confidentiality reasons. The appraiser is active and familiar with the area and is confident that based on the amount of data confirmed, and his historic knowledge of the area, an accurate appraisal valuation can be made. Sale and market data was gathered and confirmed with sources familiar to the transaction (such as buyers, sellers, brokers, attorneys, and/or closing agents) to the best of my abilities.

The Summary Appraisal Report presented herein is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the *Uniform Standards of Professional Appraisal Practice* (USPAP) for a Summary Appraisal Report. As such, it presents a summary discussion of the data, reasoning, and analyses that were used in the appraisal process to develop my opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser’s files. The depth of discussion contained in this report is specific to the need of the client and to the intended use stated herein. The appraiser is not responsible for unauthorized use of this report.


Parcel #629
Parcel #628
Parcel #627
Parcel #630
Shelhamer, Lloyd & Linda
Kemph Land & Livestock
Goggins, Pat
Legend
Subject Properties
Lessee Properties
Goggins, Pat
Kemph Land & Livestock
Shelhamer, Lloyd & Linda
Public Ownership
Montana State Trust Lands
US Bureau of Land Management
Crow Indian Reservations
Miles
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only, and it's accuracy is not guaranteed.

B. Summary of Salient Facts and Conclusion

Property Owner of Record:	State of Montana DNRC Trust Land Management Division P.O. Box 201601 Helena, MT 59620
Intended Users:	State of Montana, the Montana Board of Land Commissioners and the Department of Natural Resources and Conservation (DNRC).
Property Location:	Yellowstone County, Montana.
Purpose of the Appraisal:	The purpose of the appraisal is to provide the client with a credible opinion of current fair market value of the appraised subject properties, and is intended for use in the decision making process concerning the potential sale of said subject property.
Estate Appraised:	The DNRC real properties subject to any easements, reservations, conveyances, and encumbrances of record; excluding specific valuation of mineral, water, and timber rights. These items are considered inherent in the land value. No difference for minerals or lack of minerals can be determined in this market.
Effective Date of Appraisal:	November 17, 2010
Zoning:	County Agricultural
Flood Zone:	The subject properties are not located in any federally designated flood zones.
Highest and Best Use:	
Without access:	Agricultural with plottage value to existing holdings.
With Access:	Recreational Agriculture
Property Description:	The subject properties are four separate, unimproved parcels of native rangeland located east of Billings in Yellowstone County, Montana. The properties each total 640 deeded acres. Three of the parcels have no legal access, and the physical access is primitive and undeveloped. The forth parcel has legal access and good physical access to the boundary of the property.

Valuation Conclusion:

Parcel #	627	-	"as is" with no legal access	=	$130,000
		-	with hypothetical legal access	=	$259,000
Parcel #	628	-	"as is" with no legal access	=	$104,000
		-	with hypothetical legal access	=	$208,000
Parcel #	629	-	"as is" with no legal access	=	$120,000
		-	with hypothetical legal access	=	$240,000
Parcel #	630	-	"as is" with legal access	=	$288,000

C. Client and Intended Users of the Report

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

D. Purpose of the Appraisal

The purpose of the appraisal is to provide the client with a credible opinion of current fair market value of the appraised subject properties, and is intended for use in the decision making process concerning the potential sale of said property.

The following definition of current fair market value was provided to the appraiser by the client, and will be used in this report. (MCA 70-30-313)

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

E. Competency Provision

The appraiser, Andrew A. D. Rahn IV, ARA, certifies that he has the knowledge and experience to complete this assignment competently in accordance with the Competency Provision of the *Uniform Standards of Professional Appraisal Practice* (USPAP). He has processed an active Certified General Appraisal license in Montana since 2006. He holds an Accredited Rural Appraiser (ARA) designation and is an active member with the American Society of Farm Managers and Rural Appraisers (ASFMRA).

Please refer to the complete Appraiser's Qualifications in the Addenda for a more complete listing of qualifications and experience.

F. Effective Date of the Appraisal

The appraised value as presented in this report is a current valuation of the subject properties as of the effective date of the appraisal. The effective date is November 17, 2010, which represents the last day of inspection by the appraiser.

G. Property Interest Appraised

The property interest being appraised herein is the real property estate, subject to any easements, reservations, conveyances, and easements of record. This excludes any specific valuation of mineral, timber, or water rights, as these interests are considered inclusive in overall real property market value. Many properties in this market sell with all or partial mineral rights. To date, the buyers in the market have not discounted a property's value for partial mineral rights.

The subject lands are to be appraised as if they are in private ownership and could be sold on the open market and are to be appraised in fee simple interest. The subject properties have lease contracts in place, but for analysis purposes are to be appraised with the hypothetical condition the leases/licenses do not exist.

H. Ownership and Sales History

As of the specific date of valuation, title to the subject properties was held by:

State of Montana
DNRC Trust Land Management Division
P.O. Box 201601
Helena, MT 59620

There has been no recent sales history of these parcels.

I. Legal Description

The properties being appraised consist of the real property only; no personal property, trade fixtures, or equipment is included in this report unless specifically noted. The subject properties are legally described as follows:

Parcel #627

Township 1 North, Range 27 East		Acres
Section 36:	All	640

Parcel #628

Township 3 North, Range 28 East		Acres
Section 16:	ALL	640

Parcel #629

Township 4 North, Range 32 East		Acres
Section 36:	ALL	640

Parcel #630

Township 4 North, Range 33 East		Acres
Section 36:	ALL	640

The deeded acres for these lands have been provided by the client and have been checked against county assessed acres. This acreage is subject to any existing liens and easements upon, over, or across the properties.

J. Exposure Time

The 2010-2011 revision of USPAP 1-2 (c) requires that an opinion of reasonable exposure time be developed for appraisal assignments whose purpose is to assign market value. Requisite to satisfying the definition of market value is an exposure to a competitive marketplace.

Exposure time is the estimated length of time the property interest being appraised would have been offered in the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; exposure time is always presumed to precede the effective date of the appraisal. Alternatively, "marketing time" is a consulting term which relates to the amount of time that would be required to sell the property interest at the estimated market value during the period after the effective date of the appraisal. An estimate of marketing time is not intended to be a prediction of date of sale. It may not be appropriate to assume that the value as of the effective date of the appraisal remains stable during a marketing period.

In analyzing the overall market, it is apparent that lands have varying marketing times, depending upon pricing structures, which have run from as little as 20 to 30 days, to as long as two to three years. In consideration of this data and information which will be reported herein, the appraiser has concluded that a reasonable exposure time for properties such as the subject parcels, based on the values set forth herein, would be less than 12 months. This analysis is based on the assumption that properties such as the subject would be placed on the market at appraised value and not at a speculative value. The longer marketing periods evidenced in the market are typically associated with properties which have been priced in a speculative manner. The data does not suggest that properties such as the subject would suffer extended exposure or marketing times as a result of the overall value or price associated with the properties if properly priced and marketed in a professional manner.

II. AREA AND COMMUNITY FEATURES AND DESCRIPTION

A. Location

The properties being appraised are all located east of Billings in Yellowstone County in south central Montana. The parcels are all located in close proximity to Billings, and have development and investment value influences relative to the growth of Billings. Billings serves as the primary service center for all the subject parcels, with all major services, interstate access, and a major commercial airport.

B. Site Access

As stated, three of the four parcels do not have legal access. The current lessees, whose lands generally surround each subject parcels, have access through their own deeded lands. Some of the subject parcels adjoin other public lands by a corner, however, in Montana adjoining corners does not constitute legal access. These three parcels are considered to have primitive, undeveloped physical access. Accessibility within these parcels is seasonal with unimproved dirt roads which can be impassible in winter due to drifts or in wet conditions due to the heavy clay soils.

The fourth parcel, Parcel #630, has legal access and good physical access.

C. Community

1. Yellowstone County

One of the most populated counties in Montana, Yellowstone County is located in the south central part of the state. It was organized in 1883 from a part of Custer County & parts of it were taken to from Carbon, Sweet Grass, Musselshell, Big Horn and Stillwater Counties. In 1919 and in 1925, Yellowstone and Carbon Counties annexed parts of each other off to form these other counties.

The county was named for the Yellowstone River. Yellowstone County is one of 56 counties in Montana. The county is in the Billings metro area. The estimated population in 2004 was 134,717. This was an increase of 4.15% from the 2000 census

Lakes and reservoirs located in Yellowstone County are Twin Lakes, Alkali Pond, Broadview Pond, Anita Reservoir, and Rattlesnake Reservoir

Streams, rivers, and creeks in Yellowstone County are Hogans Slough, Clarks Fork Yellowstone River, Hibbard Creek, Hay Creek, Sevenmile Creek, Coal Bank Creek, Hamilton Creek, Girl Creek, and Comanche Creek

Employment in the securities and commodity contracts brokerage industry paid the average highest wages in Yellowstone County in the 2nd quarter of 2006. Other top-pay jobs in Yellowstone County, Montana exist in offices of physicians, petroleum and coal products manufacturing, support activities for mining and druggists' goods merchant wholesalers industries.

Yellowstone County has a colorful and illustrious past. Most of the activity for the county history centers around the city of Billings, although it was not always so. Billings was incorporated March 10, 1885. At that time there were 800 residents. The city was created by an ‘edict’ of the Northern Pacific Railroad, and was referred to as a “fiat city”, and almost immediately tents, frame buildings, brick and stone structures spark up from the bare land known as ‘Clark’s Fork Bottom’. Before that time it was hoped by many that the small town of Coulson would be given the nod for greatness, but it wasn’t to be. Billings was given the nickname “Magic City” as a result of over 300 buildings being erected within six months.

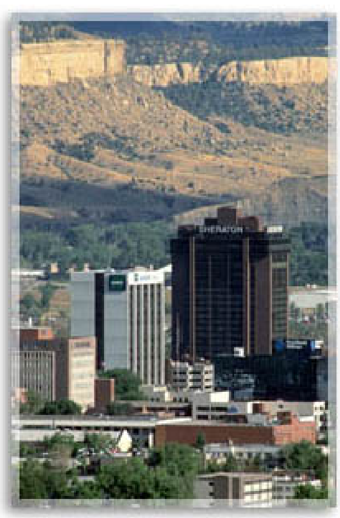
Today Billings is still the major business hub of Yellowstone County with over 100,000 residents. Billings provides all of the necessary amenities including shopping, government agencies, a commercial airport, a great health system, and vast school system.

Yellowstone County is situated between the Great Plains and the Rocky Mountains. The climate takes on some of the characteristics of both regions. The climate is semi-arid. The favorable seasonable distribution of rainfall in the spring and fall months, along with irrigation, makes it possible to raise a variety of crops. The average annual rainfall is 15.09 inches, with an average of 57 inches of snow. Forty percent of the precipitation falls in the wet spring months of April, May and June. Winters are cold, but usually not severe. January's average maximum is 30 degrees and minimums average 12 degrees. Summers are warm with good sunshine and low humidity, but the nights are generally cool. July's average maximum is 87 degrees and average minimum is 58 degrees.

Billings, MT

Billings, Montana, with an estimated population of 98,721, is the county seat of Yellowstone County. Billings is the largest city in Montana and the commercial, cultural, and industrial center of a large region of the northern Rocky Mountains. Known as the "Magic City," Billings has grown phenomenally since its founding in 1882, until 1970 doubling in size every 30 years. The city is also the processing and distribution hub for a rich agricultural area that encompasses more than 125,000 miles. Excellent road, rail, and air transportation networks helped the region's retail trade to reach $1.9 billion in 2000. Billings is located in southern Montana in the fertile Yellowstone River valley, with mountains on three sides. The Yellowstone River flows along the eastern boundary of the city. The mountains shelter the city from the most severe winter weather, but blizzard conditions are not uncommon in the spring and fall. Moist air from the Pacific Ocean, called "Chinook winds," often brings surprisingly warm weather in the winter and cooler temperatures in the summer. Spring features the most unpredictable weather, and summers are typically dry with cool nights.

Agriculture has been one of the leading economic forces in Billings since its founding, and it continues to play a major role today. Because of extensive irrigation, the Yellowstone Valley and the northern Great Plains are some of the nation's most fertile agricultural regions. The city is the transportation, processing, and packaging center for this large, productive area. The main agricultural products include sugar beets, grain, and livestock such as cattle and sheep.



The energy industry (oil, natural gas, and coal) is also an important part of the economic picture in Billings. The mountains around the city and throughout eastern Montana are a rich source of coal, oil, and natural gas. A number of refineries and purification plants are located in the Billings area to process the raw materials into usable energy resources.

Billings is the retail and wholesale trade center for a vast area of land in the northern Rocky Mountain states and a primary and secondary market population of almost half a million people, reaching from Denver, Colorado, to Calgary, Alberta, and from Minneapolis, Minnesota, to Seattle, Washington. Billings is also the medical and educational capital of the region. The city's medical community, including two major hospitals (Deaconess Medical Center and the St. Vincent Healthcare) and more than 40 clinics, provides the most advanced health care in the four-state area. Three major colleges and a highly-rated public school system provide jobs and a well-trained workforce. It is also difficult to underestimate the impact of tourism and recreational diversity on the area's economy. The proximity of nearby Yellowstone National Park, as well as a wide array of other wilderness territories, mountain trails, rivers, and streams in the area bring much-needed tourist dollars and act as a magnet to companies and workers looking to relocate.

Billings has an extensive school system, with 24 school buildings in total. Billings has three public High Schools, Billings West, Billings SR., and Skyview High School, in total enrolling 5,601 students, grades 9-12. They also have four private High Schools, Billings Central Catholic, Billings Christian School, Yellowstone Academy, and New Life Assembly School, enrolling a total of 644 students. Billings has four middle schools, Castle Rock, Lewis & Clark, Riverside, and Will James. These middle schools enroll only students from grades 7 and 8, with a total enrollment of 2,430 students. Lockwood school is a public middle school enrolling 429 students in grades 6-8. Billings has four public grade schools, Eagle Cliffs, Meadowlark, Big Sky, and Sandstone. In total, these schools enroll 1,950 students in grades PK- 6. Lockwood Primary school enrolls children ages PK-02, with 439 students in total.

Billings also has seven private primary/middle schools, all differing in the number of grades they have. St. Francis Primary School has 283 students in grads PK-2; St. Francis School- Intermediate has 185 students in grades 3-5; and St Francis Upper School has 243 students in grades 6-8. Trinity Lutheran School, Billings Montessori School, Central Acres SDA School, and Apostles Lutheran School all have grades KG-8 with a total of 386 students in all.

Along with all of the Grade Schools and High Schools, Billings also has Montana State University- Billings (MSUB). MSUB was established in 1927 and is located on a 112 acre campus. They offer over 100 programs of study, and with an enrollment of 4,600, they have an average class size of 25.

<u>Huntley, MT</u>

Huntley, Montana, with an estimated 2000 population of 411 lent its name to the Huntley Project, a federal irrigation project that began delivering water to the arid district in 1907. Today, Huntley is an eastern suburb of Billings and is located east of Shepherd and west of Worden.

This settlement in arid Crow Indian country was named for S.O. Huntley, a partner in the stagecoach firm of Clark & Huntley. It was located at the head of navigation on the Yellowstone River. The first steamboat, the packet *Josephine*, arrived June 6, 1875, but river trade was infrequent. A U.S. post office was established in March 1878. The 1880 Census found only 37 people living in Huntley.

Surveying for a railroad led to the so-called "Baker Battle" between Sioux Indians and Army engineers in 1872. The Northern Pacific Railroad arrived in 1882, connecting the town to the new city of Billings. Three years later the town called "Huntley Station" had two stores, a hotel, and a blacksmith. German immigrants were prominent among the new settlers, who established Lutheran and German Methodist churches.

In 1905 the United States Bureau of Reclamation began an irrigation project, called the Huntley Project, on lands that had been part of the Crow Indian Reservation until 1904. The town of Huntley was incorporated into the project along with the new railroad towns of Ballantine, Worden, and Pompey's Pillar, all founded in 1907.

<u>Worden, MT</u>

Worden, Montana, with an estimated population of 506 is located along Highway 312 in Yellowstone County.

Worden is located on land designated in 1868 as part of the Crow Indian Reservation. When the Northern Pacific Railroad was surveyed and built in the early 1880s, a station called "Clermont" was supposedly built 21 miles from Billings, just across the tracks from present-day Worden.

The town of Worden was mapped out in 1907 as part of the Huntley Project. Irrigation transformed the area into an agricultural district and attracted immigrants. The town had a German Congregational church and a Methodist church. A newspaper, *The Yellowstone*, was based there.

Worden is home to a number of restaurants, bars, stores, churches, and other services. It is also the home of the Huntley Project School System, consisting of an elementary, junior high, and high school. Huntley Project High School's team name is the "Red Devils." The Huntley Project School System enrolls 782 students in total.

Both the closest hospital and the closest commercial airport are located in Billings, about 20-25 miles away.

Ballantine, MT

Ballantine, Montana, with an estimated population of 346, is located in Yellowstone County and is approximately 29 miles from Billings, the county seat. Ballantine was founded in 1907 as a town site within the Huntley Project, formerly part of the Crow Indian Reservation. Irrigation slowly changed the sagebrush landscape into farms growing sugar beets, alfalfa, and other crops. The population grew slowly and included many European immigrants. Both Catholic and Lutheran religious services were held here, and a Congregational Church was built.

Huntley Project was authorized in 1905 by the Secretary of the Interior. Initially the project consisted of a series of canals with no diversion structure. However, increased water demands and expansion in the area necessitated the construction of Huntley Diversion Dam in 1934. The dam itself extends over 300 feet to cross the south main channel of the Yellowstone River.

Huntley Project supplies water to a little over 30,000 acres of agricultural land as well as providing the communities of Huntley, Ballantine, Worden, and Pompeys Pillar with municipal water (Bureau of Reclamation and Montana Fish Wildlife and Parks 1999).

While agriculture is the most prominent industry in the Ballantine area, other popular industries include Construction, Sales, Health Care, Education, and Coal and Petroleum Production. The closest hospital and commercial airport are located in Billings, along with all other primary services, such as government office, shopping, and education.

2. Montana

Montana's population as of mid 2006 is estimated at 944,632 people. This ranks Montana 44th in population within the United States with an average of six people per square mile, the third lowest population density in the nation. Overall, the population grew by approximately 4.7% between 2000 and 2006.

The overall population is approximately 50% male and 50% female, with over 87% population being high school graduates. Home ownership is at 69% and the average household size in Montana is 2.45 persons. The largest city in the state is Billings, with an estimated population of approximately 97,000 people. Billings is followed by Missoula, with an estimated population of 62,000 people. The third largest city in the state is Great Falls, with an estimated population of 56,000 people and Bozeman follows fourth in total city population at 32,400. These represent the populations of the primary cities and do not encompass county estimates. In the example of Bozeman, the overall service area associated with Bozeman and the Gallatin Valley is estimated to contain approximately 100,000 people.

The farm population of the state, 45,718, averages 1.9 people per farm. Montana's 60.2 million acres of farms and ranches is second to Texas for total amount of land in agriculture.

Total land area is about 145,388 square miles, with 64.1% in farm and ranch lands. Title to Montana's lands is as follows:

• State of Montana - 6%
• Federal Government - 30% (18% - National Forest Service; 8.7% - Bureau of Land Management; 3.3% - National Parks and other divisions)
• Indian reservations -2%
• Private ownership - 62%

Of the approximately 60 million acres of farm and ranch lands, 66% is range land and 30% is croplands. The total number of farms and ranches has continued to decrease since 1933, when there were 53,000 units. As of 2000, it is estimated that there are approximately 28,000 farms and ranches in the state with an average size of approximately 2,036 acres.

