

A Summary Appraisal Report

of

**West ½, Section 16, Township 5 North, Range 10 West
Deer Lodge County, Montana**

for

**Mr. John Grimm
State of Montana Department of Natural Resources and Conservation
P.O. Box 201601
Helena, MT 59620-1601**

as of

September 6, 2011

by

**Kraig P. Kosena, MAI
Kembel, Kosena & Company, Inc.
West Spruce Commons, 432 West Spruce Street, Suite 101
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Table of Contents

Page

INTRODUCTION:

Letter of Transmittal	
Summary of Salient Facts and Conclusions	1
Assumptions and Limiting Conditions	4
Privacy Notice	7
Types of Nonpublic Personal Information I Collect	7
Parties to Whom I Disclose Information	7
Confidentiality and Security	7

DESCRIPTION, ANALYSIS, and CONCLUSION:

Record Owner and Brief Property History	8
Location of the Property	8
Legal Description	8
Definition of an Appraisal	9
Intended User of the Appraisal Report	9
Intended Use of the Appraisal Report	9
Scope of the Appraisal	9
Purpose of Appraisal and Definition of Current Fair Market Value	13
Date of Valuation	14
Exposure Time	14
Marketing Time	15
Property Rights Appraised	15
Regional, City, and Neighborhood Data and Analysis	16
Property Description	16
Site	16
Site Improvements	17
Structural Improvements	18
Taxes and Assessments	18

Table of Contents continued on next page

Highest and Best Use	18
As Though Vacant	19
As Improved	22
Property Valuation	22
Sales Comparison Approach	24
Last Sale of the Subject Property	24
Land Valuation	24
Table No. 1 - Tabulation of Sales	27
Correlation and Conclusion of Land Valuation	35
Table No. 2 - Sales Adjustment Grid	36
Certification	37

ADDENDA:

- Subject Property General Area Map
- Subject Property Neighborhood Map
- Subject Property Site Map
- Subject Property Photographs
- Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program
- Supplemental Appraisal Instructions
- Appraiser's Qualifications

INTRODUCTION

KEMBEL, KOSENA & COMPANY, INC.

REAL ESTATE APPRAISERS & CONSULTANTS

September 9, 2011

Mr. John Grimm
State of Montana Department of Natural Resources and Conservation
P.O. Box 201601
Helena, MT 59620-1601

Re: The appraisal of the West ½ of Section 16, Township 5 North, Range 10 West,
Deer Lodge County, Montana.

Dear John:

In accordance with your request for a Summary Appraisal Report setting forth the **current fair market value** of the property under study, I am submitting the following report containing 39 pages plus Addenda.

The value opinion reported below is qualified by certain assumptions, limiting conditions, certifications, and definitions, which are set forth in the report. I particularly call your attention to the following extraordinary assumptions and hypothetical conditions:

extraordinary assumptions:	this appraisal employs the assumption that the property has legal access; and
hypothetical conditions:	this appraisal employs the hypothetical condition that the subject property is dry grazing land and that the lessee-installed pivot irrigation system does not exist.

Based on the information gathered, the property under study is described legally beginning on page 8 of this report.

The property rights appraised are the unencumbered fee simple estate. I assume no responsibility for the marketability of the title.

Mr. John Grimm

August 16, 2011

Page 2

This report is intended to be in complete conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Scope of Work specifications as detailed in the Agreement between the State of Montana Department of Natural Resources and Conservation and this firm. A complete copy of Agreement is included in the Addenda of this report.

An environmental assessment of the property has not been provided and it is assumed there are no environmental concerns related to the subject. I am not qualified to detect hazardous materials or toxic waste. Any environmental risk discovered at a later date may or may not require a revised estimate of value, which may or may not simply be a reduction of the value by the estimated cost-to-cure of the environmental condition. Properties known to have environmental risk may carry a stigma in the marketplace which may or may not affect the **current fair market value**.

By reason of my investigations, studies, and analyses, an opinion has been formed that the **current fair market value** of the subject property, as of September 6, 2011, assuming a reasonable marketing time of approximately one to two years, is as follows:

Two Hundred Seventy-Two Thousand Dollars
(\$272,000)

Your attention is invited to the data and discussions that follow and which are the foundations of this conclusion. The information that is retained in my office files, which was used in conjunction with this Summary Appraisal Report, can be provided to you for an additional fee.

I, the undersigned project appraiser, Kraig P. Kosena, hold the MAI designation and am current in the Continuing Education Program of the Appraisal Institute. My member number is 10,933.

Mr. John Grimm

September 9, 2011

Page 3

I am also licensed as a Certified General Real Estate Appraiser in the State of Montana. My State of Montana license number is 225 and expires March 31, 2012.

This license has ever been suspended, revoked, canceled, or restricted.

I appreciate the opportunity to be of service to you. Please contact me if you have any questions or if I can be of further service.

Respectfully submitted,
Kembel, Kosena & Company, Inc.

A handwritten signature in black ink, appearing to read "Craig P. Kosena", followed by a long horizontal flourish.

Kraig P. Kosena, MAI, Project Appraiser
Montana Certified General Real Estate Appraiser No. 225

KPK/mk

Summary of Salient Facts and Conclusions

Record Owner	:	State of Montana.
Location of Property	:	Approximately five miles northeast of Anaconda, Deer Lodge County, Montana.
Property Rights Appraised	:	Unencumbered fee simple estate.
Historical Use	:	Agricultural.
Present Use	:	Agricultural.
Highest and Best Use		
As Though Vacant	:	Agricultural.
As Improved	:	Not applicable.
Date of Value	:	September 6, 2011.
Date(s) of Inspection	:	July 28, 2011 and September 6, 2011.
Date of Report	:	September 9, 2011.
Exposure Time	:	The estimated reasonable exposure time of the subject property is approximately one to two years.
Marketing Time	:	Similar to the estimate of exposure time - approximately one to two years.
Site	:	Gross land area is \pm 320.0 acres accessed by a private dirt/gravel road which abuts the property along the north boundary and the northern portion of the eastern boundary.

For the purposes of this report, I have assumed legal access to the subject property.

The property is surrounded by private property, most of it being part of the Ueland Ranch operation.

As rural property, it is unzoned.

Topographically, the property is nearly level with just moderate slope from north to south. The elevation along the northern boundary is \pm 5,025' above mean sea level. Along the southern boundary the elevation is \pm 4,960'.

Irrigation ditches flow through the northwest and southeast corners of the property. I am unaware of any patented water rights from these ditches associated with the subject property.

Ground cover is mainly wild hay which is irrigated by a pivot irrigation system which was installed by the lessee. Beyond the pivot, ground cover is a combination of native weeds and grasses.

Due to the rural location, there are no utilities extended to the property.

Site Improvements : None.

Structural Improvements : None.

Current Fair Market Value by the Sales Comparison Approach - \$850/acre.

Final Indication of Current Fair Market Value - \$272,000.

Assumptions and Limiting Conditions

This is to certify that I, in submitting these statements and opinion of value, acted in accordance with and was bound by the following principles, limiting conditions, and assumptions:

- This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the USPAP. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop my opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in my office work file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. I am not responsible for the unauthorized use of this report.
- No responsibility is assumed for matters that are legal in nature nor is any opinion rendered on title of land appraised.
- Unless otherwise noted, the property has been appraised as though free and clear of all encumbrances.
- All maps, areas, and other data furnished to me have been assumed to be correct. I have not made a survey of the property.
- Neither the employment to make this appraisal nor the compensation is contingent upon the amount of valuation reported.
- I made a personal inspection of the property that is the subject matter of this report.
- To the best of my knowledge and belief, the statements of fact contained in this appraisal report upon which the analysis, opinions, and conclusions

expressed herein are based are true and correct. Furthermore, no important facts have knowingly been withheld or overlooked.

- There shall be no obligation to give testimony or attendance in court by reason of this appraisal with reference to the property in question unless arrangements have been made previously.
- This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute and conforms to the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation.
- Disclosure of the contents of this appraisal report is governed by the bylaws and regulations of the Appraisal Institute.
- The liability of the appraisal firm of Kembel, Kosena & Company, Inc. and its employees 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. I assume no responsibility for any cost incurred to discover or correct any deficiencies of any type present in the property: physically, financially, or legally.
- I have inspected as far as possible, by observation, the land. However, it was not possible to personally observe conditions beneath the soil. The appraisal is based on there being no hidden, unapparent, or apparent conditions of the property site, subsoil, or toxic materials which would render it more or less valuable. No responsibility is assumed for any such conditions or for any expertise or engineering to discover them.

- It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management: neither inefficient nor super efficient.
- Unless otherwise stated in this report, I have no knowledge concerning the presence or absence of toxic materials on the subject's site. If such are present the value of the property may be adversely affected and re-appraisal at additional cost maybe necessary to estimate the effects of such.
- The appraisal 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. Further, that all applicable zoning, building, building codes, 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.

