

APPRAISAL REPORT

Of Certain Potential Land Banking Sale Parcels

Sale ID #'s 705, 706, 707, 708
Yellowstone & Stillwater County, Montana

Prepared for:

**Montana Department of Natural Resources and Conservation
&
Montana Board of Land Commissioners**

As of:

January 2014

Prepared by:

Kevin T. Pearce, ARA
Certified General Appraiser, MT #63 & WY #436
&
Tracey S. Pearce
Appraiser Trainee, MT #926



NEW FRONTIER
 ■ R A N C H E S ■

February 13, 2014

Mr. John Grimm
 c/o Emily Cooper
 MT Department of Natural Resources and Conservation
 PO Box 201601
 Helena, MT 59620 - 1601

Re: Sale ID Parcels #705, #706, #707, #708 Appraisal - Land Banking Program

Dear Mr. Grimm and Ms. Cooper:

In accordance with your instructions, we have conducted and prepared an appraisal of those certain properties identified herein as Yellowstone County Parcel #705 and Stillwater County Parcels #706, #707, and #708 that are being considered for sale through the Montana DNRC Land Banking program. These parcels are located about 10 miles east of Billings and about 5-10 miles northeast of Columbus, Montana respectively. All parcels are vacant, structurally unimproved tracts of native rangeland and dry pasture.

The appraisal prepared for you is presented herein as an Appraisal Report in accordance with current USPAP and DNRC supplemental appraisal instructions. The objective of this analysis was to estimate the Market Value of the real property for your use in consideration of the potential sale of said subject properties. The effective date of value shall be January 15, 2014 for #705 and January 21, 2014 for #706, #707, and #708 which are the dates of the respective property inspections. As you requested, each of the four parcels are appraised separately in their "as is" condition without legal access and also with the hypothetical condition that all tracts possess legal access. The resulting appraised values are shown below.

		<u>With Access</u>	<u>Without Access</u>
Sale ID #705:	640 acres	\$256,000.00	\$140,800.00
Sale ID #706:	640 acres	\$310,400.00	\$170,720.00
Sale ID #707:	640 acres	\$240,000.00	\$132,000.00
Sale ID #708:	640 acres	\$310,400.00	\$170,720.00

We herewith deliver to you one original written report and one electronic PDF document on CD that does not contain the addenda sale information. A separate Sale Data Addendum is provided to you which shall be reviewed, approved, and returned to us. Each appraisal report contains 58 numbered pages plus maps, exhibits, and the report addenda. We hereby certify that we have provided no appraisal or other services for the property that is the subject of this appraisal in the three years preceding acceptance of this assignment and that our employment is in no way contingent upon the amount of appraised valuation. We certify that our opinion is based on a study and analysis of the data obtained, and our appraisal education, experience, and knowledge of local real estate values.

Respectfully submitted,

Tracey S. Pearce
 Appraiser Trainee, MT #926

Kevin T. Pearce, ARA
 Accredited Rural Appraiser, #1081
 Certified General Appraiser, MT #63 & WY #436

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I. INTRODUCTION

A. Summary, Salient Points, and Conclusion

<u>Property Owner(s) of Record:</u>	The State of Montana.
<u>Property Location(s):</u>	Approximately 5 to 10 air miles northeast of Columbus, Montana, in Stillwater County and approximately 10 air miles east of Billings in Yellowstone County.
<u>Client and Intended User:</u>	The State of Montana, the Montana Board of Land Commissioners, and the Department of Natural Resources and Conservation (DNRC).
<u>Purpose of the Appraisal:</u>	To provide the clients with a credible opinion of current fair market value of the appraised subject properties intended for use in the decision making process concerning the potential sale of said subject properties through the Montana Land Banking Program.
<u>Estate Appraised:</u>	The surface fee simple ownership estate.
<u>Effective Date of Appraisal:</u>	January 15, 2014 and January 21, 2014.
<u>Appraiser:</u>	Kevin T. Pearce, ARA, Mentor NEW FRONTIER RANCHES, INC. 111 N. Main St. - PO Box 469 Twin Bridges, Montana 59754 (406) 684-5850 Tracey S. Pearce, Trainee NEW FRONTIER RANCHES, INC. 111 N. Main St. - PO Box 469 Twin Bridges, Montana 59754 (406) 684-5850
<u>Property Description:</u>	The property being appraised consists of three independent parcels of State land situated northeast of Columbus, and a single parcel of land situated about 10 air miles east of Billings. All four parcels of land consist of entirely dry, native rangeland pasture with a vegetative cover mixture of native grasses, scattered sagebrush, rock outcroppings, and some scattered trees and timber. There are no structural improvements on any of the appraised properties.

Parcel 705	Yellowstone Co.	640 acres
Parcel 706	Stillwater Co.	640 acres
Parcel 707	Stillwater Co.	640 acres
Parcel 708	Stillwater Co.	640 acres

Highest and Best Use: Recreational Agriculture.

Hypothetical Conditions: At the client’s direction, the properties are being appraised with the Hypothetical Conditions that the property interest appraised is that of fee simple (rather than a leased fee estate) and the property is to be appraised in its “as is” condition without legal access and also appraised as if it possessed legal access.

Valuation Conclusion: Sales Comparison Approach

Parcel #705 as of January 15, 2014:

As is without access:	\$140,800.00
With access:	\$256,000.00

Parcel #706 as of January 21, 2014:

As is without access:	\$170,720.00
With access:	\$310,400.00

Parcel #707 as of January 21, 2014:

As is without access:	\$132,000.00
With access:	\$240,000.00

Parcel #708 as of January 21, 2014:

As is without access:	\$170,720.00
With access:	\$310,400.00

B. Authorization and Scope of Work Outline

The appraisers were authorized and instructed to prepare an appraisal of the subject properties by Mr. John Grimm, Real Estate Management Bureau Chief – Montana DNRC, within written Contract No. 147030 dated and approved December 30, 2013. Appraisal instructions state that the appraisal is to conform with the latest edition of USPAP and DNRC Supplemental Appraisal Instructions.

The current Uniform Standards of Professional Appraisal Practice (USPAP) Scope of Work Rule requires that for each appraisal assignment, an appraiser must:

1. identify the problem to be solved;
2. determine and perform the scope of work necessary to develop credible assignment results; and
3. disclose the scope of work in the report.

The appraiser must properly identify the problem to be solved in order to determine the appropriate Scope of Work. Scope of Work includes but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

An appraiser must gather and analyze information about those assignment elements that are necessary to properly identify the appraisal problem to be solved. In an appraisal assignment identification of the problem to be solved requires the appraiser to identify the following assignment elements:

- client and any other intended users;
- intended use of the appraiser's opinions and conclusions;
- type and definition of value;
- effective date of the appraiser's opinions and conclusions;
- subject of the assignment and its relevant characteristics; and
- assignment conditions.

The Scope of Work must include the research and analyses that are necessary to develop credible assignment results. The Scope of Work is acceptable when it meets or exceeds:

- the expectations of parties who are regularly intended users for similar assignments; and
- what an appraiser's peers' actions would be in performing the same or a similar assignment.

The following pages of this report are intended to contain sufficient information to allow the intended user(s) to understand the Scope of Work performed and the subsequent appraisal process.

C. Client and Intended User(s) of the Report

The client and intended user(s) for this appraisal assignment are the State of Montana, the Montana Board of Land Commissioners, and the Montana Department of Natural Resources and Conservation.

D. Purpose and Intended Use of the Appraisal

This appraisal is intended for the sole purpose of providing the client(s) with a credible opinion of current fair market value of the appraised subject properties and is intended for use in the decision making process concerning the potential sale of said subject properties.

Current fair market value (MCA 7-30-313) is defined as 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 is defined herein 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. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

E. Competency of the Appraiser

The Uniform Standards of Professional Appraisal Practice requires that prior to accepting an appraisal assignment the appraiser must properly identify the appraisal problem to be addressed and have the knowledge and experience necessary to complete the assignment competently, or alternatively;

1. Disclose the lack of knowledge and/or experience to the client before accepting the assignment; and
2. take all steps necessary or appropriate to complete the assignment competently; and
3. describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.

The appraisal presented herein is developed and conducted by Tracey S. Pearce, Appraiser Trainee and Kevin T. Pearce, Mentor. Tracey S. Pearce possesses Montana Real Estate Trainee License #926 and has been involved in the real estate sales and appraisal fields for fifteen years.

Kevin T. Pearce, ARA, has been appraising farm, ranch, and rural properties for more than 29 years and holds General Appraisal Certificates for the States of Montana (#63) and Wyoming (#436). He is an Accredited Rural Appraiser (ARA #1081) by the American Society of Farm Managers and Rural Appraisers and has worked extensively in Montana and Wyoming with emphasis on appraising farm, ranch, recreational, and rural residential properties.

The appraisers signing this appraisal report certify that they have the knowledge and experience to complete this assignment competently in accordance with the Competency Provision of USPAP. Please refer to the complete Appraisers' Qualifications that are placed in the addenda of this report. No one else has provided significant assistance to the appraisers unless noted in this report.

F. Prior Services by the Appraiser(s)

The appraisers certify that they have provided no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment. The appraisers certify that they have no historical, current, or prospective interest in the property beyond this appraisal assignment.

G. Effective Date of the Appraisal

Sale Parcel # 705 was inspected and photographed by Kevin Pearce on January 15, 2014 in the company of Teen Patterson, the property lessee. Sale Parcels #706, #707, and #708 were inspected on January 21, 2014 by Kevin Pearce and Tracey Pearce with the assistance of Colleen Brewer, a representative of Energy Equity, the property lessee. The effective date of valuation shall be January 15, 2014 for Parcel #705 and January 21, 2014 for Parcels #706, #707, and #708 which is the date of the property inspection(s). This appraisal is intended to provide an estimate of current market value.

H. Date of the Report

The appraisal report was developed during the months of January and February, 2014 and was completed and signed on February 13, 2014.

I. Property Interest Appraised

In accordance with the Scope of Work Requirements for this assignment, the State of Montana subject lands are to be appraised as if they are in private ownership and could be sold on the open market and are to be appraised in Fee Simple interest. 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.

J. Subject of the Appraisal

The real property being appraised herein consists of four separate parcels of land located in Stillwater and Yellowstone Counties, as illustrated below. The property being appraised consists of the real property only; no personal property, fixtures, or equipment is included in this appraisal. The real property appraised herein does not include any structural improvements, buildings, utilities, fencing, or site improvements existing on the property as of the date of valuation as these items (if any) are the property of the current lessee.

Yellowstone County, Montana

ID #	Legal	Acres	Lessee
#705	ALL, Section 16-T1N-R28E	640	Patterson Reporting

Stillwater County, Montana

ID #	Legal	Acres	Lessee
#706	ALL, Section 16, T2S-R22E	640	Energy Equity
#707	ALL, Section 36, T1S-R21E	640	Energy Equity
#708	ALL, Section 16, T2S-R21E	640	Energy Equity

The properties identified above are all isolated tracts consisting of primarily native rangeland and dry pasture land. These tracts are surrounded by privately owned lands and do not possess direct legal access from any public roads. These lands are currently leased to adjoining landowners for grazing uses. The lease data is shown below.

ID #	Lease #	Grazing AUMs	Lease rate	Lease Expiration
#705	#7936	124	\$11.41/AUM	2/29/20
#706	#7912	125	\$11.41/AUM	2/28/20
#707	#8236	141	\$11.41/AUM	2/28/20
#708	#3614	127	\$11.41/AUM	2/28/18

K. Ownership and Sales History

The properties being appraised herein are owned by the State of Montana and have not been in private ownership in the history of Montana. They are not subject to any current listing or purchase/sale contract and have not been offered for sale on the open market prior to this proposed land transaction.

L. Exposure Time

Current appraisal standards suggest an appraiser estimate the reasonable exposure time and the normal marketing period for the property being appraised. According to USPAP SMT-6, ***Exposure Time*** can be defined as: “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 an analysis of past events assuming a competitive and open market.”

Exposure time can be different for various types of property and under various market conditions. The overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable effort. Exposure time is always presumed to occur prior to the effective date of the appraisal but is not intended to be a prediction of a date of sale. Instead it is an integral part of the analyses conducted during the appraisal process and can be based on one or more of the following: statistical information about days on the market; information gathered through sales verification; and interview of market participants. It is a function of price, time, and use, not an isolated opinion of time alone.

USPAP AO-7 states that a reasonable ***Marketing Period*** is “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.” Like exposure time, the estimated marketing period can be expressed as a range and can be based on one or more of the following: statistical information about days on the market; information gathered through sales verification; interviews of market participants, and anticipated changes in market conditions. The reasonable marketing period is a function of price, time, use, and anticipated market conditions, such as changes in the cost and availability of funds, and is not an isolated opinion of time alone.

Analysis of the local and surrounding market area’s sales and listings revealed that the exposure time for similar type properties generally ranged from about six months to several years. Those properties that were placed on the market at competitive prices based on true current market sales (rather than hopeful expectations) experienced strong buyer interest and many have sold within six to twelve months. Those properties placed on the market at values far exceeding true market value (those wanting to “test” the market sometimes referred to as “insincere listings”) were those that struggle and linger on the market for years. Attempts to lower these high listing prices often-times fails to help as these listings become stale or “market-worn” and a stigma of being over-priced follows the property.

If the subject properties were priced in accordance with true market value, the reasonable exposure time is expected to be six to eighteen months which is common and typical of a properly functioning ranch market in southern Montana. This report and the concluded market value of the subject property is based on an exposure time of approximately six to eighteen months which is also considered to be appropriate as a reasonable marketing period on the open market for similar properties.

M. Scope of Work Performed

The appraisers were engaged to conduct this appraisal by Mr. John Grimm, Real Estate Management Bureau Chief – MT DNRC, within written Contract No. 147030 dated and approved December 30, 2013. Along with the contract, a Scope of Work for this assignment was included that outlined the terms and conditions of this appraisal assignment. Appraisal instructions state that this appraisal is to conform with the latest edition of USPAP and is to provide the client with a credible opinion of current fair market value for use in the decision making process concerning the possible sale of the properties within the Montana Land Banking program. A copy of the appraisal contract and scope of work are placed in the addenda of this report.

As noted within the appraisal scope of work and assignment conditions, two hypothetical conditions will be considered within this report. The first is that the properties are to be appraised as fee simple estate when in fact the client holds a leased fee estate. The second hypothetical condition is that landlocked parcels, (parcels with no legal access) are to be appraised with the hypothetical condition of having legal access and also should be appraised as the property currently exists, which is without access (“as is”).

In preparing the appraisal presented herein, we visually inspected and photographed the Yellowstone County parcel on January 15, 2014 in the company of the lessee, Teen Patterson. The Stillwater County parcels were inspected on January 21, 2014 with the assistance of Colleen Brewer, a representative of Energy Equity, the property lessee. Appraisal research and analysis for this assignment was conducted during the months of January and February, 2014, and the appraisal report was completed and signed February 13, 2014.

Background information on the subject property was gathered from several sources that include representatives for the DNRC, the lessee, and personnel associated with governmental agencies including the County Assessor, the County Clerk and Recorder, and the USDA Farm Service Agency, plus a personal knowledge of the local and surrounding area.

The immediate and surrounding area was researched and analyzed to determine sales activity, emerging and historic trends, and any market factors that may be specific to the subject property and the surrounding market area. Information on comparable vacant land and improved property sales and rents was gathered, confirmed, and analyzed. This data was gathered and confirmed with sources familiar to the transaction (such as buyers, sellers, brokers, appraisers, multiple listing services, attorneys, accountants, and/or closing agents) to the best of our ability. Montana is a non-disclosure state where the sale prices and terms of these transactions are not public information. It is noted herein that it is possible that there may be sales of properties that we may not be aware of or that are not included due to confidentiality reasons. All sales data that the appraiser is aware of is considered within the appraisal analysis.

In accordance with the appraisal contract, the privileged market data used in this assignment is not included with this appraisal report but will be placed in a separate Sales Addendum that will be provided to the client for their review and acceptance and said addendum will be returned to the appraiser.

The comparable sale properties were analyzed using topographical maps, aerial photographs, Google earth images, etc. and viewed on the ground to the best of our ability. At a minimum, a drive-by inspection/viewing was attempted and/or conducted for all comparable sale properties that possessed public access. Trespass was avoided for those properties that do not possess public access and for those properties, topographical maps, aerial photographs, and/or Google earth images were utilized for sale analysis.

The sales comparison, cost, and income approaches to value were considered. To develop our opinion of value, we performed a complete appraisal process where we considered all applicable approaches to value and the value conclusion reflects all known information about the subject property, the market conditions, and all pertinent available sales data.

This is an ***Appraisal Report*** as defined by USPAP that is intended to comply with the DNRC Scope of Work contract for this assignment and reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP) for an Appraisal Report. As such, it presents a summary discussion of the property features, and the market data, reasoning, and analyses that were used in the appraisal process to develop our opinion of value. Supporting documentation concerning the subject property features, and all data, reasoning, and analyses is contained within our work file. The depth of discussion contained in this report is specific to the need of the client and to the intended use and intended users stated herein. We are not responsible for unauthorized use of this report.