Approximately 80% of Montana's population is employed in agriculture and small business. These are 90% of the state's businesses. They usually have one or two owners and less than ten employees.

Population statistics related to Montana indicate that many communities are growing rapidly and Bozeman, which is located in southwest Montana, is experiencing annual growth running at approximately 11% a year. Much of the area economy throughout southwestern and western Montana is being fueled by land development and construction. Cities are expanding and as cities expand, suburban and rural recreational development associated with the cities is also expanding in many directions. The underlying economy of the communities does drive certain sectors of the real estate market and influences market values related to land assets, but in general larger properties, and particularly high amenity properties such as those appraised herein, are part of a market which is strongly affected by outside buyers. Most buyers for these types of properties are not Montana residents and land values are not dependent on local economic factors, particularly for larger parcels. Many of these buyers develop properties for seasonal use and they are not residents of Montana.

In addition, due to high state income taxes associated with Montana residency, most out-of-state land owners and people building houses on these properties do not become Montana residents. As such, their impact is not completely measured in population or statistical analysis related to the State. In general, it can be said that land values and land speculation throughout the area is extremely strong and primarily fueled, as described above, by outside investment buyers.

There is a wide amount of subdivision being seen related to rural properties, which varies from lower amenity rural properties selling to local residents, to higher amenity rural properties related with golf courses, ski hills and other recreational developments primarily selling to outside buyers. Housing development and land subdivision are apparent through all areas, including historically large ranching communities. More and more demand is being placed on water features; particularly small spring creeks and private fisheries. Many large ranch properties are also being affected by speculative small tract development, as people attempt to buy-out the premium area of these properties.

III. <u>SITE FEATURES AND DESCRIPTION</u>

A. Subject Features and Operation

The subject properties are four isolated tracts of Montana State DNRC Trust lands that each total 640 deeded acres located in Yellowstone County, Montana. They are native rangeland properties with no surface water resources, and all but one of the parcels lack legal access.

The parcels historically have been utilized for cattle grazing, and are currently under grazing lease agreements. Land values and use in the area have experienced transition into recreational uses, and the development and investment potentials associated with that use. Grazing is still an interim use in the area, but is increasingly viewed as a management choice, and not a factor of value.

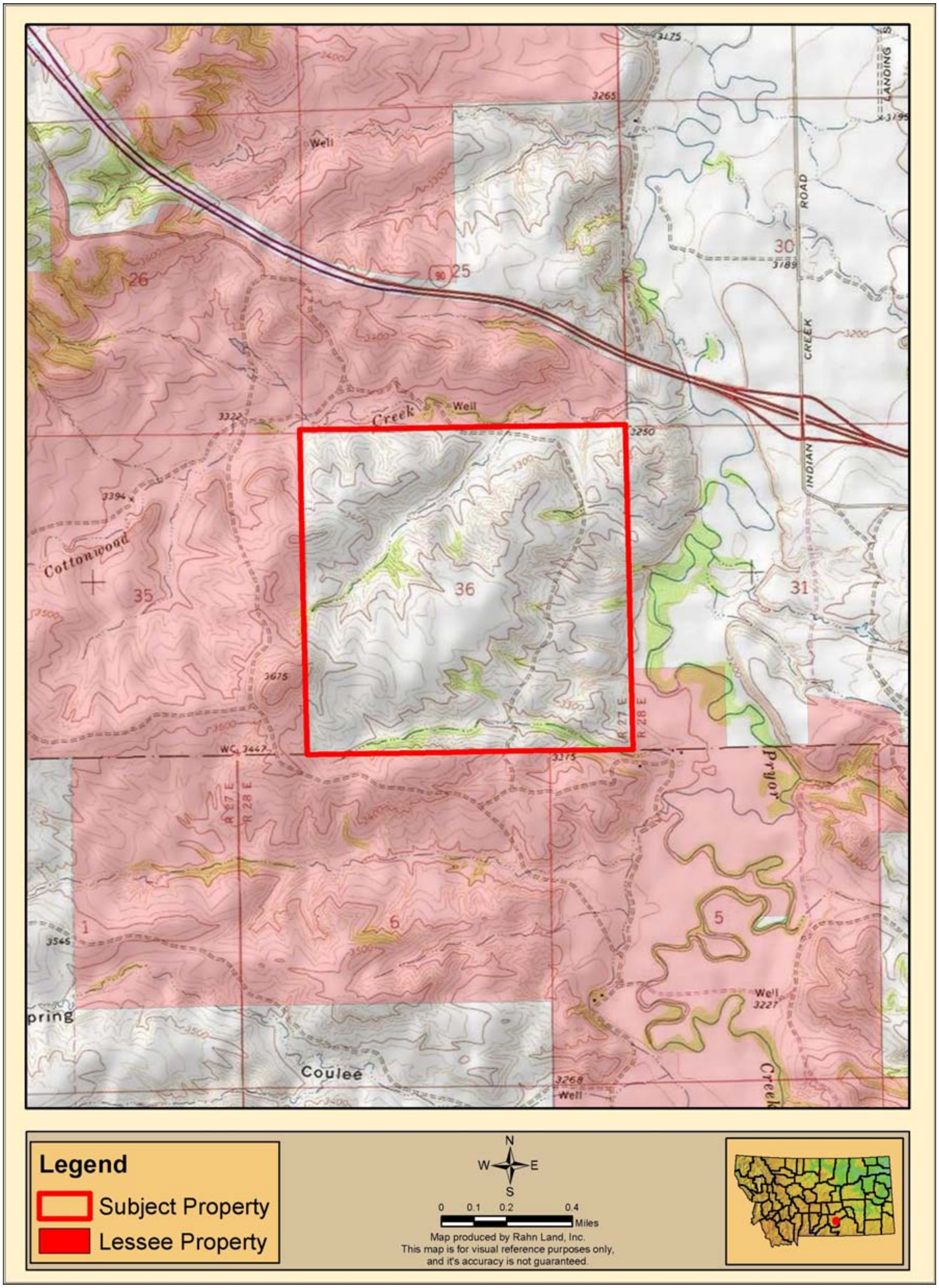
Parcel #627

Parcel #627 totals 640 acres and is located approximately nine miles due east of Billings, Montana, just south of Interstate 90. The parcel is bordered on three sides by the lessee's property, which is Pat Goggins. The remaining border, to the east, is generally a steep slope down to the Pryor Creek bottom, which appears to have limited physical access. The parcel has no legal access, and the physical access is very poor and considered seasonal. A two-tract dirt road bisects the property from south to north across the east half. The topography of the parcel is rough and varied, with deep draws, open ridge tops and some timber. The grazing capacity is reported to be 136 AUMs. There is no open water or developed stock water on this parcel. The south boundary is bordered by a powerline. The appraiser observed markers for an underground telephone cable line bisecting the property. None of the boundaries are fenced.

Parcel #627 - South boundary looking north

Parcel #627 - West boundary looking east

Parcel #627


Legend
Subject Property
Lessee Property
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Miles
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.
36
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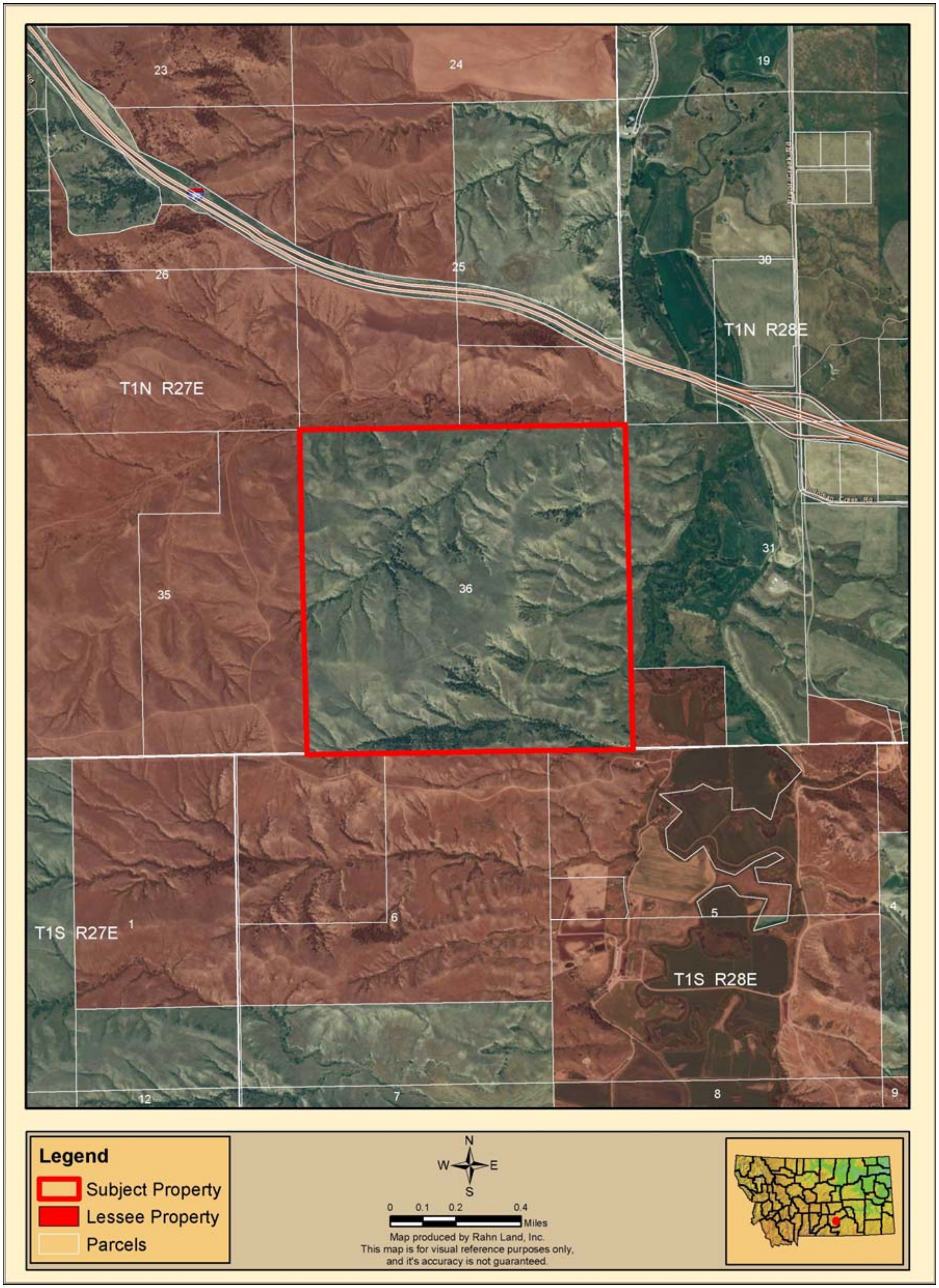
Cottonwood
Creek
Coulee
Pryor
INDIAN CREEK ROAD
R 27 E
R 28 E
Well

Parcel #627



23
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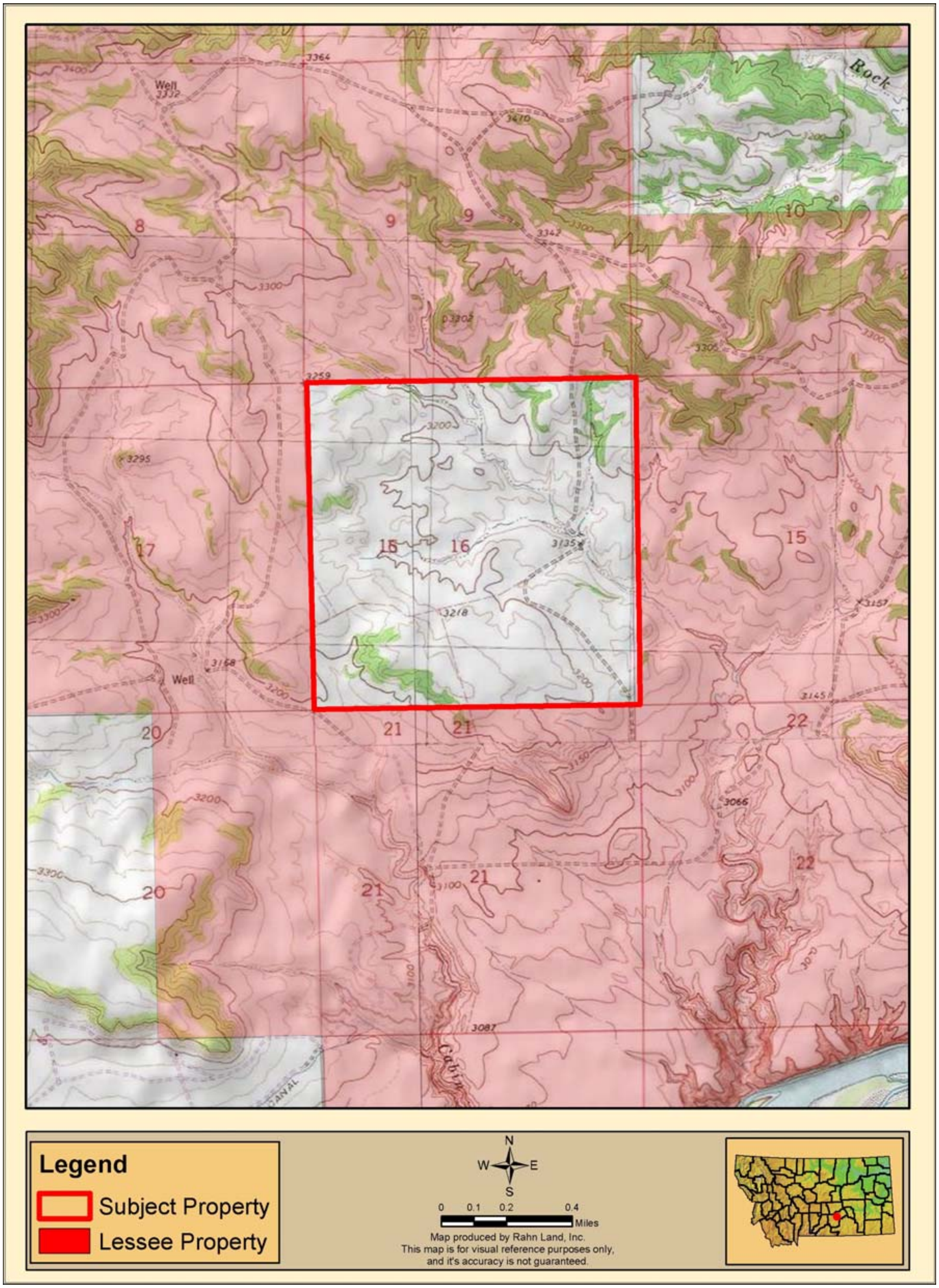
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.

Parcel #628

Parcel #628 is located approximately 20 miles northeast of Billings. The parcel is 640 acres and reported to support 81 AUMs. This unit is an in-holding within the lessee's private property, the Shelhamer Ranch. Access to the parcel is via primitive ranch roads which have been treated with some gravel. The parcel does not have legal access. The topography is rough and varied, with some timber in the rough sandstone draws. The soils appear to be sandy, and the forage sparse in places. There is a stock water development on the east half, where water is piped in and stored in a large tank. Otherwise, there are no water resources on the property. There is a well on the property; however the well is too poor to provide adequate stock water. There is a powerline bisecting the southern end of the property. On the southern boundary, a portion of the lessee's cultivated cropland appears to be encroaching on the State land. There is some partial fencing on the perimeter on the subject; however these fences do not appear to be online with the property boundaries. There also is some cross fencing.

Parcel #628 - West boundary looking east

Parcel #628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Subject Property
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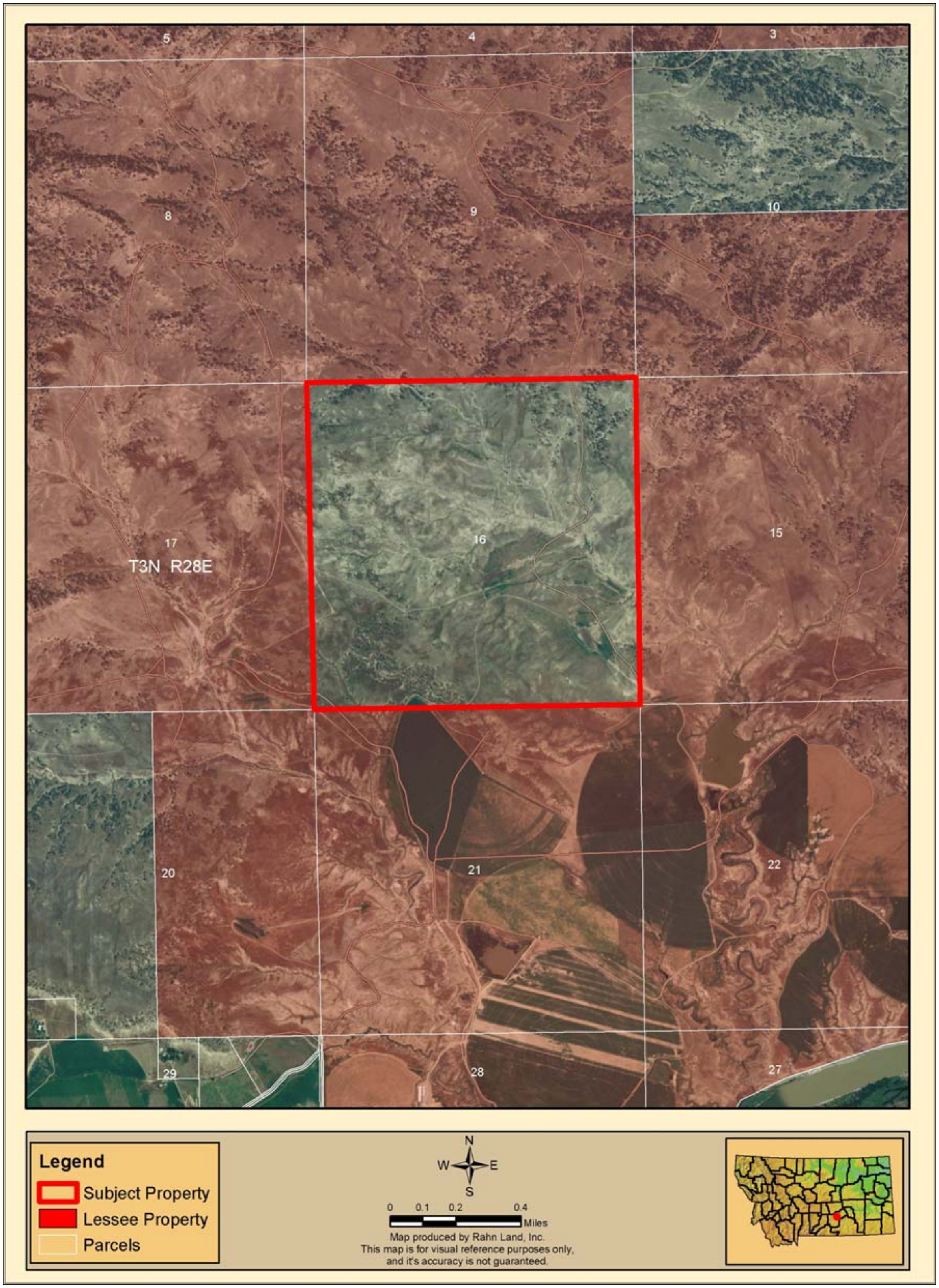
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.