Neither all nor any part of the contents of this report (especially the conclusion as to the value, my identity, or the firm with which I am connected) or any reference to the MAI designation and/or the Appraisal Institute shall be disseminated to the public through advertising media, sales media, news media, public relations media, or any other public means of communication without my prior written consent and approval.

Privacy Notice

Pursuant to the Gramm-Leach-Bliley Act of 1999, effective July 1, 2001, appraisers, along with all providers of personal financial services are now required by federal law to inform their clients of the policies of the firm with regard to the privacy of client nonpublic information. As a professional, I understand that privacy is very important and am pleased to provide this information.

Types of Nonpublic Personal Information I Collect: In the course of performing appraisals, I may collect what is known as "nonpublic personal information." This information is used to facilitate the services that I provide and may include the information provided to me.

Parties to Whom I Disclose Information: I do not disclose any nonpublic personal information obtained in the course of my engagement with my clients to non-affiliated third parties, except as necessary or as required by law. By way of example, a necessary disclosure would be to my employees, and in certain situations, to unrelated third party consultants who need to know that information to assist me in providing appraisal services. All of my employees and any third party consultants I employ are informed that any information they see as part of an appraisal assignment is to be maintained in strict confidence within the firm.

A disclosure required by law would be a disclosure by me that is ordered by a court of competent jurisdiction with regard to a legal action.

Confidentiality and Security: I will retain records relating to professional services that I have provided for a reasonable time so that I am better able to assist you. In order to protect nonpublic personal information from unauthorized access by third parties, I maintain physical, electronic, and procedural safeguards that comply with my professional standards to insure the security and integrity of information.

Please feel free to call me at any time if you have any questions about the confidentiality of the information that you provide.

DESCRIPTION, ANALYSIS, and CONCLUSION

Record Owner and Brief Property History

According to the Deer Lodge County Clerk and Recorder's Office, the subject property is owned by the State of Montana. The property is administered by the Department of Natural Resources and Conservation.

The property has been in this ownership for many years.

To the best of my knowledge, the property has always served as private (by lease) agricultural land.

As of the date of inspection, the property was being used as irrigated crop land. As was stated previously, the pivot irrigation system was installed by the lessee several years ago in an attempt to realize more production from the land.

Location of the Property

The subject property is located approximately five miles northeast of Anaconda, Deer Lodge County, Montana.

The location of the subject property is illustrated by a Subject Property General Area Map and a Subject Property Neighborhood Map in the Addenda of this report.

Legal Description

Based on the information provided for the purposes of this assignment, the legal description of the subject property is as follows:

The West ½ of Section 16, Township 5 North, Range 10 West, P.M.M., Deer Lodge County, Montana.

A Subject Property Site Map depicting the subject property parcel is included in the Addenda of this report.

Definition of an Appraisal

As recognized by the 13th Edition of the Appraisal Institute's The Appraisal of Real Estate, the following definition of an appraisal is hereby presented to aid the reader in understanding exactly what is meant by the term:

appraisal: the act or process of developing an opinion of value.

Intended User of the Appraisal Report

Per the Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program, the intended users of this product are the State of Montana, the Montana Board of Land Commissioners, and the Department of Natural Resources and Conservation.

Intended Use of the Appraisal Report

Per the Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program, the intended use of this appraisal report is to provide the clients with a credible opinion of **current fair market value** of the appraised subject property for use in the decision making process concerning the potential sale of said subject property.

Scope of the Appraisal

General Information: The clients in this assignment are the State of Montana, the Montana Board of Land Commissioners, and the Department of Natural Resources and Conservation. Regardless of who pays for this appraisal, the intended user is the client(s) only. This appraisal may not be appropriate for other users. Therefore, this appraisal may not be used for relied on by anyone other than the stated intended user(s), regardless of the means of possession of this report, without my express written consent. I, the appraisal firm of Kembel, Kosena & Company, Inc., and related parties assume no obligation, liability, or accountability to any third party without such

written consent.

The intended use of this appraisal report is to provide the clients with a credible opinion of **current fair market value** of the appraised subject property for use in the decision making process regarding the potential sale of said subject property.

I have diagnosed the intended user(s) problem and has generated the following primary appraiser information as a means of assisting in its solution: an opinion of **current fair market value**, the related exposure time, and the highest and best use.

The property was identified by the client providing the name of the property owner and the general location of the site. This information was used to access the State of Montana Department of Revenue property record card (PRC).

The opinion of **current fair market value** is as of the date of inspection, September 6, 2011.

The property rights appraised are the unencumbered fee simple estate.

This appraisal is intended to conform to the supplemental standards associated with an "appraisal" as defined by the Federal Banking Regulatory Agencies.

In general, I have performed a high level of intensity of the scope of work associated with the development of the primary appraiser generated information.

Because the subject property is vacant agricultural land, a Cost Approach analysis was not developed in this assignment.

Because the value of the subject property is, for all intents and purposes, completely land value, only the Sales Comparison Approach was considered most applicable. An overall dollars per acre (\$/acre) technique was used in the Sales Comparison Approach.

Based on the previous comments, the Income Capitalization Approach was not developed in this assignment.

Mark F. Hermann, Research Assistant, contributed in all aspects of this appraisal under my supervision. This includes the property inspection, all planning, data gathering, and analysis that were required to form my opinions and conclusions.

I am competent in terms of training and experience in the type of property and market area that is the subject of this appraisal, the analytical methods used, and the use(s) of the appraisal.

Much of the scope of work is discussed throughout the report (limiting conditions, general assumptions, final reconciliation, etc.).

This appraisal is intended to comply with the Uniform Standards of Professional Appraisal Practice, the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and local State laws.

For appraisal purposes, an extraordinary assumption is defined in USPAP as follows:

extraordinary assumption: an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

One extraordinary assumption was utilized in this appraisal. More specifically, for the purposes of this assignment I have made the assumption that the subject property has legal access.

Per the same source, a hypothetical condition is defined as:

hypothetical condition: that which is contrary to what exists but is supposed for the purpose of analysis.

This appraisal employs the hypothetical condition that the subject property is dry grazing land and that the lessee-installed pivot irrigation system does not exist.

Subject Property Data Gathering: The subject property's data was obtained from research, interviews, an on-site property inspection, and from plans and specifications (when available).

The State of Montana Department of Revenue PRC was obtained directly from the State of Montana.

I conducted a preliminary on-site inspection on July 28, 2011 with a follow-up aerial inspection conducted on September 6, 2011.

In conjunction with this appraisal, I did drive through the neighborhood noting types of properties, their ages and conditions.

The second hand information was verified depending on the perceived credibility of the initial source. In most cases, the initial source was considered to be credible and reliable.

Market Data Gathering: The data was located through a search of the local MLS and a network of professional associates including real estate agents and brokers and other real estate appraisers. Generally speaking, the data researched is current within the past five years. This data is developed on individual data sheets and summarized in tabulations in the report.

The sales prices, dates of sale, and days on market information were found either on the MLS sheet or through the interview process. Recording documents show buyer and seller information as well as date of sale. As a non-disclosure state, actual sales price information is not available through either the State of Montana or local counties. PRC's, the local MLS system, and office files were checked for the previous sales of the comparable sale properties.

The physical characteristics were gathered from the local MLS system, the PRC, as well as from a visual inspection (to the extent possible) of each comparable used in conjunction with this appraisal. In some cases, office files are referenced if this firm has previously appraised on the properties being considered as a comparable in this report.

Most all of the second hand data was collaborated from at least two sources. Transfer documents, PRC's, and the local MLS were used to check completeness and consistency.

Analysis: The valuation approach which was considered herein was just the Sales Comparison Approach.

Within the context of the Sales Comparison Approach, I employed an overall dollars per acre (\$/acre) analysis to value the land. Other units of measure that are sometimes considered in the site valuation are the dollars per square foot (\$/sf), the dollars per front foot (\$/ff), etc. Primary adjustments were considered for date of sale, size, utility, utilities available, topography, location, etc. The product of this research was six land sales ranging in size from ± 80 acres to ± 960 acres. With respect to date of sale, the most recent sale included in the data set is dated March of 2011 and the oldest sale is dated July of 2010.

Numerous other sales were considered in the analysis but culled from direct consideration for various reasons.

In the end, the indication of **current fair market value** by this approach was felt to be reasonable and reasonably well supported by the data available.

Purpose of the Appraisal and Definition of Current Fair Market Value

The purpose of this appraisal is to estimate the **current fair market value** of the subject property. **Current fair market value**, as defined by the State of Montana and used in this report, is:

current fair market value: 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.

Source: Montana Code Annotated 70-30-313.

Date of Valuation

All values are related in time to the last date of inspection of the property, September 6, 2011.

