APPRAISAL
OF THE
Land Bank Parcel
Sale #685
FLATHEAD COUNTY, MONTANA

For
Mr. John Grimm
State of Montana
P.O. Box 201601
Helena, MT 59620-1601

Prepared by
DAVID J. HEINE, M.A., ARA
Accredited Rural Appraiser
MT Certified General Real Estate Appraiser

Effective Date

August 22, 2012

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September 10, 2012

Mr. John Grimm
State of Montana
P.O. Box 201601
Helena, MT 59620-1601

Dear Mr. Grimm:

In accordance with your request, I have prepared and now present the attached appraisal of the land banking property west of Whitefish. This appraisal analysis is communicated in a summary report format.

The purpose of this appraisal is to estimate the market value of ownership rights associated with the site. Based upon sale data, market information and the conditions outlined in this report, it is my opinion that applicable market values as of August 22, 2012 are as follows:

Value of Subject Property $2,900,000

This report contains introductory information, highest and best use analysis, valuation analysis and supplementary data in the addendum.

This report is based upon an extraordinary assumption that the subject has full legal access. If this assumption is found to be false, it could alter my opinion and conclusions.

I respectfully refer you to the data and information in the following report from which the conclusions were derived. If you have any questions, please contact me.

Sincerely,

David J. Heine, M.A., ARA
Accredited Rural Appraiser
MT Certified General Appraiser
#REA-REG-LIC-149
Broker

I. INTRODUCTION

A. Authorization of the Appraisal

The appraiser was authorized on August 7, 2012 by Mr. John Grimm of the Department of Natural Resources and Conservation to appraise the subject property. The purpose of this appraisal is to estimate the value of the fee simple ownership rights associated with the subject property. This appraisal will be based on the application of accepted USPAP appraisal standards. This is communicated in a summary report format.

B. Purpose of the Appraisal

It is the appraiser's understanding that the purpose of this appraisal is to estimate the market value of the subject property as detailed in this report. As stated in the limiting conditions of this report, value as assigned in this report is not contingent on any disclosed values.

The subject property was inspected by David J. Heine on August 22, 2012. Mr. Paraic Neibergs, an appraiser from Missoula, was along on the inspection. Brian Manning from the Department of Natural Resources provided the vehicle, assisted in showing us the property and providing useful insights regarding the property.

The effective date is on August 22, 2012.

C. Scope of the Appraisal

Background property information was gathered from several sources that includes a personal interview with Brian Manning, Unit Manager for the Stillwater Forest. I also gathered data from local governmental sources such as the County Assessor, the County Clerk and Recorder, and the Cadastral website (an on-line information source). Extensive research with local brokers, appraisers and multiple listing services has been occurring on an on-going basis since the late 1980's.

For this assignment, I inspected aerial photos, topographical maps, and an on-site inspection of a portion of the property. I inspected it enough that I feel comfortable with the lay of the land and the overall appeal of the property. We were also provided very useful sales data from a major market participant in the area. This complimented sales data that I had in my database.

I researched all my sources for recent sales and then went back to 2000 to thoroughly re-research our database. I then compiled and sorted through data in an attempt to lay out a logical method of analysis for the subject property.

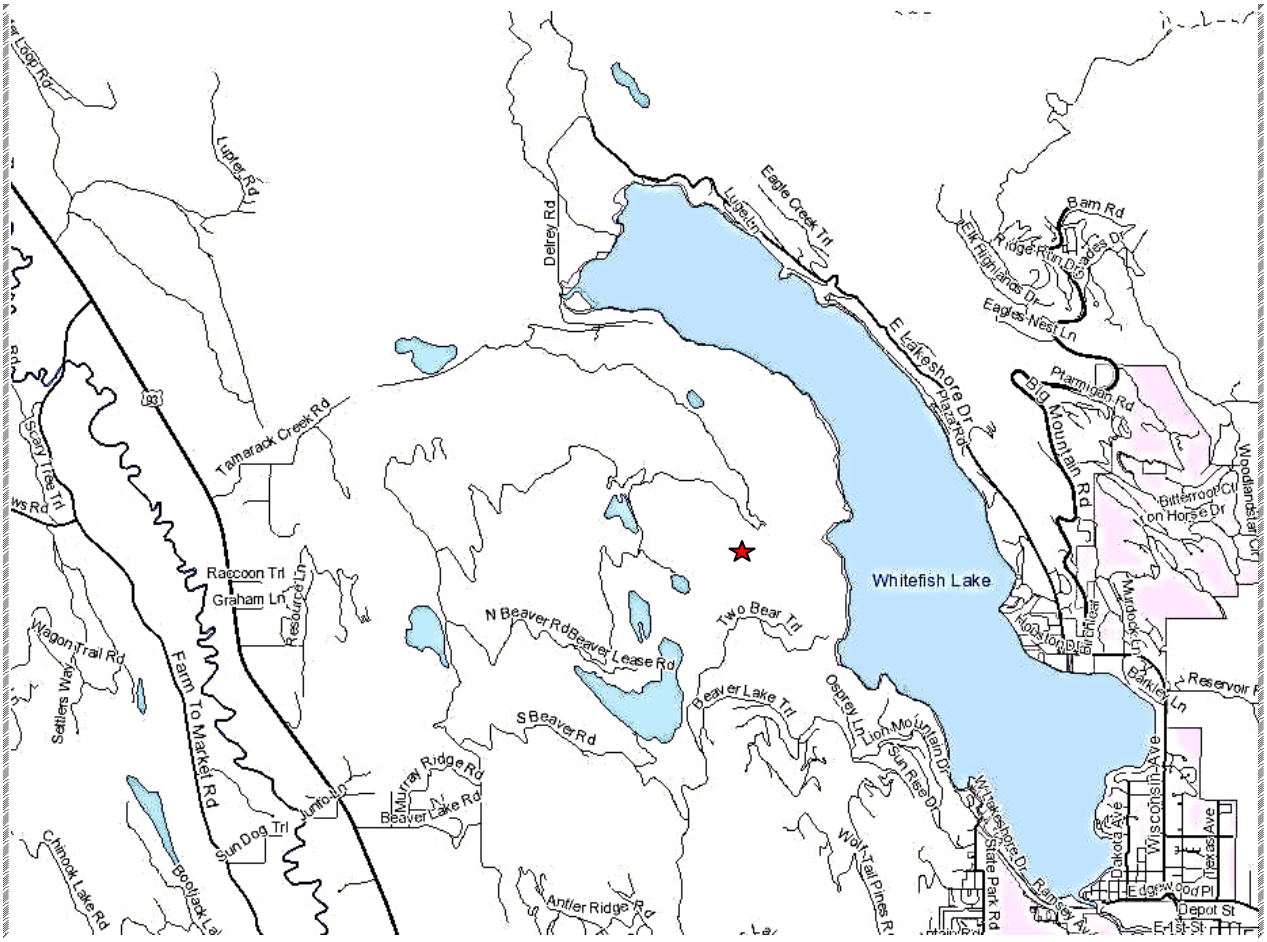
The local and surrounding real estate market has personally been researched since 1988 for comparable sales and comparable income and lease data. The researched area is

generally defined as Northwestern Montana and, more specifically, as the Whitefish area. This research yielded a sufficient quantity of sales data, which shall be utilized throughout the analysis.

The sales and market area has been inspected over the years to the highest extent possible without violating trespass laws or offending land owners who are very privacy oriented in this market. In accordance with Standards 1 and 2 of the Uniform Standards of Professional Practice (USPAP), a summary report based upon this analysis was performed.

This report is the result of many years of research in the subject's competitive market. This appraisal is based on a thorough knowledge of the subject property and the subject property's market. We have many years of experience in brokerage, valuation, hunting and recreating on land similar to the subject property. The Montana real estate market is constantly evolving and I reserve the right to reach new value conclusions if new market data or property information warrants a change. Please remember that Montana is a non-disclosure state. All prices are felt to be accurate, but sometimes we do not receive a written verification of the actual price.

LOCATION MAP



D. Summary, Salient Points and Conclusions

Client:	State of Montana, Montana Board of Land Commissioners, and Department of Natural Resources and Conservation.
Intended User(s):	State of Montana, Montana Board of Land Commissioners, and Department of Natural Resources and Conservation.
Appraisal Type:	Mid-Range Scope
Report Format:	Summary
Legal Description:	East ½, Northwest ¼, East ½ Southwest ¼, North ½ Northwest ¼ Southwest ¼: Section 16, T31N R22W containing 580 acres.
Property Interest Under Consideration:	Fee simple.
Purpose:	To provide the clients with a creditable opinion of the current fair market value of the subject property.
Use:	This report is intended to be used by the clients in a decision making process concerning the potential sale of the subject property. Since this report is in a summary report format, it should not be distributed to uninformed users as they may be misled or confused. I believe that my clients and the intended users of this report are informed readers; therefore, the report is written that way.
Value Considered:	Market Value.
Effective Date:	August 22, 2012
Report Date:	September 3, 2012
Current Use of Property:	Timber production
Highest and Best Use:	Long term investment
Approaches to Value Utilized:	Sales
Appraiser/Consultant's Role:	My role in this assignment is to provide unbiased market value opinions relating to the subject property.

E. Ownership and Rights Appraised

The appraisal is of the fee simple ownership rights associated with the described real estate. The owners of record are State of Montana Administered by the Department of Natural Resources and Conservation. Sub-surface mineral rights are not appraised nor has the title to such rights been researched or ascertained. Mineral rights do not appear to have a measurable effect on land in this market. Value to be assigned is market value.

F. Ownership History and Offering Information

The property has not been offered for sale. It has been in the state's ownership for many years.

G. Definition of 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.

Estimated value will be in terms of cash.

H. Prior Services Provided on Subject (3 years)

I have not completed any prior services on the subject property.

I. Distribution of Market Value

Value as assigned in this report applies to the real estate as described and is based on unencumbered value. It does not consider the value of growing crops or personal property. As noted herein, a separate contributory value analysis of any existing mineral rights, timber rights or water rights is not made. These property rights are considered as part of the overall values as assigned the real estate, and their values are reflected by the land values exhibited in the market. In other words, water rights and mineral rights, whether existing or not, are a part of the assigned land values overall.

Inherent in the land values assigned is basic land improvements such as roadways and any management or fire abatement practices that have occurred on the property.

J. Legal Description and Acreages

Sale #685 located in the East ½, Northwest ¼, East ½ Southwest ¼, North ½ Northwest ¼ Southwest ¼: Section 16, T31N R22W containing 580 acres.

II SITE DATA

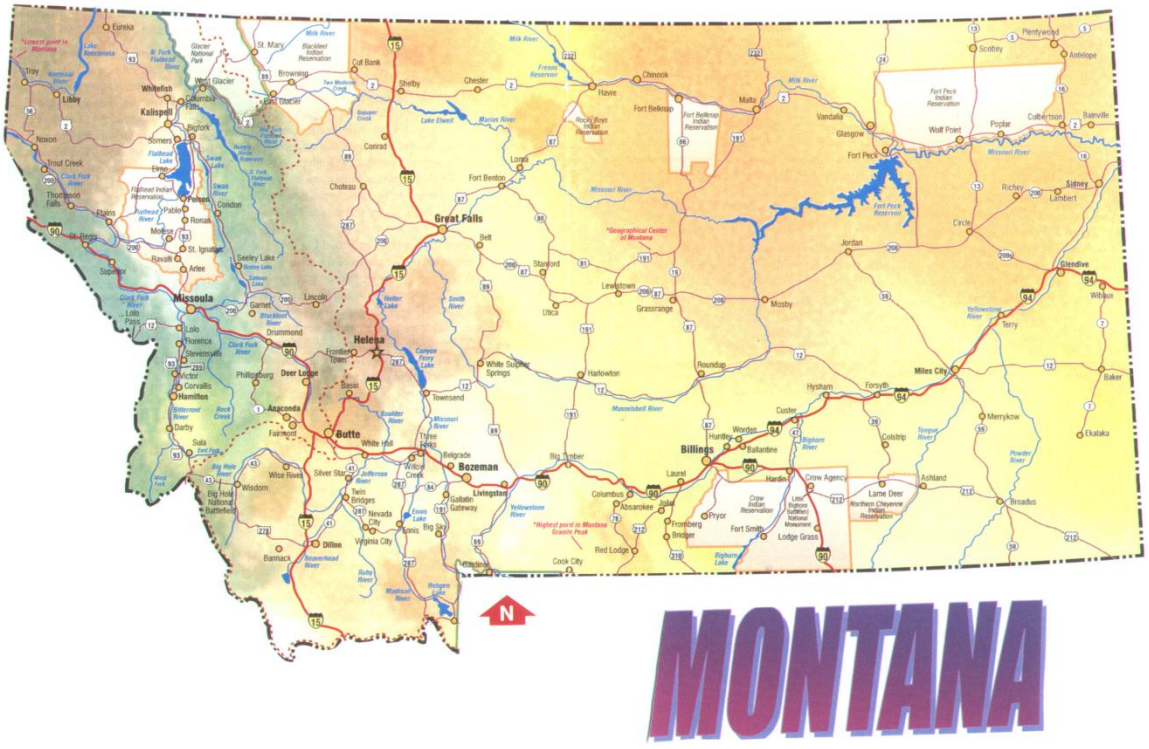
A. Location

The subject property is located approximately three miles northwest of Whitefish.