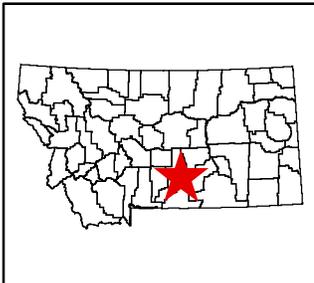
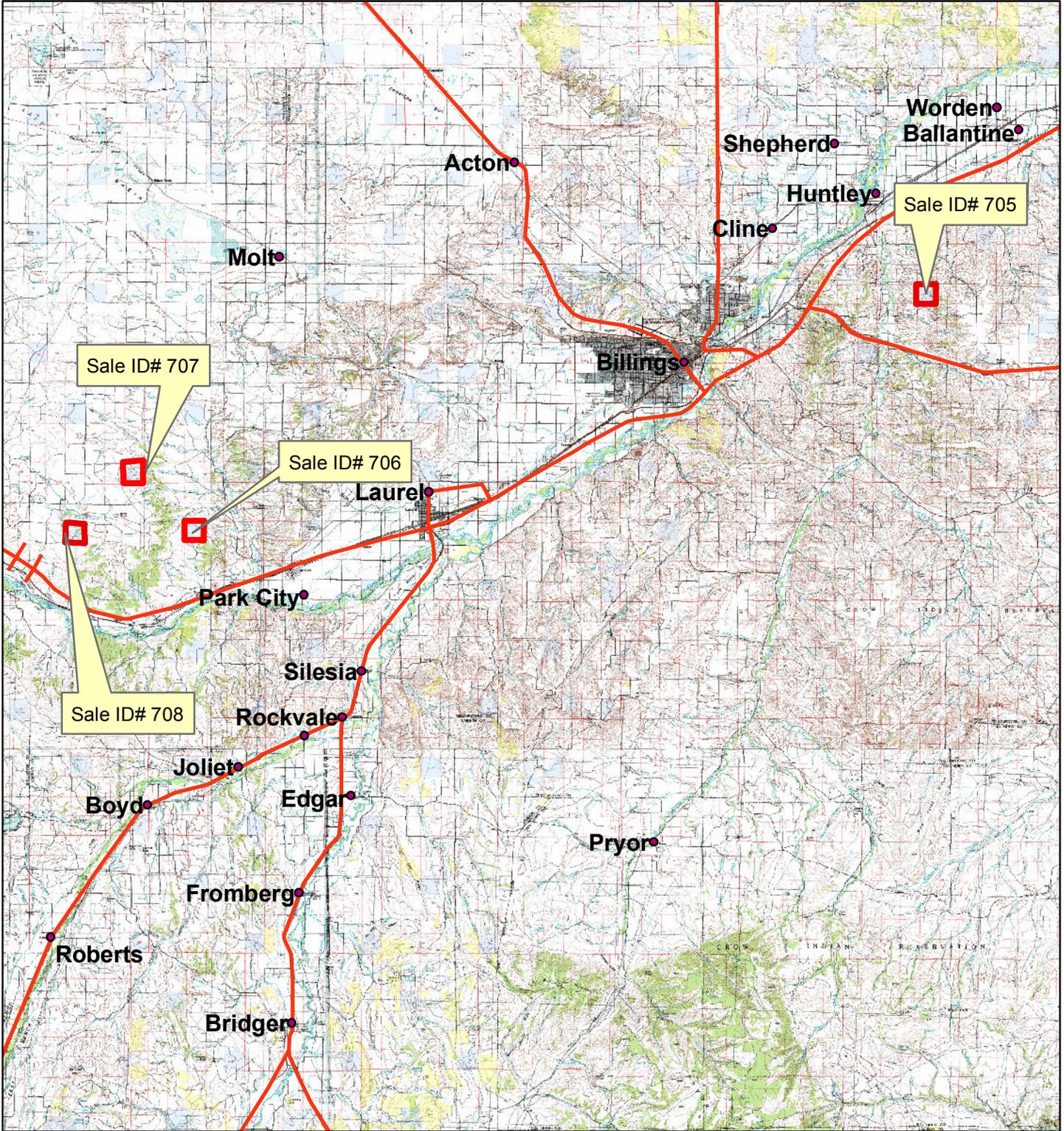
In this assignment, the primary research, analysis, and development of the appraisal was conducted by Tracey S. Pearce, Appraiser Trainee, and Kevin T. Pearce, Mentor. The appraisal report was written by Kevin T. Pearce and Tracey S. Pearce.

N. Hypothetical Conditions

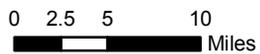
There are two Hypothetical Conditions that will be employed in this assignment. The subject properties are all owned by the State of Montana and are currently leased for agricultural purposes to the respective neighboring property owners (Patterson & Energy Equity). For the purpose of this appraisal, the client has instructed us to appraise the properties under the Hypothetical Condition that they are in private ownership and thus could be sold on the open market for their Fee Simple value and with the Hypothetical Condition that they are not under any current lease agreements.

All four of the individual parcels are “landlocked” and do not possess legal public access. Within the DNRC appraisal instructions the client has instructed us to appraise the properties in their “as is” condition without legal access and also appraise the properties with the Hypothetical Condition that they do possess unrestricted legal access.

DNRC - Sale ID# 705, 706, 707, 708



SCALE:
1:650,000



New Frontier Ranches, Inc. - For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana

II. REAL PROPERTY ANALYSIS

A. General Location

The properties being appraised are located in southcentral Montana being about 5- 10 air miles northeast of Columbus in Stillwater County and about 10 air miles east of Billings in Yellowstone County.

B. Area and Community Data

Montana is one of the most sparsely populated states in the U.S. The state's census estimated 2012 population of 1,005,000 residents is spread across 145,545 square miles which projects an average of approximately 6.9 residents per square mile.

1.) *Columbus and Stillwater County*

Stillwater County was founded in 1913 and contains approximately 1,800 square miles of land with geographic features that range from the Beartooth Mountains and Absaroka Wilderness Area at the southern end of the county, to the Stillwater and Yellowstone River Valleys in the central section, to the lake basins, coulees and rolling plains at the northern end. The Yellowstone River flows easterly through the center of Stillwater County for some 50+/- miles between its headwaters in Yellowstone National Park and its confluence with the Missouri River in North Dakota. The Yellowstone River valley is characterized as a rather broad river valley floor of irrigated haylands and pastures flanked by open, rolling and undulating native rangelands that transition towards more mountainous foothills further to the north and south. The Stillwater River flows northeasterly through the county from the Beartooth Mountains to its confluence with the Yellowstone River near Columbus.

Northern Stillwater County is home to Hailstone National Wildlife Refuge and the Halfbreed National Wildlife Refuge near Rapelje which were established as a refuge and breeding ground for migratory birds, waterfowl, and other wildlife. Southern Stillwater County backs up to, and includes a portion of the Beartooth Mountain Range, the Custer National Forest, and the Abasroka-Beartooth Wilderness Area. Landownership in the county consists of primarily large blocks of private land interspersed with smaller parcels of State and BLM land.

Stillwater County's 2012 population estimate of 9,195 (up from 8,195 residents in 2000) equates to approximately 5.1 residents per square mile. The 2010 Census data indicates that the per capita income was approximately \$29,800 and the median household income was \$53,200 for Stillwater County. This census data also indicated the following industry data for Stillwater County:

Agriculture, forestry, fishing, hunting, mining	38.57%
Education Services, healthcare, social assistance	18.74%
Construction	8.54%
Arts, entertainment, recreation, accommodation	6.38%
Transportation, warehouse, utilities	5.00%
Professional, scientific, management	4.32%
Finance, real estate, insurance	3.63%
Wholesale trade	3.53%
Retail trade	3.43%
Public administration	1.96%
Manufacturing	1.77%
Other services, trades	4.13%

For agriculture in Stillwater County, the latest census of agriculture data showed the following:

Total land area	1,148,850 acres
Land in farms	857,475 acres
Number of farms	635
Average farm size	1,350 acres

Columbus is situated near the confluence of the Stillwater and Yellowstone Rivers in the Yellowstone Valley. Columbus is also located at the intersection of Interstate Highway 90 and paved State Highway #78. Interstate 90 is the major east-west route across southern Montana and Highway 78 is an important north-south route through central Montana extending to Red Lodge and on into Wyoming. A relatively good system of state- and county-maintained paved and gravel roads provide access to the Columbus area.

Billings, Montana's largest city with over 100,000 residents is about 40 miles east of Columbus via I-90. Seventy-five miles west of Columbus, also via I-90, is Livingston, the northern gateway city to Yellowstone National Park. The Montana Rail Link Railroad passes through Columbus and there is daily passenger bus service from Columbus. Columbus has a 24-hour community airport; the nearest commercial airport is located at Billings.

Columbus is the county seat of Stillwater County and serves as the immediate trade center for the area and provides all necessary services. Columbus, the largest town in Stillwater County, has a population of approximately 1,940 residents. Public schools, medical facilities, professional and technical services, governmental offices, churches, lodging, and complete shopping facilities are found in Columbus. Expanded services, extensive shopping facilities, and numerous cultural events are an easy drive from Columbus to Billings.

2.) *Billings and Yellowstone County*

Yellowstone County encompasses approximately 2,650 square miles stretching from near Laurel on its west some 100+/- miles easterly to near Custer and from the Bull Mountains on the north some 50+/- miles southerly to the Crow Indian Reservation. Yellowstone County is the most populous county in the state with the 2012 Census estimating Yellowstone County has a population of approximately 151,800 residents (approx 57 residents/square mile) which is up from 129,350 in 2000.

The Yellowstone River flows easterly through the central portion of the county and creates a large fertile irrigated valley floor that is flanked to the north and south by gently rolling prairie rangeland and upland foothill pasture lands. For agriculture in Yellowstone County, the latest census of agriculture data showed the following:

Average size of farms: 1226 acres
Average value of agricultural products sold per farm: \$92,107
Average value of crops sold per acre for harvested cropland: \$146.08
The value of nursery, greenhouse, floriculture, and sod as a percentage of the total market value of agricultural products sold: 3.24%
The value of livestock, poultry, and their products as a percentage of the total market value of agricultural products sold: 79.41%
Average total farm production expenses per farm: \$91,918
Harvested cropland as a percentage of land in farms: 10.58%
Irrigated harvested cropland as a percentage of land in farms: 39.45%
Average market value of all machinery and equipment per farm: \$64,789
The percentage of farms operated by a family or individual: 84.99%
Average age of principal farm operators: 54 years
Average number of cattle and calves per 100 acres of all land in farms: 8.16
Milk cows as a percentage of all cattle and calves: 0.85%
Corn for grain: 1212 harvested acres
All wheat for grain: 69211 harvested acres
Vegetables: 182 harvested acres
Land in orchards: 4 acres

Yellowstone County is home to Billings (the largest city in Montana) along with Pompeys Pillar National Monument, Pictograph Cave National Historic Landmark, Lake Elmo, Zoo Montana, and the nearby Little Bighorn Battlefield, Chief Plenty Coups State Park, Big Horn Canyon National Recreation Area, and Red Lodge Mountain Ski Area.

Billings is the county seat of Yellowstone County, and the 2012 Census estimates put the Billings population at 106,954. Billings is the only city in Montana to surpass 100,000 people. The city is experiencing rapid growth and a strong economy; it has had and is continuing to have the largest growth of any city in Montana. Parts of the metro area are seeing hyper growth. From 2000 to 2010 Lockwood, a southeastern suburb of the city saw growth of 57.8% the largest growth rate of any community in Montana. Billings has avoided the economic downturn that affected most of the nation 2008–2012 as well as avoiding the housing bust. With the Bakken oil play in eastern Montana and western North Dakota, the largest oil discovery in U.S. history, as well as the Heath shale oil play just north of Billings, the city's already rapid growth rate is escalating.

With one of the largest trade areas in the west, at over 500,000 people, Billings is the trade and distribution center for most of Montana, Northern Wyoming, and western portions of North Dakota and South Dakota. Billings is also the retail destination for much of the same area. With more hotel accommodations than any area within a five state region, the city hosts a variety of conventions, concerts, sporting events and other rallies. Being the major trade and distribution center, the city is home to many regional headquarters and corporate headquarters. With Montana having no sales tax, Billings is a retail destination for much of Wyoming, North and South Dakota as well as most of Montana. \$1 out of every \$7 spent on retail purchases in Montana is being spent in Billings. The percentage of wholesale business transactions done in Billings is even stronger, Billings accounts for more than a quarter of the wholesale business for the entire state, these figures do not include Billings portion of sales for Wyoming and the Dakotas. Billings is an energy center; Billings sits amidst the largest coal reserves in the United States as well as large oil and natural gas fields.

Billings has a diverse economy including a large and rapidly growing medical corridor that includes inpatient and outpatient health care. Billings has a large service sector including retail, hospitality and entertainment. The metro area is also home to 3 oil refineries, a sugar beet refining plant, a coal fire generation plant, commercial and residential construction, building materials manufacturing and distribution, professional services, financial services, banking, trucking, higher education (4 campuses, 19 others have a physical presence/classes here), auto parts wholesaling and repair services, passenger and cargo air, cattle, media, printing, wheat and barley farming, sugar beet refining, milk processing, heavy equipment sales and service, business services, consumer services, food distribution, agricultural chemical manufacturing and distribution, energy exploration and production, surface and underground mining, metal fabrication, and many others providing a diverse and robust economy.

According to 2000 census data the median income for a household in the city was \$35,147, and the median income for a family was \$45,032. Males had a median income of \$32,525 versus \$21,824 for females. The per capita income for the city was \$19,207. About 9.2% of families and 12.0% of the population were below the poverty line, including 16.5% of those under age 18 and 7.0% of those age 65 or over. 29.4% of the population had a Bachelor's degree or higher.

C. Climate

As noted herein, Columbus and Billings are situated along the Yellowstone River in the Yellowstone Valley. Columbus is situated at an elevation of approximately 3,600 feet and the elevation of Billings is at approximately 3,200 feet above sea level. This overall area is classified as a semi-arid region with annual precipitation typically ranging from about 10 to 14 inches per year. The Yellowstone Valley has one of the longest growing seasons in the state at an average of about 150 frost free days per year which allows production of corn, beans, beets and other crops not generally found in western Montana.

Climate data for Columbus, Montana (1981–2010)

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Average high °F (°C)	38.9 (3.8)	42.8 (6)	52.0 (11.1)	60.8 (16)	69.7 (20.9)	78.3 (25.7)	87.2 (30.7)	85.9 (29.9)	75.3 (24.1)	62.2 (16.8)	47.1 (8.4)	37.0 (2.8)	61.4 (16.3)
Average low °F (°C)	12.3 (-10.9)	15.6 (-9.1)	23.7 (-4.6)	31.1 (-0.5)	39.7 (4.3)	47.3 (8.5)	52.6 (11.4)	50.4 (10.2)	41.3 (5.2)	31.9 (-0.1)	21.5 (-5.8)	11.9 (-11.2)	31.6 (-0.2)
Precipitation inches (mm)	0.58 (14.7)	0.64 (16.3)	1.02 (25.9)	1.89 (48)	2.71 (68.8)	2.21 (56.1)	1.23 (31.2)	0.89 (22.6)	1.23 (31.2)	1.30 (33)	0.62 (15.7)	0.56 (14.2)	14.89 (378.2)
Snowfall inches (cm)	5.5 (14)	6.0 (15.2)	6.7 (17)	3.2 (8.1)	1.6 (4.1)	0.0 (0)	0.0 (0)	0.0 (0)	0.5 (1.3)	2.7 (6.9)	3.7 (9.4)	5.6 (14.2)	35.6 (90.4)

Source: NOAA¹⁶¹

This area is characterized generally with hot summers, and cold, dry winters. In the summer, the temperature can rise to over 100 °F (38 °C) (typically 1 to 5 times per year) while the winter can bring temperatures below zero (-17 °C), with 15 to 20 such nights per year. The snowfall averages about 57 inches a year, but because of warm Chinook winds that pass through the region between December and March, the snow does not usually accumulate heavily or remain on the ground for long. The first freeze of the season on average arrives by the first part of October and the last is typically about the first of May. Spring and autumn in the area are usually mild, but brief. Winds, while strong at times, are considered light compared with the rest of Montana and the Rocky Mountain front. Most livestock operations in the area are able to graze cattle for 7 to 8 months annually, with supplemental hay feeding required for about 4 to 5 months. Summer thunderstorms occasionally are accompanied by gusty winds, lightning, and hail, which may cause some crop damage or loss. These storms are generally scattered and not usually of long duration.

Climate data for Billings, Montana ([Billings Logan Int'l Airport](#)), 1981–2010 normals

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Record high °F (°C)	68 (20)	72 (22)	80 (27)	90 (32)	96 (36)	105 (41)	108 (42)	105 (41)	103 (39)	91 (33)	77 (25)	73 (23)	108 (42)
Average high °F (°C)	36.4 (2.4)	40.2 (4.6)	48.6 (9.2)	57.6 (14.2)	67.5 (19.7)	77.2 (25.1)	86.8 (30.4)	85.7 (29.8)	73.1 (22.8)	59.4 (15.2)	45.3 (7.4)	35.2 (1.8)	59.4 (15.2)
Average low °F (°C)	17.8 (-7.9)	20.6 (-6.3)	26.9 (-2.8)	34.7 (1.5)	43.6 (6.4)	52.1 (11.2)	58.8 (14.9)	57.3 (14.1)	47.5 (8.6)	37.1 (2.8)	26.3 (-3.2)	17.8 (-7.9)	36.7 (2.6)
Record low °F (°C)	-30 (-34)	-38 (-39)	-19 (-28)	-5 (-21)	14 (-10)	32 (0)	41 (5)	35 (2)	22 (-6)	-7 (-22)	-22 (-30)	-32 (-36)	-38 (-39)
<u>Precipitation</u> inches (mm)	0.48 (12.2)	0.48 (12.2)	1.05 (26.7)	1.65 (41.9)	2.17 (55.1)	2.11 (53.6)	1.32 (33.5)	0.74 (18.8)	1.30 (33)	1.18 (30)	0.63 (16)	0.50 (12.7)	13.63 (346.2)
Snowfall inches (cm)	8.6 (21.8)	6.8 (17.3)	9.8 (24.9)	8.6 (21.8)	1.5 (3.8)	0 (0)	0 (0)	0 (0)	1.1 (2.8)	4.1 (10.4)	6.5 (16.5)	8.1 (20.6)	55.1 (140)
Avg. precipitation days (≥ 0.01 in)	6.2	6.2	9.2	10.2	12.0	11.5	7.9	6.0	7.1	7.3	6.3	6.6	96.5
Avg. snowy days (≥ 0.1 in)	6.2	6.0	6.8	4.7	0.9	0	0	0	0.5	2.3	4.6	6.9	38.9
<u>Mean monthly sunshine hours</u>	130.2	158.2	235.6	255.0	282.1	306.0	356.5	328.6	255.0	204.6	129.0	117.8	2,758.6

Source #1: NOAA (extremes 1934–present)^[52]

D. Site Access

As discussed throughout the appraisal, all four of the properties being appraised herein do not adjoin or front on any type of public road; they all are surrounded by privately owned lands and as such are considered “landlocked” without legal access. Current physical access to these properties is via unimproved, two-track roads/trails across the respective private lands. Further discussion about access will be found within the description of each separate parcel.