Parcel #628



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Subject Property
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Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
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Parcel #628 – East side looking southwest

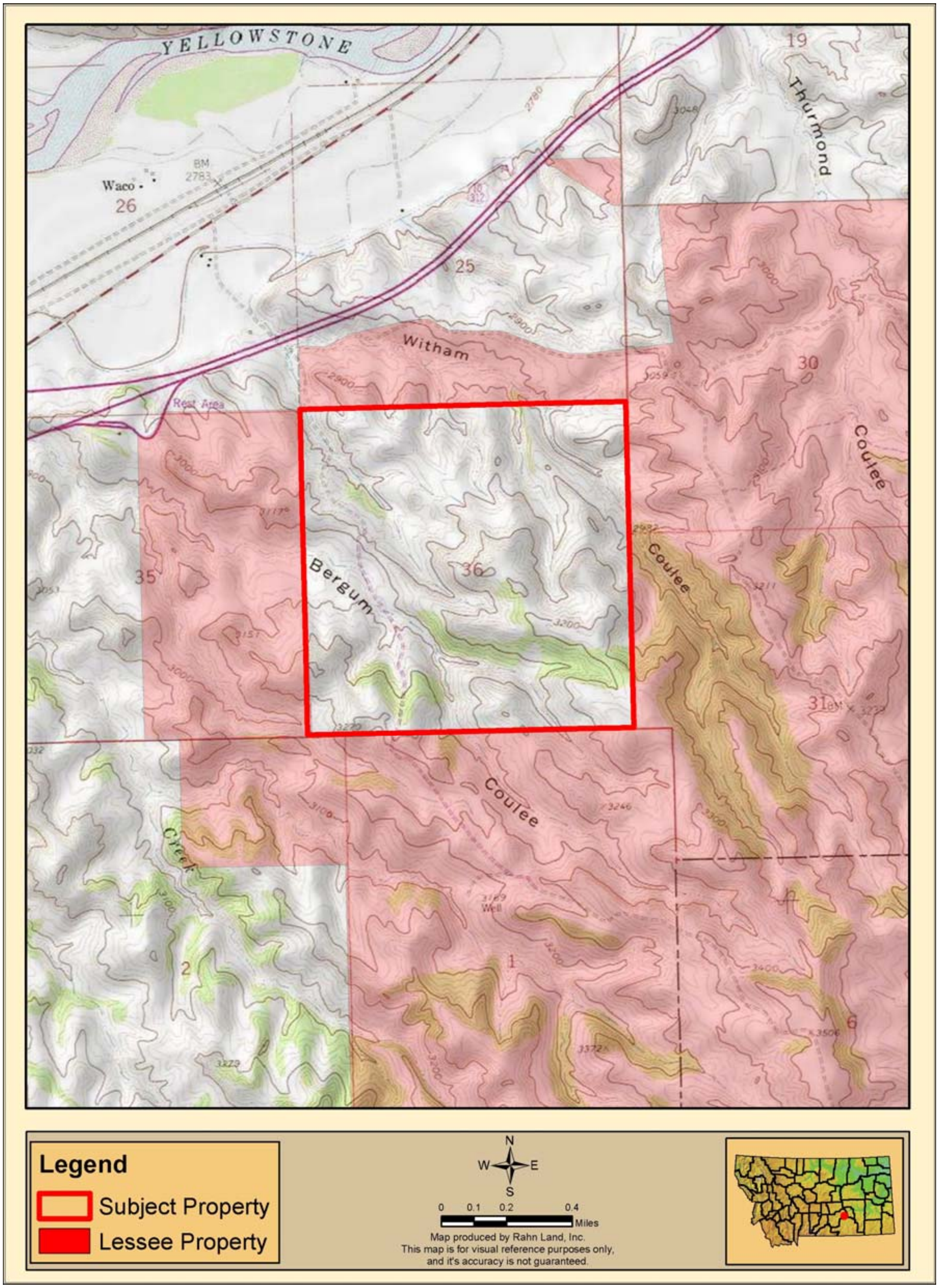
Parcel #629 and Parcel #630

These two parcels are located 43 and 48 miles northeast of Billings respectively, and are both inholdings in the lessee's property, the Kemph Ranch, and are both very similar in physical features. They both contain steep and varied terrain, with seasonal drainages and partially timbered slopes. The timber is partially burned by a fire that occurred in 2006. Neither of the parcels have any water resources. Nether of the parcels are fenced. Physical access is limited to private graded dirt ranch roads, and is considered poor and seasonal. Parcel #629 has no legal access, while Parcel #630 has legal access from Highway 47. The carrying capacity of Parcel #629 is reported to be 114 AUMs, while the carrying capacity for Parcel #630 is reported to be 138 AUMs.

Parcel #629 - West side looking southwest

Parcel #629 - South boundary looking west

Parcel #629



YELLOWSTONE
Waco
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Bergum
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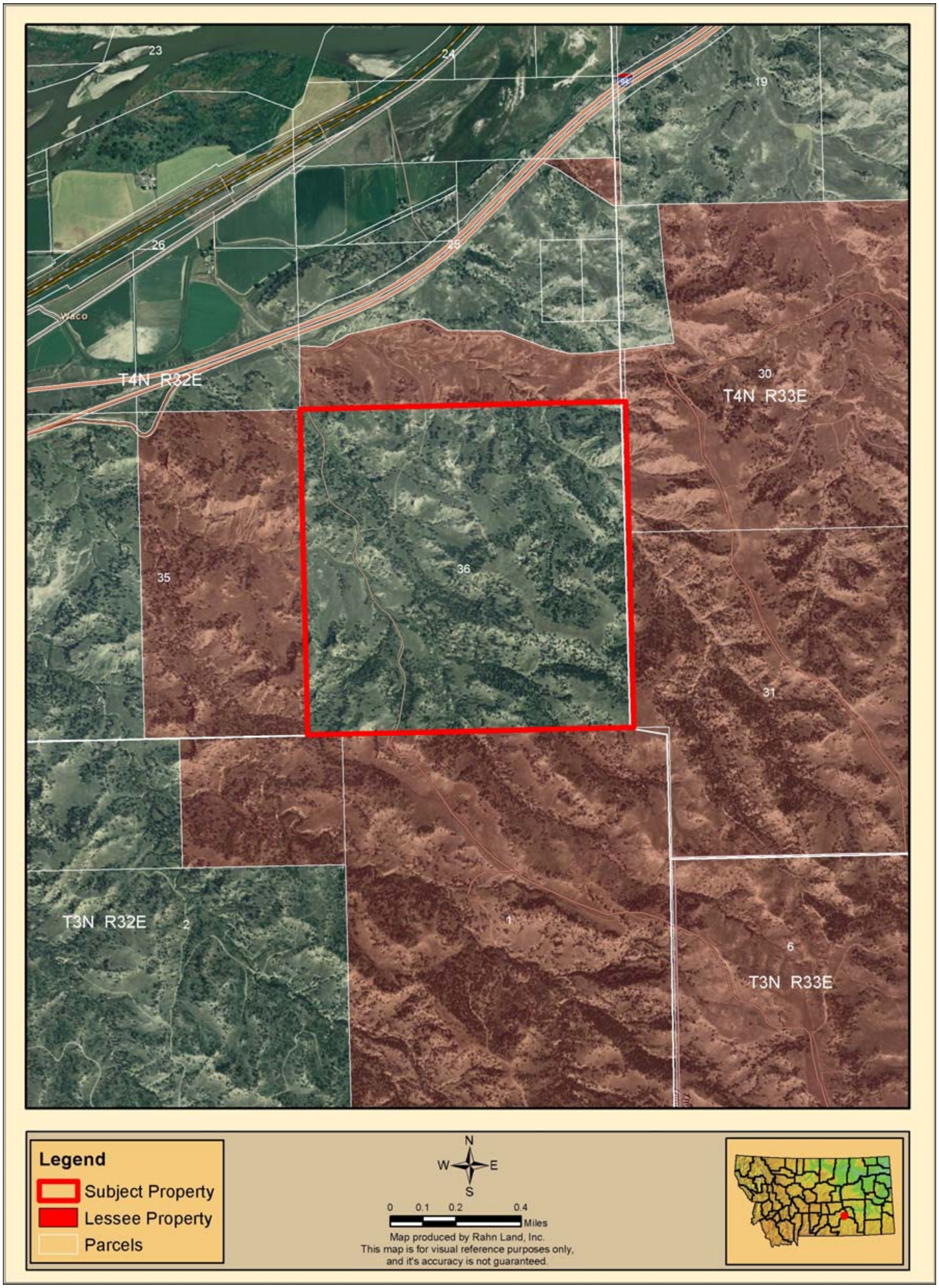
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.

Parcel #629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Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
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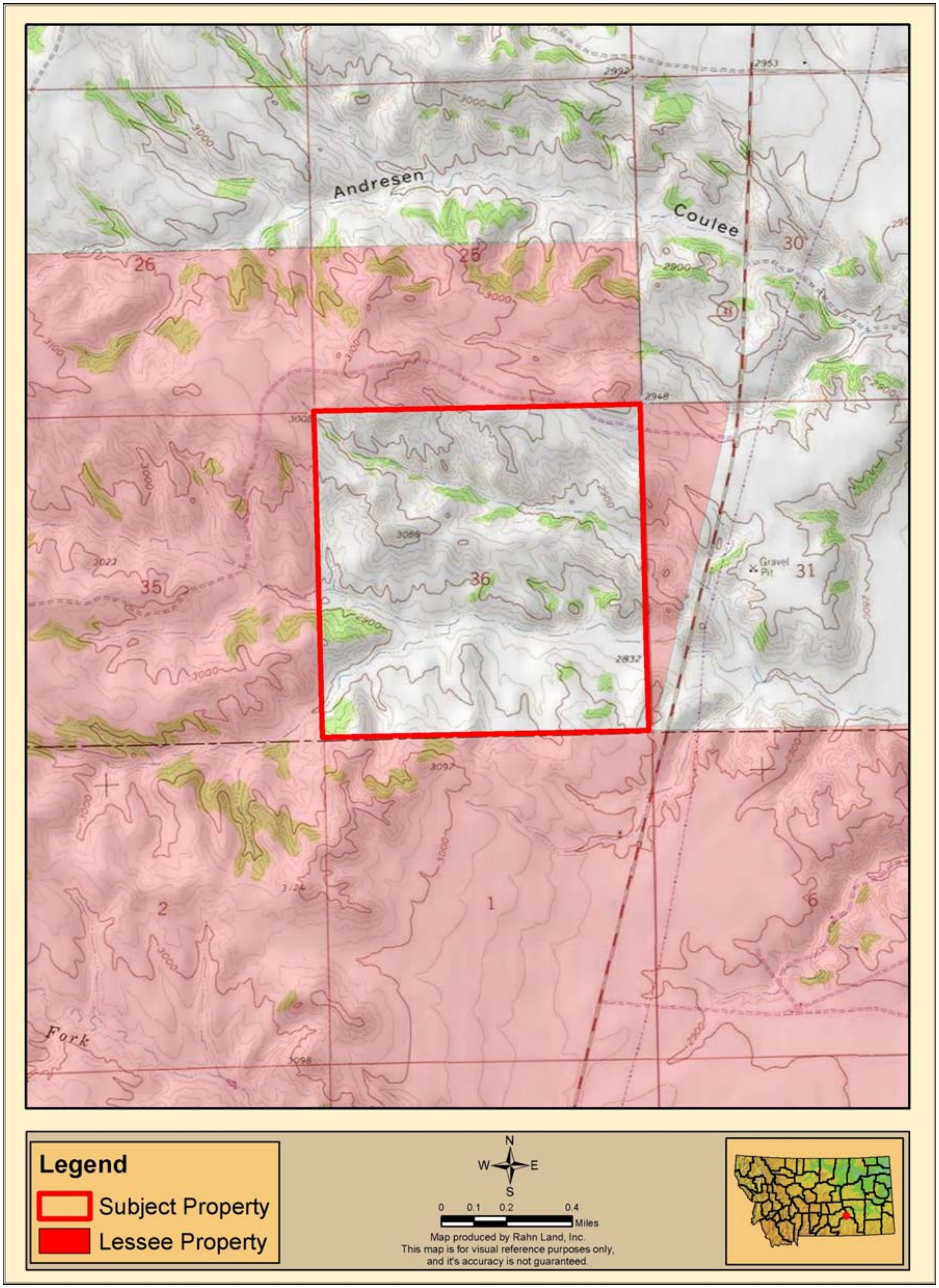
Parcel #630 – Southeast corner at access looking northwest

Parcel #630 - West side looking east

Parcel #630



Andresen
Coulee
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Gravel Pit
Fork
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Subject Property
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Map produced by Rahn Land, Inc.
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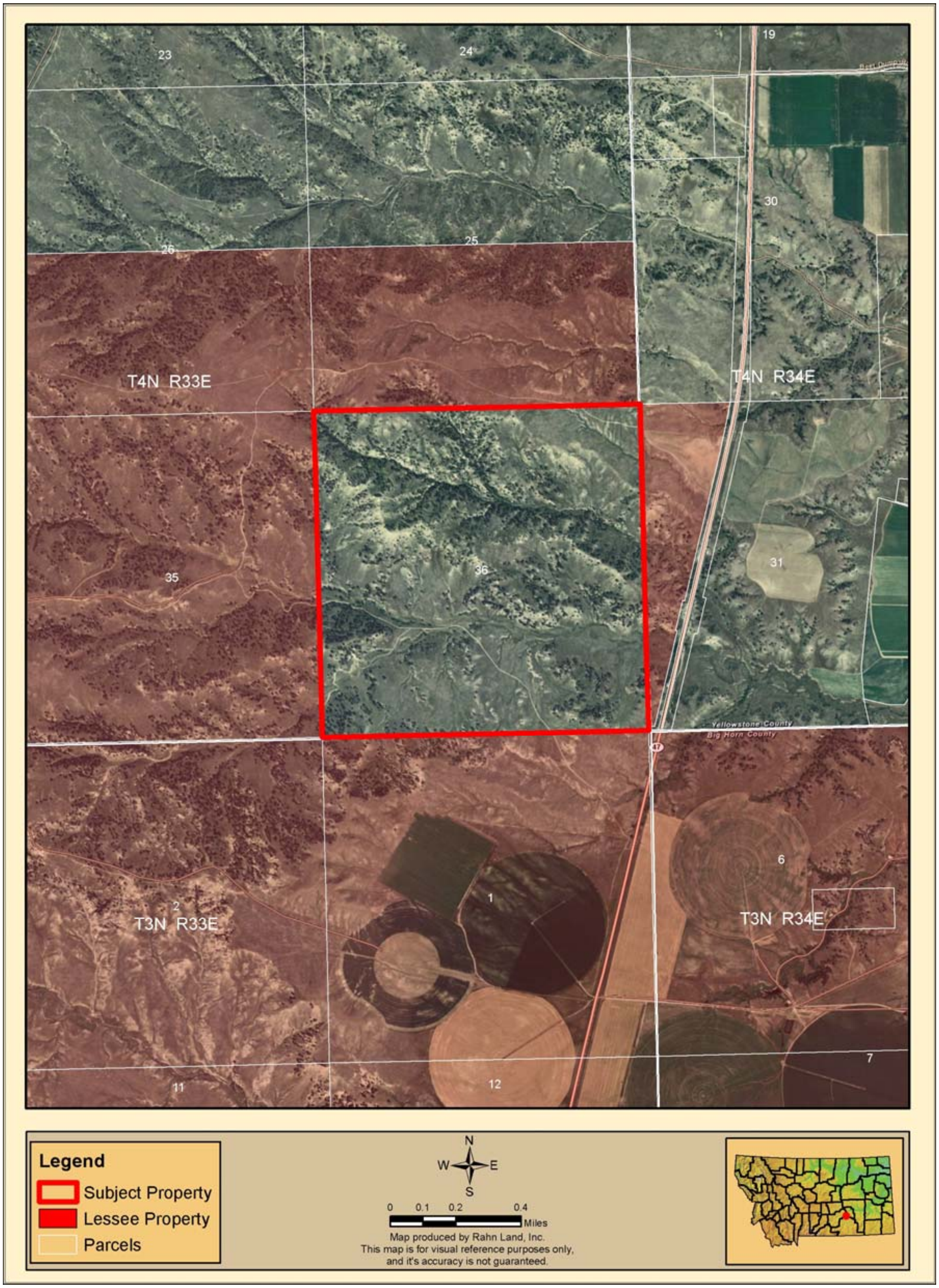
Parcel #630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T4N R34E
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Yellowstone County
Big Horn County
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T3N R33E
T3N R34E
7
11
12
Legend
Subject Property
Lessee Property
Parcels
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Miles
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.

B. Mineral Rights

As stated in the assumptions and limiting conditions of this report, no separate value has been assigned for mineral rights. Typically, in rural Montana land sale transactions a portion of the existing mineral rights are transferred; however, no specific value is usually assigned. Furthermore, land sales consummated without the sub-surface minerals often reflect no measurable difference in value that can be attributed to the mineral rights. For purposes of this report, mineral rights are considered to be appurtenant or a part of the overall real property and no contributory value has been assigned for mineral rights over and above the associated land values.

C. Timber Rights

Each of the subject properties contains some timber. The appraiser is not an expert on timber values; however, the limited amount of timber on the subject properties is believed by the appraiser to not be enough for economically viable resource for harvest. In the opinion of the appraiser, none of the subject properties contain any marketable timber resources.

D. Recreational Resources

The recreational resources of the subject properties are considered good relative to wildlife and game habitat and cover, as well as aesthetics. The partial timber cover and varying topography provided good wildlife habitat and is aesthetically pleasing. However, none of the subject parcels have surface water, or border public recreational lands. The tracts are not big enough to support resident herds of elk or deer. These game animals require large areas of territory, and as such are only intermittently present on these parcels. There are no croplands for additional forage, and limited water sources. The remoteness of the parcels limits the potential for development as recreational properties. Buyers will purchase and develop such tracts, but usually in areas with more on site amenities, such as areas with direct access to forest service lands and open water.

The recreational resources in the overall surrounding area of the subject properties are bountiful, and the owners of the subject parcels have access to all of these places as they are within a short drive of the parcels. Thousands of acres of public lands are located in the region, as well as the Yellowstone River, and Yellowstone National Park.

E. Zoning

The properties are all located in rural areas where there is minimal zoning or planning. The parcels have been designated “county agricultural” from the county’s perspective. There are no use restrictions on these units other than septic permits and disposal requirements set by the county and state entities.

F. Easements and Encroachments

A full title search which may or may not reveal more or less easements was not provided to the appraiser. Common public and/or cooperative utility easements are evident in the area of the subject properties and are considered to be common and typical on similar rural properties, except where noted.

G. Flood Plain

The subject properties do not include any mapped flood zone designations. The seasonal creeks and drainages may be prone to flooding in spring.

H. Hazards and Detriments

The hazards and detriments associated with the subject parcels are typical of the surrounding community and include blowing and drifting snow, muddy roads, and other weather related issues. There were no visible hazards at the time of this inspection.

I. Environmental Audit

The appraiser is not an expert in either the detection of hazardous or toxic substances or structural engineering and did not conduct an environmental audit or structural inspection of the subject properties. During the routine property inspection, no visible environmental hazards were evident at the time of the inspection. The properties are being appraised assuming there are no toxic or hazardous substances present or associated with the subject properties that would render the properties more or less valuable. Should it be discovered that there are toxic or hazardous substances located on any of the subject properties, the appraiser reserves the right to re-assess the situation and adjust values if deemed necessary.