B. State Data

Montana is nicknamed Big Sky Country. It is the nation's fourth largest state, after Alaska, Texas, and California. Landmarks of interest include the Continental Divide, which divides Montana into two pieces, each one larger than several other states. Major rivers east of the Divide include the Madison, Jefferson, Missouri, Gallatin and Yellowstone; and west of the Divide, the Clark Fork, Blackfoot, Bitterroot, Flathead and Kootenai. Flathead Lake is the largest freshwater lake west of the Mississippi. Troy, in Lincoln County is the lowest point in Montana and Granite Peak is the highest point. Helena is the state capital. Stevensville was Montana's first permanent white settlement, established in 1841. Billings is the state's largest city and is known for its oil, wheat and cattle industries. The word "Montana" is Spanish, and means "mountain."

In 1905, Montana adopted as its official flag, the flag of the First Regiment of Montana Infantry, which fought with distinction in the Philippines.

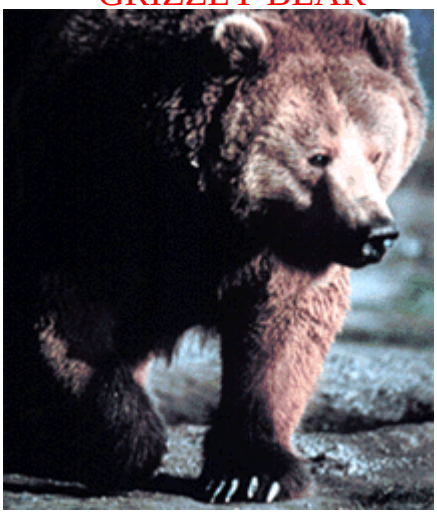


Major industries: Agricultural **crops,** including wheat, barley, corn, hay, cherries and sugar beets; **livestock**, including beef and dairy cattle, hogs an sheep; **mining**, including coal, copper, gold and silver; **timber**, including lumber plywood, log home manufacturing, pull paper, particleboard and medium density fiberboard; **tourism** including hunting, fishing, hiking, golf, boating, touring, skiing, snowmobiling; **government,** including several state and federal land and resource management agencies.

State motto	State tree	State flower	State bird
"Oro y Plata" Spanish for gold & silver	Ponderosa Pine	Bitterroot There are more than 2,000 plant species in Montana.	Western Meadowlark
State animal	**State fish**	**State grass**	**State rock**
Grizzly Bear	Cutthroat Trout	Bluebunch Wheatgrass	Agate and Sapphire Gemstones

Threatened and endangered species: Seven Montana animals are classified as **endangered,** and five animals and plants are classified as **threatened.**

GRIZZLY BEAR



MEADOWLARK

CUTTHROAT TROUT

Endangered species

Black-Footed Ferret	-- the rarest mammal in North America, there are perhaps eight in Montana
Whooping Crane	-- two were seen near Fort Peck in 1994
American Peregrine Falcon	-- 16 nesting pairs were counted in Montana in 1995
Gray Wolf	-- the subject of a controversial recovery plan. Hundreds are known to live in northwest Montana and they are now considered a recovered game animal.
Least Tern	-- (Interior population), once inhabited every major river system in the midwest. Montana is on the western edge of its range. In 1994, 51 breeding pairs in central and eastern Montana produced 81 young
White Sturgeon	-- (Kootenai River population), a victim of hydroelectric development. A single adult was observed in the Kootenai in 1990 and 1992. The Kootenai Tribe of Idaho breeds them in captivity, and to date 205 juveniles from wild stock have been released into the Kootenai.
Pallid Sturgeon	-- Its historic range included the Mississippi, Missouri, Platte, Kansas and Yellowstone rivers. River development is thought to be the main reason for their decline. In Montana less than 100 survive in the Missouri River above Fort Peck Dam.

- **Threatened species**

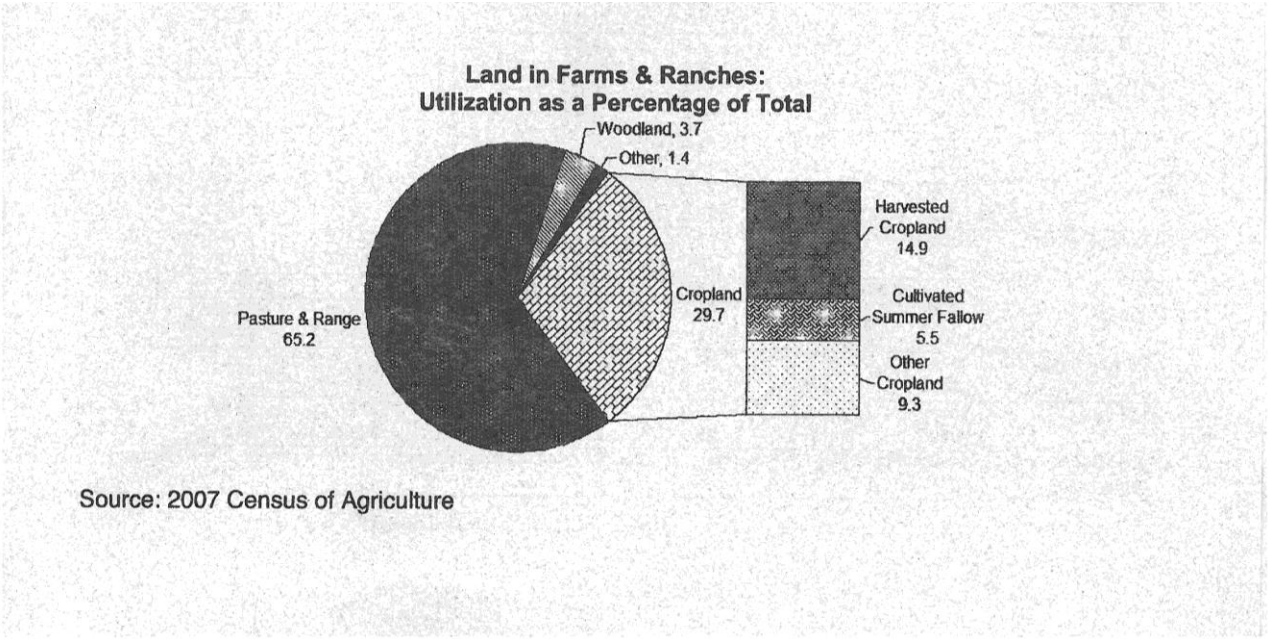
Bald Eagle	-- between 166 and 200 breeding pairs live in Montana, well above the down-listing goal of 99 pairs established by the U.S. Fish & Wildlife Service in its 1986 recovery plan.
Piping Plover	-- a two-ounce shore bird, there are 62 breeding pairs in Montana. They live mainly in the Medicine Lake National Wildlife Refuge, and prefer un-vegetated sand-pebble areas.
Grizzly Bear	-- perhaps 1,000 live in Montana, more than are found in any other state in the lower 48. About 350 live in northwest Montana, mainly in Glacier National Park, and another 250 live in and around Yellowstone National Park in southwest Montana.
Water Howellia	-- a small aquatic plant found in 101 wetlands in Washington, Idaho and Montana. In Montana, they grow mainly in the Swan Valley, in the Nature Conservancy's Oxbow Preserve and on land owned by Plum Creek Timber Company.
Ute Ladies'-Tresses	-- a member of the orchid family that lives mainly in Colorado and Utah. A single population, consisting of less than 100 flowering stems, was found in a Jefferson County wetland in 1994.

Montana became a territory in May 26, 1864, under the Organic Act. It became a state in November 8, 1889. The state constitution is prefaced by the Magna Carta, the Declaration of Independence, the Articles of Confederation, the U.S. Constitution, and Organic and Enabling Acts.

Montana spans 147,138 square miles, making it the fourth largest state after Alaska, Texas and California. It is about 570 miles, east to west, by about 315 miles, north to south. The entire Northeast - Maine, New York, Vermont, New Hampshire, Connecticut, Massachusetts and Rhode Island - would fit inside Montana's borders, with enough room left over for a second State of Maine.

The Population is more than 905,316, according to the 2000 census bureau estimate; about half the population of metropolitan Seattle, slightly more than 6.2 people per square mile.

The Total land area is 93,134,579 acres. Farms and Ranches cover 61,388,467 total acres. Below is a chart of land utilization. Two-thirds of the state lies east of the Continental Divide, the main spine of the Rockies, which meanders in a broken pattern from Glacier National Park, in northwest Montana, southeast through Yellowstone National Park and on to Wyoming. Eastern Montana is characterized by a network of valleys and isolated groups of mountains. The western third of the state is more mountainous, and contains most of the state's forests. Its mountain ranges lie parallel on a northwest-southeast axis. The total water area is 1,100,000 acres.



The largest lake is Flathead, in northwest Montana, the largest freshwater lake west of the Mississippi, about 30 miles long and 10 miles wide, formed by glaciers; average depth, 220 feet; fed primarily by the three forks of the Flathead River.

The two major rivers are the Yellowstone and Missouri. They are the major rivers east of the Continental Divide. The Missouri is the larger, formed by the confluence of the Madison, Jefferson and Gallatin rivers, at Three Forks, Montana. Rivers east of the divide eventually reach the Gulf of Mexico, via the Missouri and Mississippi rivers, or Canada's Hudson Bay, via the St. Mary and Saskatchewan rivers. West of the Continental Divide, the Clark Fork of the Columbia is the major river. From its beginnings in the Butte-Anaconda area, it runs northwest to Clark Fork, Idaho, where it flows into Lake Pend Oreille, en route to the Columbia River and, eventually, the Pacific Ocean. Major Clark Fork tributaries are the Blackfoot, Bitterroot and Flathead rivers.

Granite Peak, our highest point, near the southern boundary with Wyoming, has an elevation of 12,799 feet. Almost half the state rises about 5,000 feet. The mean elevation is 3,400 feet.

Troy, our lowest point, is a former logging town near the Idaho-Montana border in the northwest corner of the state, 1,892 feet above sea level.

The highest recorded temperature for Montana was 117 degrees in July 20, 1893, was recorded at Glendive, a farming community in eastern Montana.

The lowest recorded temperature was minus 70 degrees in the winter of 1954, at Rogers Pass on the Continental Divide west of Helena. This was the lowest temperature ever recorded in the contiguous United States. Mean annual temperature, 42.6 degrees.

The average annual precipitation is 15.48 inches. Rain and snowfall are heaviest west of the Continental Divide. The mountains block the eastward advance of moisture-laden Pacific Ocean weather patterns. Snowfall averages 120 inches in timber-rich Mineral and Sanders counties, on the Idaho-Montana border.

Evidence of Montana's turbulent geologic past can be seen across the state, but is most visible in the rocky reaches of Glacier National Park in northwest Montana. Western Montana's mountains were formed about 60 million years ago by massive shifts in the earth's surface. Ancient seas rose and fell. At various times, the entire state was at the bottom of an arm of the Pacific Ocean. Great swamps formed east of the Divide, where today vast coal and oil deposits are found. As the seas receded, dinosaurs roamed the plains east of the Rockies. Here, paleontologists have unearthed some of the world's most important, most impressive fossils. During the Pleistocene era, beginning about two million years ago, four great ice sheets formed in Canada moved across northern Montana east of the Divide. By the sheer force of their 10,000-foot thickness, they leveled the plains, filled in valleys and created new river and stream courses. West of the Divide, piedmont glaciers carved out many lakebeds, including Flathead Lake and prehistoric Lake Missoula.

Some 18,000 years ago, all of western Montana's valleys were flooded to a depth of about 800 feet by 30,000 square mile Lake Missoula, a prehistoric invention of receding glaciers. The lake was held in place by an ice jam that blocked a narrow canyon near present-day Cabinet Gorge Dam and Heron, Montana. When the jam burst, the lake drained in a matter of days in what scientists believe was one of the two greatest floods in geologic history. Near Richland, Washington floodwaters were 800 feet deep, and at Portland, Oregon, 400 feet deep. The flood is thought to have carved the Columbia River channel, as it exists today. In eastern Montana, glaciers also blocked the Missouri River, which then drained into the Arctic Ocean north of Hudson Bay, forcing the river to cut a new channel east and south to the Mississippi.

Recent archeological discoveries indicate Asiatic peoples crossed the Bering Sea 15,000 to 20,000 years ago on a land bridge that connected Russia to Alaska. Eventually, they worked their way south into eastern Montana, and on into the American Southwest, probably in pursuit of large Pleistocene mammals and early bison. Evidence found in the Yellowstone River Valley, and dated to 13,000 years ago, suggests they lived in groups of a dozen or more, hunted with spears and moved 50 to 100 times a year within a hundred-mile range.

In 1742, the French trader, Pierre Gaultier, Sieur de Varennes de la Verendrye, sent his sons on an expedition across the Dakota plains. In January 1743, they reported seeing "shining mountains" west of their advance. It is thought they were looking at the Big Horn Mountains of Wyoming and southern Montana. They were the last white men to see Montana until the spring of 1805, when the Lewis and Clark expedition reached the state. Trappers, traders, and prospectors followed, and later, railroaders, farmers, ranchers and lumbermen. When the first official Montana census was taken in 1870, about 20,500 non-Indians were counted. Between 1880 and 1890, the state's population increased 365 percent. By 1910, it stood at 376,053, and by 1920 it had risen to 548,889, but a 1918 state publication boasted the population was about 769,000, only a few thousand less than the 1990 census.