E. Subject Property Features

For this assignment, the properties being appraised consists of four separate and independent tracts of native rangeland pasture. As instructed by the client, each of the individual parcels will be indentified, described, and appraised separately in the following pages of this report.

1.) *Stillwater County Parcels*

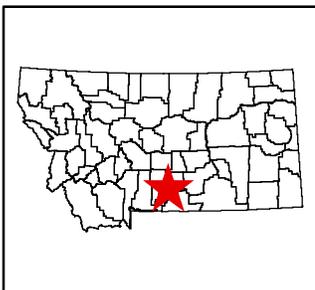
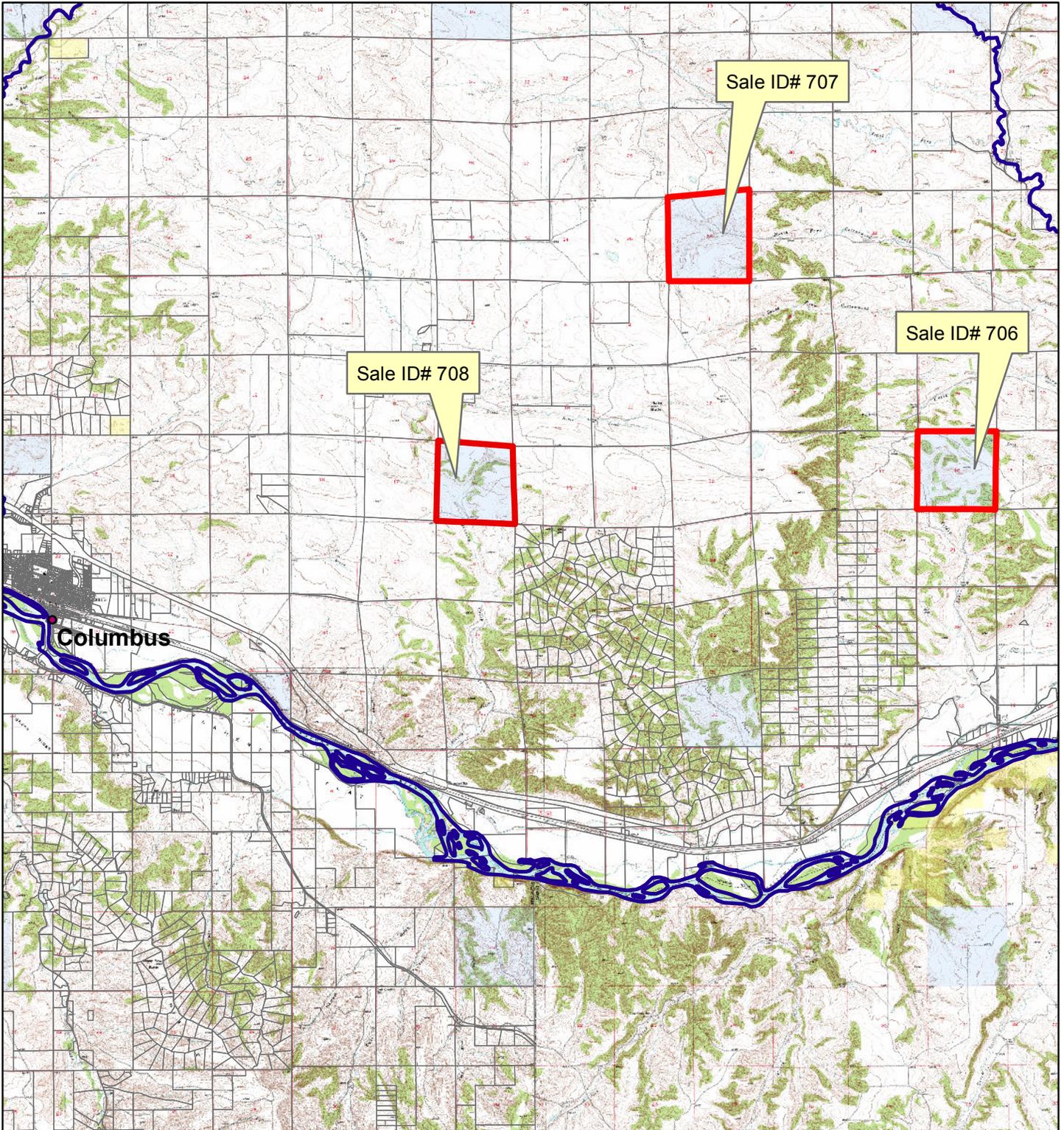
The three Stillwater County Parcels are situated northeast of Columbus above the Yellowstone Valley floor in a rural area of generally year-round livestock ranches and dry farms in what is considered a stable and prosperous community. The area north of Columbus is characterized as expansive, open and rolling, dry cropland and native rangeland terrain with some pine trees in the draws and “bluff” areas situated north of, and above the valley floor. The area features good distant views of the Beartooth Mountain Range to the south and the Crazy Mountains to the west.

The economy of this area historically has been built on the income from agricultural production; however, demand for property with aesthetics and recreational features has become increasingly strong over the past 10 to 20 years from landowners and prospective purchasers who place less emphasis and dependence on agricultural income.

Some small-tract subdivision and rural residential development has taken place in the immediate area around Columbus and along the Yellowstone and Stillwater Rivers south of Columbus. This development around Columbus includes small-tract residential development (5- to 10+/- acre tracts) along with several 20+/- acre rural properties and small hobby farms/ranches (20- to 100+/-acre tracts) cropping up within about a five mile radius of Columbus. Generally the area northeast of Columbus surrounding the appraised properties has escaped the residential development pressure and remains in agricultural use. Most ownerships here are relatively modest sized (typically 1,000 to about 10,000 acres), owner-operated and absentee owner-operated ranches. It is a noted livestock area and the typical ranch is used for cow/calf or yearling production with large areas of dry farming. To the southeast of the Energy Equity Ranch property, there is a relatively large rural residential development (Pine Crest Ranch) consisting of about 200+/-, 20+/- acre parcels. This development was created some 20+ years ago and many of the lots remain vacant and unimproved.

DNRC

Stillwater County, Montana



SCALE:
1:112,500

0 0.25 0.5 1
Miles

New Frontier Ranches, Inc. - For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana



View from NE corner of #706 southerly down easterly fence line

Sale ID #706

All Section 16-T2S-R22E

Sale ID # 706 is located about 11 air miles east/northeast of Columbus and about 5 air miles west/northwest of Park City. Physical access to this tract was gained by traveling northwesterly from near Park City on the Valley Creek Road (a gravel county-maintained road) for about three miles to the boundary of the ranch owned by Energy Equity. From the county road we traveled westerly across Energy Equity's private lands on unimproved two-track/roads trails for about two miles to the subject property. The subject property is bordered on all four sides by land owned by Energy Equity.

The parcel being appraised consists of 640 acres of open, rolling, and undulating foothill rangeland pasture. Its topography and vegetation is characterized by open, rolling and varied grasslands with scattered sagebrush and juniper trees that are crossed by small coulees and draws with sandstone bluffs and scattered pine trees. The easterly portion of this property has been burned in a past (estimated at about 5 years ago) wildfire.

There were no structural improvements observed on this parcel except for fences along the north and east sides of this property. There are good views of the surrounding agricultural lands and the Beartooth Mountains to the south. There does not appear to be any significant live water on this property; the headwaters of Dry Creek and Tilden Creek begin on this property but water here would most likely be limited to early season snow melt and runoff. It is reported that there is a water tank in the northeast corner of this property but it was not observed during our inspection. This property is leased to Energy Equity for grazing purposes with its carrying capacity rated at 125 AUMs.



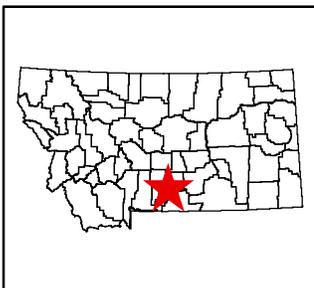
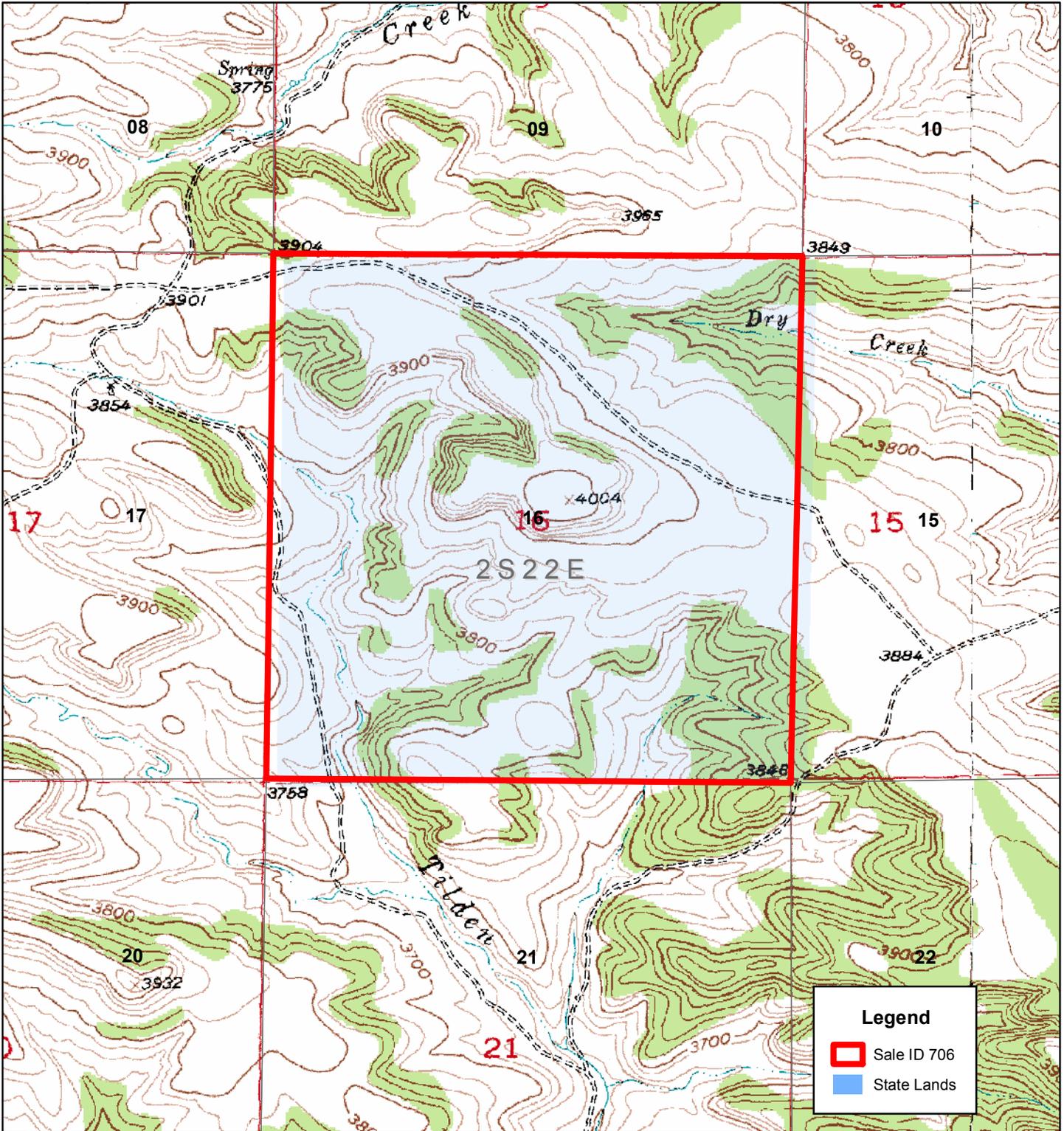
Westerly view of subject from NE corner



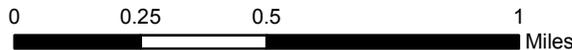
Westerly view of subject from near center of property

DNRC Sale ID# 706

Stillwater County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.

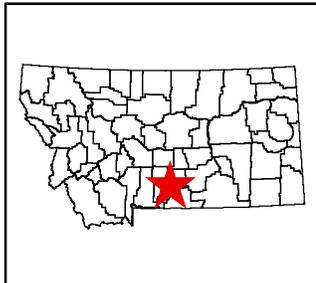
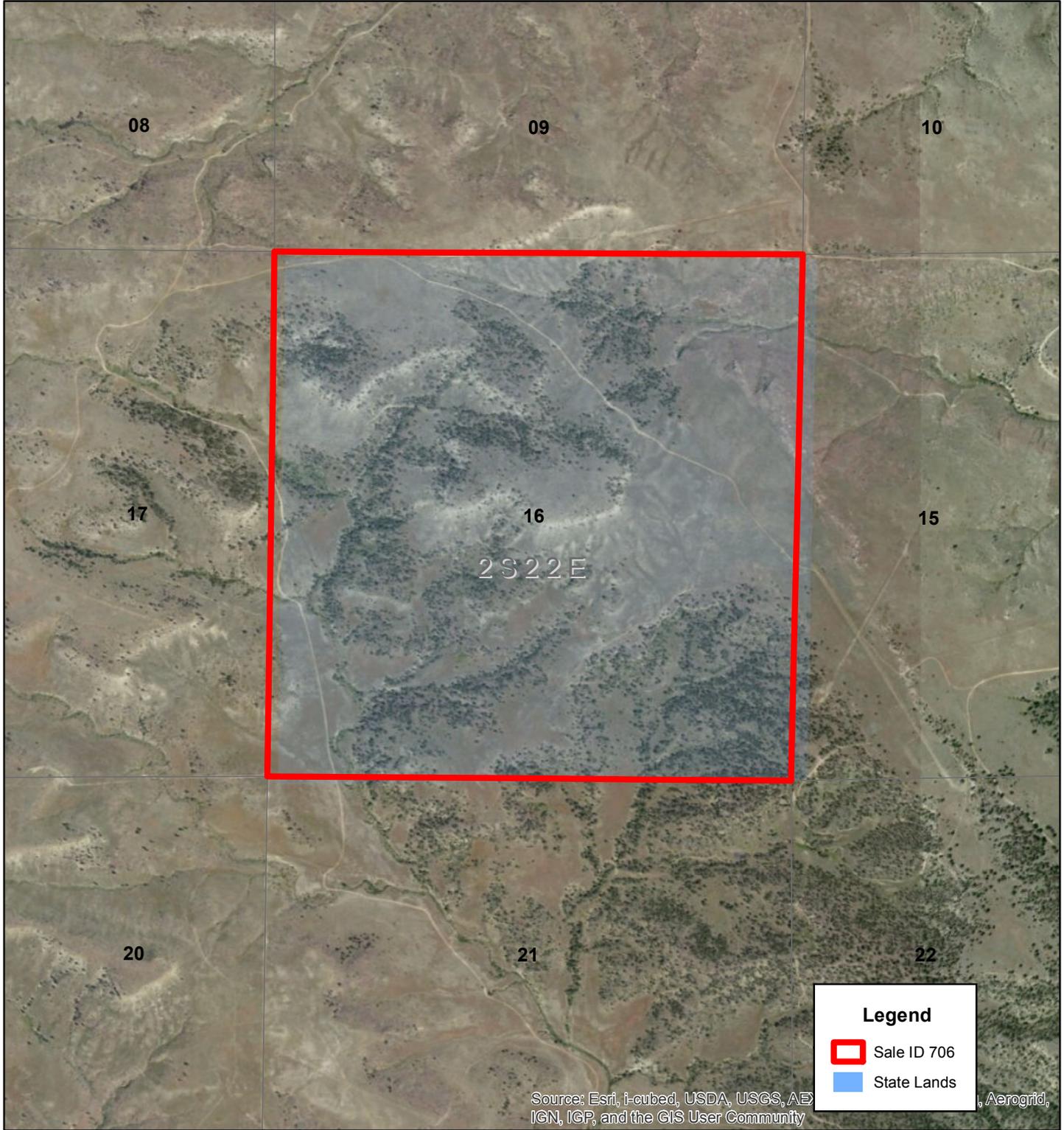


NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana

DNRC Sale ID# 706

Stillwater County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana



Northerly view of #707 to NW corner with N. Fk Cottonwood Cr in center of photo

Sale ID #707

All Section 36-T1S-R21E

Sale ID # 707 is located about 9 air miles east/northeast of Columbus. Physical access to this tract was gained by traveling northeasterly from Columbus on the Columbus/Molt Road and the LE Peterson Road (gravel county-maintained roads) for about six miles to the Energy Equity Ranch headquarters. From the ranch headquarters we traveled easterly across Energy Equity's private lands on unimproved two-track/roads trails for about five miles to the southern boundary of the subject property. The subject property is bordered on the south and east sides by land owned by Energy Equity; to the north by land owned by PS Land Co., and to the west by land owned by Keating.