Exposure Time

Exposure time is always presumed to precede the effective date of the appraisal. Exposure time is defined as follows in the 5th Edition of The Dictionary of Real Estate Appraisal as published by the Appraisal Institute:

exposure time: 1. the time a property remains on the market; and 2. the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at **market value** on the effective date of the appraisal; a retrospective opinion based on analysis of past events assuming a competitive and open market.

The typical method of estimating exposure times is to investigate exposure times of comparable sales. The logic being that if the sales are current and comparable, the exposure time expectation for the subject property should be within the range indicated by the comparable sales, if the subject property was made available for sale and priced reasonably and competitively.

In this case, based on my sales research, which included not only those sales detailed in the Sales Comparison Approach but also numerous broker and agent interviews, recognizing the perceived demand for agricultural land holdings in the Anaconda/Deer Lodge area, I have concluded that a reasonable exposure time for the subject property would be approximately one to two years assuming that the property would be actively marketed at a reasonable and competitive price.

Marketing Time

Unlike exposure time, the marketing time estimate is prospective in nature. Marketing time is defined as:

marketing time: an opinion of the amount of time it might take to sell a real or personal property interest at the concluded **market value** level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.

This definition is also per the 5th Edition of The Dictionary of Real Estate Appraisal as published by the Appraisal Institute.

As I have no evidence to the contrary, my estimate of marketing time closely resembles the estimated exposure time, or approximately one to two years.

Property Rights Appraised

The property rights being appraised are the unencumbered fee simple estate.

According to the 13th Edition of the Appraisal Institute's The Appraisal of Real Estate:

fee simple estate: absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

No responsibility for the marketability of the title of the subject property in this report is assumed.

Regional, City, and Neighborhood Data and Analysis

This section of the report has been intentionally omitted due to the summary nature of this report as well as the client's familiarity with the region, city, and neighborhood.

Property Description

The following description of the subject property is based on my research of the records of the State of Montana and Deer Lodge County as well as a thorough property inspection and a thorough review of several maps of the subject property.



Subject property aerial photograph taken July 28, 2011 facing mostly northeasterly.

Site: Gross land area is \pm 320.0 acres accessed by a private dirt/gravel road which abuts the property along the north boundary and the northern portion of the eastern boundary.

For the purposes of this report, I have assumed legal access to the subject property.

The property is surrounded by private property, most of it being part of the Ueland Ranch operation.

As rural property, it is unzoned.

Topographically, the property is nearly level with just moderate slope from north to south. The elevation along the northern boundary is $\pm 5,025'$ above mean sea level. Along the southern boundary the elevation is $\pm 4,960'$.

Irrigation ditches flow through the northwest and southeast corners of the property. I am unaware of any patented water rights from these ditches associated with the subject property.

Ground cover is mainly wild hay which is irrigated by a pivot irrigation system which was installed by the lessee. Beyond the pivot, ground cover is a combination of native weeds and grasses. This appraisal employs the hypothetical condition that the subject property is dry grazing land and that the lessee-installed pivot irrigation system does not exist.

Due to the rural location, there are no utilities extended to the property.

For the purposes of this report, the soils have not been independently studied nor do I make any representation as to their suitability. However, based on existing developments in the area, it appears that the soils in the area offer adequate load-bearing qualities for most types of development. There do not appear to be any drainage problems associated with the site.

On the issue of soil degradation, an Environmental Site Assessment Report has not been performed. **It is assumed there are no environmental concerns related to the subject. I am not qualified to detect hazardous materials or toxic waste.** Any environmental risk discovered at a later date may or may not require a revised estimate of value, which may or may not simply be a reduction of the value by the estimated cost-to-cure of the environmental condition. Properties known to have environmental risk may carry a stigma in the marketplace, which may or may not affect the value. For more specific environmental site information, it is recommended that, at a minimum, a phase one audit be completed by a qualified soils engineer.

Site Improvements: The term site improvements generally refers to such things as landscaping, asphalt paved parking areas, fencing, etc.

In the subject's case, there are no site improvements to mention.

Structural Improvements: None.

Again, included in the Addenda of this report are numerous color photographs of the property as of July 28, 2011 and September 6, 2011 to give the reader a representation of the previous discussions.

Taxes and Assessments

Because the subject property is currently owned by the State of Montana, it is exempt from property taxes.

Based on the valuation analysis which follows in this report, I have estimated annual property taxes, assuming the property to be privately-owned and an agricultural assessment, of less than \$500 annually.

Highest and Best Use

The following definition of highest and best use is taken from the 13th Edition of the Appraisal Institute's The Appraisal of Real Estate:

highest and best use: the reasonably probable and legal use of vacant land or an unimproved property that is physically possible, legally permissible, appropriately supported, financially feasible, and that results in the highest value.

Implied in this definition is the recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization of individual property owners.

Also implied is that the determination of highest and best use results from the appraiser's judgement and analytical skill, i.e., that the use determined from analysis represents an opinion, not a fact to be found. In appraisal practice, the concept of highest and best use represents the premise upon which value is based. In the context of most probable selling price (market value), another appropriate term to reflect highest and best use would be most "probable use." In the context of investment value, an alternative term would be most "profitable use."

As Though Vacant: In considering the highest and best use of the subject property, as though vacant and available to be developed to its highest and best use, I gave consideration to any and all uses to which the property is capable of being adapted, or developed, if vacant and unimproved.

The five categories of use recognized are residential, commercial, industrial, agricultural, and special-purpose.

The residential classification typically includes single family residences, duplexes, and four-plexes.

Commercial developments generally include such things as office buildings, retail centers, restaurants, hotels, motels, and multi-family housing developments.

The industrial classification includes such uses as manufacturing parks, warehouses, etc.

Agricultural land uses include cropland, pastureland, timberland, and orchards.

The special-purpose use refers to properties with unique design, or construction, which restricts their utility to the intended use for which they were built and generally includes such things as schools, churches, parks, museums, airports, etc.

Consideration must be given to these uses, recognizing the limitations imposed by the four generally-accepted criteria for highest and best use. These are physically possible,

legally permissible, financially feasible, and maximally productive.

To elaborate on these, physically possible recognizes such factors as size, shape, area, terrain, and utilities available.

Legally permissible involves restrictions such as homeowners associations, zoning regulations, building codes, historic district controls, and environmental regulations.

Financially feasible relates to all uses that are expected to produce a positive return.

Maximally productive relates to those uses which satisfy the other three criteria and produce the highest price or value consistent with the return expected by investors in the area.

Usually, or at least when dealing with properties in a more urban setting where formal zoning exists, it makes the most sense to analyze the legally permissible criteria first as it will tend to narrow the field of potential uses very quickly. In this case as there is no formal Deer Lodge County zoning to govern the development/use of the site, I would submit that the order does not matter as much.

Legally Permissible: This criteria relates to zoning designations or other governmental restrictions for the site, but also recognizes any declaration of covenants, conditions, or restrictions. Conservation easements would be included here as legally limiting the potential development of a property.

To the best of my knowledge, the only legal consideration that would limit the potential of the site is the aforementioned conservation easement. There are no other zoning, covenants, deed restrictions, etc.

Physically Possible: The physical features of a site which may affect the potential use(s) include, but are not limited to, location, frontage, size, shape, access, availability of utilities, easements, soils and subsoils, topography, and designated flood hazard considerations.

The subject property involves a land area of ± 320.0 acres. The property is located in the northern portion of Deer Lodge County. More specifically, the property is located in the central portion of the scenic and desirable western Montana.

Overall, the property is felt to have good physical attributes for many, but not all, types of development.

Financially Feasible and Maximally Productive: Financial feasibility relates to the investment in the land producing a positive return to the investor, or developer. A positive return to the investment suggests a financially feasible use of the property. This may be a cash return or a return as measured by the utility of the land to the owner.

The highest, or maximum, return on the investment indicates the maximum productivity of the property. This factor is more difficult to measure, as different investors may have differing return requirements. In the case of vacant land, this may be measured by the highest price the land will bring when exposed to the open market.

I think applying some common sense will further narrow the potential uses for the property. At this time, given adjacent land uses and land values themselves, there does not seem to be any significant demand for commercial and/or industrial property in the immediate area of the subject property. Having said this, I think we can safely eliminate most commercial and industrial developments from further consideration.

Conclusion: Recognizing the subject's size at ± 320.0 acres; the location in the Anaconda/Deer Lodge area of western Montana; the moderate topography and ground cover; the lack of formal zoning; the current local and national economy, and especially the demand for property in the area, it is my opinion that the highest and best use of the property as if vacant would be for continued agricultural use in conformance with other developments in the area.

As Improved: The highest and best use of property as improved is defined in The Dictionary of Real Estate, 5th Edition, as:

highest and best use of the property as improved: the use that should be made of a property as it exists. An existing improvement should be renovated or retained as is so long as it continues to contribute to the total **market value** of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

This subsection of highest and best use is not considered applicable.