The first permanent Euro-American settlement in Montana was established at Stevensville in 1841. The state's first sawmill was constructed in Stevensville.

As you can see, Montana is a state undergoing change. What was once a natural resource driven state is undergoing change as its popularity grows and non-residents invest in land and begin to influence politics.

C. Regional Data

Flathead County is located in northwestern Montana at a latitude between 48 and 49 north and a longitude between 114 and 115 west. The county is bordered on the north by Canada; on the east by the Continental Divide; on the south by Lake, Sanders, Missoula, Powell, Lewis and Clark Counties; and on the west by Lincoln County. The county contains 5,098 square miles of land. This is 3,262,720 acres. Much of the land mass (94%) for the Flathead Valley is National or State Forest Land, Wilderness,

Agricultural, and Corporate Timber Land, thus restricting development to the remaining 6% of the area.

Within the county, there are three incorporated cities. Kalispell, the largest, is the county seat and the retail trade center serving Northwestern Montana. Whitefish is primarily associated with recreation and tourism because of its proximity to Whitefish Lake and the Big Mountain Ski Resort. Columbia Falls has been the industrial hub of the valley with Plum Creek Timber Company, Stoltze Land and Lumber Company and the Columbia Falls Aluminum Reduction Plant (currently shut down).

Several small-unincorporated communities are located along the main highways. Bigfork, Somers, and Lakeside are on the north shore of Flathead Lake; Olney is located north on U.S. Highway 93; Kila and Marion are located west on U.S. Highway 2: and Hungry Horse, Coram, Martin City, West Glacier, and Essex are located east on U.S. Highway 2.

Population. Available statistics indicate that Flathead County is experiencing a change in the rate at which its population is growing. Census bureau information for the three major cities in Flathead County from 1950 to 2007 appears on the following table.

TABLE OF URBAN POPULATION BY COMMUNITY

Numerical and percentage changes

Year	Kalispell	% Change	Whitefish	% Change	Columbia Falls	% Change
1950	9,737		2,965		1,232	
1960	10,151	4.1%	3,268	9.3%	2,132	42.2%
1970	10,526	3.6%	3,349	2.4%	2,652	19.6%
1980	10,648	1.1%	3,703	9.6%	3,112	14.8%
1990	11,917	10.6%	4,368	15.2%	2,921	-6.5%
2000	14,223	16.2%	5,032	13.2%	3,645	19.9%
2005	18,480	23.0%	7,113	29.3%	4,630	21.3%
2007	20,298	9.0%	8,083	12.0%	5,116	9.5%
2009	21,640	6.2%	8,400	3.8%	5,361	4.6%

As one can see, in all cities, increases have occurred.

**** Sources:*** ***U.S. Census and Flathead County Comprehensive Plan***
Flathead Regional Development Office

DEMOGRAPHICS: Population			
Year	City of Kalispell	Whitefish	Columbia Falls
2009	21,640	8,400	5,361
2007	20,298	8,083	5,116
2006	19,339	7,725	4,861
2005	18,463	7,113	4,630
2004	17,440	6,796	4,372
2003	16,875	6,467	4,162
2002	16,074	6,191	4,043
2001	15,594	5,940	3,968
2000	14,223	5,032	3,645
Average percent increase per year	**6.5%**	**8.4%**	**5.9%**

Flathead Regional Development Office collects information from building and septic permits, as well as rural Sewer District hookups, for new homes, to prepare the annual *New Residential Construction Report*. This report is believed to be a reasonably accurate way of showing trends in new housing, but should not be considered to be 100 percent accurate. The following table shows the numbers that were generated from these sources, both Countywide and by Municipality. These numbers have been totaled from 1995 through 2008, and added to the 2000 Census data, to derive the 12/31/08 estimate of total housing units.

HOUSING UNITS AVAILABLE

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total Available
Flathead County	712	738	676	589	602	314	711	258	891	1,136	1,483	1,675	37,311
Kalispell	145	95	158	137	108	147	143	278	193	480	378	425	8,457
Whitefish	34	28	43	36	49	95	133	194	201	187	292	301	3,826
Columbia Falls	22	62	30	22	10	18	36	42	57	74	81	86	1,736

The Cooperative Planning Coalition, a group of citizens that developed a master plan for the Flathead County, completed growth projections as well. They estimated that the county will have 100,000 people by the year 2018, 150,000 by the year 2045 and 200,000 people in 2060. This group was active in the mid-1990's as they attempted to create a countywide land use plan.

With the downturn in the economy the people in the Flathead Valley are not looking for new housing in the Flathead Valley. Recent statistics on approved subdivisions becomes the new Flathead Valley record. The following chart shows how subdivision activity had increased until 2007. In 2008 there were 25.8% fewer building permits from the 2007 level. The new residential buildings accounted for a 36.3% decrease. Builders

have said that the sharp decline in building in the high end sector is for homes in the $250,000 to $1.5 million range.[1] "The second home and vacation home market higher than $2 million seems to be holding steady."[2] Many construction companies have cut their work force by ⅓ to ½ leaving 2,000 to 2,400 construction workers where there were over 3,500 just a year earlier.

Subdivison Activity in Flathead County			
	Subdivisions	Lots	Acres
County '05	106	535	1,303
Kalispell '05	24	427	111
Whitefish '05	20	256	44
Columbia Falls '05	9	123	32
2005 Totals	159	1,341	1,490
2004 Totals	160	1,547	2,256
2003 Totals	141	966	2,120
2002 Totals	89	674	3,006

Sources: *Daily Inter Lake, Flathead County Planning Office, and Tri-City Planning Office.*
Note: Rural projects include major and minor subdivisions located outside the city limits of Kalispell, Whitefish and Columbia Falls: urban projects include everything with the cities. Residential subdivisions account for the bulk of these figures, but commercial and industrial projects also are included. The numbers do not include family transfers, which typically account for a third of all lots created in the county, and two-thirds of total acreage. The five year average is for 2000-2005.

Preliminary Plats			
	Subdivisions	Lots	Acres
County '05	133	1,642	5,082
Kalispell '05	13	577	217
Whitefish '05	18	182	109
Columbia Falls '05	3	10	3
2005 Totals	167	2,411	5,411
2004 Totals	121	1,916	2,966
2003 Totals	99	2,075	2,106
2002 Totals	58	998	1,490

Flathead Economy. The economic base of the county had been strengthening until approximately January 2007. From the beginning of the 1900's, the foundation of the valley's economy was the timber and agricultural industries. Starting in the 1980's the

[1] *Daily Interlake article from December 29, 2008. Quote from builder Paul McElroy of 'Montana Build's'.*

[2] *Daily Interlake article from December 29, 2008. Quote from builder Paul McElroy of 'Montana Build's'.*

recreational features of the area have helped turn this corner of the state into a tourism and recreation destination. This and low interest rates for construction loans had created a development explosion. The three main towns in Flathead Valley have been some of the fastest growing communities in the state. These are some of the factors changing the valley employment complexion. As expected, now the main industries are people services along with recreational and construction. No longer are they timber and agriculture production of yesterday.

There had been a large diversity in job categories; however there are few key areas that employ the largest segment of workers in Flathead Valley. Recognizing those categories is a necessary step in understanding the personality of this valley. The "restaurant, motel, casino and tavern industry" employed approximately 5,500 people and even though the employment is down in this area it is still by far the largest category of employment. This is followed closely by 3,500 employees in local, state and federal government jobs. Third in line is the medical industry with over 2,500 employees. In this downturn in the economy the medical industry still seems to be holding strong. One of the hazards of the economic downturn is the recently booming 3,500 worker construction industry the employment numbers have decreased by 1/3 for this industry bringing the number of employees to approximately 2,400. Far down the list is the once driving force in the valley, the timber industry.

As of 2010, the single largest individual employer in the valley is Kalispell Regional Medical Center, employing close to 2,300 workers. North Valley Hospital near Whitefish employs approximately 300 workers.

The second largest valley employee is Teletech. The once vacant Gateway West Mall is now home to the 850 employee Teletech. This company provides call-in warranty and technical support for various computer and software companies. In 2006, this company announced it would be expanding its work force. The valley offers clean industries such as these with workers having a desirable strong work ethic. Along with high quality workers, local governments help entice clean industry with attractive tax incentives.

An example of clean industry established here is Semitool. This homegrown company manufactures computer semiconductors employing over 800 people in 2007. With the layoffs the employee number has been reduced to 600 people in late 2008. But there has been a rebound in employment in this sector since their number of employees is back up to 800 for 2010. This company sold in early 2010 to Applied Materials. They are maintaining the same locale in Kalispell.

Tourism is also beginning to have a greater impact on the valley due to the growing importance of the Whitefish Mountain and Blacktail Ski Areas that seasonally employ around 500 residents. Nine highly rated golf courses add to the recreational atmosphere and job profile. Over 10 million visitors come to the Flathead Valley each year.

The Columbia Falls Aluminum Company is a fifty year old contributor to the valley's economy. This is an aluminum reduction plant. At one time it employed well over 1,000 workers. Cost of electricity, management problems, owner changes and adjustments in

the aluminum market have forced the plant to reduce its production by 80 percent over the last 30 years. As mentioned earlier the plant is currently shutdown.

The banking industry has expanded hand in hand with the valley population and construction industries. In 1996 there were 20 bank offices in Flathead Valley. In 2000, there were 25 banks. The year 2005 saw bank numbers increase to 30. Momentum of valley growth dictated 65 percent of all bank loans in valley wide banks made in 2006 were real estate related. To quote a respected local banker in 2006, “Banks are not driving the economy in the valley… they are just riding it. Real estate is what’s driving it.” With the tumultuous economy our local banks have been wise and seem to be weathering the economy better than banks in other areas of the nation.

The real estate industry has had the most dynamic effect on the valley economic profile. Since the late 1990’s the Flathead Valley has been discovered. In 2005 property sales topped $1 billion. That was a 25% increase over the year before. The volume of sales doubled from 2002 to 2005. Median home prices rose 20% during the same time period. Flathead Valley median home price for 2006 was $246,700. One third of all sales in Montana during 2005 and 2006 occurred in the Flathead. In 2006 the nation saw a 10% decrease in real estate sales volume. Montana experienced an 18% decrease during the same time period. It is significant to note that Flathead Valley saw a small 3% decrease during the same time period. This is strong support for the strength of the valley’s real estate market. As expected, it was reported there were over 1,200 full and part-time agents selling real estate in the valley up until 2007. Because of the uncertain economy and the slow-down in real estate sales in 2009 this number of agents has decreased. Seldom has the valley seen as strong of a “boom industry” developed as real estate did from 2000 to 2007.

The following chart is based upon data from the Flathead Business Journal August 2007. We updated some of the values that we received in December 2008. We were not able to verify any of the employment figures for the Public sector at this time.

FLATHEAD COUNTY EMPLOYMENT

Private Employers	Number of Employees in 2006 - 07	Number of Employees in 2008 - 09	Public Employers	Number of Employees in 2006 - 07	Number of Employees in 2008 - 09**
Kalispell Regional Medical Center	1,856	2,000	***State of Montana***	656	656
Plum Creek Timber Company	1,200	400	***Flathead County***	486	486
SemiTool, Inc.	750	600	***Glacier National Park***	150/475*	150/475*
Workplace, Inc.	640	550	***Kalispell School District***	470	470
Winter Sports, Inc.	150/567*	120/450*	***Flathead National Forest***	185/385*	185/385*
TeleTech	550	300	***FVCC***	350	350
BNSF Railway	375	350	***Columbia Falls School District***	343	343
CF Aluminum	287	0	***Whitefish School District***	222	222
Nat. Food Sevices	285	285	***City of Kalispell***	195/310*	195/310*
Wal-Mart	265	250	***US Postal Service***	156	156
Glacier Bancorp	259	275	***City of Whitefish***	102/118*	102/118*
North Valley Hospital	255	200	***Bigfork School District***	112	112
Immanuel Lutheran Home	244	220	***Evergreen School District***	104	104
TOTAL	7,116	5,880		3,531	3,531

** Seasonal Employment* *Change in employment = -17%.*

*** We were not able to verify any employment changes with these agencies at this time.*

Source: Flathead Business Journal, The Daily Interlake, April 2007.

New business construction in the valley was coming in different types and styles. At present, all of America's top ten retailers are located in Flathead Valley. These stores are: Wal-Mart, Home Depot, Costco, Target, Albertson's, Walgreen, Lowe's, Sears and Safeway. The "big box" stores have become a driving force in the retail offerings for consumers. Home Depot and Lowe's completed construction in 2005. In October, 2005 Costco completed a 136,000 square feet store making it one of their largest in Montana, employing 190 workers. Best Buy and Bed, Bath and Beyond finished construction in 2005.

The largest percentage of growth in the Kalispell area is going north of town along the Highway 93 corridor. In the Hutton Ranch Plaza there is a theatre featuring 14 big screen movie theaters, a 120 room motel, offices and restaurants.