The parcel being appraised consists of 640 acres of open, rolling, rangeland pasture. Its topography and vegetation is characterized by open, rolling and expansive grass and sagebrush pasture that are crossed by small coulees and draws that have some junipers and scattered pine trees in them.

There were no structural improvements observed on this parcel except for fences along the north and west sides of this property. There are good views of the surrounding agricultural lands and the Beartooth Mountains to the distant south. There does not appear to be any significant live water on this property; the headwaters of N. Fork of Cottonwood Creek begin on this property but water here would most likely be limited to early season snow melt and runoff. State records indicate there is a spring development in the southwest ¼ however it was not observed during the property inspection. This property is leased to Energy Equity for grazing purposes with its carrying capacity rated at 141 AUMs.



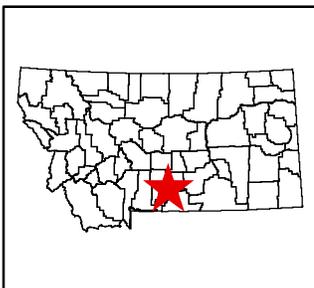
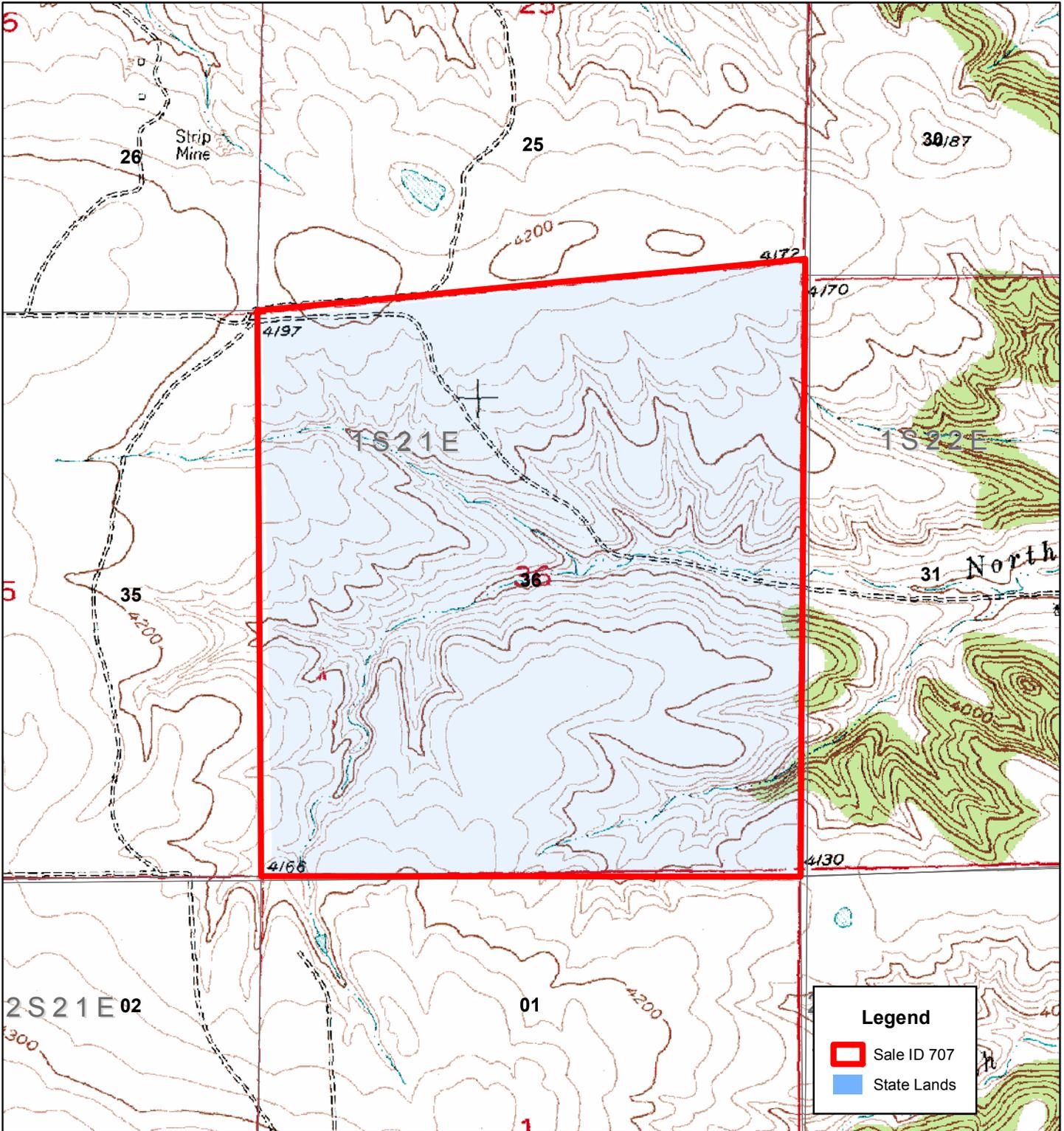
Northeasterly view of subject toward NE corner



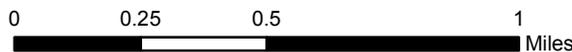
Northerly view of property from southern section line

DNRC Sale ID# 707

Stillwater County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.

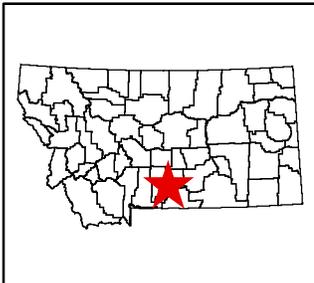
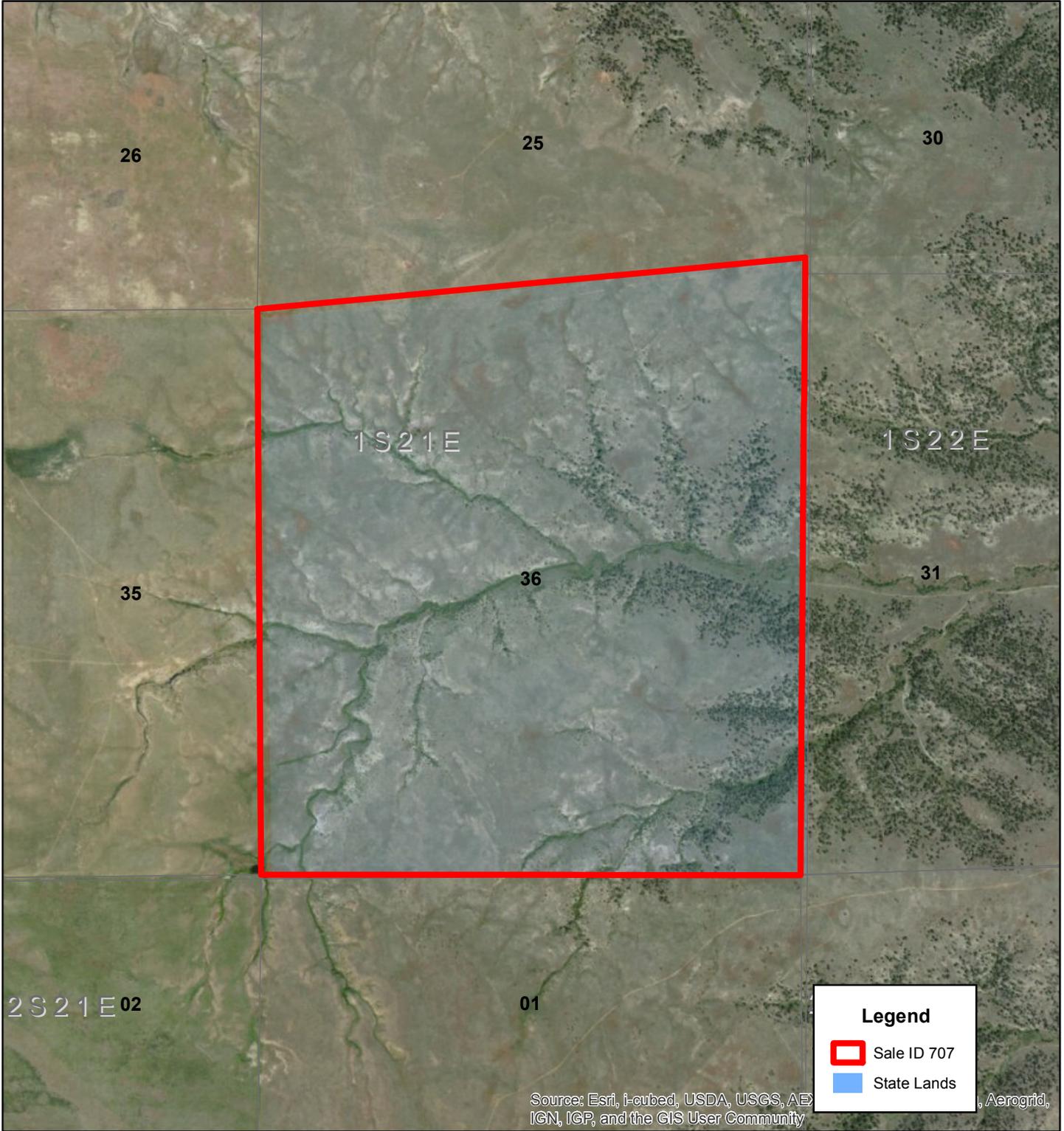


NEW FRONTIER
RANCHES

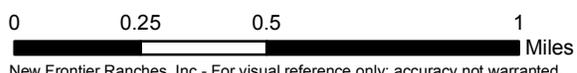
Brokerage - Appraisals - Management
Twin Bridges, Montana

DNRC Sale ID# 707

Stillwater County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

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Twin Bridges, Montana



Easterly view of #708 along southern boundary across Hensley Cr drainage

Sale ID #708

All Section 16-T2S-R21E

Sale ID # 708 is located about 6 air miles east/northeast of Columbus. From the Energy Equity's ranch headquarters physical access was gained by traveling west and southwesterly across Energy Equity's private lands on unimproved two-track roads/trails for about 3½ miles to the western boundary of the subject property. The subject property is bordered on all four sides by land owned by Energy Equity.

The parcel being appraised consists of 640 acres of open, rolling, rangeland pasture with a large draw (Hensley Creek drainage) coursing southerly through the center of it. Its topography and vegetation is characterized by open, rolling grass and sagebrush pasture on the upper bench lands on each side of Hensley Creek together with grass and sage slopes, sandstone rocks, bluffs, and patches of pine trees on primarily the ridge tops and north and west slopes of Hensley Creek.

There were no structural improvements observed on this parcel except for fences along the south and west sides of this property. Water resources on this section consist of Hensley Creek, a small stream that flows intermittently and year-round in certain portions of the subject property and a natural spring and stock tank in the Hensley Creek drainage near the property's south boundary. This parcel is more aesthetically pleasing than the other parcels with its varied topography and trees, water resources, views of the Beartooth Mountains to the south, and there were a few elk observed on this parcel during our inspection. This property is leased to Energy Equity for grazing purposes with its carrying capacity rated at 127 AUMs.



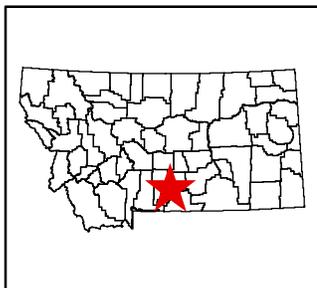
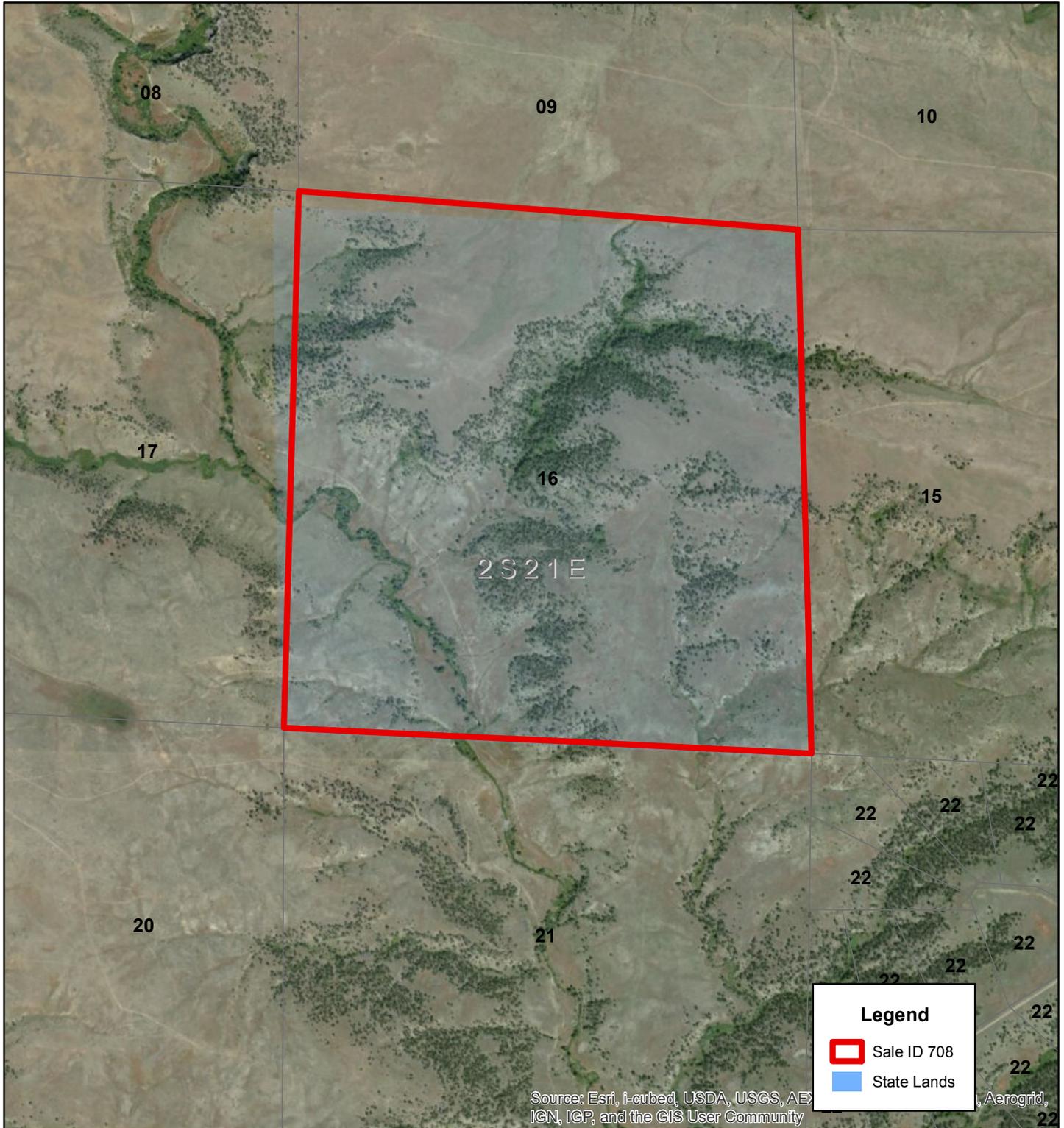
Northeasterly view of subject



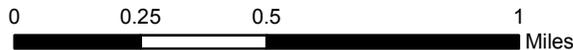
Northerly view up Hensley Cr drainage w/ elk on ridge

DNRC Sale ID# 708

Stillwater County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana

2.) *Yellowstone County Parcel*

The Yellowstone County Parcel is situated about 10 air miles east of Billings between Interstate 90 and I-94 in the Pryor Creek area. Topography of the immediate area consists primarily of upland foothills crossed by open coulees and rough draws with sandstone outcrops, bluffs, and cliffs, with a vegetative cover of native grasses, sagebrush, and some scattered juniper and pine trees. Bench areas with better soils are commonly used for dry hayland and small grain dry crops.