Property Valuation

The appraisal process is a systematic process in which the problem is defined, the work necessary to solve the problem is planned, and the data involved is acquired, classified, analyzed, and interpreted into an estimate of value.

There are three traditional, or generally-accepted, techniques used in estimating the **market value** of real property. These are generally referred to as the Cost Approach, the Sales Comparison Approach, and the Income Capitalization Approach.

The Cost Approach is an estimation of the value of the land, as if vacant and available to be developed to its highest and best use, by market comparisons to which the depreciated, or contributory, value of the improvements is added.

The Sales Comparison Approach is a technique that produces an indication of value by a direct comparison of similar property types, that have recently sold, to the subject property; appropriate adjustments for differences are made when and where necessary.

The Income Capitalization Approach produces a value indication by capitalizing the net income, or earning power, of the property by a rate reflected by market transactions or behaviors.

The three approaches to value do not necessarily apply to all types of property. A decision must be made whether a particular approach is applicable in each instance. The key to this decision is whether or not the approach is practical as a yardstick of market performance, or merely a theoretical application. These observations are particularly pertinent in the appraisal of properties in transition to a higher and better use, as well as special use properties where value-in-use is more applicable than **market value**.

In recognizing the type of property under consideration in this appraisal assignment, i.e., vacant land, I have concluded that just the Sales Comparison Approach is pertinent to the process.

Sales Comparison Approach

According to the 13th Edition of the Appraisal Institute's The Appraisal of Real Estate,

Sales Comparison Approach: the process of deriving a value indication for the subject property by comparing similar properties that have been recently sold with the property being appraised, identifying appropriate units of comparison, and making adjustments to the sales prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land, or land being considered as though vacant when an adequate supply of comparable sales is available.

Inherent to the Sales Comparison Approach is the Principle of Substitution. According to the 13th Edition of the Appraisal Institute's The Appraisal of Real Estate,

principle of substitution: the appraisal principle that states that when several similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution. This is the primary principle upon which the Cost and Sales Comparison Approaches are based.

Last Sale of the Subject Property: At this juncture, before discussing the comparisons and analyses of the sales being considered, I typically first discuss and analyze the most recent sale of the subject property.

In this case, the subject property has been in the State of Montana ownership for over fifty years. As such, there is not a recent sale of the subject property itself to report which would lend anything to this process.

Land Valuation: Having said that, I will move on to the actual land valuation analysis based on my investigation of market transactions. This process involves the comparison, and adjustment for differences, of sales of similar properties. There are

several ways to analyze and adjust sales. The most common and preferred method is a matched-pairs analysis, comparing one sale to another to isolate a specific adjustment factor. The two sales compared should be similar in all regards with the exception of the factor for which an adjustment is to be derived. When the sales are not truly comparable, but only similar, this analysis is often much less reliable. The more dissimilar the features between the properties, the less accurate or meaningful is the analysis. With widely varying factors or properties, this comparative analysis is used to show general trends. A bracketing procedure or technique may then be used to derive an overall conclusion of value.

Contemporary appraisal texts have just recently begun to recognize bracketing as a valuation technique. Overall, I am of the opinion that the bracketing technique recognizes the imperfect data found in the marketplace. The 13th Edition of the Appraisal Institute's The Appraisal of Real Estate defines bracketing as:

bracketing: a process in which an appraiser determines a probable range of values for a property by applying qualitative techniques of comparative analysis to a group of comparable sales. The array of comparables may be divided into three groups - those superior to the subject, those similar to the subject, and those inferior to the subject. The adjusted sale prices reflected by the sales requiring downward adjustment and those requiring upward adjustment refine the probable range of values for the subject and identify a value bracket in which the final value opinion will fall.

Because of the many variables involved in comparing sale properties to the subject property, the importance of the appraiser's judgement and opinion becomes obvious. In other words, the sales themselves do not alone directly indicate a value for the subject property, but these sales, once totally analyzed and correlated with experience and judgement, do help your appraiser in his final value estimate.

Land sales with similar amenities located within the immediate neighborhood of the subject property allow for the best comparison and value conclusion. In comparison to the subject property, factors considered include property rights, terms of the sale,

location, size, frontage, shape, zoning, topography, etc.

The unit of comparison used in this analysis is based upon a price paid as dollars per acre. To determine this indication, the sales price (or estimated contributory value of the land) is divided by the total size of the land (in acres).

$$\frac{\text{sales price}}{\text{size in acres}} = \text{dollars per acre indication (\$/acre)}$$

Regarding the sales themselves and the adjustment process, it has been my experience that all sales differ somewhat from each other. To the extent possible, the differences should be recognized and adjusted for based on the data available. However, in the market it is often difficult, and sometimes impossible, to accurately isolate a given factor. In short, one very seldom finds sale properties which are identical in all respects but one, and thus is able to prove conclusively the value, or lack of, for any one factor due to a difference in sale price. Often, there are positive and negative factors which offset each other. Nevertheless, the differences in values are real, and an attempt, based on as much fact as can be found, will be made to determine the value of these factors. Then, the appraiser may call upon his/her experience to make more subjective judgements. The following generalities are cited to acquaint the reader with a background for my reasoning and judgement to follow:

1. value increases per unit of comparison as the size of the parcel decreases;
2. value tends to decrease as distance from an urban center increases (an exception to this generalization might be certain recreational properties);
3. value tends to decrease as the topography becomes steeper, more rocky, more barren, more arid, etc.;
4. value tends to decrease as access becomes more difficult;

5. value tends to increase with amenities such as creek or lake frontage, or a good view; and
6. value tends to increase when zoning allows greater density and/or a more optimum use of the land.

Obviously, the opposite may be said of each of these illustrations.

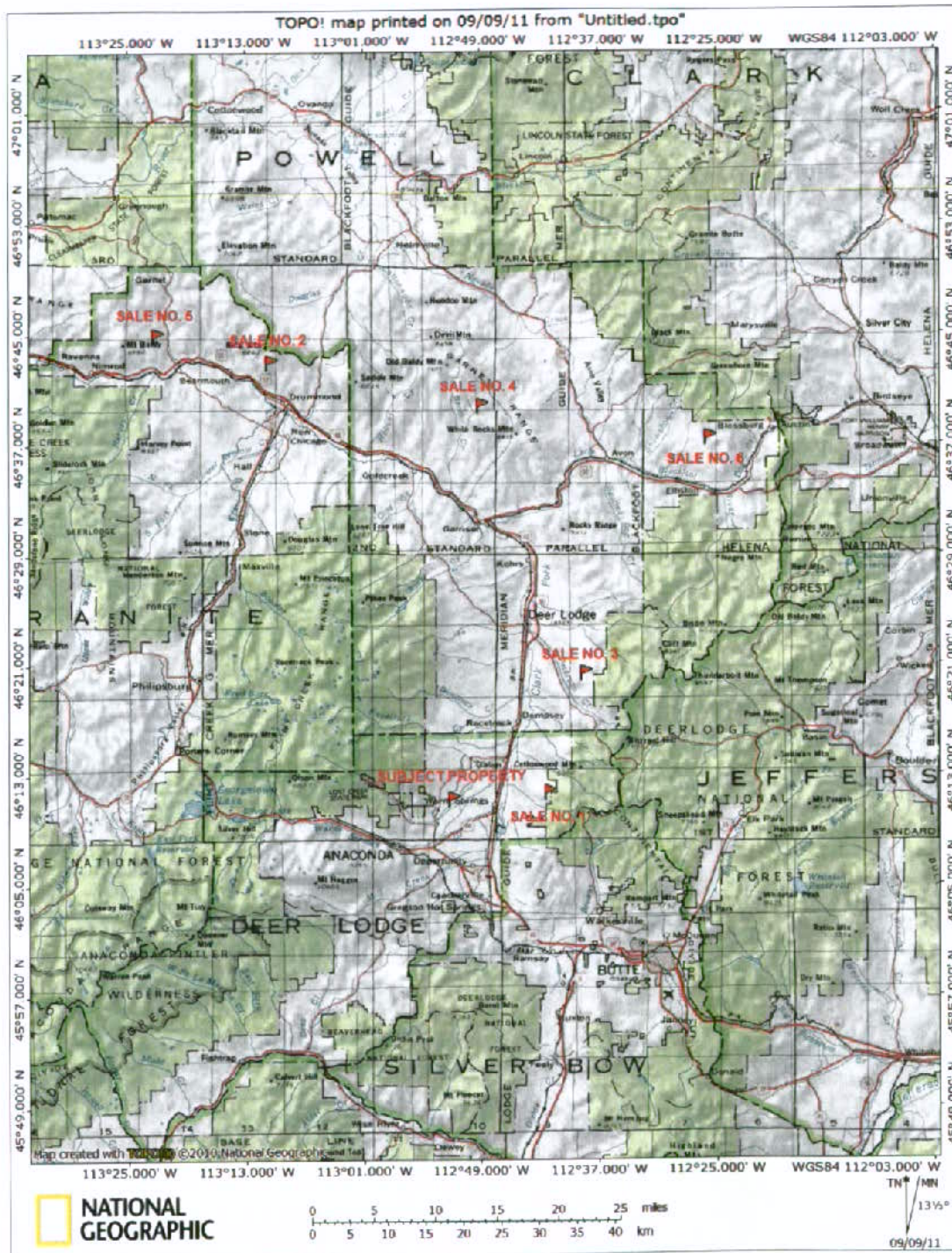
Following is a tabulation of land sales used in estimating a value for the site or underlying land. As can be seen, the sales are arranged chronologically on the tabulation with the most recent sale being Sale No. 1.