In essence, the dynamic increases in the valley's economy have carried over into the people service, home furnishing, banking, and retail industries to name just a few. Predictions and studies show this momentum is not slowing to any major degree.

Following is a Table of crops and acreages as compiled by the Montana Agricultural Statistics Reporting Service for Flathead County.

Table of Crop Acreage in Flathead County

Crop	2006	2007
All Wheat	21,300	16,700
Winter Wheat	3,800	7,800
Spring Wheat	17,500	8,900
Barley	5,600	10,300
Oats	500	0
All Hay	23,000	25,500
Alfalfa Hay	13,000	17,000
Other Hay	10,000	8,500
Grain Hay	1,000	500
Wild Hay	3,000	3,000

Below is a Table of Livestock numbers as compiled by the Montana Agricultural Statistics Reporting Service for Flathead County.

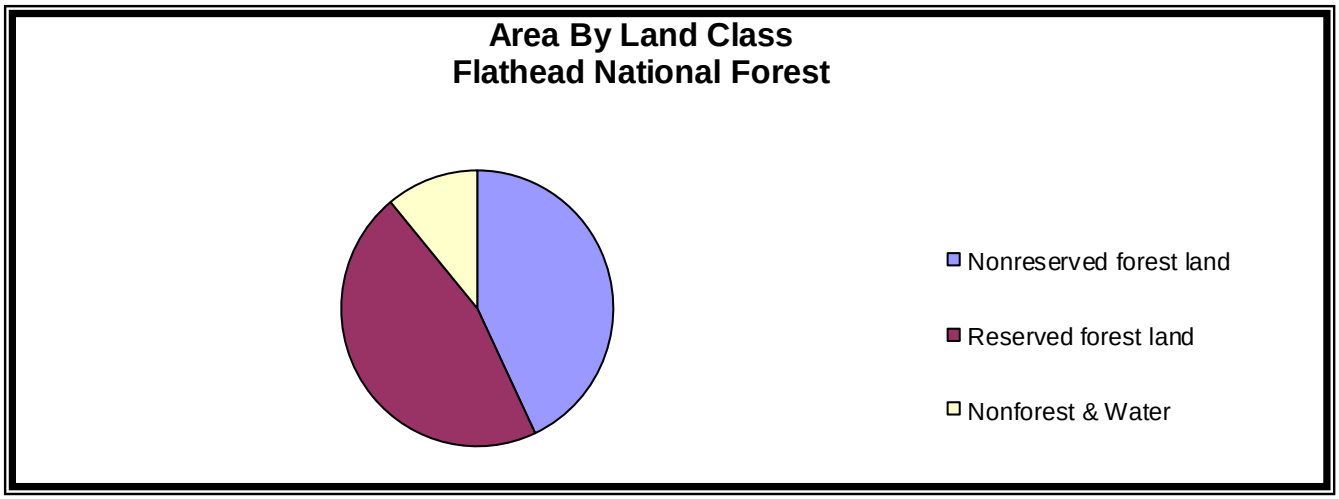
Table of Livestock Numbers in Flathead County

Livestock	2006	2007	2008
Beef Cows	12,600	9,400	9,600
Milk Cows	800	0	0
Sheep and Lambs	600	600	600
Hogs and Pigs	1,700	1,500	1,500

At one time there were over 100 dairy farms and a milk processing plant in the area. Today there are two dairies and their milk is shipped to Bozeman.

The Flathead's average rainfall is 16.56 inches; the average snowfall is 63 inches and the average growing season is 115 days, which is very suitable for a wide variety of crops. Despite the good growing conditions in the Flathead Valley, farmland is being lost every year. This loss is due to the conversion of intense use agricultural land to either rural residential/hobby farm or development land.

Recreational opportunities are plentiful in the Flathead. The 2,351,950-acre Flathead National Forest is 89% forestland and 11% non-forest or water. (See chart) 46% of the total area of the Flathead is in a reserved designation such as Wilderness.



The following list shows the available golf facilities that are within a one-hour drive of Kalispell.

AREA GOLF COURSES

Whitefish Area: Whitefish Lake Course: 36 holes
Kalispell Area: Buffalo Hills Municipal Course: 27 holes; Village Greens: 18 holes; Big Mountain: 18 holes;
Columbia Falls: Meadow Lake Course: 18 holes;
Bigfork: Eagle Bend: 27 holes;
Polson: Polson Country Club: 18 holes with 9 new holes to open in late fall;
Creston: Mountain Crossroads: executive 9 holes;
Fortine: Meadow Creek course: 9 holes par 3;
West Glacier: Glacier View course: 18 holes.

"There's perhaps not better place in the nation for home-on-the-range hospitality, exceptional value and genuine mountain splendor than Montana's Flathead Valley" *Golf Magazine, July 2001.*

Blacktail Mountain Ski area opened for its first season during the winter 1998-1999 season. This ski area is located west of Flathead Lake, near Lakeside. It features 13 miles of ski slopes and 1,440 feet of vertical drop with 21 separate runs.

The following actions and activities really put Kalispell on the map.

The July 1992 issue of Money magazine listed the Flathead Valley to be the No. 2 place in their 10 " 'hottest vacation-home spots.' The 10 locales are listed in order of projected

property appreciation by 1994. The Flathead's appreciation is expected to be 30 percent."[3]

"The Flathead Valley may be running out of homes for sale to `high end' buyers -- people who can afford property in the $300,000 plus range. Flathead Valley Realtors indicate that a water location -- on a lake, river, or pond -- is at the top of the buyer's wish list."[4]

“Mountain Sports & Living” in its winter 1999 issue listed Kalispell as the top national choice for mountain towns. Kalispell beat out Aspen, Vail, Telluride, Steamboat and many other prominent ski resort towns. In August 2000, Golf Digest ranked the Flathead Valley one of the Top 50 golf destinations in the world.

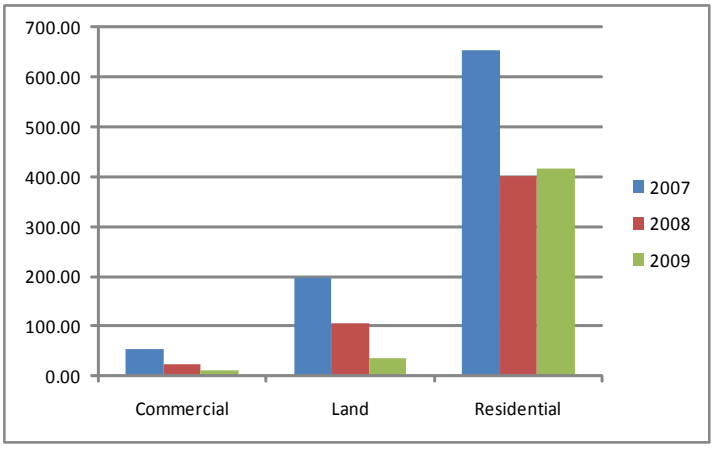
The majority of rural land buyers have an interest in a rural lifestyle. Many times they engage in limited farming and ranching activities. Room for pets and kids is important in many cases. These hobby farm buyers are competing with speculators and others that are active in the Flathead Real Estate market. Since the beginning of 2007 the real estate market has had a dramatic decrease in activity. This decrease in activity has changed the real estate market completely in the Flathead Valley.

Sale data from the Flathead M.L.S. indicates that the market has toppled since 2007 with the following statistics:

Chart of Changes in Sales in Flathead County
X millions

Category	2007	2008	% Change	2009	% Change
Commercial	54.10	24.21	-55%	11.00	-55%
Land	198.03	106.11	-46%	36.10	-66%
Residential	653.32	399.52	-39%	414.80	4%

Change in Value of Sales in Flathead Valley
(X millions)



[3]" `Money' says Flathead the place to buy," The Daily Inter Lake, June 24, 1992. Front page.

[4]"Flathead Business Journal", Volume 1 Number 3, by the Daily Inter Lake, August 2, 1991.

In 2006, there was just under $900,000,000 in total M.L.S. sales for Flathead County alone. In 2007, this figure dropped to $685,000,000 and is less than $400,000,000 2008. This makes a 55% drop since 2006.

Source: Northwest Association of Realtors

Quality listings abound, but buyers are not pursuing these listings whether it is because of eroded purchasing power or lack of confidence we cannot tell. Area real estate offices and other real estate service related businesses are struggling to survive. Builders, landscapers, lenders etc. are all feeling the pinch.

In the residential market available house lots are at an all time high with a 5 to 10 year supply. ***"Short sale"*** houses are becoming more and more common as lenders are trying to cut losses and liquidate inventories.

There have been many articles about the increase in foreclosures and short sales in Flathead County. Foreclosures have increased by 400% from 2007 to 2008. There are also many more properties at risk of foreclosure. This number went from 156 properties in 2007 to 452 properties in 2008.

The highest and best use of rural properties changed throughout the last decade. They started as investment for long term holding or a rural residential use; this changed in 2004. Then they were purchased for immediate development. In late 2007 the trend changed. Sale numbers were low to non-existent and prices unknown. By 2009, sales had increased and buyers were purchasing for long term hold or a rural residential hobby type use. We have observed sales/re-sales (from peak to now) showing 70% discounts.

MLS statistics comparing 2006 and 2011 show an 80% drop in dollar volume of land sales from over $200 million to just under $40 million. The downturn creates many challenges for all market participants and makes predictions for marketing times and market acceptance of listings difficult to estimate.

D. Competitive Market Data

The competitive market is the market in which a property competes. While that seems straight forward, it is not necessarily a geographical market. It can be influenced by that, but it is also influenced by the area's relationship to community and the utility of the area. By this I mean, activities that occur in the area, the view shed and overall aesthetic appeal of an area.

The subject's competitive market would be the rural Whitefish area. This area is known for its easy access into Whitefish and the activities available there. It is also known for mountain views, privacy and a rolling timbered landscape with open meadows.

This area has seen some of the highest land values in all of northwest Montana while other areas of northwest Montana and the Flathead Valley experienced high rates of growth as the highest and best use changed from rural residential/hobby farm/ recreational type uses, which changed in the middle part of this past decade, to immediate development. By this I mean, properties throughout northwest Montana were purchased and development began immediately upon closing. Many times whole properties were sold as small lots before they were even developed.

Lending was fast and furious. Values were escalating. We saw a parcel that had been purchased for $1.5 million only to be placed back on the market with a condition that it could not close for one year so the seller could do a 1031 Exchange. It was purchased in 2006 for $3.5 million. They buyer was never able to get it developed. The funding ran out and the bank sold it in July for $900,000. Properties like that parcel were often sold out before final plat was even in place when the market was hot.

The subject property's competitive market, while it felt some pressures of development, the overall market was still being purchased for more of an estate type use; where the quality of life and the long term benefits of the property were more important to the buyers than the immediate cash flow potential.

E. Land Description

The subject property is located approximately three air miles northwest of the community of Whitefish. It is physically accessed by traveling west out of Whitefish on Highway 93 to the Beaver Lake turn-off. Then it is approximately a 25 minute drive into the property. There are no residential dwellings or people living on properties that would share this road into the parcel.

A buyer purchasing this parcel for a homesite would need to maintain the road with an agreement possibly with other future neighbors since presently there are no dwellings. At this time there is no one motivated to plow snow in the winter. This could be a seasonal road used during the summer for someone to use the property for a summer retreat or family get-away. The road is curving. It is difficult to measure the exact miles, but it is in good condition.

There is a mix of coniferous timber on the subject property. The mixture of coniferous trees is typical for these comparable properties; therefore, there are no adjustments for timber on the different properties. There has been some recent logging right on the main road that leads into the parcel.

There is a total of 580 acres on the subject property. There are many locations for homesites as the terrain is very diverse with many buildable areas that have views of both Big Mountain and Whitefish Lake.

The current vegetation growth on the property blocks views for people in a vehicle or on foot, but you can see that removing this vegetation would provide a great view shed over the lake and towards Big Mountain.

You have provided me with incredibly good maps of the different views spots of both Big Mountain on buildable slopes and view spots that are buildable that show views of Whitefish Lake.

When you look at aerial photos of the subject property, it is a timbered parcel. This is a high rainfall area. It is a timber growing area and thus, when left on its own, the property with regenerate coniferous timber.

Elevations range from 3,600 feet above elevation to a couple high nobs that are over 3,800 feet elevation. If you look on a topographic map of the property, you will see that the slopes on the property fall away in two directions. Approximately the northwest corner of the property to the southeast corner of the property is where the highest ridge runs and then the slopes fall away in the southwesterly direction and a northeasterly direction. There are numerous benches. In the northeast corner there is a wide flat area with an intermittent stream.

Overall the property is typical for a timber growing site in this area. It provides reasonable views and reasonable development potential from a terrain standpoint. A lack of utilities and distance would hinder development.

As previously mentioned, I am using an extraordinary assumption that the subject property has legal physical access. If this different, then this could have an impact on the value of the property.

The state owned subject property is part of the Whitefish Master Neighborhood Plan. While this plan talks about many different things that are being promoted, when it comes down to actual land use the subject property is unzoned and does not have any governmental restrictions other than septic and the access getting into the property at this time. Therefore, from a land use standpoint viewed from a legal angle, the subject property is available for a multitude of uses.