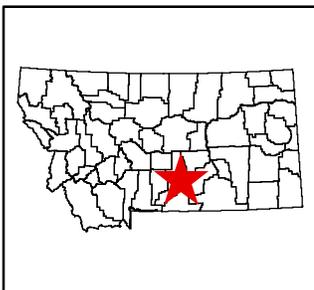
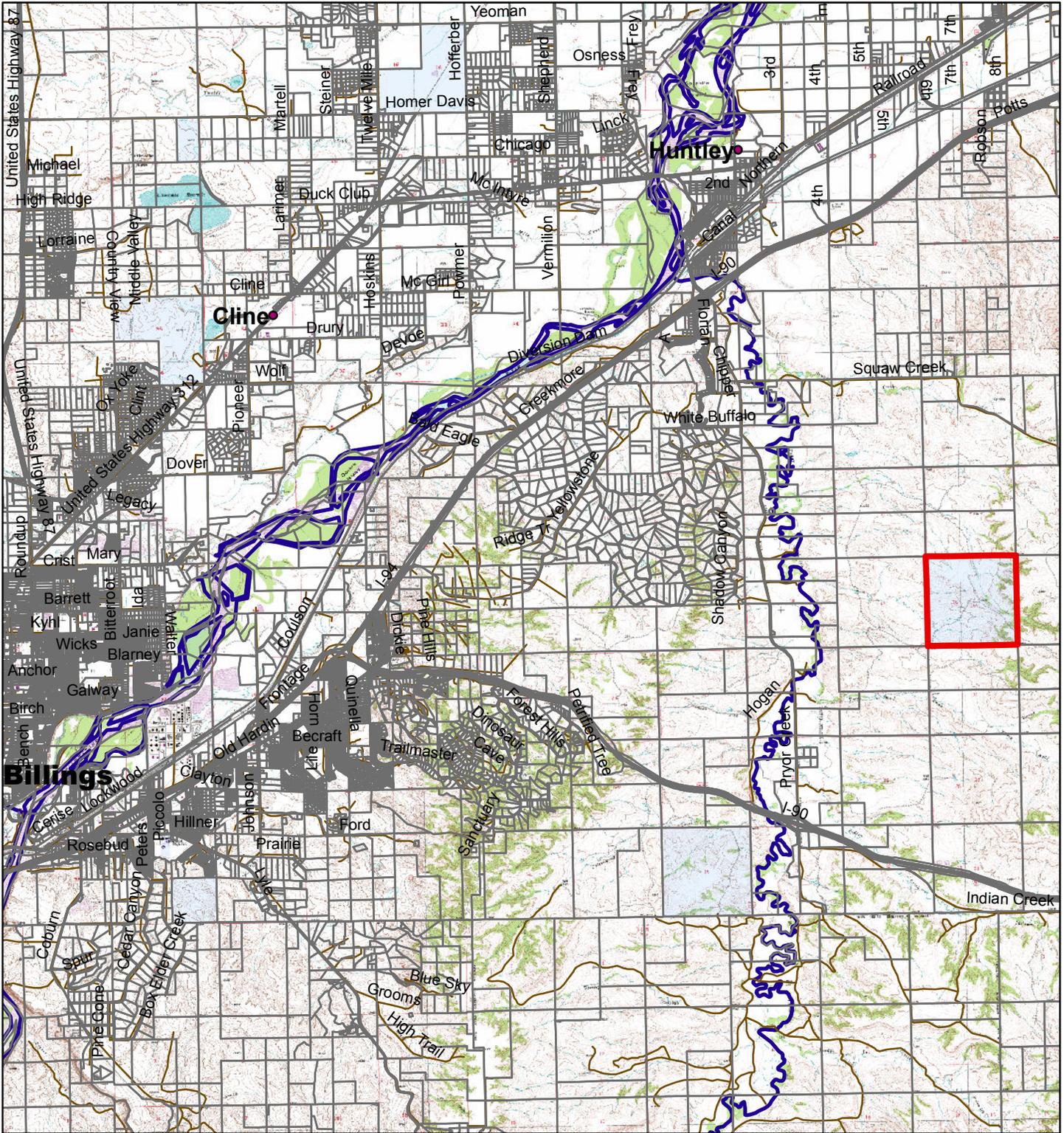
Billings' bedroom communities of Huntley, Shepard, and Worden are about 5 to 10 miles north of the subject and the northern boundary of the Crow Indian Reservation is about 3 miles south of the subject property. Like with Stillwater County, the economy of this area historically has been built on the income from agricultural production; however, demand for property with aesthetics and recreational features has become increasingly strong over the past 10 to 20 years from landowners and prospective purchasers who place less emphasis and dependence on agricultural income and view the land with more of an eye towards rural residential use.

With Billings' robust economy, some small-tract subdivision and rural residential development has taken place in the surrounding Pryor Creek area being primarily to the west, and closer to Billings and Huntley. This development is a mixture of small-tract residential development (5- to 10+/- acre tracts) along with some 20+/- acre rural properties, and small hobby farms/ranches in the 80- to 200-acre size north and west of the subject along Pryor Creek.

In general, the land use and ownership in the immediate area surrounding the appraised property and further to the east of Billings is that of larger ownerships geared towards more agricultural use. Most ownerships here are modest sized (typically 600 acres to 5,000+ acres), owner-operated and absentee owner-operated ranches and farms. It is a noted livestock area and the typical property is used for cow/calf or yearling production with large areas of dry farming.

DNRC - Sale ID# 705

Yellowstone County, Montana



SCALE:
1:00,000

0 0.5 1 2
Miles

New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana



Northeasterly view of #705 from near its SW corner

Sale ID #705

All Section 16-T1N-R28E

Sale ID #705 is located about 10 air miles east of Billings in the Pryor Creek area. From the Pryor Creek Road (a gravel county-maintained road) physical access to the appraised property was gained by traveling northeasterly through private lands owned by Teen Patterson on unimproved two-track roads/trails for about 2½ miles to the southern boundary of the subject property. The subject property is bordered on all four sides by land owned by the lessee, Teen Patterson.

The parcel being appraised consists of 640 acres of rather rough and rugged rangeland pasture. Its terrain and topography consists of a higher ridge/bluff on the property's east edge and then it falls off to the west with small seasonal drainages coursing westerly toward Pryor Creek. The vegetation is characterized by open, rolling grass and sagebrush ridges with some scattered junipers in the draws and some pines on the ridge top. A large power line parallels the southern property boundary.

There were no structural improvements observed on this parcel except for fences along the south and west sides of this property and a stock water tank located near the southwest corner of the section. There is no live water or any dependable water source on this property; the stock water tank in the southwestern corner is property of the lessee and is supplied water from a stockwater pipeline system on Patterson's private land to the west of the subject. This property is leased to Patterson for grazing purposes with its carrying capacity rated at 124 AUMs.



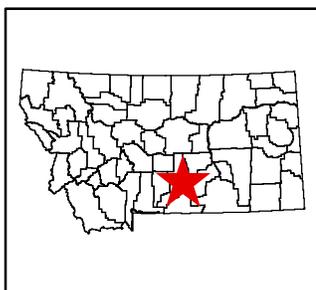
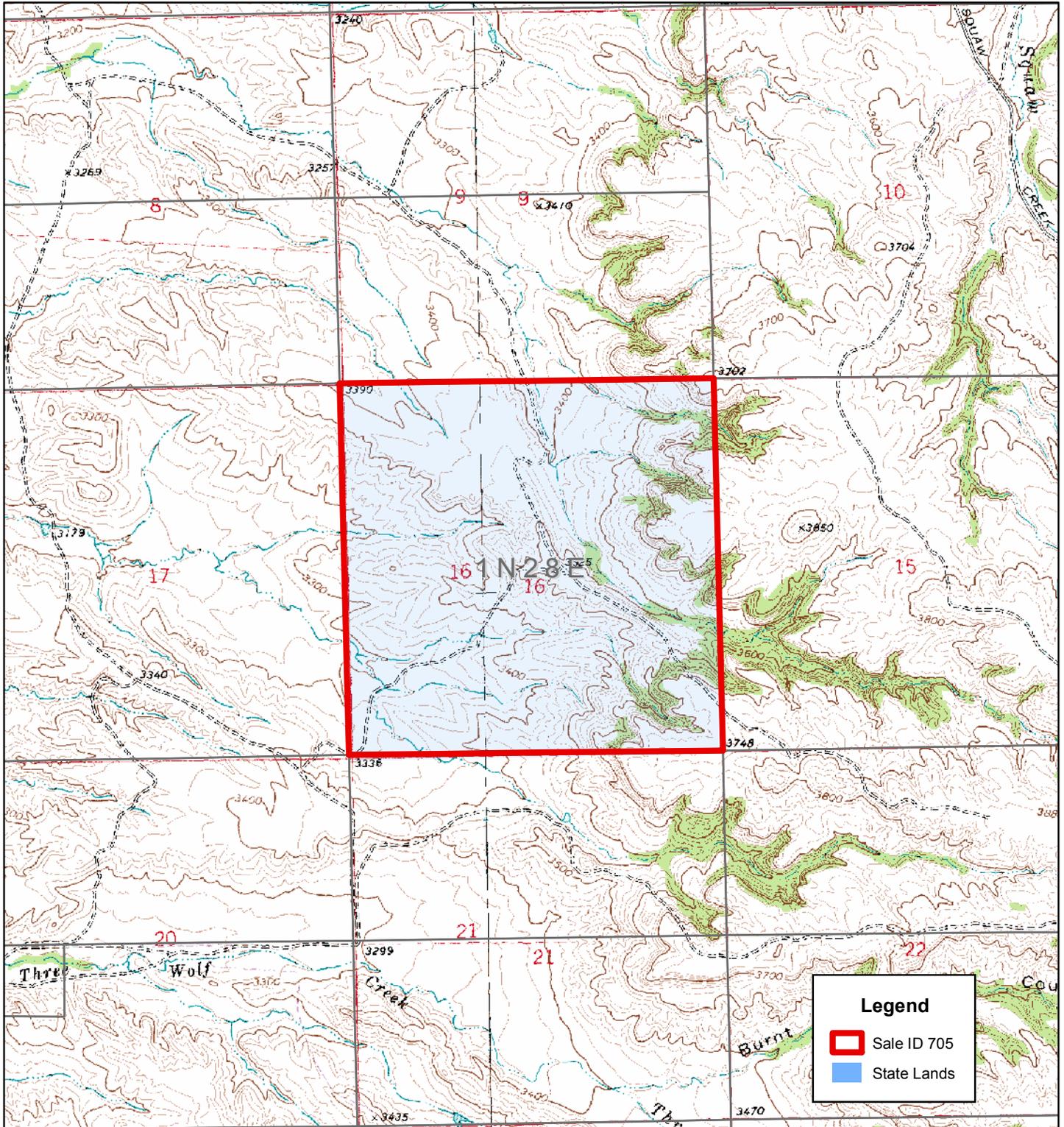
Northerly view along west line



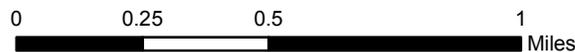
Easterly view of property towards east line near the ridge top

DNRC - Sale ID# 705

Yellowstone County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.

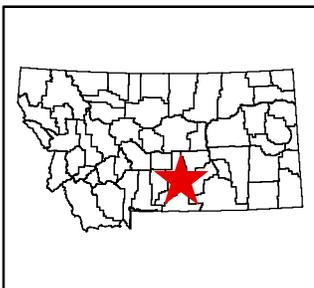
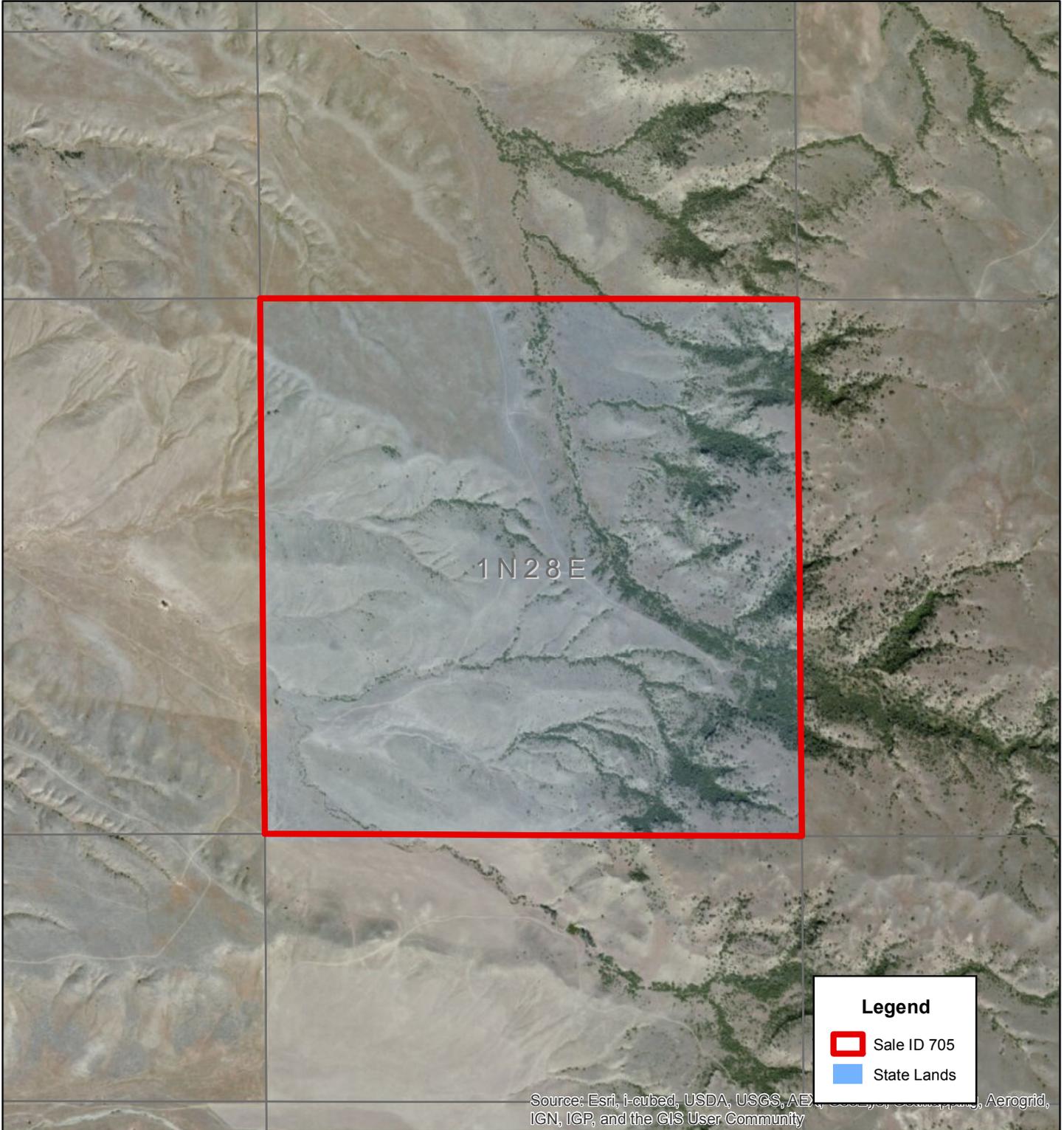


NEW FRONTIER
RANCHES

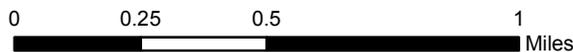
Brokerage - Appraisals - Management
Twin Bridges, Montana

DNRC - Sale ID# 705

Yellowstone County, Montana



SCALE:
1:24,000



New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana

F. Structural Improvements

There are no buildings or structural improvements located on any of the properties being appraised. The site improvements on the properties (fences and livestock water systems) are property of the tenant(s) and are not included within this appraisal.

G. Recreational Resources

The overall area of Stillwater County, Yellowstone County, and southern Montana provides a wide variety of recreational features useable on a year-round basis. They include all activities related to wildlife, from hunting and fishing to natural observation and photography, as well as outdoor activities such as hiking, horseback riding, camping, rock climbing, hang gliding, cross country skiing, and wilderness experiences. Motorized activities such as boating, motorcycling, snowmobiling, and four-wheeling are also popular.

The aesthetics and recreational features of the properties being appraised are consistent with their surroundings but are rather limited as they are generally open, expansive rolling tracts of native rangeland and sagebrush with areas of scattered trees and timber. In and of themselves, the parcels offer good distant mountain views and some limited big game and upland bird hunting as the parcels are typically not large enough to support resident elk or deer. All of the subject properties are located within a few miles of the Yellowstone River and various other popular fishing streams, however, there are no on-site fishing opportunities on any of the properties appraised herein.

H. Water Resources

As discussed earlier, the properties appraised herein do not possess any significant water resources except for Parcel # 708 which has a spring and a small intermittent and year-round stream (Hensley Creek) on it.

I. Mineral Rights

As stated in the assumptions and limiting conditions of this report, no separate value has been assigned for mineral rights. For this assignment, it is assumed that the State of Montana owns all or a portion of the sub-surface mineral rights and that the mineral rights are not presently leased out for any exploration or development. In sales of similar properties in this market area, generally a portion of the existing mineral rights are transferred; however, no specific value is usually assigned. Furthermore, in this specific market area, land sales consummated without the sub-surface minerals often reflect no measurable difference in value that can be attributed to the mineral rights. For purposes of this report, mineral rights are considered to be a part of the overall real property and no contributive value has been assigned for mineral rights over and above the associated land values.

J. Timber Rights

As discussed earlier, there are varying amounts of scattered juniper and pine trees on the properties being appraised. No timber cruise was conducted by, or provided to, the appraiser but it is believed that the extent of the trees on the properties would not be economically harvestable. With sales of properties similar to the subject, the type and volume of trees like that on the appraised property typically have a greater contributory value based on their visual and aesthetic qualities than for their lumber potential. Like the mineral rights, the trees and timber on the property are considered part of the overall land value and no specific value for timber over and above the land value is assigned.

K. Utilities

The properties do not have any utilities such as wells, septic, telephone, or electrical service installed on, or to, them.

L. Zoning and Real Estate Taxes

There is no rural zoning in the outlying areas of Stillwater and Yellowstone Counties and the properties are tax exempt being State Trust lands.

M. Easements and Encroachments

There were no adverse easements or encroachments observed on the subject properties during our property inspection other than the large power line along the southern boundary of Parcel #705. A full title search that may reveal recorded easements was not conducted by or provided to the appraisers.

N. Hazards and Detriments

There did not appear to be any visible hazards associated with the appraised property that are not common or typical with similar properties in the surrounding area. The immediate and surrounding areas are known to be home to many noxious weeds but none of any significance was observed on the subject parcels.

The physical access trails/roads to the properties are unimproved two-tracks that can be difficult or impossible to travel during the winter and at times of wet weather due to drifted snow and/or mud and as such could be considered a detriment.

O. Environmental Factors

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

III. VALUATION PROCESS

A. Introduction and Outline

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

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

- 1.) Research and analyze the subject property and its corresponding market;
- 2.) Determine Highest and Best Use of the subject property;
- 3.) Select appropriate appraisal method(s) to estimate property value;
- 4.) Apply selected method(s) to the subject property;
- 5.) Correlate and/or reconcile values indicated by the selected method(s) into a final estimate of value;
- 6.) Analyze extraordinary circumstances, if any, of the subject property that may have an effect on the final conclusion of value.

For purposes of this assignment, the appraisal process will follow Steps 1 through 5 to estimate the market value of the subject property considering the Hypothetical Conditions stated herein.

There does not appear to be any other extraordinary or unusual circumstances associated with the subject property and the suggested values will be reconciled after Steps 5 and 6.

B. Approaches to Value – Definitions

There are three traditional approaches to value: the income or earnings approach, the cost approach and the sales comparison approach. A brief discussion of the approaches is followed by an analysis of the appropriateness of the approaches for the subject property.