TABLE NO. 1 - TABULATION OF SALES								
SALE NO.	LOCATION	GRANTOR GRANTEE	SALE DATE	RECORDING DATA	SALE PRICE	LAND AREA	IMPROVEMENTS VALUE	SALE INDICATION
1.	Warm Springs area Deer Lodge County	Rogers Hans	3/11	187112 WD	\$160,000	320	\$0	\$500
2.	Drummond area Granite County	Stimson Lumber Co. Davis	2/11	60697 WD	\$400,000	641	\$0	\$624
3.	Deer Lodge area Powell County	State of Montana Burnt Hollow	11/10	165850 PSL	\$395,000	316	\$0	\$1,250
4.	Garrison area Powell County	Stimson Lumber Co. Eve	9/10	165620 SWD	\$580,000	960	\$0	\$604
5.	Bearmouth area Granite County	Stimson Lumber Co. Davis	9/10	60021 WD	\$81,000	80	\$0	\$1,013
6.	Elliston area Powell County	Stimson Lumber Co. Senecal	6/10	165239 SWD	\$60,000	200	\$0	\$300
LOW INDICATOR					\$81,000	80	\$0	\$300
HIGH INDICATOR					\$580,000	960	\$0	\$1,250
MATHEMATICAL MEAN					\$335,200	503	\$0	\$858
MATHEMATICAL MEDIAN					\$330,500	520	\$0	\$775

As can be seen, the six sales in the data set range in size from a low of ± 80 acres all the way up to ± 960 acres. The unadjusted low and high sale indications are $\pm \$300/\text{acre}$ and $\pm \$1,250/\text{acre}$, respectively.

The average property represented on the tabulation involved ± 503 acres of land, no significant improvements, sold for $\pm \$335,200$, or $\pm \$858/\text{acre}$.

A Sales Location Map showing the locations of the six sale properties relative to the subject property is below.



Once the most comparable sales have been identified, the elements of comparison are considered. The 13th Edition of The Appraisal of Real Estate defines elements of comparison as:

elements of comparison: the characteristics or attributes of properties and transactions that cause the prices of real estate to vary; include real property rights conveyed, financing terms, conditions of sale, expenditures made immediately after purchase, market conditions, location, physical characteristics, and other characteristics such as economic characteristics, use, and non-realty components of value.

Following are my general comments for the elements of comparison and the adjustments being considered in this analysis.

Real Property Rights Conveyed: As was previously noted, the ownership interest for the subject property is the unencumbered fee simple estate. Based on our sale confirmations, it is my understanding that all of the land sales being presented herein also involved unencumbered fee simple title. As such, no adjustments are required for real property rights conveyed.

Financing Terms/Conditions of Sale: For the subject property, the **current fair market value** opinion is based on cash to the seller or terms equivalent to cash. Again, based on our sale confirmations, all of the sales being considered also involved cash to the seller(s) or terms considered equivalent to cash. Therefore, no adjustments are required for financing terms/conditions of sale.

Market Conditions: This element of comparison is usually referred to as the "time adjustment." The best measure of a market conditions adjustment is a sale/resale of the same property. In the absence of sale/resale indicators, one can consider a paired sales analysis. If data cannot be found to support a paired sales analysis, a third and admittedly less reliable indicator that I will use relates to anecdotal information gathered during the research process, i.e., agent, broker, and market participant interviews.

The date of value for the subject property is September 2011. The six sales range from March of 2011 (Sale No. 1) back to July 2010 (Sale No. 6). I would submit that a review of the data set does not, in and of itself, provide a clear indication of a market conditions adjustment. Sale No. 1 is actually a sale/resale having sold previously in December of 2004 for \$115,000. This sale/resale suggests market appreciation over the holding period of $\pm 5.4\%$ per year. However, it is my opinion that this property likely appreciated at a higher rate from the original date of sale (December of 2004) through late 2007 or early 2008 and that value has been stable, at best, from then to the date of this appraisal. Overall, given that all of the sales in the data set are from 2010 and 2011, I will not be making any direct adjustment, upward or downward, for market conditions.

Expenditures Made Immediately After Purchase: This element of comparison relates more to improved properties and items of deferred maintenance. Because all six of the land sales involved unimproved land, no adjustments were considered necessary for this element of comparison.

Location: Again, the subject property is located approximately five miles northeast of Anaconda in Deer Lodge County. In general, I would submit while there are three counties represented on the Tabulation of Sales (Powell, Granite, and Deer Lodge), all of the sale properties are located in the same general market area. While there may be nuances, comparing the individual sales in the data set does not suggest a measurable difference due to location. Therefore, I have not recognized a specific location adjustment when comparing the sale properties to the subject property.

Physical Characteristics: For property of this type, the primary physical characteristics which are included in this analysis are size, access, topography, surface water amenity, timber, and utilities.

With regard to the size difference first, the subject property involves one-half of a section of land, ± 320.0 acres. The six sales presented in the data set range from a low of ± 80.0 acres (Sale No. 5) up to ± 960.0 acres (Sale No. 4). Generally speaking, it is believed that, all else being equal, size will have a downward influence on the unit

pricing. However, I have seen exceptions to this where a larger parcel sold for a per unit value similar to a smaller parcel due to the perceived flexibility offered by the larger parcel.

In this case, the limited amount of data in the data set, six sales, does not provide adequate information to determine an appropriate adjustment for the size difference. Having said that, I will recognize more of a qualitative adjustment (opposed to a quantitative adjustment) bearing in mind that the subject property at ± 320.0 acres fits in the central portion of the size range.

The second physical characteristic I am considering relates to access. In cases where access is known to be difficult, such as during the winter months, often the sales price is influenced downward. In this case, the access to the subject property and each of the land sales being considered was considered to be about average for the property type. Generally speaking, all of the properties are located on graveled county roads several miles from the nearest pavement and/or state highway. With this in mind, I have not made any specific adjustments for the access issue.

The third physical characteristic which deserves consideration relates to the topography. Due to distances involved, for this element of comparison I have relied on broker confirmations coupled with a topographical mapping program and an aerial inspection. Again, due to the limited amount of market data available, my adjustment for topography is more qualitative in nature rather than a specific percentage or dollar figure adjustment.

The fourth physical characteristic to consider relates to surface water amenity, i.e., river frontage, creek frontage, pond, etc. In this case, the only significant water amenity associated with the subject property relates to two irrigation ditches which flow through the property. As such, the subject property does not involve an especially desirable surface water amenity. If a significant water amenity exists on a property being considered as a comparable, it is noted and a general qualitative adjustment is noted.

The fifth physical characteristic to note involves ground cover, and more specifically the existence or absence of timber. Suffice it to say, the subject property is barren grassland. After inspecting the six land sales included in the data set, reviewing topographical maps, and our confirmations, I do not see where specific adjustments for the timber difference are relevant.

The sixth and last physical characteristic to consider relates to utilities. It appears that both rural electric and telephone service are in reasonable close proximity to the subject property. For the land sales, the exact location of these basic services is unknown unless it was specifically mentioned in the confirmation process, i.e., "this property is located off of the electrical grid," etc. Therefore, it is believed that all of the sale properties had similar access to the basic services for development and I have not made any specific adjustments.

The six sales presented suggest an unadjusted value range from a low of $\pm \$300/\text{acre}$ up to $\pm \$1,250/\text{acre}$, with a mathematical mean (average) of $\pm \$858/\text{acre}$ and a median indication of $\pm \$775/\text{acre}$.

Given the summary nature of this report, I will not go into a lengthy analysis of each of the land sales with regard to how they relate and compare to the subject property. Rather, suffice it to say, the land sales presented here were deemed to be the best comparables in the local market for the purpose of estimating site value for the subject property.

The following are summary comments of the six land sales presented in the data set.



Sale No. 1 - Warm Springs area, Deer Lodge County, Montana.

Sale No. 1: This March 2011 sale is located approximately five miles east of Warm Springs in Deer Lodge County.

More specifically, this sale involves ± 320 acres being a mostly rolling dry pasture land.