View towards North

Northerly View

View of Logged Hillside

Interior Logging Access Road

View of Logged Site

III. VALUATION ANALYSIS

A. Appraisal Process

The appraisal process is defined as:

> "A systematic analysis of the factors that bear upon the value or utility of real estate. An orderly program by which the problem is defined, the work necessary to solve the problem is planned, and the data involved are acquired, classified, analyzed, and interpreted into a final opinion or conclusion."[5]

Value is based on four independent economic factors: utility, scarcity, desirability, and effective purchasing power. In order for anything to have value it must have utility, be relatively scarce, have desirability, and there must be a market that has effective purchasing power.

In the appraisal of real estate, appraisal theory indicates that there are three commonly accepted approaches in determining value. These include the Cost Approach, the Income Approach and the Sales Comparison Approach. Each approach to value is based on economic principles that influence value or utility. As outlined in the definition, the appraisal process involves the identification of the appraisal problem including the type of value to be estimated, the property rights to be appraised, and the purpose of the appraisal.

Once the appraisal problem has been defined, the preliminary analysis begins. This analysis involves developing a work plan to gather and analyze pertinent data that will be used in solving the appraisal problem (estimating defined value).

The appraiser considers relevant data, both specific (site) and general (non-site), documenting this data to support the conclusions stated in the appraisal.

When appraising a property as many of these methods as apply should be used in the valuation process. In some instances all three approaches are pertinent and provide reliable estimates of value. In other cases, only one or two approaches may be applicable.

For example, in the recreational mountainous area of the Montana ranch market the Income Approach may not provide a reliable value estimate as the market is being driven by aesthetics and emotion rather than concern over potential earnings. The Sales Comparison Approach may not be applicable for a cattle feedlot in a dry cropland market where there have not been any feedlot sales.

Cost Approach The Cost Approach is based upon the proposition that an informed buyer would pay no more for a property than the cost of the land plus the current cost of

[5]Byrl N Boyce, Real Estate Appraisal Terminology, Revised Edition Pg 25.

replacing the improvements less the applicable depreciation from all causes charged to the improvements. This approach can be useful when valuing rural properties that have relatively new improvements or specialized improvements on rural properties when the market is homogeneous and informed.

Current replacement and reproduction costs can be estimated from cost estimation guides or from builders and contractors depending on which is more applicable to the appraisal problem. The amount of depreciation to apply to the replacement cost new of the improvements is based upon market driven conclusions. The depreciated or market value of the improvements is then added to the land value for a total value estimate.

Sales Comparison Approach This approach is based upon the assumption that an informed purchaser would pay no more for a property than the cost of acquiring an existing one with the same utility.[6]

The appraiser must judge the amount of difference between the selected comparable sales and the subject property.

The appraiser then makes either dollar or percentage adjustments to each comparable sale for each of the factors. If, for example, the comparable sale has inferior land, then a positive adjustment to that comparable sale's price would be made If the comparable sale has a location that is superior to the subject's location, then a negative adjustment would be made to the sale.

Another factor that will influence value is the real property rights included in the sale. The appraiser needs to study these property rights for each sale and determine if the sale (if encumbered) has the same highest and best use as the subject property. If the sale is determined to have a significantly different highest and best use due to a restriction in property rights, it may be best to discard this sale.

Income Approach The Income Approach is used by the appraiser to convert an expected income stream for the subject property into a value indication for the subject property. It is based upon the following relationships:

Net Income / Rate = Value

and

Gross Income * Factor = Value.

The appraiser estimates the rate or factor to use through market research of comparable sales. First the selected comparable sales need to be analyzed to determine the relationship between their estimated income and their sale prices. From this relationship a capitalization rate or an income multiplier factor can be estimated to aid in analyzing the subject. Then the subject property should be investigated to determine the quality and quantity of the anticipated income streams. Once the appraiser determines a reasonable income stream for the subject property, either the

[6] Farm Appraisal and Valuation, 6th Edition Iowa State University Press, Ames, IA Pg 17.

market derived capitalization rate or the income multiplier factor can be applied to the anticipated income stream to calculate an estimated value for the subject property.

The critical final step in the valuation process is where the appraiser reconciles the different value indications from each of the approaches to arrive at a final estimate of value. During the reconciliation process, the appraiser examines why the approaches differ in the value indications and determines the strengths and weaknesses of each approach.

The appraiser must then communicate to the reader why one approach might be given primary consideration or why another approach might not be given much consideration.

For example, if the subject property is a ranch with numerous separately identified parcels with the highest and best use as tracts available for rural residential development. The Income Approach may not be given much consideration because the market does not measure value based upon grazing or hay production.

The appraisal assignment is completed when the appraiser delivers the estimate of value subject to the stated assumptions and limiting conditions to the client. Typically, a written report documenting both the general and the specific data that was used in the valuation process is prepared and delivered to the client. This aids the user in understanding how certain conclusions were reached by documenting the reasoning behind these conclusions.

B. Highest And Best Use

The highest and best use of a property may be defined as "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."[7]

Real estate is valued in terms of its highest and best use. The highest and best use of the land or site, if vacant and available for use, may be different from the highest and best use of the property if improved.

The criteria for determining highest and best use are:

1. Is it legally permissible?
2. Is it physically possible?
3. Is it financially feasible?
4. Is it maximally productive?

[7] The Appraisal of Real Estate, Eleventh Edition A.I. Chicago, 1996 pg 297

1. Subject property Considered as Vacant

Is it legally permissible?

The subject property, while in a neighborhood plan, is unzoned. It has a full access. The only limitation to development would be county approval based upon lot layout, the ability to provide adequate septic and water, and a reasonable access. If the lots were over 20 acres, they would be exempt from sanitation requirements.

Given the long road into the property and the rural nature of this road, I believe that even though it might meet legal criteria, there would be resistance from being a logical location access to a high density type development. It appears to be more logical, given the nature of the property and the market, as a low impact rural residential/recreational type use.

The site could be purchased as an add-on by private landowners in the area. Timber growing would also be legally allowed as the property has been used for this historically.

So from a legal perspective multiple uses are probable and also legally allowed.

Is it physically possible?

Under this test we look at the property to try to determine what uses would be physically possible. For example, the property legally could be used for crop production, but from a physically viewpoint it would be not reasonable to consider that someone would use the property for growing grain. That would be so far beyond logical and probable that we will not discuss any further. This was only provided as an example.

The physically possible uses would be: timber growth (which the property has been historically used for), some form of recreation, and some form of residential use. The property has areas where the slopes are suitable for this and the site has enough room that the septic and a domestic well should not be an issue.

The access into the property may cause some concerns for a buyer depending on the time of the year.

Typical Vegetation

Is it financially feasible?

This test is applied to the uses that have passed the previous criteria. If the revenues exceed the expenses, the use is generally considered to be financially feasible. With commercial or industrial properties, it is generally understood and accepted that for a use to be financially feasible, the net revenue generated from that use must be sufficient to satisfy the required rate of return on the investment.

If the only use still being considered is as a single family residence or as a recreational tract, which offer non-monetary benefits, then they should be analyzed in terms of which use provides the highest value.

In situations in which the potential revenues from the property do not exceed expenses, the question to be answered is which of the uses is the least costly.

In this test we will look at what uses are legal and physically possible in an attempt to sort through what would be logical and present the highest present worth to the subject property. This is not a gross value to the subject property, but rather the net present value to the property. This means any costs that would be incurred to bring the property to its financially feasible use would need to be deducted.

Throughout the mid-part of the last decade, properties like the subject were being purchased for investment, recreational, and homesite uses. These uses were competing against development uses. It was during this same time period that buyers were acquiring rural properties throughout the Flathead County market and immediately building roads, bringing in power and services that were appropriate to the development, and selling lots as quickly as possible. Many developers got caught when the market crashed in 2007 and are still holding unsold lots. This is occurring around the perimeter of Flathead Lake, up the east side of the valley around towards Big Mountain and back down the west side of the valley as well as the valley floor having numerous lots that are unsold.

Prices have been reduced. We have seen 60 to 80 percent discounts on parcels just in order to get buying activity in vacant subdivisions. This may have also created certain good will towards the lender if there are lenders involved.

MLS numbers would indicate that, if demand remains static, we have a 10 year supply of lots of all different sizes in the Flathead Valley. This is a little hard to rely on because there are many developers who are not going to flood the market. They have the staying power to sit tight and their lots are not on the market. Some representatives of these developers feel that we could have another 10,000 lots available if market conditions changed.

While these comments may not all directly apply to the subject property, I am trying to communicate to you that the development market is sick at this time. People are not buying land to develop. There was a recent 38 lot subdivision that sold with the entire infrastructure in place where one lot had been sold out of this subdivision and a house built on it. The buyer purchased it at a severe discount and although he says he plans to farm it, we feel that he is holding it for long-term speculation.

The other use on the subject property that would be considered likely to occur would be a timber growing use. Back when timber prices were more positive and the overall real estate market was more positive, we were involved in transactions and able to verify sales of timbered parcels that were purchased by timber interests for long-term holding. There were many timbered parcels that were purchased to be logged immediately for

cash flow. This changed the highest and best use of the property and then it was split into small parcels to be sold.

This is not considered a timber highest and best use. A timber growing highest and best use is where a site is purchased based on timber volume with a residual land value; generally under $500 per acre. This parcel is put into inventory and managed for a sustainable harvest over the long-term. These parcels are generally in the outlying markets and have seasonal or severely restricted access conditions. The timber companies are able to buy them with this low residual land value and pay based on timber volume plus this land value.


Typical Vegetation

With the timber market in the doldrums and the subject property as close to Whitefish Lake as it is, I do not feel that this is a logical or feasible use of the property nor do I believe that a timber company would purchase the property in this condition. For this reason, I feel that the financially feasible use that is most probable would be a long-term investment use. The buyer would purchase the property, might use it for some limited recreation, and hold it to see what the market is going to do. This buyer would probably anticipate some cash flow over the years from timber management, but the main goal would be the reversionary value when it sold.

Is it maximally productive?

The uses that have passed the previous tests were analyzed to determine which use provides the highest present worth to the subject property. The only use that has passed the previous tests has been the rural residential/hobby farm use. The question that now needs to be addressed is whether the subject property has a higher present worth as a single parcel or as multiple parcels. Given the nature of the subject property, its rural location and the lack of market data to prove otherwise, I feel that the maximally productive use of the subject property would be as a single parcel being acquired by a single buyer.

2. Subject Considered as Improved

The subject does not have any buildings; thus, this is not applicable.

3. Conclusion of Highest and Best Use

Based on the facts available to me and as presented in this report, it is my opinion that the subject property's highest and best use, as of August 22, 2012, is as a vacant rural

investment site to be purchased for long-term holding with a multitude of activities that would complement this investment use. These could include recreation, an add-on property, and conservation to name a few.

C. Approaches to Value

In practical, the appraiser uses the three recognized approaches to value:

1. The Cost Approach
2. The Income Approach
3. The Sales Comparison Approach

In this appraisal, the Cost Approach is not applicable because the subject property does not have any improvements to estimate the replacement costs of and the applicable depreciation. For this reason, the Cost Approach will not be included in this analysis.

The Income Approach is useful in properties that are purchased for their cash flow potential from uses such as grazing or crop production. The subject property falls in the market where land is not purchased for its cash flow potential Buyers are not measuring the grazing capacity or the cropping capacity. For this reason, the Income Approach would not provide us with useful data for the valuation analysis, and thus it will be excluded from the analysis.

The Sales Comparison Approach is based upon the assumption that an informed purchaser would pay no more for a property than to purchase an existing property with the same utility. In this analysis, we will compare competitive properties with the subject property to assist us in estimating the value of the land of the subject property.

D. Valuation

Adjustments

In a market driven by non-economic factors (aesthetics, wildlife habitat, personal attractions, buyer/seller motivations, and recreational opportunities, etc.) it is reasonable to expect a significant variance in value between similar properties. We have considered various factors that may have an influence on value. In some cases, these factors can be measured in the market (quantitative adjustment) while others are more subjective that cannot be measured directly through the pairing of sales data but are known to be a consideration by market participants (qualitative adjustment). There are other factors that in certain markets are a consideration of value but not necessarily applicable to this assignment that will also be noted more for clarification purposes.

1. Direct Sales Comparison Approach

a. Introduction

This approach is based upon the assumption that an informed buyer would pay no more for a property than for a substitute property with the same utility.

Land Value Estimate. In the valuation process, there are several procedures that can be used to obtain land value indications.

> 1. *Sales comparison*. Sales of similar, vacant parcels are analyzed, compared, and adjusted to provide a value indication for the land being appraised.
>
> 2. *Allocation*. Sales of improved properties are analyzed, and the prices paid are allocated between the land and the improvements. Allocation can be used in two ways--to establish a typical ratio of land value to total value, which may be applicable to the property being appraised, or to isolate either the land or the building's value contribution from the sale for use in comparison analysis.
>
> 3. *Extraction*. Land value is estimated by subtracting the estimated value of the improvements from the known sale price of the property. This procedure is frequently used when the value of the improvements is relatively low or easily estimated.
>
> 4. *Subdivision development*. The total value of undeveloped land is estimated as if the land were subdivided, developed, and sold. Development costs, incentive costs, and carrying charges are subtracted from the estimated proceeds of sale, and the net income projection is discounted over the estimated period required for market absorption of the developed sites.
>
> 5. *Land residual technique*. It is assumed that the land is improved to its highest and best use. All expenses of operation and the return attributable to the other agents of production are deducted, and the net income imputed to the land is capitalized to derive an estimate of land value. An alternate land residual technique is applied by valuing the land and improvements and deducting the cost of the improvements and any entrepreneurial profit. The remainder is the residual land value.[8]

The reliability of this approach depends upon a) the availability of comparable sales data, b) verification of this sales data, c) the degree of comparability with the subject property, and d) the absence of non-typical conditions that affect the sale price.