IV. VALUATION PROCESS

A. Introduction

The appraisal process is an orderly program whereby the appraisal problem and purpose is defined, the work necessary to solve the problem is outlined, and the pertinent data is acquired, classified, analyzed, and interpreted for an estimate of value.

Generally accepted appraisal procedures follow a typical sequence to estimate market value of any subject property. The sequence is outlined below:

1.) Research and analyze the subject property and its corresponding market;

2.) Determine Highest and Best Use of the subject property;

3.) Select appropriate appraisal method(s) to estimate property value;

4.) Apply selected method(s) to the subject property;

5.) Correlate and/or reconcile values indicated by the selected method(s) into a final estimate of value;

6.) Analyze extraordinary circumstances, if any, of the subject property that may have an effect on the final conclusion of value.

For purposes of this assignment, the appraisal process will follow Steps 1 through 5 to estimate the market value of the subject properties. There does not appear to be any extraordinary or unusual circumstances associated with the subject properties and the values will be reconciled after Step 5.

B. Highest and Best Use

A property is valued according to its highest and best use. Highest and best use is that use of land and its improvements that can reasonably be expected to produce the greatest net return over a given period of time or over the remaining life of the improvements. In assigning a highest and best use, these issues are considered:

• market trends,
• market demands,
• established uses in the area, and,
• the property's unique features.

Criteria considered and met should lead to a highest and best use conclusion that reasonably exists, or will exist in the near future, and which is:

- legally permissible,
- physically possible,
- financially feasible, and
- maximally productive.

Highest and best use correlates to a property's maximum economic use measured in terms of the property's income potential or its actual income. However, in the present rural agricultural/investment market in eastern Montana, sale prices do not correlate on an income basis to the physical highest and best use of the property. Speculation, investment, personal use, and anticipation are strongly related to value in the current market. These elements have limited direct physical use on an income basis, but drive a return of value over time.

For years, values being paid for agricultural properties in rural Montana have not been justified by the agricultural income of these properties. Economic operations on these properties have produced rates of return from less than 0% to 2% on an actual cash basis. The low capitalization rates indicate a transition from agriculture to some higher use. Rates of return for these properties based on land appreciation have, over time, provided enough additional value to properties that overall, rural lands have been a good investment. But appreciation evidenced in the current market is difficult to direct as a "highest and best use," as it is not an income producing activity.

Multiple uses affect highest and best use in the rural Montana land market. Often, properties such as the subject have "augmenting" uses such as recreational, development, and subdivision uses. These uses are often paired to what are known as "complementary" uses. Complementary uses may be agricultural, timber, hunting, or recreational lease uses. Usually, augmenting uses represent the primary elements of the property that drive value and speculation, while complementary uses provide some income to the owner while the property is held for investment. Complementary uses often represent the interim physical use of a property and, in a speculative market such as that affecting rural lands described in this appraisal, property is often held back from terminal uses such as subdivision.

1. Market Overview

Land in southeastern Montana has been influenced in value and use by the area's locational, aesthetic, and recreational amenities, and the area has experienced some rural property development that reflects non-agricultural highest and best use considerations. The area has been affected by significant rural property investment because of the region's geographic, aesthetic, and recreational amenities. The market is being influenced by 1031 exchange buyers form other areas and markets. This investment buying from outside the historic market is a factor in highest and best use.

A large amount of existing private land in the subject area is held in larger ranch or investment ownerships that do not typically sell land parcels. Development, while a potentially profitable part of property ownership, is not financially feasible on many properties and may not be consistent with owners' agricultural or wildlife goals. Many ownerships in this market are multiple generation ranch properties that are not commonly involved in subdivision, as these owners are not motivated to sell strictly for profit, and sellers cannot replace properties or "trade-up" because supplies are limited. Also, there are substantial tax consequences for sellers of older, historic ownerships with low tax bases.

Buyers in this market are investors, developers, agricultural expansion buyers, or recreational buyers. Agriculture is still a common land use, and existing agricultural operators will and do purchase expansion lands, though the underlying value is recognized to be the investment value as opposed to agricultural production value. Also, recreational buyers are purchasing lands for the development of recreational farms and ranches.

The four subject properties are all located in southeastern Montana, and as such are part of a broad regional market area which shows a certain level of consistency of land types and values. The region is generally arid, open, and lacks mountain ranges. The recreational and aesthetic amenities are generally inferior to the western portions of the State, and consequently the land values are lower. This region is also generally less productive agriculturally, which also impacts land values.

However, like most parts of Montana, there are significant variations of land types and features within small geographic areas which often results in multiple sub-markets within the larger regional market. This is particularly evident when there is a significant recreational feature such as river of large water body located within an otherwise agricultural landscape. The properties along or near a valued recreational feature will be part of a distinctly different sub-market than other area properties that lack access to such features.

None of the subject properties have unique access or proximity to an area recreational or aesthetic feature or have any other distinct features or qualities that would make them part of any distinct local sub-market relative to such features. They all represent open and isolated rangeland tracts without much distinction relative to the larger regional market. None the less, location plays an important role in land values, and local sales will be used to value each subject unit.

The subject properties do have the potential to be subdivided as does any large parcel. However, the lack of legal and/or physical access to the subject properties severely limits their development potential. The value of the subject properties can not be predicated on their theoretic subdivision potential. A subdivision analysis of the property would require a detailed analysis of absorption rates and bulk discount rates and many extraordinary assumptions related to levels of allowed use, which are subject to a complicated and often unclear legal and zoning process. The sales used for valuation herein all have these inherent characteristics and are reflective of how the market views development on larger parcels. The appraisal of each subject parcel is based on the property as a larger parcel.

2. Highest and Best Use Analysis
Legal, Physical, Financially Feasible, Maximally Productive Summary

Legally Permissible Uses: The subject parcels are each 640-acre parcels. All of the units are legally conveyable with no further regulatory review process. The parcels could also be divided further into 160 increments without subdivision review. None of the subject parcels are subject to any zoning or legal land restrictions other than the State of Montana's subdivision regulations that state that subdivision of a property into parcels less than 160 acres in size must pass through a subdivision review process and requires local governmental approval. These subdivisions must also meet general state sanitation requirements regarding the development of septic systems for dwellings.

Under the conditions of this appraisal assignment set forth by the client, the parcels are to be appraised under two different conditions; the as is condition which is with no legal access, and the hypothetical condition of having legal access. These two conditions lead to differing legally permissible uses.

In the as is condition, only one of the subject properties has legal access, and as such the remaining parcels have limited legally permissible utility and use. An owner of such properties cannot access and utilize the ownerships, unless they own adjoining property or receiving an access easement from adjoining property. Such an owner also has a limited or diminished conveyable estate which to potentially sell or convey onto a perspective buyer. The market heavily discounts properties which lack legal access, recognizing the diminished utility and use of these properties.

A lack of legal access creates a condition where the highest and best use of a property differs dramatically for a single or a small group of potential buyers than for the larger overall market. An adjoining property owner who has legal access to a property through common boundary has a much higher potential use and value for the property than the overall market which lacks such access. The legally permissible highest and best use for a neighbor would not be subject to the legal limitations that an outside buyer would be subject to. However, neighboring owners when purchasing parcels which otherwise lack legal access also typically expect a discount. This is due to the fact that the seller would not be able to get full value as unrestricted otherwise, and therefore the buyer is in a strong bargaining position.

In the as is condition of having no legal access, the legally permissible uses would be limited to use as an add-on to an existing neighboring ownership. The value of adding parcels to existing ownerships is known as plottage.

Under the hypothetical condition that the subject properties are considered to have legal access, varied uses are legally permissible and include agricultural, recreational, and investment uses, as well as possible industrial, commercial, and limited development uses, depending on the level of regulation required.

Physically Possible Uses: Of the legally permissible uses, only a few are generally physically possible on portions of the appraised properties. The parcels are remote and rough, with no surface water and limited agricultural productivity. The physical access is poor and undeveloped, and any enhanced uses other than agricultural and limited recreation use would require significant investment to improving access. The parcels do not have access to utilities. Sale #630 however does have good physical access and access to utilities.

Commercial, industrial, and nearly all levels of development can be eliminated as uses on the subject parcels do to the physical limitations of access, availability of utilities, and remote locations. Only limited rural developments are physical possible. The physical uses capable on the properties include limited rural development, investment, recreation, and agricultural uses. There is no apparent mineral development in the subject areas. Sales in this market do not reflect additional consideration for minerals.

Financially Feasible Uses: Strictly agricultural uses would be eliminated under the financial feasibility test. Research of Montana and the surrounding market area reveals that values paid for similar properties in the area are exceeding the value that could be sustained solely by agricultural income as evidenced by the capitalization rates of -0.05% to 2.0% on some of the lands. Lands that continue to be more agriculturally oriented are seeing returns of 3.0% to 5.0% annually. This would indicate that the areas with lower capitalization rates are in a state of transition from agriculture to recreational and investment, while the lands with higher capitalization rates are still more agriculturally oriented. The subject parcels are located in transitional areas where investment and recreation are influencing land values, but land use is still influenced by agriculture given surface uses in the area. Buyers in this market generally use agricultural income as a complementing source of income to pay the taxes and maintenance with the augmenting use of investment.

Rural recreational and/or rural residential development would not be financially feasible due to the remote locations and poor access of the parcels. The limited recreational and aesthetic amenities of the subject properties do not justify the cost to improve the access. It appears that financial feasibility use revolves around investment as an interim agricultural land holding asset with appreciation potential related to recreation potential.

Commercial, industrial, and residential development uses are not financially feasible for the subject properties due to the remote locations relative to population centers needed as markets, and the costs of developing access and utilities.

Maximally Productive Use: A review of the area surrounding the appraised properties reveals that the use of most properties remains in traditional agricultural ranching operations. The historic agricultural use of these properties is often viewed as secondary (at best) to recreation and investment value. As is the case in many areas of Montana, the land use of these rural properties continues to be used for some agricultural purposes even when values required to purchase lands for this use exceed the agricultural income potential of the land. It is apparent that although these properties remain in agricultural use, the income potential and capability of these properties is often viewed as secondary to their investment potential. Physical use and management provides for the caretaking of the property and maintains the asset for value appreciation. Recreational hunting as a source of operating income may supplement and complement the agricultural income, but is not a basis of market value. These properties have a strong component of speculation.

In my opinion, the use that survived the above tests and would be considered maximally productive is land investment where the properties are transitioning from agriculture to some higher use such as investment and recreation. The physical use is owner directed and not specifically market driven.

3. Assignment of Highest and Best Use

The highest and best use of the subject properties at the current time is affected by multiple uses and considerations, as described in the proceeding analysis. The properties, being located in eastern Montana, are part of a transitioning market which evidences speculation and investment buying. Historically, properties in the area were owned and operated by large family ranches; however over the past ten or so years, more and more of these properties have been sold to out of state investment buyers.

Relative to overall market value, the subject parcels current use as agricultural properties is not a basis for market value. But as stated previously, most agricultural and recreational properties in this market are not viable on an income producing basis, and the value is understood to lie in the appreciation of the land over time as an investment. Demand for such properties is driven by this investment potential, as well as other intangible features such as aesthetics and recreational amenities.

The subject parcels are limited in recreational and aesthetic amenities as well as agricultural productivity. The size of the subject parcels, a square mile (640 acres), is not large enough to support recreation or agriculture on a stand alone basis. The parcels are not economically viable for agriculture or for recreation based on size. The value of land in this market for recreation is based primarily on big game (deer and antelope) and bird hunting. More acreage would be needed to consider the properties as viable recreational units. Buyers would not purchase these parcels individually for hunting units, and the limited aesthetic amenities would not draw buyers to purchase such remote and isolated units. Agriculturally, the units are not viable unless combined with other lands to form a larger economic unit.

In consideration of the features, location, and indications of the market, I would conclude that the highest and best use of the subject properties without legal access is as add-on or plottage units to existing larger properties. The various bases for value in this market, being recreation and agriculture, are dependent on larger scales for economical viable units. As such, smaller parcels such as the subject properties only achieve maximally productive use when combined with other properties to form a larger economic unit. The buyers for such properties are area land owners who purchase these lands for assemblage or plottage value to their existing holdings. There is little or no market for these properties outside this use.

Given the two different conditions under which the subject parcels are to be appraised, with and without legal access, the potential for different highest and best uses needs to be considered. The most significant result of considering two conditions is the different possible extents of the pool of prospective buyers. Without legal access, the pool of potential buyers is limited almost exclusively to surrounding neighbors, which sometimes is only one person or entity. In this condition, the highest and best clearly is limited to assemblage or plottage use, as the only prospective buyer(s) is the neighbor(s). This would be the only buyer for which the property would have any value or use, and that value would be based on plottage. Sales #627, #628, and #629 have an as is without legal access highest and best use of agricultural with plottage value to existing holdings.

Under the hypothetical condition that the parcels have legal access, three of the four parcels still have poor physical access which limits the maximum the highest and best use. These properties do have some recreational and potential development use, however that use is not eminent, especially in the current depressed market. However, the investment potential is higher given the higher use potentials. Sales #627, #628, and #629 with hypothetical legal access, and Sale #630 with as is legal access, has a highest and best use of recreational agriculture.

C. Approaches to Value - Definitions

There are three traditional approaches to value; the Cost Approach, the Sales Comparison Approach, and the Income or Earnings Approach. A general discussion of the approaches is followed by an analysis of the appropriateness of each of the approaches for the subject properties.

The Cost Approach employs the principle of contribution and is an estimation of the value of the property as if vacant, with the addition of the current costs of reproducing the improvements less all forms of depreciation. Vacant land sales are the most persuasive indicators of land value and individual component values are assigned to each type and class of land as derived from the current market. Building residual values reflect the rates of contribution and depreciation applicable to improvements in a given market. Reproduction cost values used in this analysis are derived from the Marshall and Swift Valuation Service, and these published costs are periodically checked against actual local construction costs for accuracy. Physical depreciation of the improvements is based on the age-life method for incurable items. Depreciation for curable items is based on estimates of the cost to cure such curable items. Land valuation is derived from a component analysis of the selected market data where individual component values are assigned to each type and class of land as derived from the market. Values assigned are based on market data of pure, one-component sales and suggested trends and ratios between the land classes.

The Sales Comparison Approach indicates the value of a property from a direct comparison of the subject property to sales of similar properties on a single, overall unit of measure. In applying this approach, the appraiser employs the principle of substitution; a prudent buyer is assumed to not be willing to pay more for a property than it would cost him or her to buy another property with equally desirable characteristics. Conversely, a seller will sell a property for no less than what similar properties are selling for. The measure used in this approach is a dollar per acre measure.

The Income Approach in appraisals is based on the principle of anticipation and is a value indication of a property based on its anticipated ability to generate income. This method is employed by processing the anticipated net income of the subject property with a capitalization rate determined from the market.

D. Approach Selection

When practical and appropriate, the appraiser uses all three recognized approaches to value; the Sales Comparison Approach, the Cost Approach, and the Income Approach. As stated in the previous definitions section, the use of more than one approach provides additional support, as the approaches are independent conclusions of value which are reconciled for a final value conclusion.

Each approach uses different methodology and has specific application to specific property types and market situations. Each approach is not appropriate for each assignment. There are in fact many situations where only one approach is appropriate. It is the appraiser’s sole responsibility to determine and implement the most appropriate approach or approaches for the assignment. The primary criteria for this determination is which approach or approaches will yield the most credible and reliable results.

While the subject properties are utilized for agricultural production, the income associated with the physical operation of the properties does not have a direct bearing on value. This is typical of the rural land markets located throughout Montana, and is due primarily to the influence of recreation and investment. The historic and underlying physical uses of the properties, which does provide some income, does not influence or direct value. The income relative to value is so low that a legitimate estimate of value utilized in an Income Approach is not considered to be appropriate within the context of the market. Values in the area are influenced by recreation and investment criteria and, as such, the interim income potential of properties does not have a direct bearing on value. It is concluded that the Income Approach is not a reliable approach to estimate value for the subject properties, and it will not be utilized in this assignment.

The Cost Approach to value is most applicable when the subject has differing land classes and/or significant building improvements. In this assignment, all of the subject properties are unimproved and have only one land class; native rangeland. With the transition from agriculture to recreation and investment, this market sees the land as having one overall use or value as related to recreation and investment features. The proportion and productivity of agricultural land classes does not play as significant a role in value as does the factors and amenities relative to recreation, development, and investment uses. Buyers simply do not recognize or evaluate property based on its land class mix or productivity, but instead look at overall aesthetic and recreational features which have a stronger impact on value in this market. The fact that the subject properties are comprised of only one land class and have no building improvements reduces the applicability of the Cost Approach.

The Cost Approach and the Sales Comparison Approach are deemed the most appropriate approaches to value for estimating a market value of the subject properties. Both approaches will be used by the appraiser in this assignment.

The exclusion of the Income Approach to value does not constitute a departure as allowed under the *Uniform Standards of Professional Appraisal Practice*. With consideration of peers, the characteristics of the properties, and the intended use of this report, these approaches would not enhance the credibility of this report.

E. Sales Introduction

The appraiser has completed a wide review of the market in order to ascertain activity and value under market conditions for similar properties as of November 17, 2010. As will be discussed in the Market Conditions section to follow, the volume of recent sales in the market is very low and current comparable sales data is sparse. Within the market area of the subject properties, which is considered to be the 50 or so miles between Billings and Custer, Montana, only eight comparable sales have been identified by the appraiser, and some of these sales data back to 2006. The following table summaries the eight sales.

Sale #	Date	County	Sale Price	Acres	Price/Acre
1	4/22/2010	Yellowstone	$605,000	1,022	$592
2	9/15/2008	Yellowstone	$5,950,000	18,417	$318
3	4/28/2008	Yellowstone	$147,200	640	$230
4	10/23/2007	Yellowstone	$2,592,365	9,783	$265
5	7/1/2007	Yellowstone	$3,150,000	10,989	$283
6	11/15/2006	Big Horn	$98,000	980	$100
7	6/30/2006	Yellowstone	$1,130,000	2,946	$350
8	3/1/2006	Yellowstone	$375,000	760	$493

Theses sales vary from smaller acreage properties such as the subject properties to large ranches comprised of mostly native rangeland. The sales selected for analysis in this assignment are presented in summary form in the following pages of this report and will be followed by the application of the Cost and Sales Comparison Approaches to value. Confidential sales data is shown in the separate Sales Addenda.

F. Sales Data Analysis

1. Property Rights Conveyed

This appraisal assignment of the subject properties will employ two hypothetical conditions as directed by the client. Both of these hypothetical conditions impact the property rights conveyed of the subject properties. The first hypothetical condition is that the subject properties will be appraised as fee simple estates, when in fact they are leased fee interests as the current lessees have a leasehold interest in the properties. The comparable sales to be used in the valuation of the subject properties all are considered to be fee simple estates subject to any easements, reservations, conveyances, and encumbrances of record. As such, the sales are considered to be the same property interest and no adjustment is necessary regarding property interest.

The second hypothetical condition is that the subject properties have legal access, when in fact, three of the four properties do not have legal access.