At the time of the sale, there were no improvements on the property.

The confirmed sales price was \$160,000, or \pm \$500/acre.

This sale was memorialized with a Warranty Deed recorded as Document No. 187112.

When compared to the subject property, this sale property is very similar.

It is worth noting, this property sold previously in December of 2004 for \$115,000. This sale/resale suggests market appreciation over the holding period of $\pm 5.4\%$. However, I would argue that most of the appreciation actually took place during the first three year of the ownership.



Sale No. 2 - Drummond area, Granite County, Montana.

Sale No. 2: This February 2011 sale is located approximately four miles northwest of Drummond in Granite County.

More specifically, this sale involves ± 641 acres of rolling cut-over timberland that was purchased for summer pasture.

At the time of the sale, there were no improvements on the property.

The confirmed sales price was \$400,000, or \pm \$624/acre.

When compared to the subject property, this hillside grazing land is felt to offer a superior recreational amenity and an inferior agricultural amenity.

This sale was memorialized with a Warranty Deed recorded as Document No. 60697.



Sale No. 3 - Deer Lodge area, Powell County, Montana.

Sale No. 3: This November 2010 sale is located approximately five miles southeast of Deer Lodge in Powell County.

More specifically, this sale involves \pm 316 acres of dry pasture land.

At the time of the sale, there were no improvements on the property.

The confirmed sales price was \$395,000, or \pm \$1,250/acre.

When compared to the subject property, this hillside grazing land is felt to offer a slightly superior recreational amenity and a very comparable agricultural amenity.

This sale was memorialized with a Patent of State Land recorded as Document No. 165850.



Sale No. 4 - Garrison area, Powell County, Montana.

Sale No. 4: This September 2010 sale is located approximately 10 miles north of Garrison Junction in Powell County.

More specifically, this sale involves \pm 960 acres of mountainous cut-over timberland that was purchased for summer pasture.

At the time of the sale, there were no improvements on the property.

The confirmed sales price was \$580,000, or \pm \$604/acre.

This sale was memorialized with a Statutory Warranty Deed recorded as Document No. 165620.

When compared to the subject property, this property is felt to offer a superior recreational amenity and an inferior agricultural amenity.



Sale No. 5 - Bearmouth area, Granite County, Montana.

Sale No. 5: This September 2010 sale is located approximately three miles northwest of Bearmouth in Granite County.

More specifically, this sale involves \pm 80 acres of mountainous cut-over timberland that was purchased for summer pasture.

At the time of the sale, there were no improvements on the property.

The confirmed sales price was \$81,000, or \pm \$1,031/acre.

This sale was memorialized with a Warranty Deed recorded as Document No. 60021.

When compared to the subject property, this property is felt to offer a superior recreational amenity and an inferior agricultural amenity.



Sale No. 6 - Elliston area, Powell County, Montana.

Sale No. 6: This July 2010 sale is located approximately four miles north of Elliston in Powell County.

More specifically, this sale involves \pm 200 acres of rolling cut-over timberland that was purchased for summer pasture.

At the time of the sale, there were no improvements on the property.

The confirmed sales price was \$60,000, or \pm \$300/acre.

This sale was memorialized with a Special Warranty Deed recorded as Document No. 165239.

When compared to the subject property, this hillside grazing land is felt to offer a superior recreational amenity and an inferior agricultural amenity.

Correlation and Conclusion of Land Valuation: Having identified and analyzed what I feel are the best sales in the local market for the purposes of this analysis, we must now reconcile the data into an indication of value for the subject property.

The following tabulation/adjustment grid attempts to recognize and quantify those specific adjustments that are felt to pertain when we compare each of the sale properties to the subject property.

TABLE NO. 2 - SALES ADJUSTMENT GRID						
ELEMENT	Sale No. 1	Sale No. 2	Sale No. 3	Sale No. 4	Sale No. 5	Sale No. 6
SALE PRICE	\$160,000	\$400,000	\$395,000	\$580,000	\$81,000	\$60,000
SIZE (ACRES)	320	641	316	960	80	200
IMPVT. CONTRIBUTORY VALUE						
UNADJUSTED \$/ACRE	\$500	\$624	\$1,250	\$604	\$1,013	\$300
REAL PROPERTY RIGHTS CONVEYED						
FINANCING TERMS						
CONDITIONS OF SALE						
MARKET CONDITIONS	\$0	\$0	\$0	\$0	\$0	\$0
EXPENDITURES AFTER PURCHASE						
LOCATION	Similar	Similar	Similar	Similar	Similar	Similar
PHYSICAL CHARACTERISTICS	Similar	Larger (+)	Similar	Larger (+)	Smaller (-)	Smaller (-)
ECONOMIC CHARACTERISTICS						
USE/ZONING	Similar	Similar	Similar	Similar	Similar	Similar
NON-REALTY COMPONENTS OF VALUE						
NET ADJUSTMENT	Minimal	Upward	Downward	Upward	Downward	Downward
ADJUSTED SALE INDICATION (\$/ACRE)	± \$500	> \$624	< \$1,250	> \$604	< \$1,013	< \$300

After analyzing each of these land sales as they relate and compare to the subject property, taking into account such things as date of sale, location, size, utility, etc., I have concluded that the information is very supportive of a value conclusion of \$850/acre for the subject property. This \$/acre conclusion, when applied to the subject property land area, results in an indication of land value of:

$$\pm 320.0 \text{ acres at } \$850/\text{acre} = \underline{\underline{\$272,000}}$$

Certification

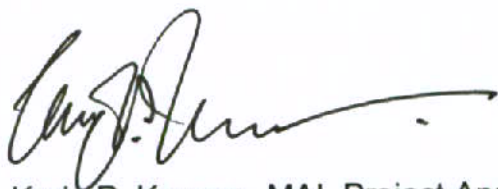
I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct;
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions and conclusions;
- I have no present or prospective interest in the properties that are the subject of this report and have no personal interest or bias with respect to the parties involved;
- I have no bias with respect to the properties that are the subject of this report or to the parties involved with this assignment;
- my engagement in this assignment was not contingent upon developing or reporting predetermined results;
- my compensation for completing this assignment is not contingent upon the developing 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 the appraisal;
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
- I have made a personal inspection of the property that is the subject of this report; and

- Mark F. Hermann, Research Assistant, provided significant real property appraisal assistance, mainly in the form of market research, to the person signing this certification.

By reason of my investigations, studies, and analyses, an opinion has been formed that the **current fair market value** of the subject property, as of September 6, 2011, assuming a reasonable marketing time of approximately one to two years, is as follows:

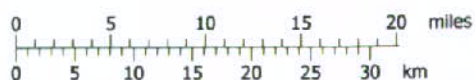
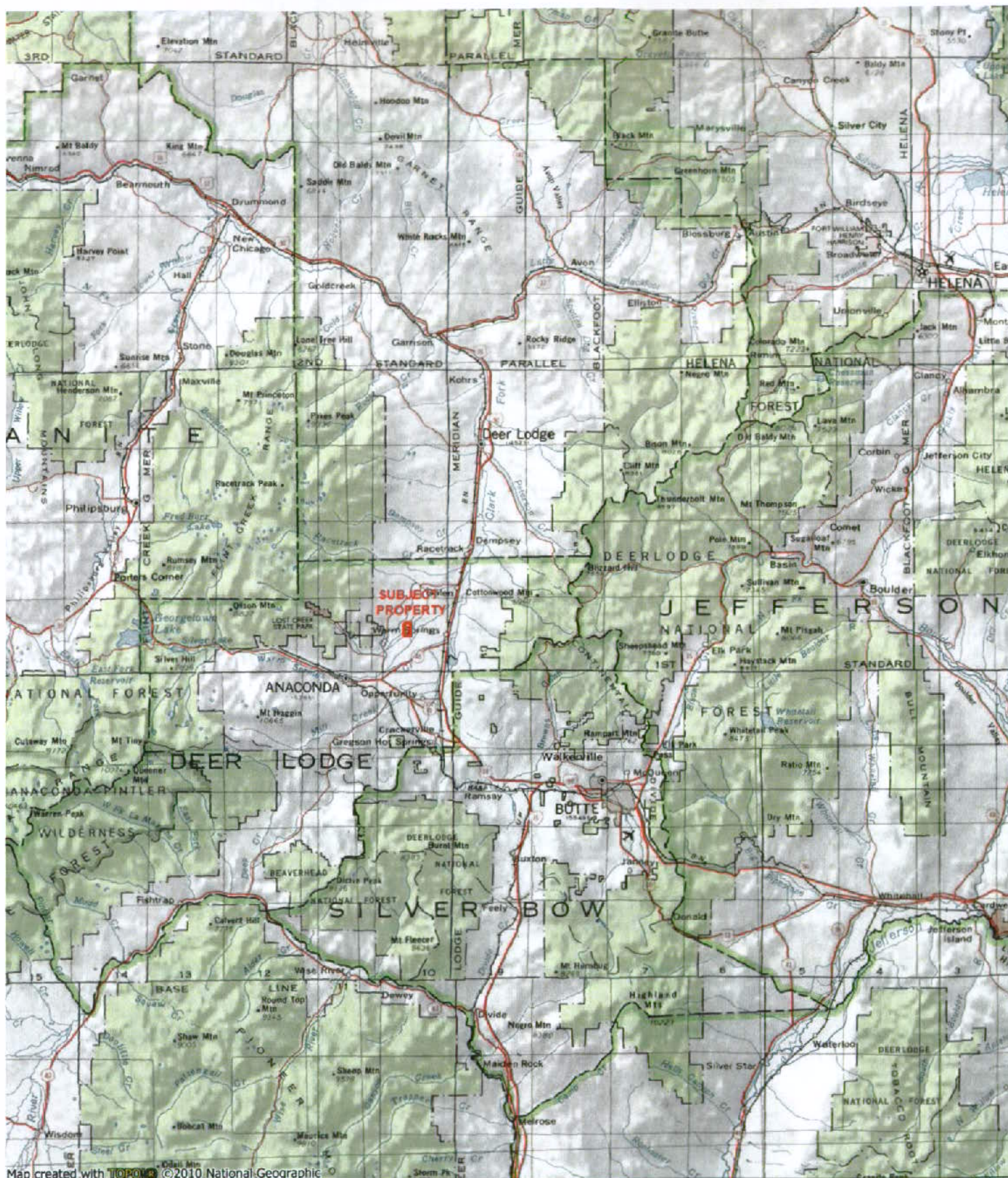
Two Hundred Seventy-Two Thousand Dollars
(\$272,000)