[8] The Appraisal of Real Estate, Ninth Edition, A.I.R.E.A., Chicago, 1987. pp.69, 70.

Market transactions in the subject neighborhood and in competing neighborhoods were researched. Each transaction was noted, and those that occurred within a reasonable time limit between knowledgeable parties negotiating without duress and with a highest and best use similar to the subject were analyzed in greater depth.

The transactions were further limited to properties which possessed a reasonable degree of similarity to the subject and where, after certification of pertinent data, it was determined that the transaction was reasonably indicative of general market activity in this area.

These transactions were then, in the case of unimproved land, analyzed as to the probable land value on a per unit basis, and in this case Price per Acre is used as the unit of measurement. When improved properties are used, they are analyzed by allocation to arrive at the value of the land only.

The purpose for this market data analysis is to lay the foundation for adjusting these differences -- the amount and the direction. Some of the principal factors influencing value for rural residential properties, and those requiring adjustments are: condition of sale, time of sale, size, location, physical characteristics and improvements. Because of the limited market activity and information, some of the factors that influence value must be judged by the Appraiser from his knowledge of general market demands in the area, or from discussion with individuals knowledgeable in these areas.

Terms of sale describes the ownership that is transferred to the buyer. Fee simple estate is absolute ownership of real estate that is unencumbered by any other interest or estate and is subject to the limitations of eminent domain, escheat, police power and taxation.

Time of sale is considered to be one of the most important factors influencing the value of a property. We will explain our process of analysis for time and its importance.

Condition of sale is special financing or terms, other than cash, that may have enhanced the transaction.

Generally, a potential buyer will look for the largest acreage his finances will allow him to buy. Typically, the more acres there are in a property, the lower the price per acre. This is referred to as economies of size or scale and is common in other sectors of the business world. It is difficult in Western Montana to directly correlate the change in price per acre as size increases because of the physical differences in the properties that have been sold and because of the varying motivations of the current pool of buyers.

Location of the property can influence value. The sales in the area vary enough in physical characteristics that it is difficult to isolate the value change due to location alone. Another factor that makes this difficult is the wide variety of buyers with differing motivations in the subject market.

Physical characteristics can influence the value of a property to a buyer. Physical characteristics of the property are the terrain, the vegetation, the water resources and the views on the property. These affect the potential uses of the property, the desirability and ultimately the value.

Peek-a-Boo Views of Whitefish Lake

The improvements are the set of buildings that complement the subject property. They are weighed in terms of desirability of the dwelling and utility provided by the outbuildings. This utility is a function of current activities in an area (i.e. grain bins do not provide much utility in an orchard or vineyard community); condition and layout of the improvements also affects this utility. The number of improvements for a given parcel of land can also influence the value to a buyer.

b. Land Valuation

There were no adjustments made to the sales for terms of sales or conditions of sale. These were all considered arm's length transactions without any seller or buyer concessions. They are all considered cash equivalent and fee simple transfers.

As you know, we have seen in the last 15 years a huge upswing in values and then a crash in values. We feel that the peak of the market was around January 2007 and that today we are the equivalent to late 2002 and 2003. The following sales will help support that opinion.

Ficken sold 151 acres for $4,679 per acre in June 2003. Glacier Bank sold 149 acres for $4,697 per acre in July 2012. Both of these are good, level, county road frontage cropland parcels. The Ficken parcel has been developed since 2003. The Glacier Bank parcel was lost by a developer and then sold to an individual who has mixed ideas on what development plans could be.

In July 2004, Odegard sold 134 acres north of Creston for $5,970 per acre. This is now a subdivision. In July 2012, the Whitefish Credit Union sold 180 acres for $5,138 per acre. This would lead me to believe that the 2003 value for the Odegard sale would be similar to the value in July 2012. Both these properties are in the east side of the valley and both are considered good properties within their vicinity.

Both of the 2012, sales show 70% or larger discount from the peak values in January 2007.

Within the valley floor we have many other sales of 40 to 80 acre parcels neighboring equivalent properties which have resold that provide us with useful information.

In 2002, Laidlaw sold two 40 acre parcels for $4,250/acre and $4,400/acre respectively. In late 2011, Marshall sold a slightly inferior 40 for $4,375/acre. This lends support that when this overall curve where prices started accelerating up to 2007 and now come back down. We can look straight across from 2012 to 2003.

All individual properties have unique features and no transactions are exactly the same. Many market participants feel that we are equivalent today to the 2002-2003 era both in terms of the highest and best use, buyers' taste in preferences, and overall prices.

The following chart shows two groupings of sales. The first grouping has sales activity in the immediate vicinity around Beaver Lake. These multiple parcels all sold to the same buyer. The second groupings of sales were a little farther away and outside the vicinity area around Beaver Lake. These sales are all important market indicators and would be considered competitive to the subject property. They are included to help us estimate a likely market value for the subject property.

#	DATE	SELLER	LAND PRICE	ACRES	$/ACRE	COMMENTS
1	Apr-02	Welzenbach	$570,000	81	$7,037	Timbered vicinity purchase
2	May-02	Strom	$720,000	80	$9,000	Timbered vicinity purchase
3	Jun-02	Richter	$360,000	40	$9,000	Timbered vicinity purchase
4	Aug-02	Glenstal	$7,400,000	395	$18,734	Timbered vicinity purchase, lake
5	Feb-02	Pytosh	$990,000	235	$4,213	Outlying timbered
6	Nov-02	O-H	$1,050,000	160	$6,563	Outlying timbered
7	May-03	Donsbach	$1,000,000	157	$7,006	Timber meadow
8	Sep-03	Donsbach	$1,000,000	121.5	$8,230	Timber meadow
9	Mar-05	Buechley	$960,000	120	$8,000	Timber meadow
10	Feb-05	Peschel	$900,000	160	$5,625	Outlying timbered
11	Jan-06	Szaley	$1,000,000	160	$6,250	Outlying timbered
12	Jul-07	Tallyho (PCTC)	$959,635	218	$4,402	Outlying timbered
13	Jul-07	PCTC	$1,325,000	301	$4,402	Outlying timbered

Vicinity Sales Area Sales

Sale #1 is an 81 acre parcel located less than two miles straight south of the subject property. It consisted of coniferous regrowth on a rectangular parcel. At the time of sale

access was via gravel road. This parcel along with sales #2 and #3 were all contiguous and purchased as an assemblage move by the same buyer.

Sales #2 and #3 were an 80 acre parcel and a 40 acre parcel with both being purchased for $9,000/acre. They were purchased in May and June 2002 respectively. These were purchased to give the buyer control of the private lands that were south of his main holdings.

Sale #4 was adjacent to the subject property. This was a 395 acre sale which included frontage on Whitefish Lake and the land between Whitefish Lake and Beaver Lake. It was just under $19,000/acre in August 2002. This was purchased by a Goguen entity and is the heart of his operation where his dwelling and home base are located.

Sales #1 through #4 are all located within a small area surrounding Beaver Lake.

Sale #5 is located about 2½ miles straight west of the subject property. It is accessed from Highway 93 and then a short half mile drive on a gravel road. This cutover timbered parcel was purchased by an individual who was buying up land that was adjacent to his holdings and now has a label factory located on this land. This 235 acre parcel sold for $4,200/acre in February 2002.

Sale #6 occurred in November 2002. It is located four miles north of the subject property and north of Whitefish Lake behind state land. It provides views looking out over the Whitefish Lake area. This parcel had very heavy vegetation and King Creek flows through it. It was very raw and undeveloped with limited views. This had a recreational site and was purchased by an investor with local interests.

Sale #7 is included because it is close to the vicinity. It is five miles straight west to the subject property. It has a little bit of timber, a small pond, very small gravel resource, and some buildings that were not valued by the buyer. This was purchased by a neighbor as an add-on to block up his ownership.

Sale #8 is located a couple miles southwest of the subject property. It consisted of approximately 60 acres of pasture and 60 acres of timber. It was purchased by a neighbor. It has a small house and some sheds that left a residual land value of $1,000,000 or $8,230/acre. This property is about a mile or so off the highway in a small valley. Some of the ownership is on the valley floor and the remaining is on the hillside.

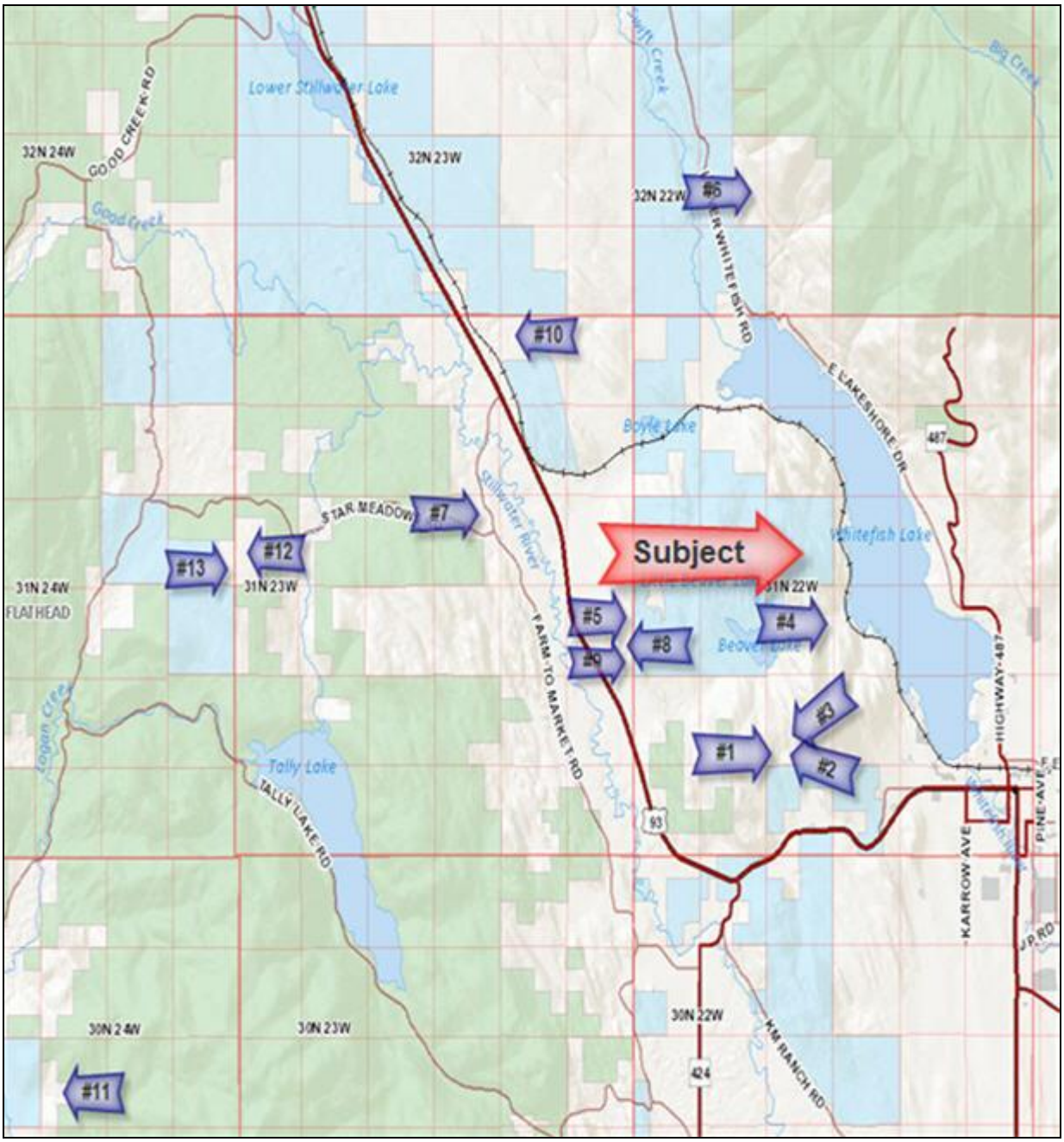
Sale #9 in March 2005 is a mixture of timber and pasture consisting of 120 acres for $8,000/acre. This was also purchased by a neighbor. It had a roping arena on it, but no other improvements.

Sale #10 was in February 2005 and located roughly four miles northwest of the subject property. This 160 sold for $5,625/acre. It had a gravel access and is cutover timber land with limited views.

Sale #11 is found almost 12 miles southwest of the subject property on the outside of the market area, but it is a similar drive time to get into the subject property as it is to

this parcel. This has a small meadow and a small stream on it. It had some buildings that contributed about $400,000 to the sale; thus, the remaining land value was $1,000,000 or $6,250/acre. This parcel is considered to be one of the outlying sales as it is a distance away from the subject and easy access into town.