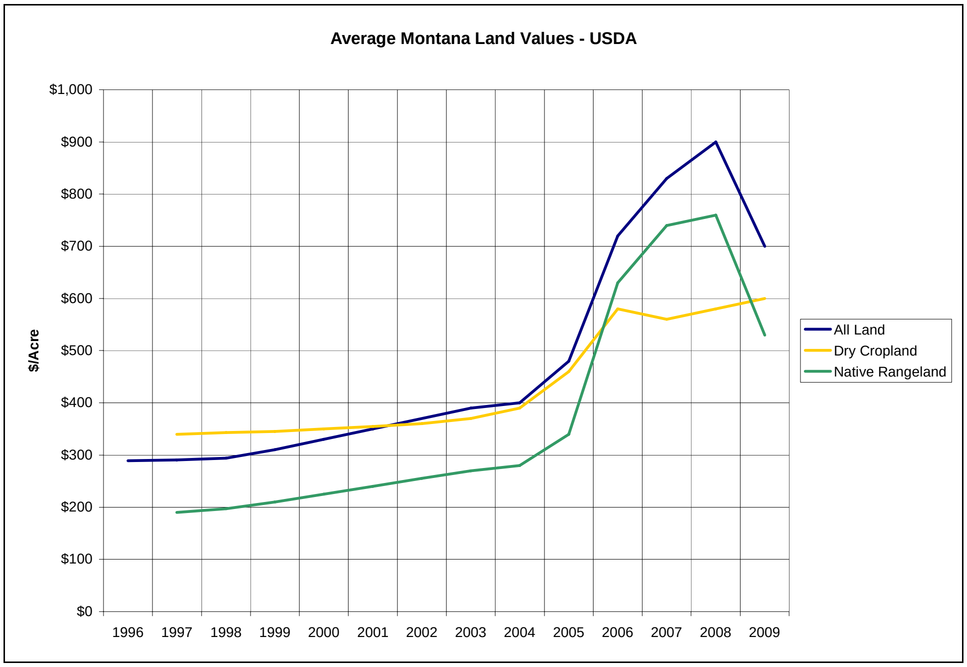
2. Market Conditions - Time Adjustment

An analysis and determination of time adjustments is important in this appraisal assignment as the market has been very dynamic over the past few years. And, due to a relatively low volume of sales, most of the comparable sales are more than one year older than the effective date of appraisal and will need to be time adjusted.

Ideally in a market conditions analysis, there would be enough good comparable sales over time to conduct a pairing analysis in order to demonstrate credible time adjustments. This would include the pairing of sales that took place across the same time intervals as each comparable sale and the effective date of appraisal. Unfortunately, there is not enough sales volume to adequately produce this kind of data. The appraiser will include other methods of analysis of the available sales data to determine value trends in order to determine appropriate time adjustments.

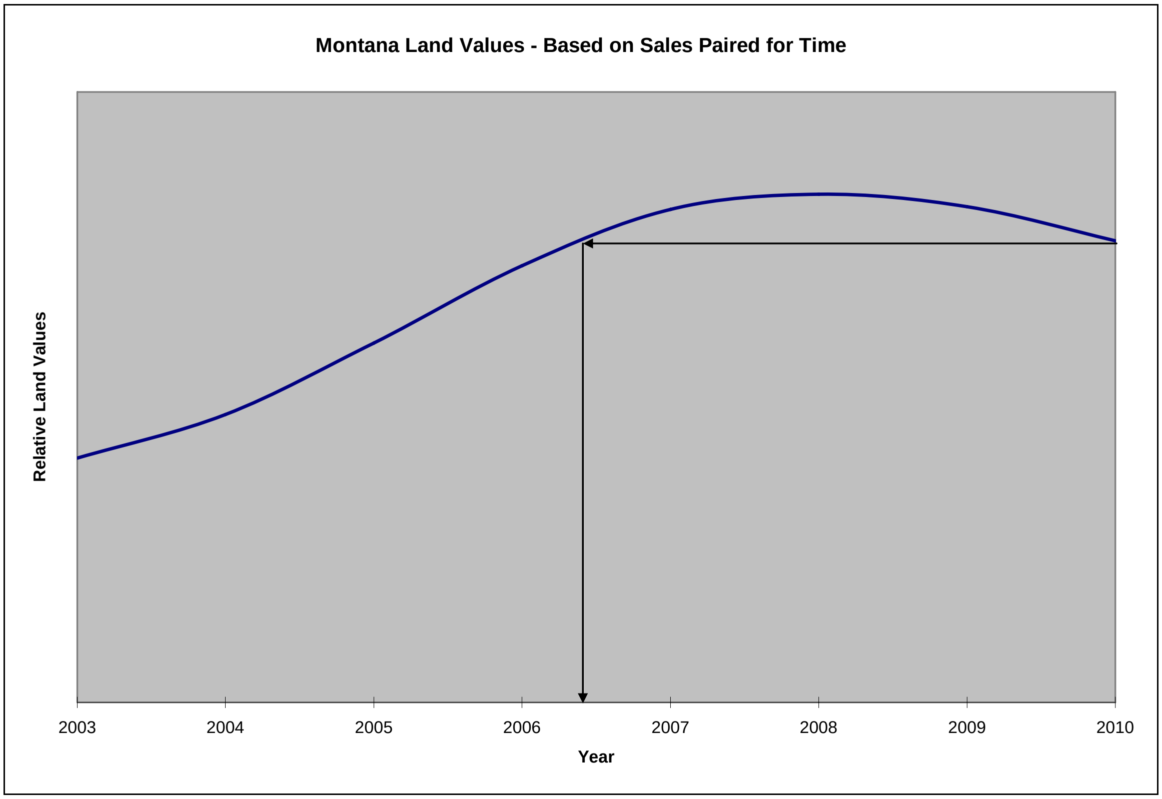
In general, land appreciation rates had been strong in southwest Montana up through 2007 and into 2008. From 2004 to 2006, appreciation rates were particularly high as the Montana real estate market experienced strong growth and high demand. In 2007, the market began to experience a rapid slow down which is still evident in 2010. The volume of sales activity has slowed dramatically since 2006. It appears that a price point was reached in the market where buyers were no longer willing to participate at the elevated price levels. National economic trends such as housing and financing then also contributed to a slow down in growth.

To better understand overall appreciation rates over time, it is useful to look at USDA land value studies. The following chart shows average lands values for Montana based on USDA surveys of land owners and managers. This data includes all of Montana. It is important to note that the rates shown by the USDA data are based on survey, which is the opinions of land owners and managers and not actual sales data.

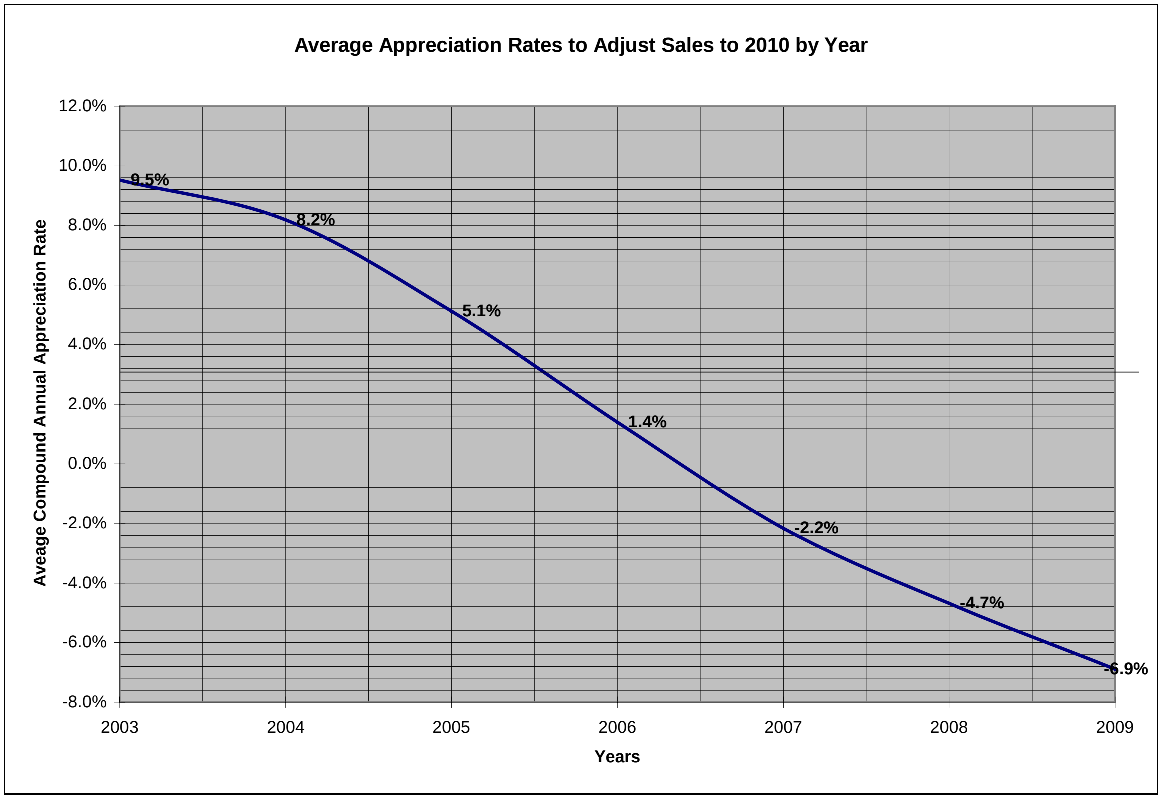


The high rates of appreciation for native rangeland and all land between 2004 and 2007 (as well as the sharp decline in values in 2008 and 2009) are believed to be attributed to the recreational influence on values. The native rangeland land class tends to include the recreational properties in the state, whereas dry cropland tends to reflect more pure agricultural land values. Agricultural lands without strong recreational components did not appreciate as dramatically as recreational lands. The subject property is irrigated farmland located in an area with extensive recreational and aesthetic amenities, and therefore is considered to be best represented by the higher appreciation rates.

The overall representation indicated by this USDA data parallels the appraiser’s experience and data from the market. According to actual sales data collected by the appraiser, appreciation rates were moderately increasing up to 2004 but then increased dramatically through about 2007. In 2008, rates began to decline where they still appear to be declining today. The following graph shows relative value change over time as extracted from the appraiser’s sales database.



From this data, the appraiser has produced an analysis which indicates appropriate rates of appreciation over time for adjusting sales to the current effective date. This is considered to be a more accurate indication of appreciation rates than a paired sales analysis given the low volume of sales in the market. The following graph shows these rates.



This data is based on the entire Montana land market, but is considered to be the best representation of appreciation in the local market as well. Adjustments for time were determined and applied to the comparable sales based on this data.

3. Sale Land Mix / Productivity Analysis

In an agricultural market such as the subjects', land productivity and the relative percentage of the differing land classes comprising a property has a significant impact on overall value. In this assignment, each of the subject properties are comprised solely of native rangeland. For a direct sales comparison to other native rangeland sales, no land mix analysis would be necessary. However, in order to be able to apply rangeland values from other sales with multiple land components in a cost approach, a land class ratio analysis must be completed and applied to each comparable sale. In the following analysis, a land class ratio analysis has been used in order to determine appropriate land class values for the comparable sales.

The analysis begins with the study of unimproved, single land class sales otherwise known as puritan sales. These sales are the primary indications of value for individual land classes as they are the purest, most compelling market data indicating value for a specific land class. Once the value for one or more land classes are determined from puritan sales, the values of the other land classes can be determined by deducting the value of the remaining land classes from subtracting the values of the puritan land classes from the overall sale price of the sale.

The following ratios for land mix will used in this report.

Sprinkler irrigated cropland = 100%
Flood Meadow = 50%
Dry Cropland = 40%
CRP = 40%
Seeded Pasture = 35%
Native Rangeland = 25%

4. Access

Three of the four subject properties do not have legal access. The appraiser has been instructed by the client to use a hypothetical condition and appraise each of the subject properties as if they have legal access, in addition to appraising the subject properties as is without legal access. In the case where the legal access of the comparable sales differs from that of the subject properties (either “as is” or under the hypothetical condition) a market-derived adjustment for legal access will need to be determined and applied.

The right and ability for an owner to access a property can be described in terms of that property’s physical and legal access. Legal access refers to an owner’s legal right to access a property regardless of the physical status of the roads getting to that property. Physical access is the physical ease of accessing a property.

Of the two, a lack of legal access has the strongest influence on value. If a property has legally restricted access, this substantially limits the utility and therefore the value of the property to an owner. Buyers discount such properties for the cost and uncertainty of curing the access problem or for the permanent decrease in the level of utility.

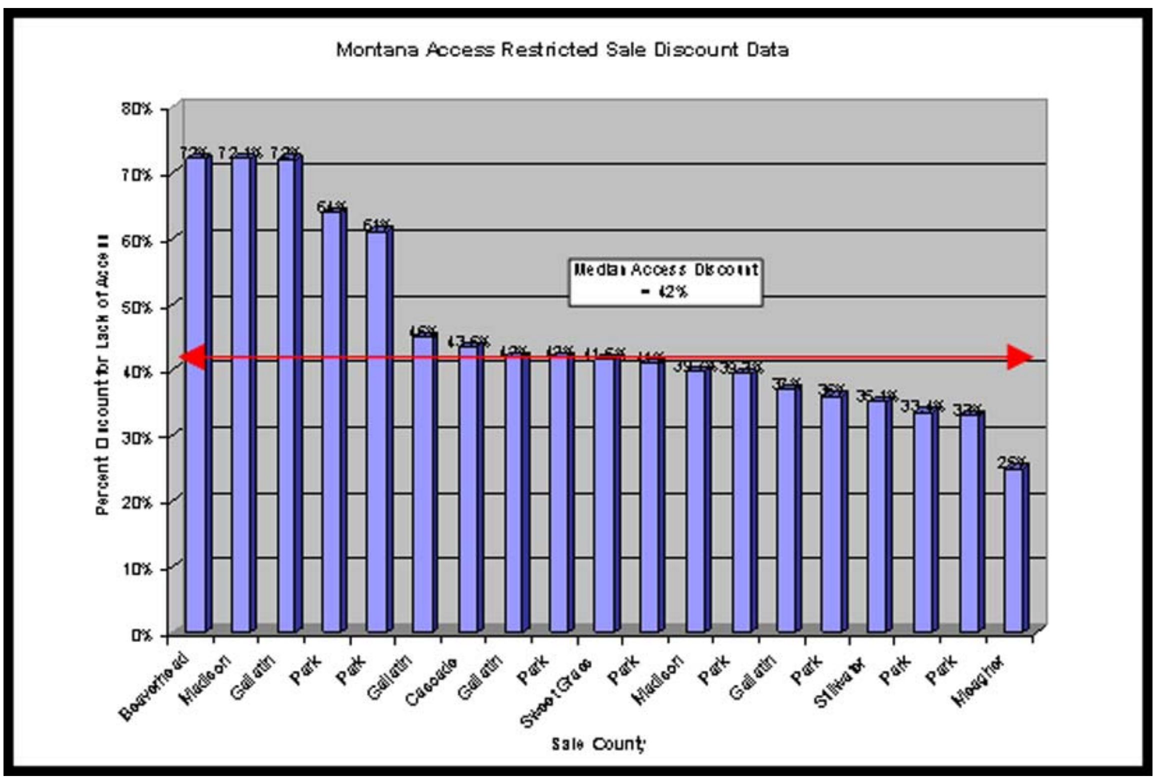
The other form of access restriction is the limitation to physically accessing a property. An owner may have the full legal right to access a property, but the physical access is undeveloped and limits the ability to reach the property. Considerable expense may be required to develop access to a productive level. Rural foothill properties often have what is considered seasonal access. Accessing these properties in winter with deep snows and drifts, or in the spring with muddy conditions, can be difficult or impossible.

Many rural, end-of-the-road recreational ranch properties in Montana have seasonal physical access and may have undefined legal access. Often, access is based on long-standing verbal agreements between neighbors to cross private lands. While these agreements do have legal standing, often referred to as “historic use,” the status is somewhat tenuous as a new owner could dispute the agreement which can result in a high expense to resolve the issue. The same holds true for historic access through public lands. The policies and management of government agencies is subject to change, which adds uncertainty and risk to the status of legal access for such a property.

The impact on the market or on any one specific property of this kind of uncertain legal access is not readily evident or consistent. For many of these properties, the highest and best use is seasonal recreational and agricultural use. As such, the level of access is consistent with the property's highest and best use. That said, many buyers, particularly out of state investment buyers which make up an increasing portion of the market, have a lower tolerance for uncertainty regarding the level of use and rights to their property. This resistance can come in the form of a discount in the amount willing to pay, or an unwillingness to participate in the market for such properties altogether which reduces the pool of buyers and size of the market for such properties.

Two of the comparable sales had no legal access at the time of sale. They both sold to adjoining ownerships who were the only potential buyers with access. Sale #3 can be paired to Sale #8 which it adjoins for an indication of the impact on value due to access. Once the sales are adjusted for time and land mix, the pairing shows a 50% discount for lack of legal access. The two sales also provide direct indications of the value of access restricted properties in this market as will be discussed further.

The appraiser maintains a database of access pairings from across the state which shows a range of discounts from 25% to 72% for lack of access, with a fairly consistent median of about 40%. This median 40% percentage has been checked with other appraisers, real estate agents, buyers, and sellers who generally concur with the discount as being an accurate discount for lack of legal access. These are parings of properties where the seller conveys the property with no legal right to access to properties with full legal access. In most of these cases, a neighbor who adjoins the property and therefore has access will be the buyer, but will purchase at a discount because no other potential competing buyer would have legal access.



The database of multiple pairings is considered to be a strong indication of an appropriate access discount, and is considered to be supported by the 50% discount demonstrated by pairing of Sale #3 and Sale #8. The discount of 50% is considered to be higher than the average because of the location relative to Billings. Being located close to Billings, the lack of access has a higher impact on market value, and the development and investment value unrestricted is higher than other more outlying properties. The access restriction damages the property more. In this appraisal, a 50% discount for lack of legal access will be applied to the subject properties which lack legal access.

G. Cost Approach

The Cost Approach is a method of valuation that determines the cost of reproducing a property's improvements, and then adds to the value of the land as if it were vacant for an overall value. The land valuation is derived from a component analysis where individual land component values are assigned to each type and class of land. These land class values are derived from the market. This segregated approach allows the appraiser to assess the similarities of each sale's particular land classes as they relates to the subject property. Values assigned are determined from market data of pure, one land component sales and the suggested trends and ratios between the land classes when available. As discussed earlier, the subject properties are comprised of native rangeland.

Reproduction cost values used in this analysis are derived from the Marshall & Swift Valuation Service and Boeckh's Valuation Guide as well as market observations. The published costs are periodically checked against actual local construction costs for accuracy. Physical depreciation of the improvements is based on the market abstraction of depreciation or the age-life method for incurable items.

Based on the sale data presented, a Cost Approach analysis of the subjects' land classes, improvements, and leases is as follows.

1. *Land Valuation*

After a review of all of the available sales data from the market area, eight sales have been selected as indicators for land class values of the subject parcels. These sales are those which are considered to be the best indicators of current value for individual land components. The eight sales are considered to be representative samples of the market.

Implicit in the value of property in south central Montana is the investment potential either for the property to be held and later sold at an appreciated price, or to be developed into some terminal and more valuable use. The sales discussed herein are those which are deemed to be most similar to the subject property's land component and are considered to be the best indicators of current value. The primary criteria of the market data search was for recent sales of properties located in the same area as the subject parcels.