The **Sales Comparison Approach** indicates the value of a property from a direct comparison of the subject property to sales of similar properties on a single, overall unit of measure. In applying this approach, the appraiser employs the principle of substitution: a prudent buyer is assumed to not be willing to pay more for a property than it would cost him or her to buy another property with equally desirable characteristics. Conversely, a seller will sell his property for no less than what similar properties are selling for. Several “units of measure” such as square footage, acres, and animal units emerge when using this method depending on the type of property being appraised.

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

The **Income Approach** in rural appraisals is based on the principle of anticipation and is a value indication of a property based on its anticipated ability to generate income. This method is employed by processing the anticipated net income of the subject property with a capitalization rate determined from the market. The division of the comparable sale property’s net income by its sale price will yield a capitalization rate that is reflective of the overall rate of return for that specific property. This analysis of the comparable sales will provide a range of value of the rates of return that are occurring in the present market. From this range, a probable rate of return can then be applied to the subject property’s estimated net income to predict a probable market value. The reader should realize that these cap rates and rates of return may appear to be low as compared to alternative investments; however, it appears to be acceptable due to the anticipated appreciation in land values and tax advantages from depreciation of improvements. It also indicates that buyers are investing in agricultural lands without expecting them to cash flow.

C. Market Observations

For this assignment, we completed a wide review of the market area surrounding the appraised property in order to ascertain activity and value under market conditions for similar-sized rural properties as of January 15, and 21, 2014. The market area investigated in this assignment was southcentral Montana with most emphasis placed on the areas of Stillwater and Yellowstone Counties for the sale of ranch and rural properties most like the subject property.

Overall, southern Montana had been a relatively strong market area because of its rivers, mountains, and productive agricultural lands. Market data has shown that this strong demand increased in terms of both market appreciation and a greater number of sales from the late 1990's through 2007. In 2008, with the economic "slowdown" of the U.S. economy and stagnant or falling residential real estate markets of the east and west coasts and in the larger metropolitan areas, the demand for agricultural and recreational properties like the subject in southern Montana declined as well. Within the southern Montana market area, during the 2008-2010 time period, sales of small-tract, and recreationally oriented residential properties to outside buyers were relatively scarce due to the lack of, or more limited, discretionary funds. Sales of the specific recreational or non-essential/luxury, second-home type properties occurred only when the buyers believed they were purchasing at a price they consider either a real "deal" or as a "steal". Sales of agricultural properties also stalled during this time and sales of larger properties targeted for use as small-tract subdivision and rural residential development were nearly nonexistent as the demand for such development property evaporated and there was a significant inventory of small tract properties on the market.

Beginning in 2010-2011 and carrying through the current market, the rural real estate market in southern Montana appears to have rebounded with increased demand for agricultural and recreational properties and a greater number of sales occurring across the board. Of the sales occurring since 2010 in southern Montana, many have been properties with a strong agricultural resource that are being purchased by adjoining landowners as economical add-on units or by those agricultural operators with a strong and solid financial base. Demand for recreational properties has also increased and in many areas the supply of available properties is relatively limited. There are some sale indicators in southern Montana that would indicate a declining real estate market since 2008; however, this data must be examined closely. Sale and re-sales of certain properties and paired sales for time trend analysis indicate that the overall real estate market in southern Montana peaked during the 2006-2008 time period, and since then, the market softened and values in some cases have fallen. Sales data maintained by New Frontier Ranches shows that recent sales of recreational properties that were purchased during 2006-08 are now reselling at values that are from 10% to 40% less than their sale price in 2006-08 and show annual depreciation rates of about -3% to -13%. For most properties that were acquired prior to the peak years or that have been held for more than ten years, market data would suggest appreciating values over the longer term. Values of strong agriculturally based properties have been holding steady with some indications of growth during this time period most likely due to strong commodity markets.

Analysis of the local and surrounding market area's sales and listings revealed that the market exposure time for similar type properties ranged from about six months to several years. Those properties that were placed on the market at competitive prices based on true market sales (rather than hopeful expectations) experienced strong buyer interest and many have sold within six to twelve months. Those properties placed on the market at values far exceeding true market value (those wanting to "test" the market sometimes referred to as "insincere listings") were those that struggle and linger on the market for years. Attempts to lower these high listing prices often-times fails to help as these listings become stale or "market-worn" and a stigma of being over-priced follows the property.

The researched market area is defined as Yellowstone and Stillwater Counties and sales data considered relevant to the current market are those sales occurring over the past 3+/- years since 2010-2011. For this assignment those sales that have occurred during the 2010-2013 time period are considered to be accurate and reliable indicators of current market value and no time adjustments were made (either upward or downward).

As discussed, the properties appraised herein are all isolated sections of native rangeland pasture with an overall open, rolling, expansive terrain with rather limited aesthetics and recreational appeal. They are rural properties located from 3 to 10 miles off public roads (via two-track trails) and access (both legal and physical) to the properties is rather difficult and as such, the properties would not lend themselves to small-tract development. In the present local and surrounding market, properties like the subject are experiencing good demand primarily due to their agricultural base and the rather limited supply of similar properties currently on the market.

D. Highest and Best Use

A property is valued in the appraisal process according to its Highest and Best Use. In determining highest and best use, a complete analysis of the area surrounding an appraised property should be made to ascertain market trends and demands. Consideration of established uses in the area and the features of the subject must also be analyzed.

Highest and Best Use is defined herein 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. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

The analysis of highest and best use begins with the discovery of what uses are *legally permissible*. Are there laws, covenants or zoning that prevent certain uses of the subject property? Of those legally permissible uses, which uses are *physically possible*? Of those legally permissible and physically possible uses, which uses are *financially feasible*? Do the anticipated returns outweigh the anticipated costs? Finally, of the uses shown to be legally permissible, physically possible and financially feasible, which use will generate the greatest net return or prove to be *maximally productive*? That use which satisfies these four criteria is considered to be the appraised property's Highest and Best Use.

In determining highest and best use, proper appraisal theory states that one must also consider the property under two separate scenarios; the highest and best use of the property as though it were vacant and the highest and best use of the property as it is structurally improved. As noted herein, the properties being appraised herein are all vacant, structurally unimproved properties that are available for all potential highest and best uses.

The subject properties are all located in rural areas of Stillwater and Yellowstone Counties, and consist of open, rolling native rangeland and sagebrush pasture with varying amounts of trees and timber. They are located in outlying areas with the historical land use being for agricultural livestock grazing purposes.

In accordance with the conditions and scope of work for this assignment, this appraisal is to be conducted considering the subject properties with the Hypothetical Condition that the properties possess legal access and also in their "as is" condition which is without legal access. The highest and best use of the subject properties will be discussed for each of these conditions.

**HIGHEST AND BEST USE --- As is Vacant and Unimproved
With the Hypothetical Condition of Possessing Legal Access**

Legally Permissible Uses: The appraised properties are not subject to any zoning, deed restrictions, covenants, or regulations, other than those broad regulations imposed by the State of Montana and thus, many differing and varied uses are legally permissible for the subject property. These permissible uses would include agriculture, recreation, investment, open space and conservation, and countless variations of residential, commercial, and/or industrial development. However, subdivision of any property in Montana creating parcels less than 160 acres in size requires a state-mandated subdivision review process. The subject parcels are legally transferrable as they exist and the parcels could be divided into 160+ acre tracts and transferred without subdivision review. Research of the surrounding market and competing areas revealed that the primary uses of similar properties are for agricultural use.

Physically Possible Uses: All of the legally permissible uses are generally physically possible on portions of the appraised property as there are no physical limitations to certain areas of the property that would prohibit any of the legally possible uses. Thus, the legally permissible and physically possible uses of the appraised property would be the industrial, commercial, and residential development along with agricultural, recreational, open space, and investment uses discussed above.

Financially Feasible Uses: Of the legally permissible and physically possible uses outlined above, the industrial and commercial uses would not be financially feasible due to the property's rural and rather remote locations in southern Montana. Rural residential development in accordance with local and state regulations is deemed to be legally and physically possible but the financial feasibility of small-tract residential subdivision would be questionable (at best) in today's market as the demand for larger parcels for subdivision and development into small tracts is weak and there appears to be a significant amount of small-tract inventory currently on the market. Also, the cost (ie acquisition, surveying/platting, road construction, utilities, regulation compliance, marketing, and holding/sell-out period, etc) of developing these properties into successful small tract residential use is high considering their remote locations, access characteristics, and on-site physical features. The potential uses remaining as financially feasible are those agricultural, recreational, open space, and investment uses discussed above. Strictly agricultural uses would not be financially feasible in today's market as the values being paid for similar properties in the area exceed the value that could be sustained solely by their agricultural income. The recreational and open space uses noted above are not typically economical uses in and of themselves.

Maximally Productive Use: A review and study of the area surrounding the appraised property revealed that the primary uses of similar ranch properties are for agricultural uses primarily for livestock grazing along with the complementary recreational and investment uses. The uses of these properties remain in either traditional agricultural ranching and farming operations or as a combination recreational/agricultural unit where it is common for either a resident or non-resident owner to continue with an agricultural use of the property in anticipated future gains and enjoy the recreational and aesthetic qualities of the properties in their natural state and possibly construct a new seasonal or year-round dwelling.

With the strong commodity markets and a strengthening agricultural real estate market that producers have been experiencing over the past 2-3 years, the demand for agricultural land in this area has increased and the amount of available properties to purchase has decreased. Considering the strong demand and relatively short supply of similar agricultural properties the maximally productive use, or that use which generates the greatest overall return, appears to be a combination of the above uses that is termed a *Recreational Agricultural Use*.

HIGHEST AND BEST USE --- As is Vacant and Unimproved “As is” Without Legal Access

As discussed, the properties are isolated sections of Montana State land that are surrounded by private lands and they do not possess legal access from any public roadway. Their present and historical use has been agricultural for livestock grazing under lease agreements to the adjoining landowner tenants.

In the preceding analysis, the highest and best use of the subject properties with the hypothetical condition of possessing legal access was a recreational agricultural use. When considering the subject properties in their “as is” state without access, the four factors required for highest and best use are restricted. The properties are not legally or physically accessible by anyone other than those landowners who adjoin the property and have other means of legal access. Without legal or physical access, these properties are not financially feasible ownerships to those who do not adjoin or border the property. Thus, the only financially feasible, legal, physical, and maximally productive use for the appraised properties without legal access is for assemblage or plottage to a neighboring landowner for their *recreational agricultural* use.

E. Approach Selection

The three traditional approaches to value were considered to estimate the market value of the subject property.

The income approach is typically employed when estimating market value of income producing properties such as larger agricultural units and/or commercial properties. When researching this market and interviewing market participants, it is apparent that the income resource of similar properties is minimal and is a secondary consideration (at best) and the land is commonly viewed as an investment for appreciation rather than its income potential since many times these acquired ranch properties are blended into larger agricultural operations or operated at reduced levels of carrying capacity in order to enhance the wildlife and recreational features of the property. These factors complicate the application of the income approach and lead us to conclude it is of limited use in this assignment and thus is not incorporated herein.

The cost approach is typically utilized when appraising properties with new and/or significant structural improvements and/or differing land classes that demonstrate independent values among the land classes. The State Land parcels appraised herein are vacant and structurally unimproved and the land consists primarily of one land class. Therefore the cost approach will not be prepared in this assignment.

Our research and analysis of the subject property and its corresponding market area indicated that the most accurate and reliable method of estimating the subject property's market value is by employing the sales comparison approach. The sales comparison approach is a method of estimating value by comparing the appraised property to sale properties on a single, overall unit of value. This approach utilizes the analysis of arm's-length transactions of lands in the vicinity of and comparable to the land under appraisal. These transactions are typically referred to as "comparable sales" and the method of forming an opinion of a property's market value through comparison of these sales to the appraised property is known as the sales comparison approach. In applying this approach, the appraiser employs the principle of substitution: a prudent buyer is assumed to not be willing to pay more for a property than it would cost him or her to buy another property with equally desirable characteristics. Conversely, a seller will sell his property for no less than what similar properties are selling for. Several "units of measure" such as square footage, acres, and animal units emerge when using this method depending on the type of property being appraised. The sales comparison approach will be utilized and presented in the following pages of this report.

F. Sales Comparison Approach – With Access

The Sales Comparison Approach estimates the value of a property by a direct comparison of the subject property to sales of similar properties on a single, overall unit of measure. In applying this approach, the appraiser employs the principle of substitution: a prudent buyer is assumed to not be willing to pay more for a property than it would cost him or her to buy another property with equally desirable characteristics. Conversely, a seller will sell his property for no less than what similar properties are selling for. Several “units of measure” such as square footage, acres, and animal units emerge when using this method depending on the type of property being appraised. For this assignment, our market research suggests that the most applicable comparative measure of value is the overall sale price per deeded acre. This unit of measure is derived at by dividing the total sale price by the total number of deeded acres in the comparable sale property.

Our market research initially revealed 40+ sales from Yellowstone County and over 50 sales from Stillwater County. A review and analysis of these sales narrowed the number of sales for comparison analysis to those sale properties with the location, size, and physical features most similar to those of the subject properties. The sale properties will be referenced and discussed within this appraisal report with complete sales data placed in the separate sales addenda.

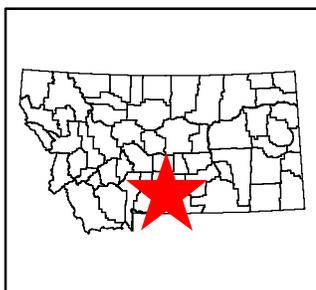
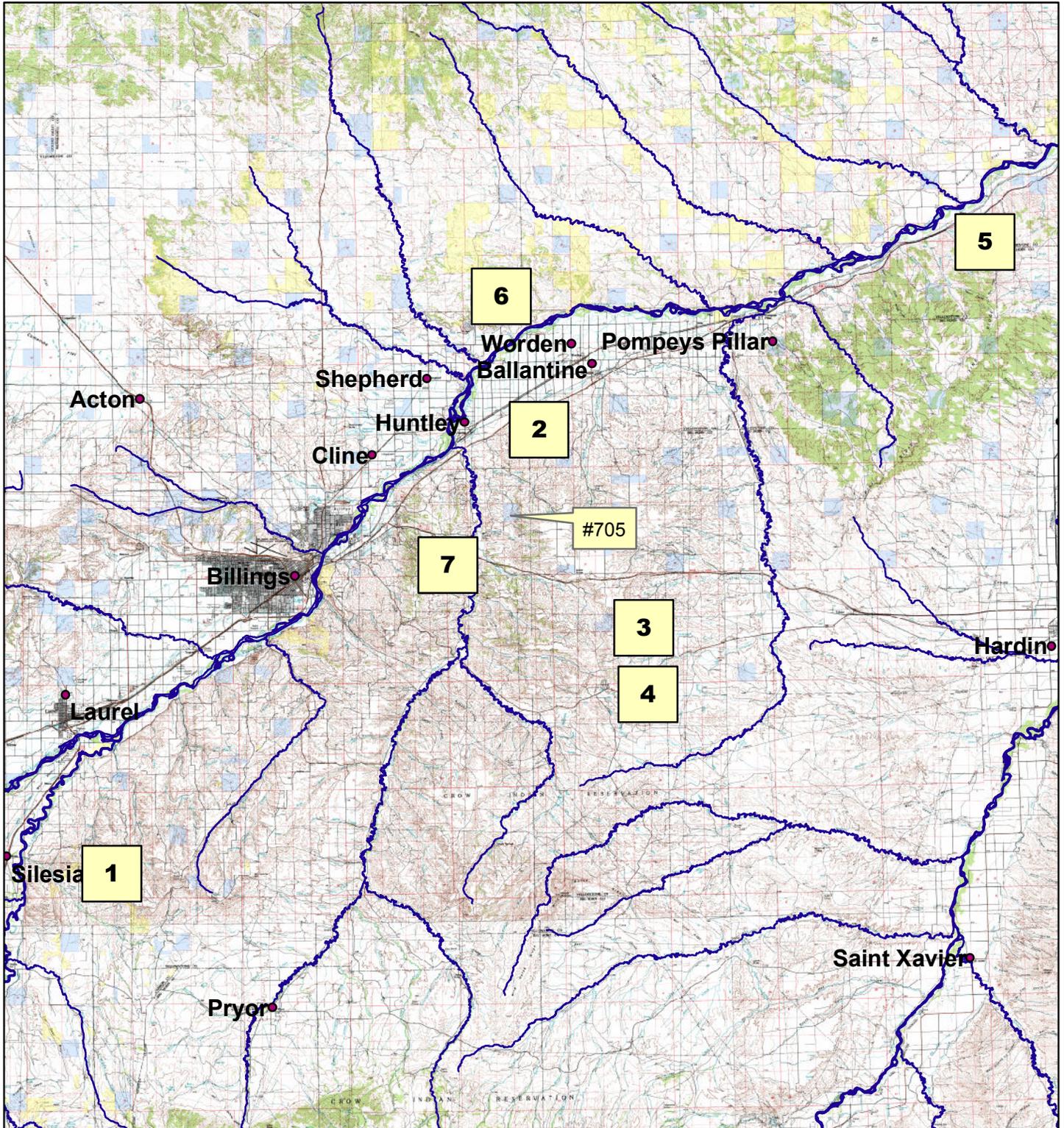
The primary reasons for selecting the specific sales used in this report as indicators of current value are:

- All are considered comparable in locational features and market demands;
- All possess a highest and best use similar to the appraised property;
- All are located within the immediate market or a competing market area;
- All had similar access and marketable title, and none were affected by any unusual sale conditions.
- All possessed physical features and use characteristics most similar to those of the appraised property.