Sale #12 and #13 make-up a little over 500 acres and was a single purchase though it was recorded as two separate transactions with the same group of buyers. These are cutover parcels that were owned by Plum Creek near Tally Lake. They are probably 6 to 7 miles straight west of the subject property. Drive time is a little less than it would be to get to the subject property.



These parcels offer tremendous wildlife resources. I was inspecting these properties 10 years ago and there was a remarkable herd of elk on the property and active wallows. The vegetation and the timber were in good condition. There were a few spots where you could find some views, but the views were not as good as the subject's views of Whitefish Lake.

The listing broker said access was an issue. There was a bit of a bidding war. The buyers jumped on the property and felt that they could deal with the access issue later. The broker felt that if full access had been available in a manner to where they could build a good road to the property, they would have double the purchased price.

You can see that these 13 sales give us a pretty good coverage of the area around the subject. There have been more sales, but they were excluded because they occurred during the peak time from 2005 through 2007. The last two sales are included even though they occurred in the summer of 2007 because they are very similar to the subject in that they are remote.

Remember that the subject property is approximately 8 miles of gravel from the highway and it is not a high speed gravel road; it is a narrow state forest road that takes about 25 minutes to drive to the subject property. Driving that long of a period on a gravel road is a daunting drive for many prospective buyers in this market. Such a distance would be a negative factor for many individuals as well as intimidate other buyers with regards to how they would maintain the road.

The other two outlying sales, the Peschel sale on Lupfer Road and the Szaley sale near Star Meadows, have a similar setting to the subject in that they are well removed physically from the community due to the drive time distance, but they do not have the direct appeal of being right next to Whitefish.

Another important sale that is an outlier would be sale #6. This is the sale from O-H Leasing that is located on King Creek; north of Smith Lake and Whitefish Lake. The buyer on this property did not seem concerned about the lack of access, felt he could get access from the state, and basically was looking for an investment recreational parcel.

These parcels that are outlying tend to be clumped just under the $7,000/acre range.

The buyer's broker on sales #12 and #13 indicated they would have paid double if they had a legal access into the property. They did not have to negotiate for that because they did have an existing road that I believe Plum Creek used to haul logs. Also, the public is able to use it to access the Plum Creek ground for hunting and recreational activities.

As mentioned previously, both these parcels were purchased for over the asking price because there was another bidder involved. This is a little unique. I also feel that in the current market that these two should be adjusted down from $8,800.

I do not have any current sales to pair this with or re-sales to determine a percentage, but we did see sales of properties with the highest and best use of development when they switched from development to highest and best uses investment rural residential. From 2006 to 2012 we were observing a 70% to even higher amount of discount. If we were to look at a 35% discount on sales #12 and #13, this would reduce the $8,800/acre value down to $5,720/acre which is falling in line with the other sales that we consider outliers.

Sales Grid Area Sales

	Subject	5	6	7	8	9	10	11	12	13
Price per acre		$4,413	$6,563	$7,006	$8,230	$8,000	$5,625	$6,250	$4,402	$4,402
Terms	fee	fee	fee	fee	fee	fee	fee	fee	fee	fee
Adjustment		0	0	0	0	0	0	0	0	0
Time	8/12	2/02	11/02	5/03	11/03	3/05	2/05	1/06	7/07	7/07
Adjustment		0	0	0	0	—	—	—	—	—
Condition	cash	cash	cash	cash	cash	cash	cash	cash	cash	cash
Adjustment		0	0	0	0	0	0	0	0	0
Size	580	235	160	157	121.5	120	160	160	218	301
Adjustment		0	—	—	—	—	—	—	0	0
Physical Character	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling	Timber Rolling
Adjustment		0	0	0	0	0	0	0	—	—
Overall Access	Remote	Outlying	Outlying	Outlying	Outlying	Outlying	Outlying	Outlying	Outlying	Outlying
Adjustment		—	—	—	—	—	—	—	—	—
Overall		Superior	Superior	Superior	Superior	Superior	Superior	Superior	Superior	Superior

The vicinity sales were not included in the grid as they were not directly comparable. I feel that the subject's long drive negates any view benefit. The views are also negated by the tougher terrain on the subject than the sales.

I have included seven listings that were the only ones that were 100+ that I could find in the general area west and northwest of Whitefish.

The first listing is an American Timber Company parcel and it is located near Star Meadows. This 160 acre is listed for $7,500/acre. It sits up on a hill with attractive views.

The second listing is by this parcel just south of Whitefish towards Kalispell. These 155 acres are listed at $3,500/acre.

Listing #3 is owned by Glacier Bank and is in the Star Meadows area. It consists of 233 acres and asking $4,749/acre. It is rolling cutover timber.

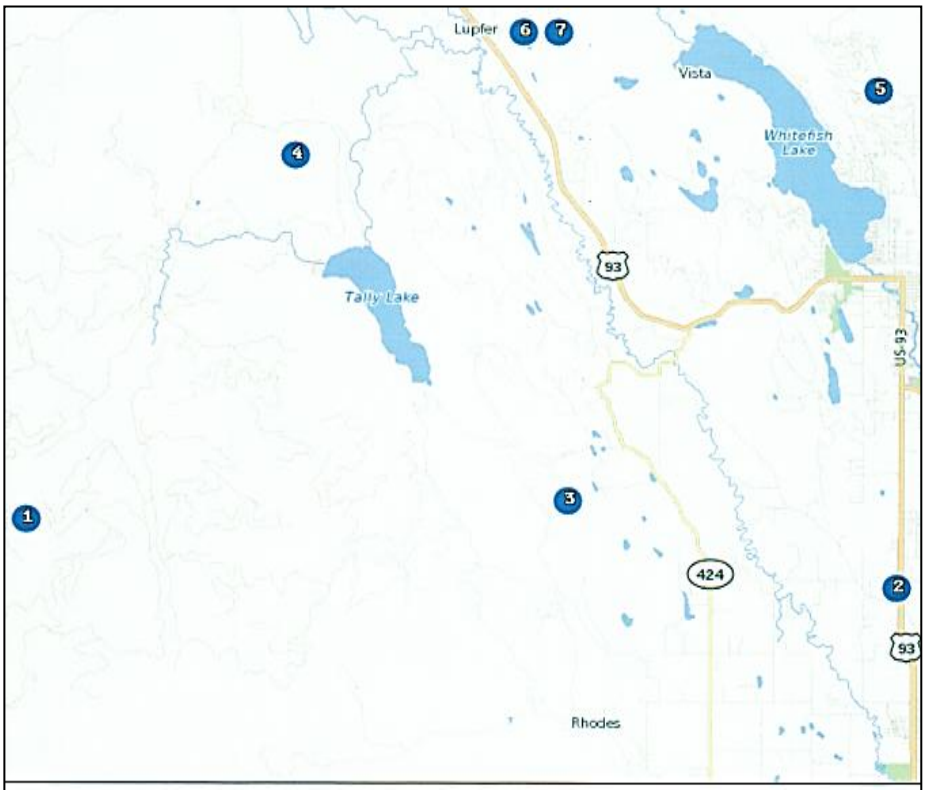
Listing #4, the Courtney parcel, is 300 acres and asking $5,000/acre. This parcel is off of Hill Meadow Road which is on the way to Star Meadows. It is on a high hilltop with Forest Service ownership on three sides, appears to have reasonable terrain, and panoramic views.

The next listing is on the Big Mountain Road and is part of a lookout parcel. It contains 294 acres and the asking price is $43,775/acre. This is not comparable to what we are looking at, but I included it because it is out there and being advertised.

The MPK listing is 1,120 acres of fairly diverse land. There are hills with varying aspects and topography. Lazy Creek creates a riparian area. This site has improvement including cabins, trap range, thinning, etc.

The last listing is a Plum Creek parcel northwest of the subject. This listing is 1,200 acres, has diverse terrain with three streams, and they are asking $6,100/acre.

Both of these listings are larger than the subject. They have more overall market appeal because they have more diverse, gentler terrain. The larger acreage should not cause an adjustment to price. As you get over $1 million, the size adjustment becomes a moot point more often than not.



Legend

1. Nhn Road #9784 Whitefish, MT 59937 (314118)
2. Nhn Highway 93 S Whitefish, MT 59937 (315031)
3. 2500 Upper Lost Creek Road Whitefish, MT 59937 (310399)
4. NHN Hill Meadow Road Whitefish, MT 59937 (312114)
5. 3301 BIG MOUNTAIN Road Whitefish, MT 59937 (313427)
6. Nhn Lupfer Road Whitefish, MT 59937 (314459)
7. Lupfer Road Whitefish, MT 59937 (314955)

You can see from those listings, excluding the Lookout Mountain listing, that they are all priced less than $8,500/acre. None of them are in the direct vicinity of the subject, but they seem to be comparable due to the degree of remoteness and also the accessibility. I think that these listings put downward pressure on our outlying sales; primarily sales #10 and #11, which occurred in 2005 and 2006 when the market was stronger than it is now. I believe that they also put downward pressure as well on #12 and #13.

When we look into the next closest competing market area, which is the timbered valley fringes (foothills) west of Kalispell, we see even more downward pressure. Timbered listings just west of town are priced less than $3,000 per acre.

A 2,130 acre development that was inspired by the Iron Horse development is for sale in its bulk form at $4,000 per acre. It has roads, wells, and territorial views that are more impressive than the subject. The county road is paved to the gate. The sellers are asking $4,000 per acre. The area is inferior being south of Kila.

The sales are indicating a value less than $5,700 per acre. The listings, both west of Whitefish and west of Kalispell, are suggesting downward pressure as well.

The Whitefish location makes it superior to the $2,000 - $3,000 per acre sales in the periphery areas. For these reasons, I feel that the likely value of the subject is $5,000 per acre or $2,900,000 for the 580 acres.

CERTIFICATION

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

- the information contained in this appraisal report upon which the opinion of value is based, is true and correct, and no important facts have been knowingly withheld or overlooked.

- that I am competent to perform this assignment.

- the reported analyses, opinions, and conclusions are limited only by the reported Assumptions and Limiting Conditions, and are my personal unbiased, professional analyses, opinions, and conclusions.

- I have no undisclosed interest in the subject property, present or contemplated, and no personal interest or bias with respect to the parties involved.

- I have not provided any services regarding the subject for the three prior years.

- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

- 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.

- my engagement in this assignment was not contingent upon developing or reporting predetermined results.

- my analyses, opinions, and conclusions were developed and this report have been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the American Society of Farm Managers and Rural Appraisers.

- the use of this report is subject to the requirements of the American Society of Farm Managers and Rural Appraisers relating to review by its duly authorized representatives.

- I have personally inspected the subject property.

- I do not authorize the out-of-context quoting from or partial reprinting of this appraisal report. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of media for public communication without prior written consent of the appraiser signing this report.

- no one provided significant professional assistance to the person(s) signing this report.

David J. Heine, M.A., ARA
Accredited Rural Appraiser
MT Certified General Appraiser #149
Broker

ASSUMPTIONS AND LIMITING CONDITIONS

It is assumed:

1. that the subject property's fee simple estate is marketable and that the property is free and clear of all liens, encumbrances, easements, restrictions, and the property has full insurable access unless otherwise noted.
2. that there is no liability for matters legal in nature.
3. that property ownership and management will be in competent and responsible hands.
4. that the property will not operate in violation of any applicable government regulations, codes, ordinances, or statutes.
5. there are no concealed or dubious conditions of the subsoil or subsurface waters including water table and flood plain. The appraiser further assumes there are no regulations of any government entity to control or restrict the use of the property unless specifically referred to in the report.

The following limiting conditions are submitted with this report:

1. All of the facts, conclusions, and observations contained herein are consistent with the information available as of the date of valuation. The value of real estate is affected by many related economic conditions, local and national. The appraiser therefore, assumes no liability for any unforeseen precipitous change in the economy.
2. The appraiser has made no survey of the property. Any and all maps, sketches, and site plans are assumed to be correct, but no guarantee is made as to their accuracy.
3. Information furnished by others is presumed to be reliable and, where so specified in the report, has been verified; but no responsibility, whether legal or otherwise, is assumed for its accuracy, and it cannot be guaranteed to be certain. No single item of information was completely relied upon to the exclusion of other information. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other source thought reasonable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market-related information. It is suggested that the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds or subject property.
4. The signatories herein shall not be required to give testimony or attend court or be at any governmental hearing with reference to the subject property unless prior arrangements have been made with the client.
5. Disclosure of the contents of this report is governed by the Bylaws and Regulations of the American Society of Farm Managers and Rural Appraisers. Neither this report nor any portions thereof shall be disseminated to the public through public relations media, news media, advertising media, sales media, or any other public means of communication without prior written consent and approval of the appraiser.
6. No responsibility is taken for changes in market conditions after the date of valuation, or for the inability of the property owner to find a purchaser at the appraised value.
7. No effort has been made to determine the impact of possible energy shortages or the effect on this project of future possible federal, state, or local legislation including any environmental or ecological matters or interpretations thereof.
8. The date of valuation to which the value conclusions apply is set forth in the letter of transmittal and within the body of the report. The value is based on the purchasing power of the U.S. dollar as of that date.
9. The liability of David J. Heine and Associates, LLC is limited to the client and to the fee collected. Further, there is no accountability, obligation, or liability to any third party .If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser assumes no responsibility for <u>any</u> deficiencies of <u>any</u> type present in the property--physically, financially, or legally.
10. In this assignment, the existence of buried fuel storage tanks or potentially hazardous material used in the construction or maintenance of the buildings, such as the presence of urea-formaldehyde foam insulation, and/or the existence of toxic waste, which may or may not be present on the property, was not observed by this appraiser; nor does he have any knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The existence of urea-formaldehyde foam insulation or other potentially hazardous waste material may have an effect on the value of the property. I urge the client to retain an expert in this field if desired.
11. The assignment is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; furthermore, all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

Scope of Work Rule

In June 2006, the 2006 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP) became effective. The major difference from previous USPAP Editions was the removal of the two types of appraisal analysis, the first being the Complete Analysis and the second being the Limited Analysis. These appraisal types were replaced by the Scope of Work Rule. The three appraisal report formats: the Self Contained, the Summary, and the Restricted Use are all still relevant and included in the 2006 Edition.