Kraig P. Kosena, MAI, Project Appraiser

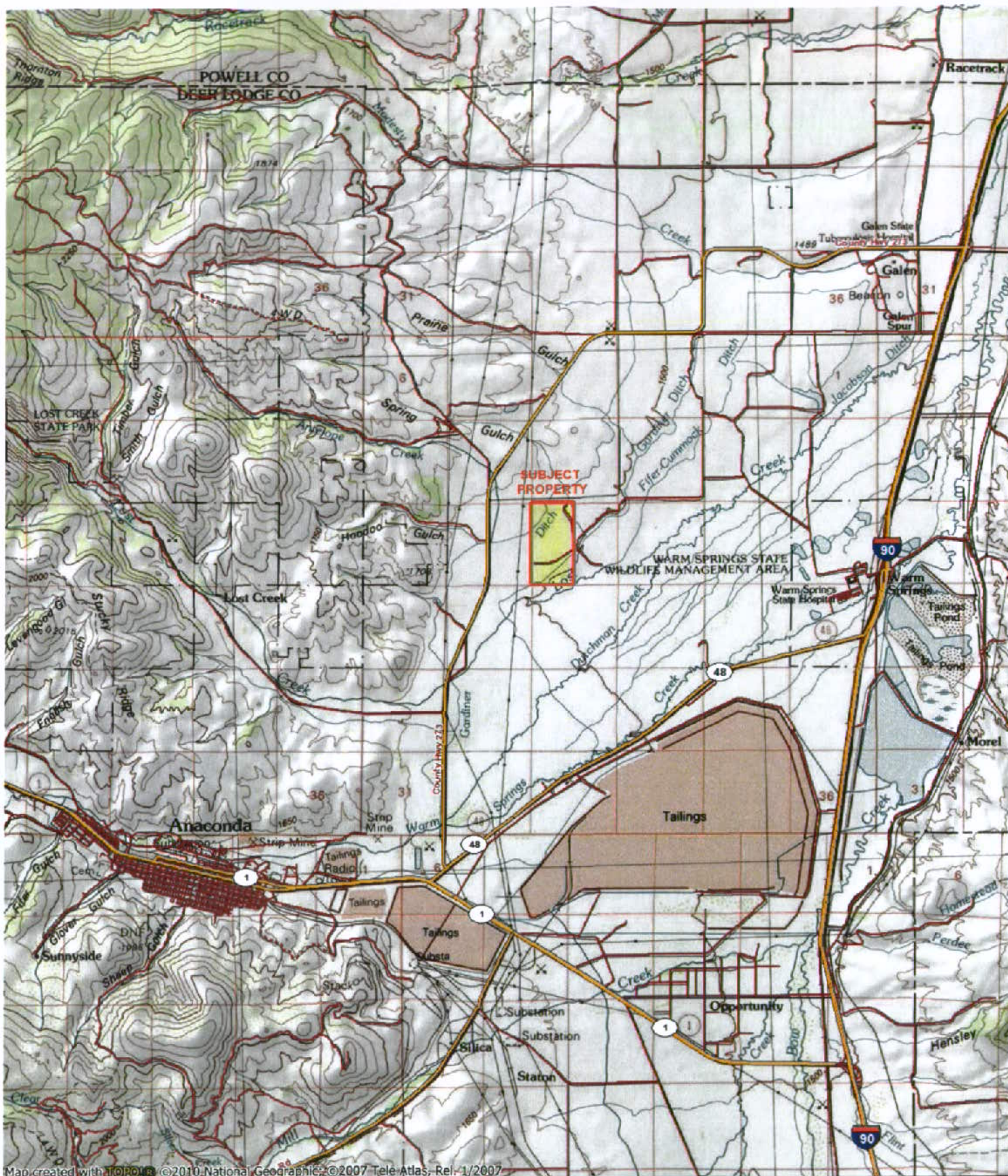
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ADDENDA



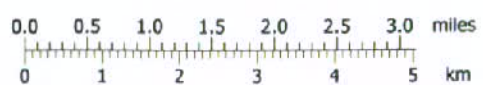
KEMBEL, KOSENA & COMPANY, INC.

TN MN
13%
07/27/11



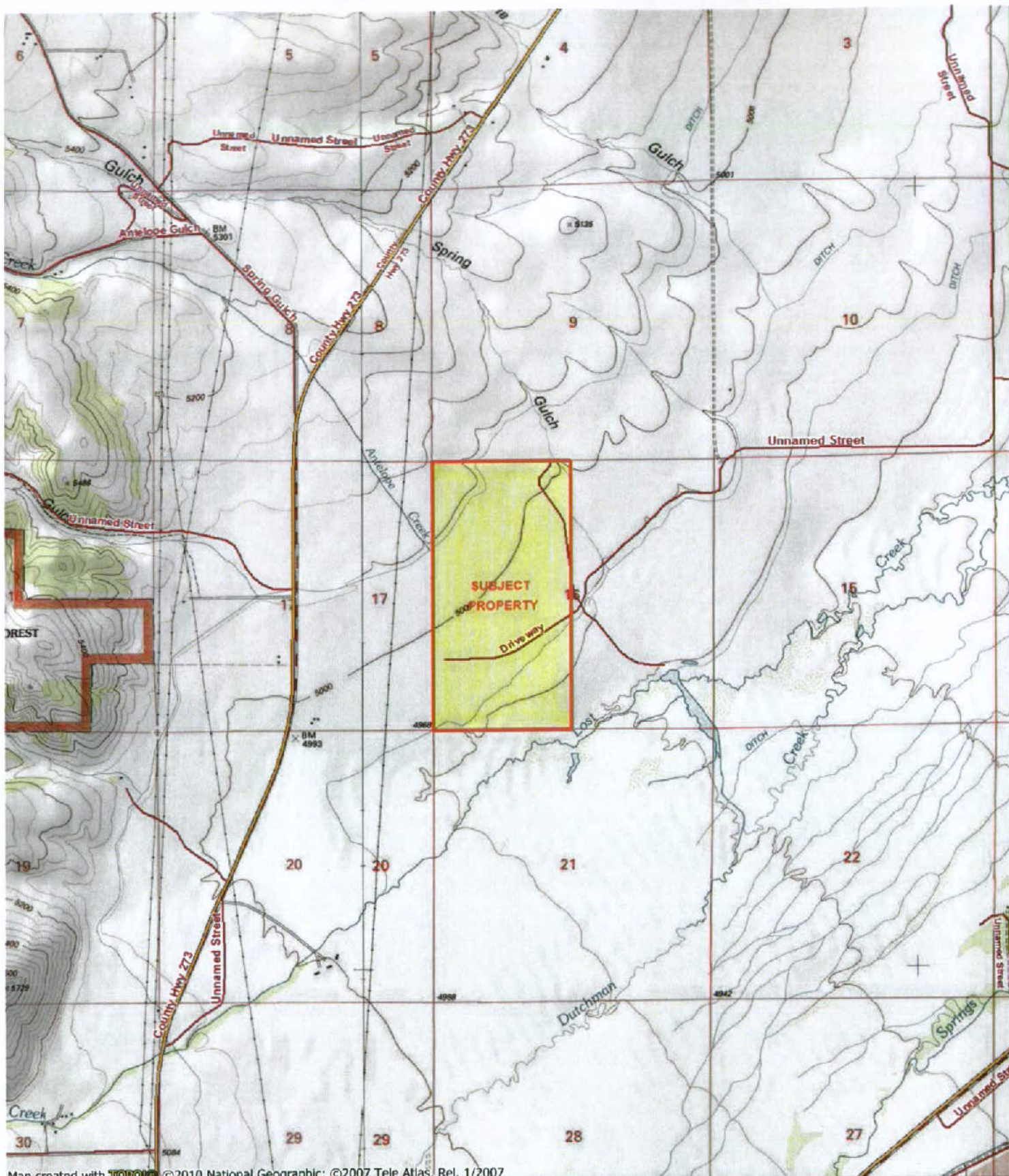
Map created with TOPOLINE ©2010 National Geographic ©2007 Tele Atlas, Rel. 1/2007