As discussed herein, the four subject properties will be analyzed and appraised independently and they will be appraised first with the Hypothetical Condition as having legal access. The value of the properties in their “As is” condition without legal access will then be estimated.

Yellowstone County Comp Sales

Yellowstone County, Montana



SCALE:
1:503,000

0 1 2 4
Miles

New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana

1.) Yellowstone Co. Property - With Access

Parcel #705 is located east of Billings and consists of 640 acres of entirely native rangeland and sagebrush pasture with some scattered juniper and pine trees on its east end. The sale properties considered for direct comparison analysis are shown below; they are all tracts of native rangeland and dry pasture like the subject property and all possess legal access.

MARKET DATA

Sale	Sale Date	NFR Sale ID	# of Pasture & Rangeland acres	Sale price per acre
#1	3/13	3205	860	\$552
2	12/12	3174	640	523
3	3/12	3210	2,568	323
4	3/12	3209	690	435
5	4/11	3165	640	375
6	4/11	3166	640	325
7	4/11	3164	640	405

The sales illustrated above reflect a range in value of from \$323 to \$552 per acre. This range in value can be attributed to many different and independent factors such as location, size, buildings, water resources, productivity, and aesthetics and amenities like views and overall site appeal. This range in suggested sale values will be narrowed through an analysis of each of these factors.

For those properties with features that are inferior to those of the subject property, a positive adjustment for this feature would be necessary to make the sale property like the subject property. Conversely, for those properties with features or factors that are superior to those of the subject property, a negative adjustment to the sale property would be required to make the sale property like the subject property. In this analysis, the most appropriate method of making adjustments is on a dollar-per-acre basis. A discussion of the adjustments that were applied will follow the chart.

MARKET DATA ANALYSIS – Sale ID #705

Sale	#1	#2	#3	#4	#5	#6	#7
Date	3/13	12/12	3/12	3/12	4/11	4/11	4/11
Size(deeded ac)	860	640	2,568	690	640	640	640
Building contribution	\$45,000	0	0	0	0	0	0
Personal property	0	0	0	0	0	0	0
Lease contribution	0	0	\$12,000	0	0	0	0
Overall Sale Price / acre:	\$552	\$523	\$323	\$435	\$375	\$325	\$405

Comparability Factors / Features Adjustments (\$ per acre):

Rights conveyed	-	-	-	-	-	-	-
Financing / terms	-	-	-	-	-	-	-
Conditions of sale	-	-	-	-	-	-	-
Time	-	-	-	-	-	-	-
Building contribution	-52	-	-	-	-	-	-
Personal property	-	-	-	-	-	-	-
Lease contribution	-	-	-4	-	-	-	-
Adjusted value:	\$500	\$523	\$319	\$435	\$375	\$325	\$405

Comparability of Features:

Location	E	E	E	E	E	E	E
Size	E	E	Inf+	E	E	E	E
Access	E	E	E	Sup	E	E	E
Productivity	Sup	Sup	E	Sup	E	E	E
Aesthetics/appeal	E	E	E	E	E	E	E
Water resources	E	E	E	E	E	E	E

Overall Comparability to the Subject Property:

Sup
Sup
Inf
Sup
E
E
E

Sup = Superior

Inf = Inferior

E = Equal or Similar

The sales illustrated above reflect a value range from \$319 to \$523 per acre for the subject property after quantitative adjustments were made to the sales in order to make them appear to be as similar to the subject property as possible. For those factors or features where no adjustment was made, these items are considered to be equal or similar overall to those of the subject property. In this assignment, the only adjustments that could be measured on a distinct dollar-per-acre basis were for the differences in contribution of buildings, personal property, leased grazing rights, and land mix between the subject and the respective sales.

Pairing and analyzing the above sales data for factors and features such as location, size, access, water, and amenities did not reveal any specific dollar-per-acre differences that could be attributed to any single factor or feature. This analysis and pairing did however reveal that a general comparative analysis could be made on an overall basis of comparison with ratings being: similar or equal, superior, and inferior. The comparability factors and features analyzed herein are discussed below.

Rights conveyed: All of the sales conveyed fee interests like that of the appraised property and no adjustments were made.

Financing / terms: The sales were all either cash or were considered to be cash equivalent to the seller at closing, thus no adjustment was necessary.

Conditions of sale: All sales were arm's-length transactions with no extra-ordinary benefits or costs to either the buyer or seller.

Time: As discussed earlier, the sales cited herein have occurred within the past three years and are deemed to be accurate indicators of current value and no time adjustments were applied.

Buildings: The subject property is structurally unimproved. Sale #1 included a modest dwelling and outbuildings with a value of approximately \$45,000. Adjustments for the difference in buildings between this sale and the subject are calculated as the overall difference in contributive value on a per-acre basis. The remaining sales are all vacant land sales.

Leases & Personal Property: Like with the buildings, the difference from the contributive value of the personal property and leased grazing rights between the sales and the subject (if any) are calculated and applied on a per-acre basis.

Location: All sale properties were located in rural outlying areas of Yellowstone County and all are deemed similar to the subject in terms of overall location.

Size: It is generally accepted that significantly larger properties tend to sell for less per-acre than smaller properties (and vice-versa) on an overall basis. The subject property consists of 640 acres. Sale #3 is significantly larger than the subject consisting of 2,568 acres which is deemed inferior to the subject in terms of size. The remaining sales range from 640 to 860 acres and are considered similar to the subject in terms of overall size.

Access: Physical access to the subject property is via unimproved, two-track roads trails. Sale #4 adjoins a paved highway and is deemed superior to the subject in terms of physical access. Access to the remaining sales is via gravel/dirt county roads and two-track trails like the subject and no adjustment was made for access to these sales. Sales #5, #6, and #7 were sales of isolated parcels of Montana State Land that were sold through the DNRC Land Banking program. Like the subject property, these three properties had physical two-track trail access but did not possess legal access. However they were appraised as having legal access and sold based on appraised value of the properties with the assumption of legal access. Thus, for purposes of this appraisal Sales #5, #6, and #7 are deemed to possess legal access.

Productivity / land mix: The subject property consists of entirely native rangeland and dry pasture. Sales #1, #2, and #4 contain a mixture of native rangeland pasture together with some improved pasture land which is generally more productive than native rangeland. Thus these three sales would be deemed slightly superior to the subject property. The remaining sales are comprised of entirely native rangeland pasture like the subject and required no adjustment.

Aesthetics / appeal: The subject property is comprised of native rangeland pasture with a mixture of native grasses, sagebrush, and a few juniper and pine trees with no extra-ordinary recreational features or appeal. All of the sale properties contain physical features, aesthetics, and recreational appeal similar to the subject property and thus no adjustment for aesthetics or appeal is necessary.

Water resources: The water features of the subject property are limited and consist of a stock water system near the southwest corner. There is no significant live water on any of the sale properties and the water resources on these sales are considered similar overall to the subject property as no definitive adjustment could be derived from the market for the differences in livestock water

Overall Comparability: When considering the above factors and features of each sale property in relation to those of the subject property, it revealed an overall comparability of the sales to the appraised property as shown below.

Sale #	Adj Price / acre	Overall Comparability
Sale #1	\$500	Superior
Sale #2	\$523	Superior
Sale #3	\$319	Inferior
Sale #4	\$435	Superior
Sale #5	\$375	Equal
Sale #6	\$325	Equal
Sale #7	\$405	Equal

A ranking or bracketing of the sales data shows the following:

<u>Inferior Sales</u>	<u>Similar Sales</u>	<u>Superior Sales</u>
\$319	\$325	\$435
	\$375	\$500
	\$405	\$523

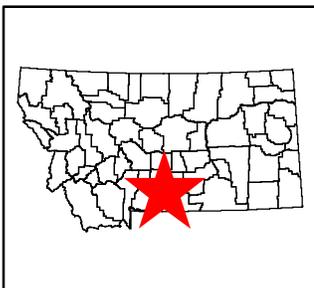
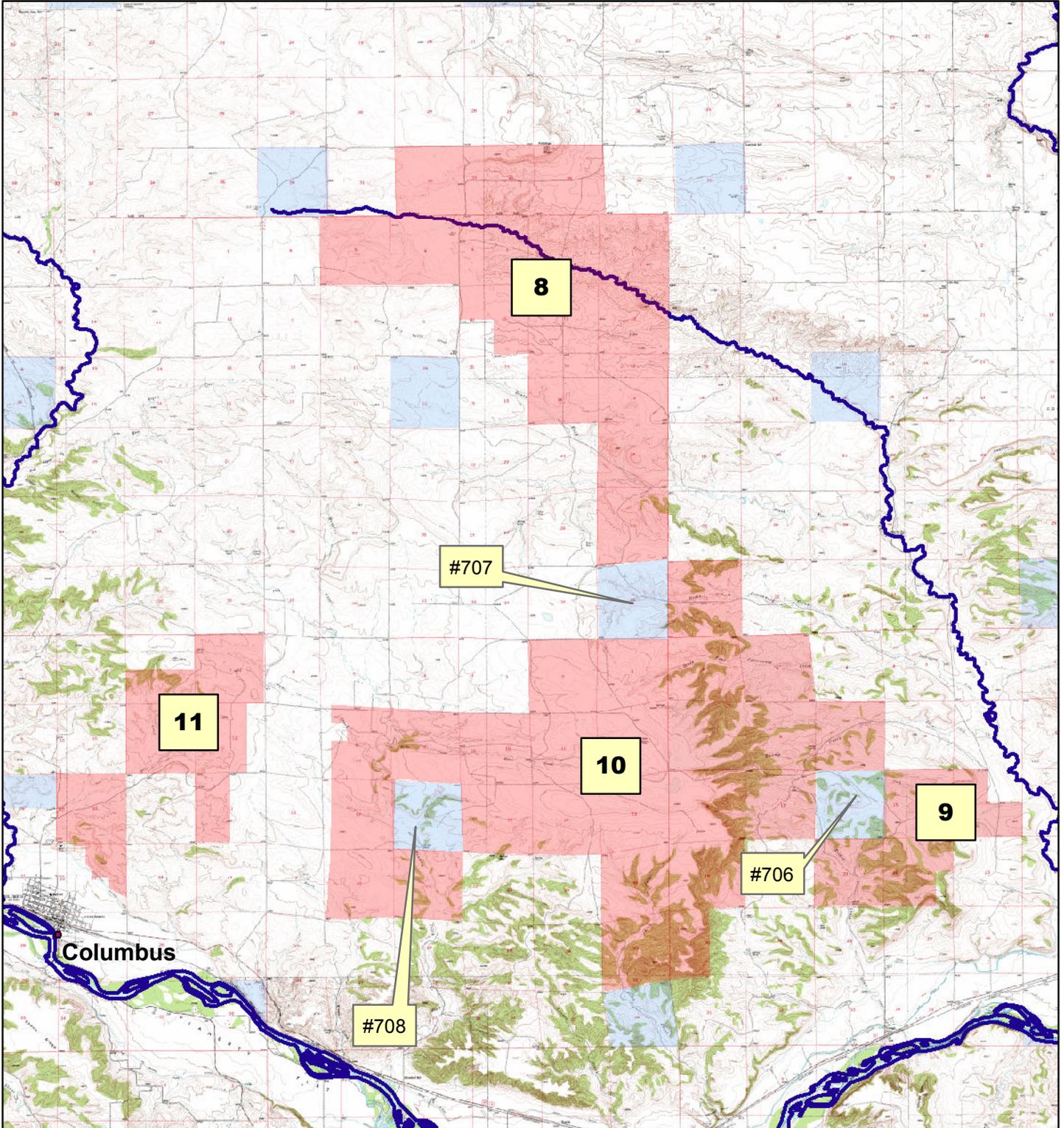
Summary and Conclusion: After all of the appropriate adjustments were applied and the comparability factors considered, bracketing the sales data indicates that the value of the subject property should fall between the highest inferior sale indicator (\$319/acre) and the lowest superior sale indicator (\$435/acre). The sales deemed most similar to the subject overall after adjustments are Sales #5, #6, and #7 and reflect sale values of \$375, \$325, and \$405 per acre respectively. Of these three sales, Sale #7 at \$405 per acre is considered most similar to the subject property. When considering all seven indicators with most weight given to Sale #7, we believe that the sales comparison approach as applied herein suggests a value conclusion of \$400 per acre for the DNRC Sale Parcel #705. This results in a value of \$256,000 for the appraised property as shown below.

$$640 \text{ deeded acres @ } \$400 / \text{acre} = \$256,000$$

Sales Comparison Conclusion with Access: \$256,000.00

Stillwater County Comp Sales

Stillwater County, Montana



SCALE:
1:128,000

0 0.5 1 2
Miles

New Frontier Ranches, Inc.- For visual reference only; accuracy not warranted.



NEW FRONTIER
RANCHES

Brokerage - Appraisals - Management
Twin Bridges, Montana

2.) Stillwater Co. Properties - With Access

Parcels #706, #707, and #708 are located north and east of Columbus within the boundaries of the much larger Energy Equity ranch property. Each of the parcels consists of 640 acres of entirely native rangeland and sagebrush pasture with varying degrees of scattered juniper and pine trees. Of these three subject properties, Parcel #707 consists primary of open, expansive, rolling native range and sagebrush pasture with a light scattering of trees on its east side. Parcels #706 and #708 are more aesthetically pleasing with a better diverse upland topography of gently rolling grasslands plus draws, sandstone rock outcrops and bluffs, heavier pockets of timber, and Parcel #708 has better water resources.

The sale properties considered for direct comparison analysis are shown below; they are all tracts of native rangeland and dry pasture like the subject property and all possess legal access. The 4 sale properties selected for comparison analysis are rather unique in this assignment as 3 of the 4 sale properties were purchases by Energy Equity (of which 2 sale properties included the MT State land sections that are the subject of this appraisal) and 3 of the sale properties actually adjoin the State land properties being appraised herein. All sales are very current, occurring in 2013 and late 2012.

MARKET DATA

Sale #	Sale Date	NFR Sale ID	# of acres	Sale price per acre
#8	10/13	3180	9,438	\$392
9	3/13	3201	5,492	492
10	12/12	3064	12,511	385
11	9/12	3063	3,265	368

The sales illustrated above reflect a range in value of from \$368 to \$492 per acre. This range in value can be attributed to many different and independent factors such as location, size, buildings, water resources, productivity, and aesthetics and amenities like views and overall site appeal. This range in suggested sale values will be narrowed through an analysis of each of these factors.

For those properties with features that are inferior to those of the subject property, a positive adjustment for this feature would be necessary to make the sale property like the subject property. Conversely, for those properties with features or factors that are superior to those of the subject property, a negative adjustment to the sale property would be required to make the sale property like the subject property. In this analysis, the most appropriate method of making adjustments is on a dollar-per-acre basis. A discussion of the adjustments that were applied will follow the chart.

3.) *Subject Property Valuation – Parcel #707*

MARKET DATA ANALYSIS – Sale ID #707

Sale	#8	#9	#10	#11
Date	10/13	3/13	12/12	9/12
Size(deeded ac)	9,438	5,492	12,511	3,265
Building contribution	\$160,000	\$25,000	\$95,000	0
Personal property	0	0	0	0
Lease contribution	0	\$12,500	\$27,000	0
Overall Sale Price / acre:	\$392	\$492	\$385	\$368

Comparability Factors / Features Adjustments (\$ per acre):

Rights conveyed	-	-	-	-
Financing / terms	-	-	-	-
Conditions of sale	-	-	-	-
Time	-	-	-	-
Building contribution	-17	-5	-8	-
Personal property	-	-	-	-
Lease contribution	-	-2	-2	-
Adjusted value:	\$375	\$485	\$375	\$368

Comparability of Features:

Location	E	E	E	E
Size	E	E	E	E
Access	E	E	E	E
Productivity	E	E	E	E
Aesthetics/appeal	E	Sup	E	E
Water resources	E	E	E	E

Overall Comparability to the Subject Property:

E Sup E E

Sup = Superior

Inf = Inferior

E = Equal or Similar

The sales illustrated above reflect a value range from \$368 to \$485 per acre for the subject property after quantitative adjustments were made to the sales in order to make them appear to be as similar to the subject property as possible. For those factors or features where no adjustment was made, these items are considered to be equal or similar overall to those of the subject property. In this assignment, the adjustments that could be measured on a distinct dollar-per-acre basis were for the differences in contribution of buildings and leased grazing rights between the subject and the respective sales.

Pairing and analyzing the above sales data for factors and features such as location, size, access, water, and amenities did not reveal any specific dollar-per-acre differences that could be attributed to any single factor or feature. This analysis and pairing did however reveal that a general comparative analysis could be made on an overall basis of comparison with ratings being: similar or equal, superior, and inferior. The comparability factors and features analyzed herein are discussed below.

Rights conveyed: All of the sales conveyed fee interests like that of the appraised property and no adjustments were made.

Financing / terms: The sales were all either cash or were considered to be cash equivalent to the seller at closing, thus no adjustment was necessary.

Conditions of sale: All sales were arm's-length transactions with no extra-ordinary benefits or costs to either the buyer or seller.

Time: As discussed earlier, the sales cited herein have occurred within the past 15 months and are deemed to be accurate indicators of current value and no time adjustments were applied.

Land mix: The subject property consists of entirely native rangeland and dry pasture. The sales cited herein are comprised of primarily native rangeland and dry pasture with some areas that may have been cultivated in the past but have been seeded back to grass and are used primarily for grazing. In this market, there is no recognizable value difference between lands classified as native rangeland and those classified as improved pasture land or dry hayland. Thus, no adjustment is considered appropriate for land mix.

Buildings: The subject property is structurally unimproved. Sales #8, #9, and #10 included modest dwellings and outbuildings. Adjustments for the difference in buildings between these sales and the subject are calculated as the overall difference in contributive value on a per-acre basis. Sale #11 is vacant and unimproved .