Scope of Work has always been a requirement of the appraisal analysis and was to be reported to put the reader or the user of the report on a familiar standing with the appraiser on the basis of what was done and what was not done. The new Scope of Work Rule means that the appraiser and the client must communicate in a clear concise fashion as to what level of appraisal analysis is most fitting for the client's requirements and needs.

In an effort to inform our clients and to keep an open line of communication we prepared this addendum to assist in the decision making process. We feel that the logical approach is to categorize the Scope of Work at both ends of the analysis and work product scale. This will range from the ***Reduced Scope Analysis*** to the ***Full Scope Analysis***.

The ***Reduced Scope Analysis*** is used for an assignment where the client does not need a high level of accuracy in the analysis regarding the property. This would generally be reported in either a Restricted Use format or a Summary Report format.

A simple example of the Reduced Scope Analysis would be a situation where a home owner or land owner is curious about a rough value estimate of their property to determine if they need to do further planning for estate purposes or to estimate a likely listing price. *The key to the Reduced Scope Analysis is that the primary user of the report is familiar with the property and is not going to rely on the appraisal report for more than its intended purpose.* This means that the Reduced Scope Analysis of a property to assist a client in estimating a rough value would not be used to secure a loan or to settle an estate or for court proceedings.

A common example of a Reduced Scope assignment would be a vacant parcel of land that the appraisers know and they are familiar with. This assignment could be a desk analysis where the appraiser relies on data within his data base and a cursory review of the county records regarding a description of the property. Some drawbacks to this reduced scope level of reporting are that there could be new sales data that may be missed or there could be important facts about the property left uncovered that would be revealed with an in-depth inspection.

At the other end of the scale is the ***Full Scope Analysis***. This generally is completed when a high level of analysis is required, when a high level of reporting is required or a concern is expressed about the value. There could be contention over the value or the user of the analysis could feel that the value is quite important.

The Full Scope Analysis is generally communicated in the Summary Report format or the Self Contained Report format. These report formats are comprehensive. They contain a complete description of the subject property, the market area, the highest best use analysis. Also included in these formats are the comparison of the sales to the subject property and an in-depth explanation of how and why the conclusions were made. This is generally used in the type of appraisal work where the intended users may not be familiar with the market area or the property and need to be familiarized to assist them in making the decisions that they need to make regarding the subject property.

Examples of where value is quite important are: court proceedings, bankruptcy situations or a request from a lender where there is a high loan-to-value ratio and utmost accuracy and care is needed.

FLATHEAD COUNTY GIS

KALISPELL, MONTANA

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General Parcel Data

Tract Id:	3122X16-XXX-STMT
Assessor:	NA
Geocode:	NA
Approximate Acres:	646.1
City:	NA
Subdivision Name:	NA
Owner:	NA
Address:	NA
Owner:	NA
Address:	NA

Certificates of Survey

Tract Land:	None available
Subdivision RTMT/BLA:	None available

Subdivision Plats

None available

School Data

School District Name:	WHITEFISH
School District Number:	44
High School District:	WHITEFISH

Congressional Data

Precinct Number:	45
House District:	6
Senate District:	3
Kalispell Ward Number:	NA

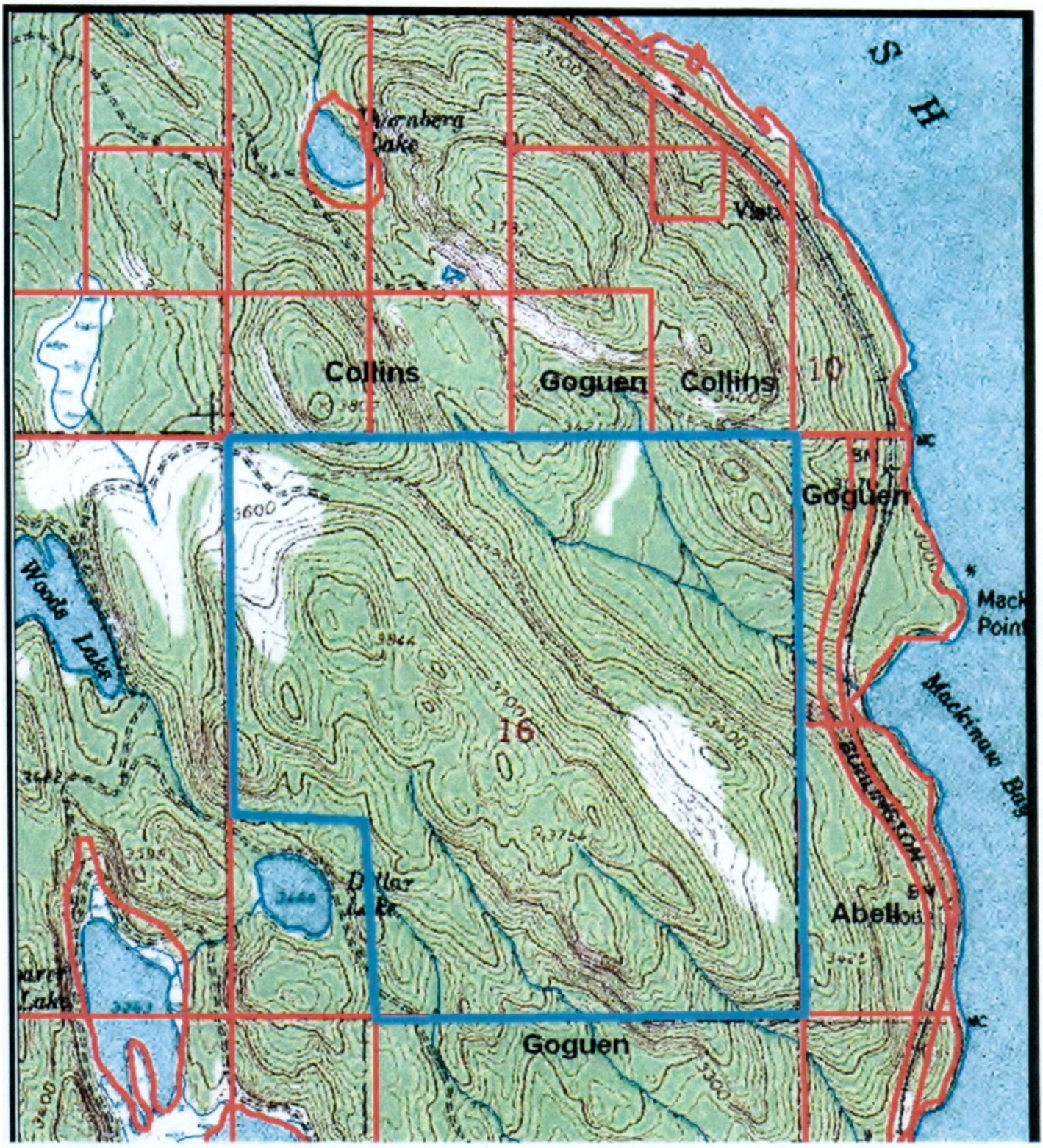
Water, Sewer and Fire Data

Fire District:	WHITEFISH RURAL
Water & Sewer District:	WHITEFISH COUNTY WATER SEWER

Zoning Data

Neighborhood Plan:	NA
County Zoning District:	NA
County Zoning Use:	NA
Whitefish Zoning:	NA
Kalispell Zoning:	NA
Columbia Falls Zoning:	NA

Sale # 685 Topo Map



DAVID J. HEINE, M.A., A.R.A.

PROFESSIONAL AFFILIATIONS:

- I hold the Accredited Rural Appraisal (A.R.A.) designation which is awarded by the American Society of Farm Managers and Rural Appraisers to those members who have had years of experience, are technically trained, have passed a rigid examination and subscribe to a high code of ethics, -- #1083
- Montana Board of Real Estate Appraisers - General Certification -- REA-REG-LIC-149
- Montana Licensed Real Estate Broker-- Partner in Western Brokers, LLP
- Western Montana Stockgrowers Association --Former Board of Directors
- Land Trust Alliance -- Sponsor Member
- Montana Board of Real Estate Appraisers -- Board Member until April 2006

EDUCATION:

Montana State University, Bozeman, MT - B.S. in Agricultural Economics, March 1983
Washington State University, Pullman, WA - M.A. in Agricultural Economics, December 1986

CONTINUING EDUCATION:

American Society of Farm Managers and Rural Appraisers:

July 25, 2008	Valuation of Conservation Easements	Jan. 23-24, 2001	Conservation Easement Seminar
Feb. 5, 2008	Code of Ethics	Nov. 4, 1998	Code of Ethics
Feb. 5, 2008	Subdivision Analysis	Nov.3, 1998	Conservation Easement Course
Feb. 6, 2008	USPAP Update	Mar. 4-5, 1996	Appraisal Accreditation Examination
Oct. 26, 2006	Discounting	Apr. 20-22, 1995	Eminent Domain Course
Oct. 27, 2006	USPAP Update	Mar. 4-6, 1995	Report Writing Course
Feb. 28, 2006	Appraising Ag Lands in Transition	Apr. 18-24, 1993	Advanced Rural Appraisal Course
Mar. 1, 2006	MT Access Laws & Conservation Easements	Jan. 28-30, 1993	Highest and Best Use Course
		May 17-23, 1992	Principles of Rural Appraisal Course
Jan. 26, 2006	GIS, NRIS, Subdivision	Oct.30-Nov.1, 1991	Certification Training Course
Jan. 24, 2006	MT Water, DEQ	Oct. 24-26, 1990	Standards and Ethics Course
Jan. 25, 2005	USPAP Update	Nov. 3, 1988	CRP Contract Seminar
Feb. 4-5, 2003	Code of Ethics, USPAP Update	Mar. 6-11, 1988	Fundamentals of Appraisal Course
June, 2002	Yellow Book-UASFLA Appraisals	May 18-22, 1987	Prin. of Farm Management Course

Montana State University Cooperative Ext. Service:

May 19-23, 1986	Farm Financial Analysis Course

Appraisal Institute:

September 8, 2006	Subdivision Analysis
January 20-21, 2005	Expert Witness Seminar
Sept. 15-16, 1993	Standards and Ethics Seminar
March 30-31, 1989	Livestock Ranch Valuation Seminar

PUBLICATIONS:

Master's Thesis

Washington State University
"An Economic Evaluation of Different Feeding Systems in the Western Washington Dairy Industry."
August 1986

Magazine Feature Article - Two Part

-"Look at all options when considering commodities,"
-"Partial budget analysis helps determine best action,"
by D. J. Heine, G. S. Willett, J. K. Hillers and R. L. Kincaid. Hoard's Dairyman
March 10, 1988 and March 25, 1988

Appraisal of Rural Property

2nd Edition, Contributing Author. Published by ASFMRA **December 2000.**

PROFESSIONAL EXPERIENCE:

MT REAL ESTATE CONTINUING EDUCATION, Instructor
Conservation Easement Valuation **1999 - 2000**

WESTERN BROKERS LLP, Partner
Kalispell, MT **July 1997 to present**
Real Estate Brokerage -- Specializing in Farms, Ranches & Recreational Sites.

DAVID J. HEINE AND ASSOCIATES LLC, Owner
Kalispell, MT **June 1986 to present**
Economic Consulting, Fee Appraisals

US DEPT. OF AGRICULTURE, Loan Servicing Contractor
Production and Financial Analysis;
Feasibility Studies **1987-1991**

MZK REAL ESTATE
Kalispell MT **May 1994--July 1997**
Licensed Real Estate Agent

MT DEPT. OF AGRICULTURE, Financial Consultant
Helena, MT **June 1986 -- June 1988**
Agricultural Assistance Program, included financial analysis, partial budgeting, debt restructuring options

HEINE FARM
Kalispell, MT **1978 -- Present**
Commercial dairy hay, peppermint, turf sod, and other irrigated crops. Dairy heifers and commercial beef cattle

APPRAISAL AND REAL ESTATE EXPERIENCE:

Assignments have included specialized agricultural properties, rural recreational properties, residential properties, subdivision analysis, conservation easements, fractional interests, and special use studies. Public speaking includes continuing education courses, court testimony, presentations to various agricultural groups, lenders and others.