Each of the sale properties has varying degrees of physical features and amenities. For instance, one property may have a high percentage of irrigated cropland, while another may border public lands, while yet another may possess a combination of the two. These differing features, along with factors such as access, location, size, investment potential, and other use potential, are key ingredients of a buyer's requirements and purchase decisions. Several of these features may outweigh or be of more importance to one buyer and not another and, as such, these differences are difficult, at best, to quantify or measure precisely with a strong degree of accuracy.

For purposes of the Cost Approach, the subject lands have all been classified as undeveloped native rangeland. The sale properties utilized in this assignment are all considered to be competing properties to the land component of the subject for a potential buyer who may be looking to purchase investment or agricultural properties in eastern Montana.

A discussion of the sale data and key factors of value in this market shall follow:

Adjustments: Typically the only adjustments made in the Cost Approach are for time and financing. Other factors of value will be discussed as they may apply in the sales discussion that follows.

Time Adjustment

A time adjustment is appropriate given that sales over one year old are referenced. A discussion, analysis, and conclusion of an appropriate annual time adjustment was presented in the Market Data Presentation section of this report.

Financing Adjustment

All of the sales were cash or sold based on terms equivalent to cash, therefore, no financing adjustments were made.

Access

As instructed by the client, the appraiser is to appraise the subject properties both in the "as is" condition of the properties having no legal access and the hypothetical condition that the properties do have legal access. In the case where the legal access of the comparable sales differs from that of the subject properties (either "as is" or under the hypothetical condition) a market-derived adjustment for legal access will need to be determined and applied. This analysis is outlined previously in the Market Data Presentation section of this report.

Sales Discussion

The eight (8) comparable sales selected in this analysis have varying acreages of agricultural land classes as shown on the following table.

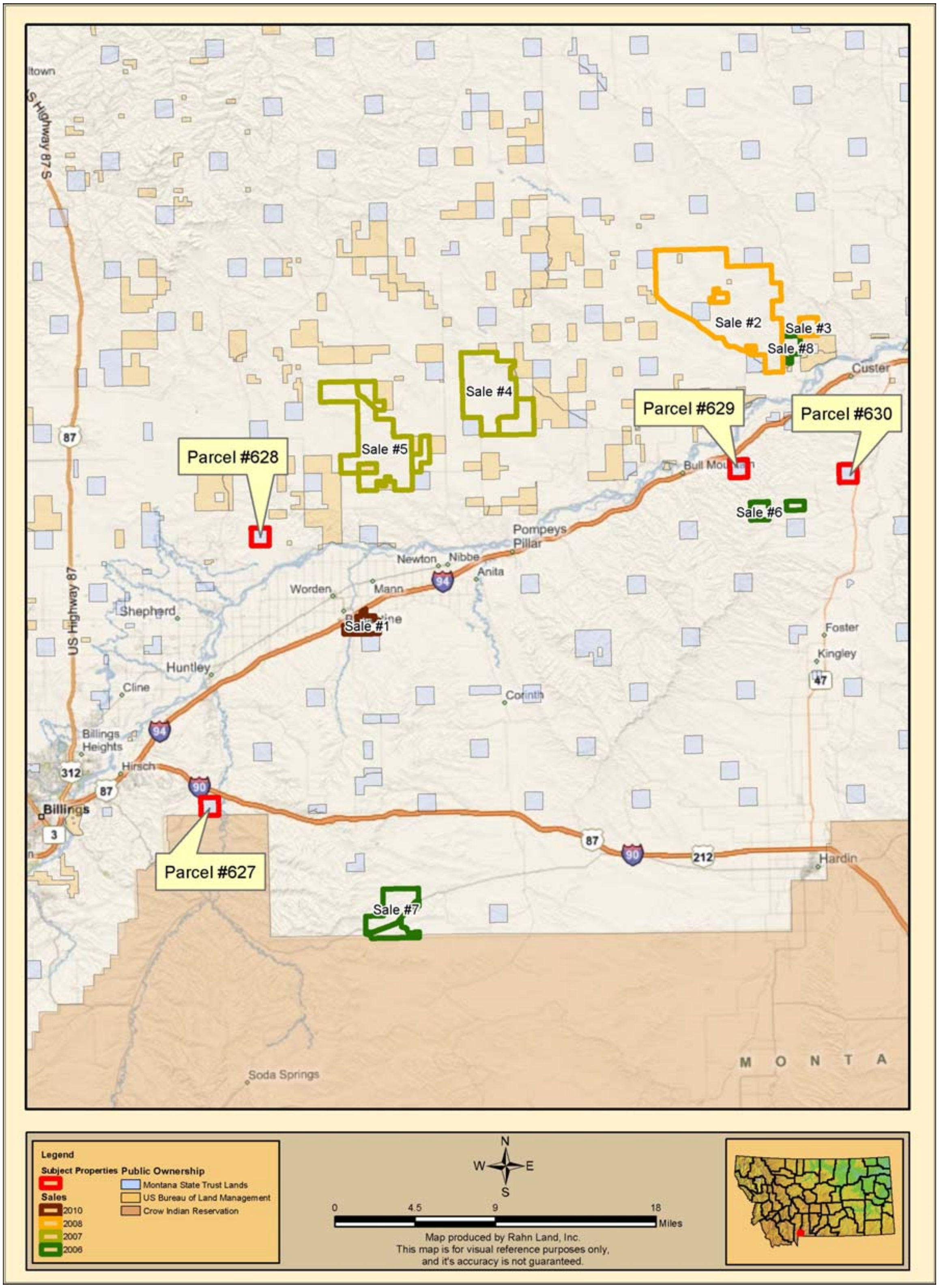
Rahn Land, Inc.
Confidential Sales Data

Land Class Acre												
Sale#	Closing Date	Total Acres	Building Site	Pivot Irrigated	Sprinkler Irrigated	Flood/ Medow	Sub Irr Pasture	Native Range	Dry Cropland	Seeded Pasture	CRP	Leased AUM's
1	4/22/2010	1,022					60	571	391			
2	9/15/2008	18,417	2					18,115	300			575
3	4/28/2008	640						640				
4	10/23/2007	9,783						9,783				
5	7/1/2007	10,989	5					10,765	160	59		314
6	11/15/2006	980						980				
7	6/30/2006	2,946						700	2,246			1,650
8	3/1/2006	760						465	295			

Values for the differing land classes were determined utilizing a land class ratio analysis described previously in the Sale Land Mix / Productivity Analysis section of this report. Based on unimproved puritan sales, ratios for differing land classes were established for the market. The following land class ratios will be used in this report.

Sprinkler irrigated cropland = 100%
Hayland = 50%
Dry Cropland = 40%
CRP = 40%
Seeded Pasture = 35%
Native Rangeland = 25%

Based on these ratios, the following time adjusted land class values have been determined for each land class for each comparable sale. The appropriate value for the native rangeland of each subject parcel will be determined from the native rangeland values determined by the sales. Sales #3 and #6 are access restricted sales.



Parcel #627
Parcel #628
Parcel #629
Parcel #630
Sale #1
Sale #2
Sale #3
Sale #4
Sale #5
Sale #6
Sale #7
Sale #8
US Highway 87
Shepherd
Huntley
Cline
Billings Heights
Hirsch
Billings
Worden
Mann
Newton
Nibbe
Anita
Pompeys Pillar
Bull Mountain
Custer
Foster
Kingley
Corinth
Hardin
Soda Springs
M O N T A
Legend
Subject Properties
Public Ownership
Montana State Trust Lands
US Bureau of Land Management
Crow Indian Reservation
Sales
2010
2008
2007
2006
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4.5
9
18
Miles
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.

Rahn Land, Inc.
Confidential Sales Data

Land Class Acerage Analysis Adjusted

Sale#	Closing Date	Total Acres	Building Site	Pivot Irrigated	Sprinkler Irrigated	Flood/ Medow	Sub Irr Pasture	Native Range	Dry Cropland	Seeded Pasture	CRP	Leased AUM's
1	4/22/2010	1,022					$871	$436	$697			
2	9/15/2008	18,417	$432					$270	$432			$65
3	4/28/2008	640						$199				
4	10/23/2007	9,783						$238				
5	7/1/2007	10,989	$409					$255	$409	$357		$60
6	11/15/2006	980						$100				
7	6/30/2006	2,946						$252	$403			$11
8	3/1/2006	760						$460	$736			

Native rangeland is land that is not irrigable and is not suitable for cultivation for crops. This land class requires the least amount of investment of any of the agricultural land classes, and yields the lowest return. Excluding Sale #3 and #6, the remaining sales show a time-adjusted range in values for native rangeland from $238 to $460 per acre, with an average of $319 per acre.

Land Value Summary

Each of the subject properties are comprised entirely of native rangeland, and so the values for native rangeland demonstrated by the comparable sales will be used in the cost approach to value the subject properties. The values for native rangeland have a wide range in value from $100 to $460 per acre. This range of values can be narrowed through a bracketing process where the sales are analyzed based on factors of comparability.

Sale #1 and Sale #8 show the highest values for native rangeland at about $450 per acre. This is because these are smaller acreage properties with recreational features and good to excellent physical access. They represent a highest and best use that is greater than agriculture, such as recreation or future development. Because of the good to excellent physical access, these two sales are considered superior to each of the subject properties, except for Parcel #630 which also has excellent access.

Sale #3 and #6 are the access restricted sales, and show the lowest per acre value for native rangeland. Sale #6 is particularly low at $100 per acre, and is considered to be below market. The value of this sale is not supported in the market, even once discounted for lack of legal access. The sellers were out-of-state absentee owners with no experience or presence in the local market. Sale #3 at $199 per acre is considered to be a more credible indication of access restricted native rangeland.

The remaining four sales are larger ranch properties with a large amount of native rangeland. These sales have an agricultural highest and best use and show a fairly consistent average value of about $254 per acre for native rangeland.

The preceding analysis breaks down or brackets the sales into three tiers of value; the higher values for smaller acreage tracts with recreational features and good access, the agricultural sales showing a mid-range value for an agricultural highest and best use, and the access restricted sales showing the lowest values.

Based on the value analysis set forth, the appraiser would conclude the following land values of the land assets appraised is as follows as of November 17, 2010. These values are for the subject parcels under the hypothetical condition of having legal access. As outlined in the analysis for discounts for lack of legal access, the values determined for the subject parcels as if having legal access will be adjusted 50% downward to determine the appropriate values for without access. Both of the with and without access values are show in the table immediately following the list of sale parcels below.

Parcel #627

Parcel #627 has good recreational and aesthetic features, and is also located in close proximity to Billings. Under the hypothetical condition of having legal access, this parcel could be in demand for a recreational or development unit. However, even under the hypothetical condition of adequate legal access, the fact remains that the physical access is poor. Significant expense would be required to facilitate an enhanced use such as recreational development. As such the higher valued sales are considered superior to this subject unit. Therefore, the value of this unit with hypothetical legal access would be expected to be less than $450 per acre.

The agricultural sales are considered to be inferior to the subject, as these sales are larger, and the subject is considered to have an accelerated highest and best with hypothetical legal access. The value of the subject would be considered to be greater than the $254 average shown by these sales.

The value of the subject unit is bracketed by and lies between the values of $254 and $450 as indicated by the sales. The appropriate value is considered to be near the mid-point, but closer to the higher valued sales than the lower values. This is due primarily to the close proximity to Billings and the recreational and aesthetic features of the property.

Based on the sales data, a value of $400 per is determined to be the appropriate value for the native rangeland comprising the subject under the hypothetical condition of having legal access. The without access value is determined to be $200 per acre

640 acres	@ $400 per acre with hypothetical legal access = $256,000
640 acres	@ $200 per acre as is without legal access = $128,000

Parcel #628

Parcel #628 is also located relatively close to Billings. However, the recreational, aesthetic, and agricultural features of this property are inferior to the rest of the subject properties. The parcel is more barren and less productive than the other subject properties. The appropriate value is of this parcel is considered at the lower end of the bracket of comparable sales. Based on the sales data, a value of $300 per is determined to be the appropriate value for the native rangeland comprising the subject under the hypothetical condition of having legal access. The without access value is determined to be $150 per acre

640 acres @ $300 per acre with hypothetical legal access = $192,000
640 acres @ $150 per acre as is without legal access = $96,000

Parcel #629

Parcel #629 is located just off the freeway a few miles west of Custer, but lacks legal access and has poor physical access. Being located further from Billings, the parcel does not have the same recreation or development potential as Parcel #627 under hypothetical legal access. However, the aesthetics and recreational features of the parcel are good, and as such the appropriate value for the parcel is considered to be at the mid-point between the higher value sales tier and the value for agricultural rangeland. Based on the sales data, a value of $350 per is determined to be the appropriate value for the native rangeland comprising the subject under the hypothetical condition of having legal access. The without access value is determined to be $225 per acre

640 acres @ $350 per acre with hypothetical legal access = $224,000
640 acres @ $175 per acre as is without legal access = $112,000

Parcel #630

Parcel #630 is the only subject property which has full legal access. The physical access is also good, being located directly off of a paved highway. No hypothetical access is employed in the valuation of this parcel. With good access, good aesthetic and recreational amenities, and having a smaller size, this parcel is comparable to the higher value comparable sales. Based on the sales data, a value of $450 per is determined to be the appropriate value for the native rangeland comprising the subject.

640 Acres @ $450 per acre as is with legal access = $288,000

2. *Building Valuation*

The subject properties have no building improvements and therefore have no building value contributions.

3. *Leased Lands*

There are no leases associated with the subject properties.

4. *Valuation Summary*

The Cost Approach as herein applied suggests a market value as of November 17, 2010 as shown below:

Cost Approach Value Conclusions – With and Without Access

Sale #	Acres	Hypothetical Value With Access	"As is" Value Without Access
627	640	$256,000	$128,000
628	640	$192,000	$96,000
629	640	$224,000	$112,000

Sale #	Acres	"As is" Value With Access
630	640	$288,000

H. Sales Comparison Approach

1. Introduction

For the sales comparison approach, market research suggests that the most applicable comparative measure of value is the overall sale price per deeded acre. This unit of measure is derived at by dividing the total sale price by the total number of deeded acres in the comparable sale property. This measure includes the contribution from all components of the sale property including appropriate structural improvements and leases.

A total of eight open-market sales have been selected in the first data set for use in the sales comparison approach. Overall, theses sales reflect a range in unadjusted value of from $100 to $592 per acre. This wide range in value can be attributed to multiple different and independent factors such as location, time, size, recreational features, and aesthetics and amenities like views and overall site appeal. This range in sale values suggests that the range can be narrowed through an analysis and possible adjustment for some of these factors.

For those properties with features that are inferior to those of the subject properties, a positive adjustment for each feature would be necessary to make the sale property comparable to the subject property. Conversely, for those properties with features or factors that are superior to those of the subject properties, a negative adjustment to the sale would be required to make the sale property like the subject property.

Adjustments were made to the sales in order to make them appear to be as similar to the subject property as possible. A discussion of the adjustments that were applied will follow. Where no adjustments were made, those features and characteristics were deemed to be equal or similar to those of the appraised property.

Property Rights conveyed: The comparable sales were considered to transfer as fee simple estates, exclusive of reservations of record, which is equal to the subject properties under the hypothetical condition to be used that the subject properties are fee simple estates exclusive of reservations of record. No adjustment is needed regarding this aspect of the property rights conveyed.

Terms: All sales were cash or in terms equivalent to cash and at market rates. No adjustment for terms will be applied.

Market Conditions - Time: A time adjustment is appropriate given that sales over three months old are referenced. A discussion, analysis, and conclusion of an appropriate annual time adjustment was presented in the Market Data Presentation portion of this report.

Land Classes: Utilizing the land class ratios determined earlier, the sales have all been analyzed and values for land classes allocated. The allocations are recorded on the individual sales data sheets in the addendum. A land mix adjustment has been calculated for each comparable sale based on these land class allocations. This land mix analysis is located in the addenda of the report.

Improvements: Once an allocation of the land classes has been made to a comparable sale, the value remaining after the land values have been calculated is the value of the improvements. This improvement value is listed in the individual sale data sheets in the report addenda. An improvement adjustment has been calculated for each of the applicable sales.

Access: The subject properties are to be appraised "as is" which is without legal access and under the hypothetical condition that they have legal access. The comparable sales generally all have legal access, although there are two sales which have some form of legal access restriction. In order to adjust the sales to be comparable to the subjects, a market-based adjustment will be determined and applied. The determination of the adjustment for lack of legal access was presented in the Market Data Presentation portion of this report

As stated previously, the eight sales are used as an overall indication of value across the regional area market, but are not every sale is directly comparable to each subject property. Individual sales from the collection of eight will be selected as direct comparables to each subject property based on elements of comparability such as location. The following table outlines which sales are considered comparable to each subject property.

2. Sales Analysis – With Access

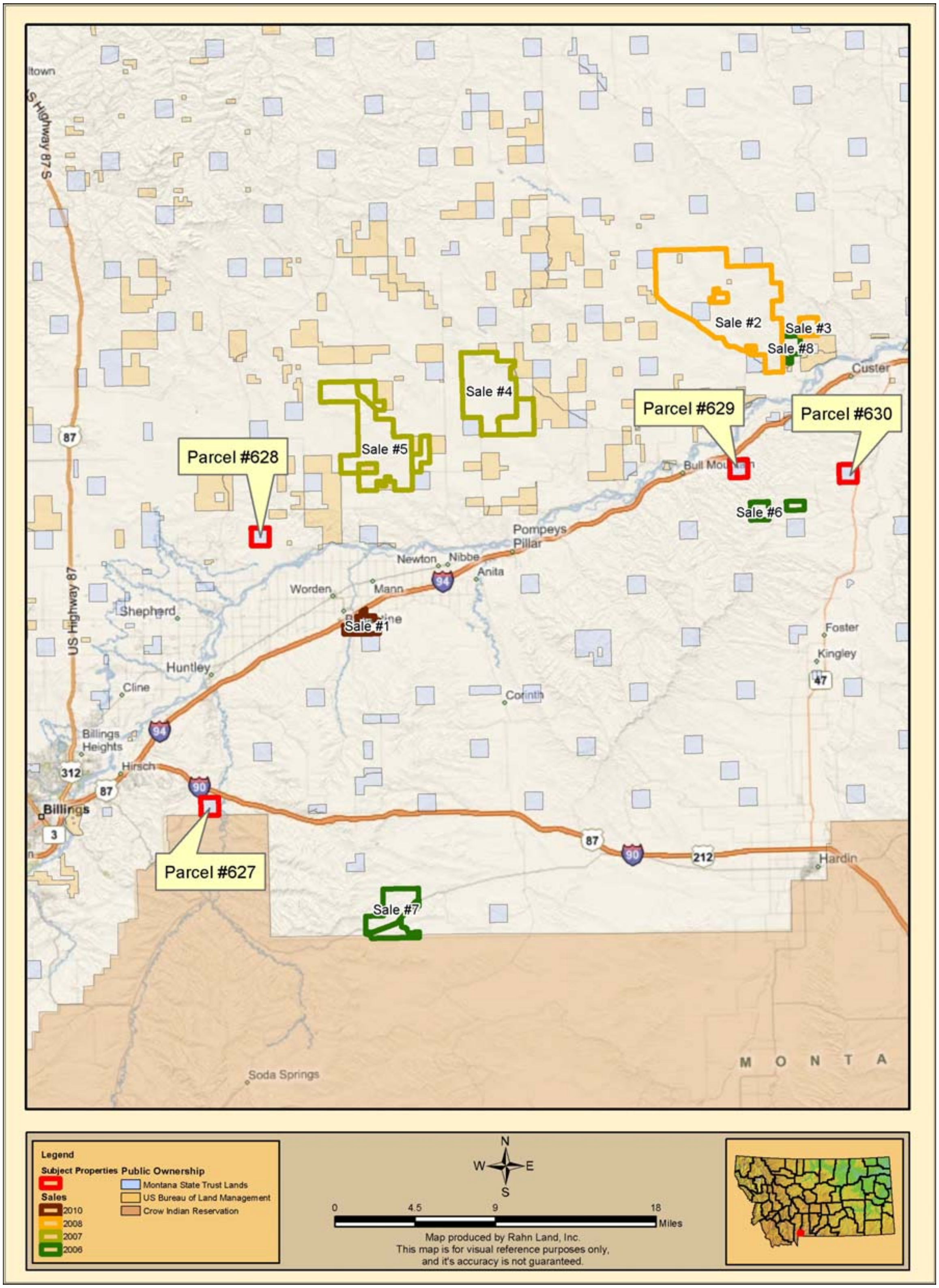
In this analysis, the Sales #627, #628, and #629 will be valued under the hypothetical condition of having legal access. Sale #630 has legal access and will be valued as is. The following table shows the eight open-market comparable sales for the subject properties. These sales have been adjusted for land mix, improvements, time, size, and legal access. These eight sales utilized for direct comparison in this analysis show an adjusted range in value of $200 to $460 per acre with legal access. The sales have not been adjusted for location and physical access. These two factors, along with aesthetic and recreational amenities and agricultural productivity are the primary factors of value which will need to be analyzed on a qualitative basis. There are no available quantitative adjustments for these factors.