NATIONAL GEOGRAPHIC



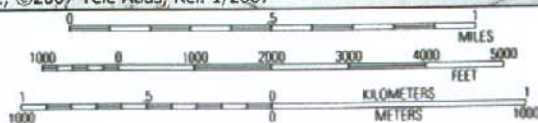
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KEMBEL, KOSENA & COMPANY, INC.



Map created with **TOPO** ©2010 National Geographic; ©2007 Tele Atlas, Rel. 1/2007

**NATIONAL
GEOGRAPHIC**



TN MN
13%
07/27/11

KEMBEL, KOSENA & COMPANY, INC.

Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 1

Description:

View of private
drive facing
easterly along
northern
boundary.

Date Taken:

7/28/11



Photograph 2

Description:

View of private
drive facing
westerly along
northern
boundary.

Date Taken:

7/28/11



Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 3

Description:

View of private drive facing southerly along northern portion of eastern boundary.

Date Taken:

7/28/11



Photograph 4

Description:

View of private drive facing northerly along northern portion of eastern boundary.

Date Taken:

7/28/11



Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 5

Description:

View of western boundary facing southerly from northwest corner.

Date Taken:

7/28/11



Photograph 6

Description:

View facing northeasterly from near the southwest corner.

Date Taken:

7/28/11



Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 7

Description:

View facing
southeasterly
from near the
northwest corner.

Date Taken:

7/28/11



Photograph 8

Description:

View facing
southwesterly
from near the
northeast corner.

Date Taken:

7/28/11



Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 9

Description:

View facing
southeasterly
from the lower
portion.

Date Taken:

7/28/11



Photograph 10

Description:

View facing
northwesterly
from the lower
portion.

Date Taken:

7/28/11



Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 11

Description:

View of water amenity in the northwestern portion.

Date Taken:

7/28/11



Photograph 12

Description:

View of water amenity in the southeastern portion.

Date Taken:

7/28/11



Subject Property Photographs

West ½, Section 16, T5N, R10W, Deer Lodge County, Montana

Photograph 13

Description:

Aerial view facing
northeasterly.

Date Taken:

9/6/11



Photograph 14

Description:

Aerial view facing
southwesterly.

Date Taken:

9/6/11





Subject Property Aerial Photograph (Google Earth)

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

CLIENT, INTENDED USERS, PURPOSE AND INTENDED USE:

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

DEFINITIONS:

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

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

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

PROPERTY RIGHTS APPRAISED:

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

EFFECTIVE DATE OF VALUATION AND DATE OF INSPECTION:

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

SUBJECT PROPERTY DESCRIPTION & CHARACTERISTICS:

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

ASSIGNMENT CONDITIONS:

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

The appraiser will consider the highest and best use of the subject properties. (Note: it may be possible that because of the characteristics of a subject property, or market, there may be different highest and best uses for different components of the property. Again, that will depend on the individual characteristics of the subject property and correlating market. The appraiser must look at what a typical buyer for the property would consider.)

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

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

Legally accessible state lands are appraised as accessible only.

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

MONTANA DNRC TRUST LAND MANAGEMENT DIVISION

Supplemental Appraisal Instructions

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

Subject Property (Located in Deer Lodge County):

Sale # 631: 320 acre; W1/2, Section 16, T5N-R10W

Area Office Contact Information:

Tony Liane - Southwestern Land Office Area Manager

1401 27th Avenue

Missoula, MT 59804

Phone: 406/542-4200

Fax: 406/542-4285

Direct Line: 406/542-4261

Or:

Bob Storer - Lands Program Manager

Direct Line: 406/542-4264

Fred Staedler, Anaconda Unit Office Manager

Direct Line: 406/563-6078

Lessees:

Don Ueland (#631)

The following will be located in the body of the contract:

If deemed necessary by the contractor rather than including the specific market data in the appraisal report, a separate addendum may be submitted containing the specific market data as a stand-alone document, which must be reviewed and accepted along with the appraisal, and will be returned to the appraiser for retention in his/her files. The appraiser must submit an electronic copy as well as a printed copy of the appraisal report.

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

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

Appraiser's Qualifications - Kraig P. Kosena, MAI

Business Experience: Since June 1996 I have been operating my own full-service appraisal and consulting firm known as Kembel, Kosena & Company, Inc. in Missoula, Montana.

From January 1989 to May 1996 I was employed by R.D. Kembel & Associates, Inc., a full-service real estate appraisal and consulting firm also in Missoula, as an Associate Appraiser. My appraisal work included mainly commercial, agricultural, subdivision, conservation easement, and right-of-way appraisals.

In January 1987 I enlisted in the United States Navy and received an honorable discharge in December 1988.

From May until December 1986 I worked as an Associate Appraiser for R.D. Kembel & Associates, Inc.

Clients: The following is a partial, representative client list.

Chevron, Inc.	Pacific First Bank
US Bank (formerly First Bank)	First Interstate Bank, N.A.
Modern Pioneers' Life Insurance Company	First Security Bank of Bozeman
First National Park Bank	Western Federal Savings & Loan
Farmers State Bank	Wells Fargo Bank (formerly Norwest Bank)
Northern Energy	Pioneer Federal Savings & Loan
University of Montana	Farm Credit Services
Montana State University	Five Valleys Land Trust
Montana Department of Transportation	Minuteman Aviation, Inc.
Federal Deposit Insurance Corporation	Missoula County

Fee appraising for various other banks, attorneys, and private parties.

Education: The following is a summary of real estate appraisal related educational offerings that I have attended.

Graduate of the University of Montana

Appraisal Institute (AI) Seminar - Rates, Ratios & Reasonableness

Real Estate Fundamentals - University of Montana

AI Course 101 - An Introduction to Appraising Real Property

AI Course SPP - Standards of Professional Practice

AI Course 1BA - Capitalization Theory and Techniques, Part A

AI Course 1BB - Capitalization Theory and Techniques, Part B

AI Course 540 - Report Writing & Valuation Analysis

AI Course 550 - Advanced Applications

AI Seminar - Non-Residential Demonstration Appraisal Report Writing

AI Seminar - Subdivision Analysis

AI Comprehensive Exam

AI Seminar - Timberland Valuation

AI Seminar - Eminent Domain and Condemnation Appraising

AI Seminar - Small Hotel/Motel Valuation

AI Seminar - Sales Comparison Valuation of Small Mixed-Use Properties

AI Seminar - Litigation Skills for the Appraiser

AI Seminar - Partial Interest Valuation - Divided

AI Seminar - Partial Interest Valuation - Undivided

AI Seminar - Case Studies in Commercial Highest and Best Use

AI Seminar - Regression Analysis in Appraisal: Concepts and Applications

AI Seminar - Appraisal Review

AI Seminar - Uniform Standards for Federal Land Acquisitions (Yellow Book)

AI Course 800 - Separating Real and Personal Property from Intangible Business Assets

AI Seminar - Evaluating Commercial Construction

AI Course 700 - The Appraiser as an Expert Witness

AI Seminar - The Professional's Guide to the Uniform Residential Appraisal Report

Certifications:

Member of the Appraisal Institute (MAI No. 10,933)

Montana Certified General Real Estate Appraiser (Certification No. 225)

Community Involvement:

Volunteer, Hugh O'Brian Youth Leadership Foundation
Former President, Missoula Exchange Club
Former Member, Board of Directors, Missoula Exchange Club
Former Banquet Committee Volunteer, Rocky Mountain Elk Foundation
Guest Speaker, University of Montana Business School

Court Experience:

I have qualified in State and Federal Court as an expert witness in the matter of real estate valuation.

Other:

Former Education Chairman, Montana Chapter of the Appraisal Institute
Former President, Montana Chapter of the Appraisal Institute
Former Member, Board of Directors, Montana Chapter of the Appraisal Institute
Former Member and Chairman, Montana Board of Real Estate Appraisers (Governor appointment)