Rahn Land, Inc.
Confidential Sales Data

Sales Comparison

Sale#	Closing Date	Land Mix	Improvements	Financial Adj	Time	Condition of Sale	Location	Size	Amenity	Misc.
1	4/22/2010	($132)	$0	$0	-5%	$0	$0	$0	$0	$0
2	9/15/2008	($5)	($5)	$0	-13%	$0	$0	$177	$0	$0
3	4/28/2008	$0	$0	$0	-13%	$0	$0	$0	$0	$200
4	10/23/2007	$0	$0	$0	-10%	$0	$0	$177	$0	$0
5	7/1/2007	($5)	($4)	$0	-8%	$0	$0	$177	$0	$0
6	11/15/2006	$0	$0	$0	0%	$0	$0	$0	$0	$100
7	6/30/2006	($114)	($34)	$0	7%	$0	$0	$177	$0	$0
8	3/1/2006	($93)	$0	$0	15%	$0	$0	$0	$0	$0

Sale#	Deeded Acres	Per Acre Sale Value	Land Mix & Imp Adj Value: Sale Price	Land Mix & Imp Adj Value: Adj Value	Adjusted Values: Financing	Adjusted Values: Time	Adjusted Values: Cond Of Sale	Total Adjusted Per Acre Value
1	1,022	$592	$605,000	$460	$460	$436	$436	$436
2	18,417	$323	$5,950,000	$312	$312	$270	$270	$447
3	640	$230	$147,200	$230	$230	$199	$199	$399
4	9,783	$265	$2,592,365	$265	$265	$238	$238	$415
5	10,989	$287	$3,150,000	$278	$278	$255	$255	$432
6	980	$100	$98,000	$100	$100	$100	$100	$200
7	2,946	$384	$1,130,000	$236	$236	$252	$252	$429
8	760	$493	$375,000	$400	$400	$460	$460	$460


Parcel #627
Parcel #628
Parcel #629
Parcel #630
Sale #1
Sale #2
Sale #3
Sale #4
Sale #5
Sale #6
Sale #7
Sale #8
US Highway 87
Billings
Billings Heights
Shepherd
Huntley
Cline
Worden
Newton
Nibbe
Mann
Anita
Pompeys Pillar
Bull Mountain
Custer
Foster
Kingley
Corinth
Hirsch
Hardin
Soda Springs
M O N T A
Legend
Subject Properties
Public Ownership
Montana State Trust Lands
US Bureau of Land Management
Crow Indian Reservation
Sales
2010
2008
2007
2006
0 4.5 9 18 Miles
Map produced by Rahn Land, Inc.
This map is for visual reference purposes only,
and it's accuracy is not guaranteed.

As discussed in the cost approach, Sale #6 is considered to be a below market transaction, and the value shown by this sale is not supported by the sales data. Even once adjusted for lack of legal access, the sale value falls well below the otherwise consistent range of values. This sale will not be used as a direct comparable. Once Sale #6 is eliminated, the remaining sales show a value range of $399 to $460 per acre, with an average of about $430 per acre.

Parcel #627 is located in close proximity to Billings, and as such could have demand as a recreational development property. Physical access however is poor, and this has a substantial impact on value as the cost to cure this condition would be significant. Sale #3, the lowest valued sale at $399 per acre, has been adjusted for lack of legal access, but is a good value indication for poor physical access. This sale is considered to be a good direct comparison to Parcel #627 with the exception of location. The sale is considerably further from Billings than the subject. The sale is considered slightly inferior to the subject, and therefore the appropriate value of the subject would be slightly higher than the value indicated by the sale. The subject is considered to be inferior to the other sales due to poor physical access. Therefore, the appropriate value of the subject would be less than the other comparable sales. The appraiser considers this appropriate value to be $410 per acre with hypothetical legal access.

Parcel #628 has less aesthetic and recreational amenities, has low agricultural productivity, and has poor physical access. As such, this parcel is considered to be inferior to all of the comparable sales. The value of this parcel is considered to be $350 per acre with hypothetical legal access.

Parcel #629 has good aesthetic and recreational features, and is located just off the freeway. However, the physical access is poor, and the location is over 40 miles from Billings. Being located further from Billings, the parcel does not have the same recreation or development potential as Parcel #627 under hypothetical legal access. Sale #3 is considered to be a good direct comparable to this parcel and the sale and subject are located in the same general area. A value of $400 per acre as indicated by Sale #3 is considered an appropriate value for this subject parcel under the hypothetical condition of having legal access.

Parcel #630 is the only subject property which has full legal access. The physical access is also good, being located directly off of a paved highway. No hypothetical access is employed in the valuation of this parcel. With good access, good aesthetic and recreational amenities, and having a smaller size, this parcel is comparable to the higher value comparable sales. Based on the sales data, a value of $450 per is determined to be the appropriate value for the native rangeland comprising the subject.

Sales Comparison Approach – With Access

Sale #	Acres	Hypothetical Value With Access
627	640	$262,400
628	640	$224,000
629	640	$256,000

Sale #	Acres	As Is Value With Access
630	640	$288,000

3. Sales Analysis – Without Access

Rahn Land, Inc.
Confidential Sales Data

Sales Comparison

Sale#	Closing Date	Land Mix	Improve-ments	Financial Adj	Time	Condition of Sale	Location	Size	Amenity	Misc.
1	4/22/2010	($132)	$0	$0	-5%	$0	$0	$0	$0	($218)
2	9/15/2008	($5)	($5)	$0	-13%	$0	$0	$177	$0	($223)
3	4/28/2008	$0	$0	$0	-13%	$0	$0	$0	$0	$0
4	10/23/2007	$0	$0	$0	-10%	$0	$0	$177	$0	($207)
5	7/1/2007	($5)	($4)	$0	-8%	$0	$0	$177	$0	($216)
6	11/15/2006	$0	$0	$0	0%	$0	$0	$0	$0	$0
7	6/30/2006	($114)	($34)	$0	7%	$0	$0	$177	$0	($214)
8	3/1/2006	($93)	$0	$0	15%	$0	$0	$0	$0	($230)

Sale#	Deeded Acres	Per Acre Sale Value	Land Mix & Imp Adj Value: Sale Price	Land Mix & Imp Adj Value: Adj Value	Adjusted Values: Financing	Adjusted Values: Time	Adjusted Values: Cond Of Sale	Total Adjusted Per Acre Value
1	1,022	$592	$605,000	$460	$460	$436	$436	$218
2	18,417	$323	$5,950,000	$312	$312	$270	$270	$224
3	640	$230	$147,200	$230	$230	$199	$199	$199
4	9,783	$265	$2,592,365	$265	$265	$238	$238	$208
5	10,989	$287	$3,150,000	$278	$278	$255	$255	$216
6	980	$100	$98,000	$100	$100	$100	$100	$100
7	2,946	$384	$1,130,000	$236	$236	$252	$252	$215
8	760	$493	$375,000	$400	$400	$460	$460	$230

The same general analysis outlined for the subject parcels with access applies the parcels without access. In the without access situation, the sales are discounted 50% as outlined in the Access section of the Market Data Presentation earlier in this report.

Parcels #627 = $205 per acre as is without access
Parcel #628 = $175 per acre as is without access
Parcel #629 = $200 per acre as is without access

Sales Comparison Approach – Without Access

Sale #	Acres	As Is Value Without Access
627	640	$131,200
628	640	$112,000
629	640	$128,000

4. Value Conclusions

As of November 17, 2010, the Sales Comparison Approach as herein applied indicates following values for the subject parcels.

Sales Comparison Approach – With and Without Access

Sale #	Acres	Hypothetical Value With Access	"As is" Value Without Access
627	640	$262,400	$131,200
628	640	$224,000	$112,000
629	640	$256,000	$128,000

Sale #	Acres	"As is" Value With Access
630	640	$288,000

I. Reconciliation and Value Conclusion

The appraiser employed traditional methods of estimating the market value of the subject properties. The market value suggested by these methods is shown below for an effective date of November 17, 2010.

	Cost Approach		Sales Comparison		Reconciled Value	
Sale #	Hypothetical Value With Access	"As is" Value w/o Access	Hypothetical Value With Access	"As is" Value w/o Access	Hypothetical Value With Access	"As is" Value w/o Access
627	$256,000	$128,000	$262,400	$131,200	$259,000	$130,000
628	$192,000	$96,000	$224,000	$112,000	$208,000	$104,000
629	$224,000	$112,000	$256,000	$128,000	$240,000	$120,000

	Cost Approach	Sales Comparison	Reconciled Value
Sale #	"As is" Value with Access	"As is" Value with Access	"As is" Value with Access
630	$288,000	$288,000	$288,000

There was an adequate amount of quality sales data available in this assignment as the sales possessed features and characteristics that are generally similar to those of the appraised properties. This sales data was used within the cost and the sales comparison Approach to values and reflect a good base of data with which to value the subject properties.

In the final analysis, both approaches were deemed to be accurate and reliable methods of valuation for the appraised properties. The value conclusions determined by the cost approach are considered to support the values determined by the sales comparison approach, a vice versa. Therefore, final value conclusions were based on mid-point values between the two indications of value.

Final value conclusion for the subject properties based on consideration of all three approaches is determined as of an effective date of November 17, 2010. The above-concluded values consider the fee simple ownership rights of the real property described herein and are in term of cash including land and buildings.

CONTINGENT AND LIMITING CONDITIONS

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

1. The appraiser assumes no responsibility for matters of legal nature affecting the property appraised or the title thereto, nor does the appraiser render any opinion as to the title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership.

2. Any sketch or map displayed in the report may show approximate property boundaries and dimensions and is included to assist the reader in visualizing the property. The appraiser has made no survey of the property.

3. The appraiser is not required to give testimony or appear in court because of having made the appraisal with reference to the property in question, unless arrangements have been previously made therefore.

4. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

5. The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors.

6. Information, estimates, and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the appraiser can be assumed by the appraiser.

7. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of the professional appraisal organizations with which the appraiser is affiliated. This report may be subject to confidential peer review for Standards and Ethics compliance.

8. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to the property value, the identity of the appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the appraiser is connected), shall be used for any purposes by anyone but the client specified in the report, the mortgagee or its successors and assigns, mortgage insurers, consultants, professional appraisal organizations, any state or federally approved financial institution, any

department, agency, or instrumentality of the United States or any state or the District of Columbia, without the previous written consent of the appraiser; nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or the other media, without the written consent and approval of the appraiser.

9. On all appraisals, subject to satisfactory completion, repairs or alterations, the appraisal report and value conclusion are contingent upon completion of the improvements in a workmanlike manner.

10. The appraiser does not in any way warrant or represent that the property may or may not be insurable and assumes no responsibility for determining such conditions.

11. The appraiser has examined those flood maps provided by the Federal Emergency Management Agency that may be available for the subject property and has noted whether the appraised property appears to be located within any Special Flood Hazard Area. Since the appraiser is not a surveyor, he makes no guarantees, expressed or implied, regarding this determination.

12. This appraisal conforms to the *Uniform Standards of Professional Appraisal Practice* (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. The appraisal conducted herein is deemed to be a complete appraisal and is presented herein as a Summary Appraisal Report.

13. The appraiser reserves the right to revise this appraisal in view of changing market conditions and any other circumstances which would alter or affect the market value.

14. This appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

ENVIRONMENTAL DISCLAIMER: The value estimated is based on the assumption that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions unless otherwise stated in this report. The appraiser is not an expert in the identification of hazardous substances or detrimental conditions. The appraiser's routine inspection of and inquiries about the subject property did not develop any information that indicated any apparent significant hazardous substances or environmental conditions which would affect the property negatively unless otherwise stated in this report. It is possible that tests and inspections by a qualified hazardous substance and environmental expert would affect the property negatively. It is possible that tests and inspections made by a qualified expert would reveal the existence of hazardous substances or detrimental environmental conditions on or around the subject property that would negatively affect its value.

APPRAISAL CERTIFICATION

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

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

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

3. 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. The estimate of market value in the appraisal report is not based in whole or in part upon the race, color, national origin, religion, gender, or handicap of the present or prospective owners or occupants of the subject property. Likewise, no bias was shown because of the owners or occupants of the properties in the vicinity of the property appraised.

4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

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

6. 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 of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP), adopted by the Appraisal Standards Board of the Appraisal Foundation. This appraisal report also conforms with the requirements of the *Code of Ethics and Standards of Professional Practice* of the American Society of Farm Managers and Rural Appraisers (ASFMRA), of which I am an accredited member; an Accredited Rural Appraiser (ARA). This is a voluntary program of accreditation, and as of the date of this report the appraiser has completed the continuing education program for the ARA designation. This report may be subject to confidential peer review for Standards and Ethics compliance. The appraiser also holds a current license with the state of Montana as a Certified General Appraiser, and as of the date of this report I have completed the mandatory continuing education requirements to maintain my license in the state of Montana.

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

9. All conclusions and opinions concerning the real estate that are set forth in the appraisal report were prepared by the appraiser whose signature appears on the appraisal report. If significant professional assistance was received from any individual in the performance of the appraisal or the preparation of the appraisal report, such individuals are named and any specific tasks performed by them are disclosed within the report. I certify that any individual so named is qualified to perform such tasks. No change of any item in the appraisal report shall be made by anyone other than the appraiser, and the appraiser shall have no responsibility for any such unauthorized change.

10. Having conducted an appraisal assignment presented herein as a summary appraisal report, the appraiser has concluded that the market value of the State Land banking parcels as of November 17, 2010, is as follows.

Parcel #	627	-	"as is" with no legal access	=	$130,000
		-	with hypothetical legal access	=	$259,000
Parcel #	628	-	"as is" with no legal access	=	$104,000
		-	with hypothetical legal access	=	$208,000
Parcel #	629	-	"as is" with no legal access	=	$120,000
		-	with hypothetical legal access	=	$240,000
Parcel #	630	-	"as is" with legal access	=	$288,000

Andrew A. D. Rahn IV

Andrew A. D. Rahn IV, ARA
Rahn Land, Inc.
Accredited Rural Appraiser
Montana Certified General Appraiser

Exhibit #1

FOR DNRC USE ONLY

Maximum amount under this agreement: **$6,500.**

Source of Funds

Fund Name		**Fund No.**
Real Estate Management Bureau		
Subclass	**Org. No.**	**Percent**
02912	**6043-59**	**100%**

Approved

No. 117250
Amendment No TMS
Division /
C.S.D. gw
Legal / THB

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
TRUST LAND MANAGEMENT DIVISION

POTENTIAL LAND BANKING SALE OF FOUR PARCELS IN YELLOWSTONE COUNTY

This Agreement is between the Montana Department of Natural Resources and Conservation (DNRC), and Andrew A.D. Rahn, IV, (Contractor), 87-0690492. The parties to this Agreement, in consideration of the mutual covenants and stipulations set out herein, agree as follows:

Section 1. PURPOSE. The purpose of this Agreement is to establish mutually agreeable terms and conditions, specifications and requirements for, Andrew A.D. Rahn, IV, to provide DNRC with a real estate appraisal, with separate valuations on four separate subject properties in Yellowstone County.

Section 2. TERM. The effective date of this agreement is the last date of signing, or upon compliance with Section 8, Compliance with Workers' Compensation Act, whichever is later, and shall terminate on January 20, 2011 unless terminated earlier pursuant to Section 15, Termination. The appraisal report is to be completed and forwarded to Montana DNRC, Tom Konency, P.O. Box 201601, Helena, MT 59620-1601 by December 20, 2010.

Section 3. LIAISON. All communications by the Contractor to the DNRC concerning this Agreement shall be addressed to Tom Konency, Appraiser, Department of Natural Resources and Conservation, P.O. Box 201601, Helena, Montana 59620-1601. All communications by the DNRC to the Contractor shall be addressed to Andrew A.D. Rahn, IV, P.O. Box 1013, Bozeman, MT, 59771-1013.

Section 4. SCOPE OF WORK. The Contractor shall administer all activities provided for in this Agreement on behalf of the DNRC. The Contractor shall be responsible for providing a credible appraisal, in a summary report format, conducted and prepared in compliance with the current Uniform Standards of Professional Appraisal Practice, for the four parcels in Yellowstone County, as described in Attachment B, Montana DNRC Trust Land Management Division Supplemental Appraisal Instructions.

The appraisals must comply with the instructions in Attachment A, Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program, and all provisions in the body of this contract including the following:

1) Each parcel, as identified, is to be valued separately. However, *when applicable,* the parcels while valued separately can be combined into one report. Each appraisal report will be one document containing the parcel data and the analysis, opinions, and conclusions of value(s) for each parcel. If deemed necessary by the contractor rather than including the specific market data in the appraisal report, a separate addendum may be submitted containing the specific market data as a stand-alone document, which must be reviewed and accepted along with the appraisal, and will be returned to the appraiser for retention in his/her files. The appraiser must submit an electronic copy as well as a printed copy of the appraisal report.

2) The definition of market value is that as defined in 70-30-313 M.C.A.

3) The DNRC will provide access to each state parcel record, as maintained by the land offices, including but not limited to aerial photos, land improvements, current lease data (lease #, name of lessee, AUMs, acres, costs, etc.), property issues, surveys (if any), and production history. The local land office will provide the contact information to the appraiser in order for the appraiser to obtain access to the proponent's property.

Section 5. PAYMENT. In consideration of services rendered pursuant to this Agreement, DNRC agrees to pay the Contractor an amount not to exceed Six Thousand, Five Hundred and No/100 Dollars ($6,500.). The Contractor shall submit an invoice with the submission of the appraisal report to the DNRC for payment for services rendered. Payment will be made within thirty (30) days of delivery of services/goods and receipt of a properly executed invoice, as long as the DNRC's review of said services/goods finds them acceptable. If the work submitted fails to meet Contract specifications set out herein, payment will be withheld for the unsatisfactory work. The Contractor shall, at no additional expense to the State, correct unsatisfactory work before payment is made. If agreed upon work is not brought to acceptable standards, the Contract Agreement will be terminated for unsatisfactory performance and no payment will be made.

Section 6. LEGAL REQUIREMENTS. The Contractor shall comply with all applicable federal, state, and local laws, statutes and ordinances and all applicable rules, regulations, and standards established by DNRC.

Section 7. LAW AND VENUE. Any action at law or suit in equity, or judicial proceeding for the enforcement of this Agreement or any provision thereof shall be instituted only in the courts of the State of Montana. This Agreement shall be governed by the laws of the State of Montana, both as to interpretation and performance. In the event of litigation concerning the terms of this Agreement venue shall be in the First Judicial District in and for the County of Lewis and Clark.

Section 8. COMPLIANCE WITH WORKERS' COMPENSATION ACT
The Contractor is required to supply the State with proof of compliance with the Montana Workers' Compensation Act while performing work for the State of Montana. Neither the Contractor nor its employees are employees of the State. The proof of insurance/exemption must be in the form of workers' compensation insurance, an independent contractor exemption, or documentation of corporate officer status and must be received by the DNRC Procurement Bureau, P.O. Box 201601, Helena, MT 59620-1601, and must be kept current for the entire term of the contract.

CONTRACTS WILL NOT BE ISSUED TO VENDORS WHO FAIL TO PROVIDE THE REQUIRED DOCUMENTATION WITHIN THE ALLOTTED TIME FRAME.

Coverage may be provided through a private carrier or through the State Compensation Insurance Fund (406) 444-6500. An exemption can be requested through the Department of Labor and Industry, Employment Relations Division (406) 444-1446. Corporate officers must provide documentation of their exempt status.

Section 9. EQUAL EMPLOYMENT. Any hiring of employees under this Agreement shall be on the basis of merit and qualifications, and there shall be no discrimination on the basis of race, color, religion, creed, sex, national origin, age, disability, marital status, or political belief. "Qualifications" mean qualifications as are generally related to competent performance of the particular occupational task.

Section 10. PUBLIC INFORMATION AND OWNERSHIP OF PRODUCTS. All information resulting from the project funded under this Agreement shall be made available to the public. Upon completion of this Agreement, all information, reports, data, records, documents, and materials pertaining to this Agreement shall be available to the public. The Contractor shall indemnify and hold harmless DNRC from liability for injury caused by the release of any information, reports, data, records, documents, and materials provided by the Contractor. All copyrights, patents, or other royalty rights resulting from the completion of this Agreement or the information, reports, records, data documents, materials, and end products of this Agreement shall be the sole property of the DNRC.

Section 11. INDEMNITY AND LIABILITY (Hold Harmless/Indemnification): The Contractor agrees to be financially responsible for any audit exception or other financial loss to the State of Montana which occurs due to the negligence, intentional acts, or failure by the Contractor and/or its agents, employees, subcontractor, or representative to comply with the terms of this Agreement. The Contractor agrees to indemnify the state, its officials, agents, and employees, while acting within the scope of their duties and hold harmless from and against all claims, demands, and causes of action of any kind or character, including the cost of defense, arising in favor of the Contractor's employees or third parties on account of bodily or personal injuries, death, or damage to property arising out of services performed, goods or rights to intellectual property provided or omissions of services or in any way resulting from the acts or omission of the Contractor and/or its agents, employees, subcontractors or its representatives under this Agreement, all to the extent of the Contractor's negligence.

Section 12. ASSIGNMENTS, TRANSFERS AND SUBCONTRACTS. There will be no assignment, transfer or subcontracting of this Agreement, nor any interest in this Agreement, unless agreed to by both parties in writing as provided in Section 14, Modifications. This Agreement shall be binding on all successors and assigns of the Contractor, including successors in interest.

Section 13. AUDIT. The Contractor shall maintain reasonable records of its performance under this Agreement. The Contractor agrees that DNRC, the Legislative Auditor, or the Legislative Fiscal Analyst may audit all records, reports, and other documents which the Contractor maintains under or in the course of this Agreement to insure compliance with this Agreement. Such records, reports, and other documents may be audited at any reasonable time. The Agreement may be unilaterally terminated by DNRC upon the Contractor's refusal to comply with this or any other section. In the event the Agreement is terminated for such failure to comply, the Contractor, at the option of DNRC, shall return to DNRC all funds previously awarded the Contractor and all results of the project to date.

Section 14. MODIFICATIONS. This instrument contains the entire Agreement between the parties, and no statement, promises, or inducements made by either party, or agents of either party, which are not contained in this Agreement shall be valid or binding and this Agreement may not be enlarged, modified or altered except as provided in this Agreement. No letter, telegram, or other communication passing between the parties to this Agreement, concerning any matter during the term of this Agreement shall be deemed a part of this Agreement unless it is distinctly stated in such letter, telegram, or communication that it is to constitute part of this Agreement, and such letter, telegram, or communication is attached as an appendix to this Agreement and is signed by the authorized representative of each of the parties to this Agreement. If executed properly under this section, modifications of this Agreement do not need independent consideration to be legally enforceable.

Section 15. TERMINATION. Upon breach of any of the terms and conditions of this Agreement by the Contractor, DNRC may terminate this Agreement and have any and all remedies at law or equity. In the event of such breach and termination, DNRC may further, at its option, take over the work and services and prosecute the same to completion by contract or otherwise and the Contractor shall be liable to DNRC for any excess cost occasioned to DNRC thereby. The Contractor may cancel this Agreement upon DNRC's mutual written agreement and DNRC may postpone or cancel this Agreement if subsequent funding is not available.

Section 16. WAIVER. A waiver of any particular provision of this Agreement by DNRC shall not be construed as a waiver of any other provision, nor shall any such waiver otherwise preclude DNRC from insisting on strict compliance with this Agreement in other circumstances.

Section 17. UNAVAILABILITY OF FUNDING. This contract is subject to the availability of legislative appropriations or funding. DNRC reserves the right, in its sole discretion, to terminate or reduce the scope of this contract should it experience any reduction in legislative appropriations".

Section 18. CONTENTS. This Agreement consists of: Pages 1-5; Attachment A, Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program, 2 pages, and; Attachment B, Montana DNRC Trust Land Management Division Supplemental Appraisal Instructions, 1 page.

Section 19. AGREEMENT RENEWAL. This Agreement may, upon mutual agreement between the parties and according to the terms of the existing contract, be extended one thirty-day interval and no more.

Section 20. INSURANCE REQUIREMENTS. The contractor shall purchase and maintain Occurrence coverage with combined single limits for bodily injury, personal injury, and property damage of $300,000.00 per occurrence and $600,000.00 aggregate per year to cover such claims as may be caused by any act, omission, or negligence of the contractor or its officers, agents, representatives, assigns or subcontractors.

Additional Insured Status: The State, its officers, officials, employees, and volunteers are to be covered as additional insureds; for liability arising out of activities performed by or on behalf of the contractor, including the insured's general supervision of the contractor; products and completed operations; premises owned, leased, occupied, or used.

Primary Insurance: The contractor's insurance coverage shall be primary insurance as respect to the State, its officers, officials, employees, and volunteers and shall apply separately to each project or location.

Any insurance or self-insurance maintained by the State, its officers, officials, employees or volunteers shall be excess of the contractor's insurance and shall not contribute with it.

Deductibles and Self-Insured Retentions: Any deductible or self-insured retention must be declared to and approved by the state agency. At the request of the agency either: 1) The insured shall reduce or eliminate such deductibles or self-insured retentions as respect to the State, its officers, officials, employees, and volunteers, or; 2) The contractor shall procure a bond guaranteeing payment of losses and related investigations, claims administration, and defense expenses.

Certificate of Insurance/Endorsements: A certificate of insurance, indicating compliance with the required coverages and referencing Contract # **117250,** must be filed with the DNRC's liaison and attached to this agreement prior to signature by the DNRC. The Contractor must notify the State immediately, of any material change in insurance coverage, such as changes in limits, coverages, change in status of policy, etc.

11/19/10

Date

Contractor's Authorized Representative

11/29/10

Date

Department of Natural Resources and Conservation

ATTACHMENT A

Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program

CLIENT, INTENDED USERS, PURPOSE AND INTENDED USE:

The clients and intended users are the State of Montana, the Montana Board of Land Commissioners 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 and is intended for use in the decision making process concerning the potential sale of said subject property.

DEFINITIONS:

Current fair market value. (MCA 70-30-313) Current fair market value is the price that would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the following factors:

(1) the highest and best reasonably available use and its value for such use, provided current use may not be presumed to be the highest and best use;
(2) the machinery, equipment, and fixtures forming part of the real estate taken; and
(3) any other relevant factors as to which evidence is offered.

Highest and best use. The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

PROPERTY RIGHTS APPRAISED:

State of Montana lands are always to be appraised as if they are in private ownership and could be sold on the open market and are to be appraised in Fee Simple interest. For analysis purposes, properties that have leases or licenses on them are to be appraised with the Hypothetical Condition the leases/licenses do not exist.

EFFECTIVE DATE OF VALUATION AND DATE OF INSPECTION:

The latest date of inspection by the appraiser will be the effective date of the valuation.

SUBJECT PROPERTY DESCRIPTION & CHARACTERISTICS:

The legal descriptions and other characteristics of the state's property that are known by the state will be provided to the appraiser. However, the appraiser should verify, as best as possible, any information provided. Further, should any adverse conditions be found by the appraiser in the course of inspecting the property and neighborhood, or through researching information about the property, neighborhood and market, those conditions shall be communicated to the clients and may change the scope of work required.

ASSIGNMENT CONDITIONS:

The appraiser must be a Montana certified general appraiser, and be competent to appraise the subject property. The appraisal is to conform to the latest edition of USPAP, and the opinion of value must be credible. The appraiser is to physically inspect the subject property at a level that will allow the appraiser to render a credible opinion of value about the property. For those properties which consist of more than one section, the appraiser must at least view each section. The appraiser must have knowledge of the comparables through either personal inspection or with use of sources the appraiser deems reliable, and must have at least viewed the comparables.

The appraiser will consider the highest and best use of the subject properties. (Note: it may be possible that because of the characteristics of a subject property, or market, there may be different highest and best uses for different components of the property. Again, that will depend on the individual characteristics of the subject property and correlating market. The appraiser must look at what a typical buyer for the property would consider.) Soil classification, surrounding land uses, and the possibility of converting grazing ground to cropland should be considered.

Along with using the sales comparison approach to value in this appraisal, (using comparable sales of like properties in the subject's market or similar markets), the appraiser will also consider the cost and income approaches to value. The appraiser will use those approaches, as applicable, in order to provide a credible opinion of value. Any approaches not used are to be noted, along with a reasonable explanation as to why the approach or approaches were not applicable. The appraisal will be in a Summary Report format, that is, it will describe adequately, the information analyzed, appraisal methods and techniques employed, and reasoning that support the analyses, opinions and conclusions. All hypothetical conditions and extraordinary assumptions must be noted.

Landlocked parcels, (parcels with no legal access), will be appraised with the hypothetical condition of having legal access and should be appraised as the property currently exists, which is without legal access, ("as is"). If evidence through reasonably recent sales of comparable properties is available in the subject's market or similar markets, provide the value of the subject property, as it currently exists without access. Include details of an adjustment in appraised value due to lack of access. If no evidence through reasonably recent sales of comparable properties is found in the subject's market or similar markets, and thus no "as is" value can be properly supported, then state such in the report. As with lack of legal access, adjustments for additional items such as lack of land improvements, etc. will be supported by analysis of the pertinent subject market data through sales pairings or other analytical methodology. In moderately to rapidly changing markets, historic information may not be as relevant as more current market information. (Note: Access typically consists of two parts; legal access and physical accessibility. The above references to access, hypothetical and "as is" are in regards to legal access. The physical accessibility to the subject parcel is to be appraised as it currently exists.) Legally accessible state lands are appraised as accessible only.

The appraisal on the state's lands must include state-owned improvements in the valuation, but exclude lessee-owned or licensee-owned improvements in the valuation. All appraisals are to describe the market value trends, and provide a rate of change, for the markets of each subject property. Comparables sales used should preferably have sales dates within one year of the appraisal and should not be over three years old. The comparable sales must be in reasonable proximity to the subject, within the same county or a neighboring county.

ATTACHMENT B

MONTANA DNRC TRUST LAND MANAGEMENT DIVISION

Supplemental Appraisal Instructions

This Scope of Work and Supplemental Appraisal Instructions are to be included in the appraiser's addendum.

SUBJECT PROPERTY:

Sale #	# of Acres	Legal All in Yellowstone County	Lessee
627	640	All, Section 36 T1N R27E	Patrick and Florence Goggins
628	640	All, Section 16 T3N R28E	Lloyd Shelhamer, Jr
629	640	All, Section 36 T4N R32E	Kemph Land and Livestock Co.
630	640	All, Section 36 T4N R33E	Kemph Land and Livestock Co.

Area Office Contact Information for Yellowstone County:
Jeff Bollman - Southern Land Office Area Planner
Airport Industrial Park
1371 Rimtop Drive
Billings, MT 59105
Phone: 406/247-4400
Fax: 406/247-4410
Direct Line: 406/247-4404
Or:
Richard Moore - Southern Land Office Area Manager
Direct Line: 406/247-4401

Exhibit #2

Andrew A. D. Rahn IV, ARA
Rahn Land Inc.
Accredited Rural Appraiser
Montana Certified General Appraiser
GIS Mapping Specialist

WORK EXPERIENCE

Owner/President of Rahn Land, Inc. (formerly Dirt First, Inc.), 2003 to present
Provides appraisal, real estate valuation consulting, and GIS mapping services.

Fee Appraiser and Consultant, 2005 to present
Provides professional and qualified real property appraisals and real estate valuation consulting throughout Montana. Range of assignment types includes estate planning and settlement, acquisitions, marketing, land investment, conservation easements, financing, loan servicing, and a variety of other valuation assignment types. Makes extensive use of Geographic Information Systems (GIS) to analyze and present valuation and property information. Facilitates the enhanced graphical analysis of property and market data by geographically enabling an extensive database of sales and land valuation data. Continues to expand mapping services and develop further applications of mapping technology to the valuation of rural property. Specialized valuation experience includes the appraisal of conservation easements, partial or fraction interests, and compliant Uniform Appraisal Standards for Federal Land Acquisitions otherwise known as "Yellow Book" appraisals. Clients include private land owners, accountants, attorneys, banks, investment firms, conservation organizations, and county, state, and federal agencies.

Professional appraisal and consulting experience includes:

- livestock ranches
- irrigated and dryland farms
- recreational properties
- transitional properties
- rural residential tracts
- development properties
- conservation easements
- fractional/minority interests
- trend analysis
- livestock
- machinery
- irrigation equipment
- structural improvements
- specialized equestrian facilities
- guest ranches
- super adequacy & over-improvement analysis
- access rights
- water, timber, and hunting rights
- rental rates
- lease income analysis

NORMAN C. WHEELER AND ASSOCIATES. 2002 to 2009
Appraiser, GIS Mapping Specialist, and Real Estate Sales Agent
Developed an extensive GIS mapping system providing custom mapping and sophisticated mapping capability to the valuation and appraisal of rural property. Began training to become a Montana Certified General Appraiser in 2003 and received license in 2006. Acquired real estate license in 2005. Pursued and received the professional designation as an Accredited Rural Appraiser (ARA) through the American Society of Farm Managers and Rural Appraisers (ASFMRA) in 2008. Coordinated the development and design of a custom sales database with full integration into a GIS mapping system. Managed information technology (IT) for the firm.

P.O. Box 1013, Bozeman, Montana 59771-1013
406-580-6882
appraisal@andyrahn.com

PROFESSIONAL AFFILIATIONS

- American Society of Farm Managers and Rural Appraisers, Accredited Member
- Montana Chapter of the American Society of Farm Managers and Rural Appraisers
- Montana Association of Geographic Information Professionals (MAGIP)
- Certified General Appraiser - Montana #776
- Licensed Real Estate Sales Associate - Montana - License # 14990
- Gallatin Association of Realtors
- Billings Association of Realtors
- Montana Association of Realtors
- National Association of Realtors

APPRAISAL COURSES & SEMINARS COMPLETED

- Fundamentals of Rural Appraisal - 2003
- Appraising Rural Residential Properties - 2004
- Principles of Rural Appraisal - 2004
- Advanced Rural Appraisal - 2005
- Appraising Agricultural Land in Transition - 2006
- Montana Access Laws & Conservation Easements - 2006
- *Uniform Standards of Professional Appraisal Practice* (USPAP) - 2006
- Report Writing - 2006
- Income Capitalization - 2006
- American Society of Farm Managers and Rural Appraisers (ASFMRA) Ethics - 2007
- Eminent Domain - 2007
- Highest and Best Use - 2007
- Partial Interest Valuation - Undivided - 2007
- Partial Interest Valuation - Divided - 2007
- Valuation of Conservation Easements - 2008
- Subdivision Analysis: Testing Legal and Physical Possibilities - 2008
- Advanced Approaches to Value for Rural Appraisal - 2008
- Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) - "Yellow Book" Seminar - 2008
- Wind Development in Montana: Leases, Options, and Update - 2009
- Cost Approach – 2010
- Montana Ag Lenders Range School - 2010

EDUCATION

<u>Montana State University, Bozeman, MT. December 2001</u>
B.S. Land Resource Sciences - Land Resources Analysis and Management Option
Soil Science minor

Ranch Internship - 2001: Special projects included GIS mapping and nutrient and feed analysis in relation to vegetation forage cycles and animal life cycles. Experience comprised all aspects of livestock production including calving, branding, horsemanship, hay production, pasture management, range monitoring, marketing, fencing, equipment maintenance, irrigation, etc…

OTHER EXPERIENCE

<u>CHICO HOT SPRINGS RESORT, Emigrant Montana. 1997 to 1999</u>
Head Gardener and Horticulturalist
Developed and managed produce and ornamental gardens for utilization in the resort's award-winning restaurant and for the enjoyment of guests. Designed and constructed a greenhouse utilizing geothermal waste water from the hot springs pool enabling year-round growing of produce. Networked with other geothermal greenhouse professionals across the state and was awarded grant funding for establishing and maintaining that network.

<u>ARCATA EDUCATIONAL FARM, Arcata California. 1991 to 1997</u>
Production Manager and Education Coordinator
Co-developed and managed an educational farm in conjunction with Humboldt State University, California. Secured grant funding and developed a site where studies and instruction for graduate and undergraduate students from Humboldt State University could take place. Additional beneficiaries included community entities such as the Arcata Public Schools, the City of Arcata, California Conservation Corps, University of California Extension Service, job training agencies, at risk youth programs, and Hmong refuge farmers. The high level of diversity and unique collaboration earned the project many awards and recognition from entities such as the University of California. Collaborating on the creation and development of the educational aspect of the farm, and developed and managed the market produce division of the project, creating an income producing and fully operational market produce farm that serviced the community of Arcata, California.

COMMUNITY ACTIVITIES

<u>BOZEMAN COMMUNITY CO-OP, Bozeman, MT</u>
Member Board of Directors, 2008 to present

<u>MONTANA MEN'S FOUNDATION</u>
Member Board of Directors, 2006 to present

<u>ALTERNATIVE ENERGY RESOURCES ORGANIZATION (AERO)</u>
Member Board of Directors, 1997 to 1999
Member, 1992 to present

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