Leases & Personal Property: Like with the buildings, the difference from the contributive value of the personal property and leased grazing rights between the sales and the subject (if any) are calculated and applied on a per-acre basis.

Location: All sale properties were located north of Columbus in the immediate area of the subject property and all are deemed similar to the subject in terms of overall location. Sales #8 and #10 actually adjoin Parcel #707.

Size: It is generally accepted that significantly larger properties tend to sell for less per-acre than smaller properties (and vice-versa) on an overall basis. The subject property consists of 640 acres. The sales cited herein are much larger overall than the subject property however, in this analysis, adjustments for size between the sales and the subject is not considered to be applicable. The subject property is bounded on three sides by Sale #8 and Sale #10 which both reflect values of \$375 per acre. Of the 20+/- Stillwater County sales initially selected for review, they ranged in size from 480 to 12,500 acres and sold at prices of \$257 to \$872 per acre and no real direct correlation between size and price could be drawn or made for the differences in sale price due to size. Thus, no adjustment for size is deemed necessary.

Access: Physical access to the subject property is via unimproved, two-track roads and trails across private lands and is being appraised herein with the assumption that it possesses legal access. The sale properties all possessed legal access from public roads and their physical access to interior portions of the properties was via unimproved two-track roads/trails like that of the subject property. Therefore, no adjustments for access is deemed necessary.

Aesthetics / appeal: The subject property is comprised of open, rolling native rangeland pasture with a mixture of native grasses, sagebrush, and a few juniper and pine trees with limited recreational features or appeal. The overall aesthetics and appeal of Sale #9 is deemed superior to the subject property as it possessed a more diverse appealing topography with more trees and timber. Sales #8, #10, and #11 contain physical features, aesthetics, and recreational appeal similar to the subject property and thus no required no adjustment for aesthetics or appeal.

Water resources: The water features of the subject property are limited and consist of seasonal runoff and a reported stock water tank in the southwest corner. There is no significant or considerable live water on any of the sale properties and the water resources on these sales are considered similar overall to the subject property and no definitive adjustment could be derived from the market for the differences in livestock water.

Overall Comparability: When considering the above factors and features of each sale property in relation to those of the subject property, it revealed an overall comparability of the sales to the appraised property as shown below.

Sale #	Adj Price / acre	Overall Comparability
Sale #8	\$375	Equal
Sale #9	\$485	Superior
Sale #10	\$375	Equal
Sale #11	\$368	Equal

A ranking or bracketing of the sales data shows the following:

<u>Inferior Sales</u>	<u>Similar Sales</u>	<u>Superior Sales</u>
	\$368	\$485
	\$375	
	\$375	

Summary and Conclusion: After all of the appropriate adjustments were applied and the comparability factors considered, bracketing the sales data indicates that the value of the subject property should fall within a narrow value range of \$368 to \$375 per acre. Sales #8 and #10 adjoin the appraised property and are considered the best indicators of value for the subject property. These two sales reflect values of \$375 per acre. When considering all four sale indicators with most weight given to Sales #8 and #10 we conclude that a value of \$375 per acre is reasonable and appropriate for DNRC Sale Parcel #707. This results in a value of \$240,000 for the appraised property as shown below.

$$640 \text{ deeded acres @ } \$375 / \text{acre} = \$240,000$$

Sales Comparison Conclusion with Access: \$240,000.00

4.) Subject Property Valuation – Parcel #706 & #708

Sale Properties #706 and #708 consist of two separate tracts of native rangeland and dry pasture that are very similar to each other in terms of overall physical features, aesthetics, and appeal. The valuation analysis and discussion below shall pertain to both Parcel #706 and Parcel #708.

MARKET DATA ANALYSIS – Sale ID #706 & #708

Sale	#8	#9	#10	#11
Date	10/13	3/13	12/12	9/12
Size (deeded ac)	9,438	5,492	12,511	3,265
Building contribution	\$160,000	\$25,000	\$95,000	0
Personal property	0	0	0	0
Lease contribution	0	\$12,500	\$27,000	0
<u>Overall Sale Price / acre:</u>	\$392	\$492	\$385	\$368

Comparability Factors / Features Adjustments (\$ per acre):

Rights conveyed	-	-	-	-
Financing / terms	-	-	-	-
Conditions of sale	-	-	-	-
Time	-	-	-	-
Building contribution	-17	-5	-8	-
Personal property	-	-	-	-
Lease contribution	-	-2	-2	-
<i>Adjusted value:</i>	\$375	\$485	\$375	\$368

Comparability of Features:

Location	E	E	E	E
Size	E	E	E	E
Access	E	E	E	E
Productivity	E	E	E	E
Aesthetics/appeal	Inf	E	Inf	Inf
Water resources	E	E	E	E

Overall Comparability to the Subject Property:

Inf E Inf Inf

Sup = Superior

Inf = Inferior

E = Equal or Similar

The sales illustrated above reflect a value range from \$368 to \$485 per acre for the subject property after quantitative adjustments were made to the sales in order to make them appear to be as similar to the subject property as possible. For those factors or features where no adjustment was made, these items are considered to be equal or similar overall to those of the subject property. In this assignment, the adjustments that could be measured on a distinct dollar-per-acre basis were for the differences in contribution of buildings and leased grazing rights between the subject and the respective sales.

Pairing and analyzing the above sales data for factors and features such as location, size, access, water, and amenities did not reveal any specific dollar-per-acre differences that could be attributed to any single factor or feature. This analysis and pairing did however reveal that a general comparative analysis could be made on an overall basis of comparison with ratings being: similar or equal, superior, and inferior. The comparability factors and features analyzed herein are discussed below.

Rights conveyed: All of the sales conveyed fee interests like that of the appraised property and no adjustments were made.

Financing / terms: The sales were all either cash or were considered to be cash equivalent to the seller at closing, thus no adjustment was necessary.

Conditions of sale: All sales were arm's-length transactions with no extra-ordinary benefits or costs to either the buyer or seller.

Time: As discussed earlier, the sales cited herein have occurred within the past 15 months and are deemed to be accurate indicators of current value and no time adjustments were applied.

Land mix: The two subject properties consist of entirely native rangeland and dry pasture. The sales cited herein are comprised of primarily native rangeland and dry pasture with some areas that may have been cultivated in the past but have been seeded back to grass and are used primarily for grazing. In this market, there is no recognizable value difference between lands classified as native rangeland and those classified as improved pasture land or dry hayland. Thus, no adjustment is considered appropriate for land mix.

Buildings: The subject property is structurally unimproved. Sales #8, #9, and #10 included modest dwellings and outbuildings. Adjustments for the difference in buildings between these sales and the subject are calculated as the overall difference in contributive value on a per-acre basis. Sale #11 is vacant and unimproved.

Leases & Personal Property: Like with the buildings, the difference from the contributive value of the personal property and leased grazing rights between the sales and the subject (if any) are calculated and applied on a per-acre basis.

Location: All sale properties were located north of Columbus in the immediate area of the subject property and all are deemed similar to the subject in terms of overall location. Sale #9 surrounds Parcel #706 and Sale #10 surrounds Parcel #708.

Size: It is generally accepted that significantly larger properties tend to sell for less per acre than smaller properties (and vice-versa) on an overall basis. The subject property consists of 640 acres. The sales cited herein are much larger overall than the subject property however, in this analysis, adjustments for size between the sales and the subject is not considered to be applicable. As noted, Parcel #706 is surrounded by Sale #9 and Parcel #708 is surrounded by Sale #10. Of the 20+/- Stillwater County sales initially selected for review, they ranged in size from 480 to 12,500 acres and sold at prices of \$257 to \$872 per acre and no real direct correlation between size and price could be drawn or made for the differences in sale price due to size. Thus, no adjustment for size is deemed necessary.

Access: Physical access to the subject property is via unimproved, two-track roads and trails across private lands and is being appraised herein with the assumption that it possesses legal access. The sale properties all possessed legal access from public roads and their physical access to interior portions of the properties were via unimproved two-track roads/trails like that of the subject property. Therefore, no adjustment for access is deemed necessary.

Aesthetics / appeal: Parcels #706 and #708 are foothill rangeland pasture properties with a mixture of native grasses, sagebrush, and more rugged draws, sandstone bluffs, and a heavier degree of trees and timber that provide for better recreational features and appeal. The physical features, aesthetics, and appeal of Sale #9 are considered very similar to those of Parcels #707 and #708. The remaining three sales are deemed inferior to the subject property in terms of aesthetics and appeal.

Water resources: The water features of the subject property consist of natural springs, tanks, and intermittent/seasonal streams. There is no significant or considerable live water on any of the sale properties and the water resources on these sales are considered similar overall to the subject property and no definitive adjustment could be derived from the market for the differences in livestock water.

Overall Comparability: When considering the above factors and features of each sale property in relation to those of the subject property, it revealed an overall comparability of the sales to the appraised property as shown below.

Sale #	Adj Price / acre	Overall Comparability
Sale #8	\$375	Inferior
Sale #9	\$485	Equal
Sale #10	\$375	Inferior
Sale #11	\$368	Inferior

A ranking or bracketing of the sales data shows the following:

<u>Inferior Sales</u>	<u>Similar Sales</u>	<u>Superior Sales</u>
\$368	\$485	
\$375		
\$375		

Summary and Conclusion: After all of the appropriate adjustments were applied and the comparability factors considered, bracketing the sales data indicates that the value of the subject property should be something greater than \$375 per acre. Sale #9 was deemed very similar to the subject properties in terms of physical features and overall appeal and is considered the best indicator of value for the subject properties. This sale suggests a value of \$485 per acre. When considering all four sale indicators with most weight given to Sale #9 we conclude that a value of \$485 per acre is reasonable and appropriate for DNRC Sale Parcel #706 and Parcel #708. This results in a value of \$310,400 for each of the appraised properties as shown below.

$$640 \text{ deeded acres } @ \$485 / \text{acre} = \$310,400$$

Sales Comparison Conclusion with Access: \$310,400.00

G. Sales Comparison Approach – “As Is” - Without Access

In this part of the appraisal the value of the subject properties in their “As Is” condition without legal access will be discussed and estimated. As noted throughout, all of the properties being appraised herein do not possess legal access from any public roadway; they are “landlocked” being surrounded by private lands.

Market participants fully recognize and accept that access is a primary factor of land value whether it is rural residential, recreational, or agricultural property. Properties with access limitations are at a market disadvantage and cannot compete at par compared to those with access. The lack of access restricts and hampers their potential use and value due to two primary factors:

- a.) Access restricted properties cannot achieve their potential highest and best use – without legal access the physical occupancy and use of a landlocked property is typically limited to its historical use or that which an adjoining landowner is capable of
- b.) The potential pool of buyers for properties without legal access is severely reduced – most often the only potential purchaser of a landlocked parcel is the adjoining landowner(s) who can gain access to the property via other means

For valuation of access-restricted properties there are two sales comparison methods commonly applied; those being **1.)** a direct head-to-head comparison of the subject property with similar sold property(s) without access and **2.)** a ratio or percentage analysis based on matched pairs of similar properties sold with and without access that is applied to the value of property with access.

1.) *Direct Comparison to Access-restricted Sales*

No sales data of properties like the subject without access was discovered in our research of Stillwater and Yellowstone Counties – except for the sales of the State land in Yellowstone County cited in the earlier valuation of the Yellowstone County Parcel #705. These three sales did not possess legal access but they were appraised and sold as if they did possess legal access. Therefore, this method was not employed in this assignment.

2.) Ratio or Percentage Analysis of Matched Pairs

New Frontier Ranches maintains a western-states region-wide database of sales data for farm, ranch, recreational, and rural residential properties over the past 30+/- years. Within this database, we have studied and analyzed the market data for the effects that the lack of access might have on rural properties. This study and analysis has shown that properties that do not possess legal access most often sell at values less than those similar properties that do possess legal access.

Market data matched pair analysis reflects that those properties without access typically sell at a discount to those similar properties with access. From our database, 14 sale pairings were selected as being the most representative of the subject properties described herein. These 14 sale pairings are displayed within the sales addenda to this report. They reflect value discounts ranging from approximately 10% to 70% for lack of access. Nine of the fourteen pairings reflect discounts of 35% to 55% with the overall mathematical mean of the fourteen pairings calculated to be 40.85% and the median value is approximately 42.5%.

All of these sale pairing indicators were deemed equally similar to the subject with no certain sale pairings standing out as being more persuasive. As discussed herein, Parcels # 705, #706, and #708 are surrounded by one landowner and Parcel #707 is bordered by two landowners who most likely would be the only potential buyers for these properties. Therefore, in the final analysis, we conclude that the value of the subject properties in their “as is” condition without legal access should be discounted approximately 45% for their lack of legal access. Applying this discount to the value estimated with access results in the following values for each of the properties appraised herein.

	Value with Access	Discount	Value without Access
Parcel #705	\$256,000.00	.45	\$140,800.00
Parcel #706	\$310,400.00	.45	\$170,720.00
Parcel #707	\$240,000.00	.45	\$132,000.00
Parcel #708	\$310,400.00	.45	\$170,720.00

H. Reconciliation and Value Conclusion

We considered the three traditional methods of estimating the market value of the subject property and it was determined that the Sales Comparison Approach was the most applicable measure of value in this assignment.

The income approach is typically employed when estimating market value of income producing properties such as larger agricultural units and/or commercial properties. When researching this market and interviewing market participants, it is apparent that the income resource of similar properties is minimal and is a secondary consideration (at best) and the land is commonly viewed as an investment for appreciation rather than its income potential since many times these acquired ranch properties are blended into larger agricultural operations or operated at reduced levels of carrying capacity in order to enhance the wildlife and recreational features of the property. These factors complicate the application of the income approach and lead us to conclude it is of limited use in this assignment and thus was not incorporated herein.

The cost approach is typically utilized when appraising properties with new and/or significant structural improvements and/or differing land classes that demonstrate independent values among the land classes. The State Land parcels appraised herein are vacant and structurally unimproved and the land consists primarily of one land class. Therefore the cost approach was not prepared in this assignment.

Our research and analysis of the subject property and its corresponding market area indicated that the most accurate and reliable method of estimating the subject property's market value was by employing the sales comparison approach and it offered a well-supported conclusion of value.

At the direction of the client, the value of the subject properties was estimated under two scenarios; that being to value the property in its "as is" condition without legal access and to value the property with the Hypothetical Condition that the property possesses legal access. There was a sufficient amount of good quality sales data available in this assignment as the sale properties used for analysis were located within the property's immediate market area and possessed size, features, and characteristics very similar to those of the appraised property. These sales were utilized within the sales comparison approaches to value and the resulting values are shown below.

	Value with Access	Value without Access
Parcel #705	\$256,000.00	\$140,800.00
Parcel #706	\$310,400.00	\$170,720.00
Parcel #707	\$240,000.00	\$132,000.00
Parcel #708	\$310,400.00	\$170,720.00

The above-concluded value considers the surface fee ownership rights of the real property and is in terms of cash. The appraised values are based on an exposure time of six to eighteen months and the Hypothetical Condition that the current leases do not exist.

LIMITING CONDITIONS

CONTINGENT AND LIMITING CONDITIONS: The certification of the Appraiser appearing in the appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the Appraiser in the report.

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

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

3. The contract for appraisal, consultation, or analytical services is fulfilled upon completion of the report and the total fee is due and payable upon completion and delivery of the report. The Appraiser is not required to give testimony or appear in court, nor engage in post appraisal consultation with third parties because of having made the appraisal except under separate arrangement and at an additional fee. If testimony or deposition is required because of subpoena, the client shall be responsible for any additional time, fees, and charges regardless of the issuing party.

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

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

6. The Appraiser has taken into consideration the factors that have an impact on value in the development of the estimate of market value in the appraisal report. The Appraiser has not knowingly withheld any significant information from the appraisal report and the Appraiser believes, to the best of his knowledge, that all statements and information in the appraisal report are true and correct.

7. The Appraiser did not base, either partially or completely, his analysis and/or estimate of market value in the appraisal report on the race, color, religion, sex, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property.

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

9. Disclosure of the contents of the appraisal report is governed by Uniform Standards of Professional Appraisal Practice (USPAP) and the Bylaws and Regulations of the professional appraisal organizations with which the Appraiser is affiliated. The appraiser will not divulge the material contents of this report, the analytical findings or conclusions, or provide copies to anyone other than the client or his designees. This report may be subject to confidential peer review for Standards and Ethics compliance.

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

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

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

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

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

14. The appraiser's compensation is not contingent upon the reporting of a pre-determined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

15. The appraisal assignment is not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

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

ACCEPTANCE OF, OR USE OF, THIS APPRAISAL REPORT BY THE CLIENT OR ANY THIRD PARTY CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS.

APPRAISAL CERTIFICATION

The Appraiser certifies, to the best of his/her knowledge and belief, that:

- the statements of fact contained in this report are true and correct;
- the reported analysis, 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 property that is the subject of this report, and no personal interest with respect to the parties involved;
- I have provided no prior services as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- my engagement in this assignment was not contingent upon developing or reporting predetermined results;
- my compensation for completing this assignment was 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 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 – to clarify: Properties #706, #707, #708, and #709 were inspected by Kevin Pearce and Tracey Pearce; Property #705 was inspected by Kevin Pearce;
- no one provided significant professional assistance to the person(s) signing this report;
- there are 58 numbered pages in this report which does not include maps, charts, or exhibits in the Addenda.

Having completed the herein USPAP-compliant Appraisal Report, we conclude that the value of the MT DNRC Land Banking parcels is that as shown below:

	Effective Date	Value with Access	Value without Access
Parcel #705	January 15, 2014	\$256,000.00	\$140,800.00
Parcel #706	January 21, 2014	\$310,400.00	\$170,720.00
Parcel #707	January 21, 2014	\$240,000.00	\$132,000.00
Parcel #708	January 21, 2014	\$310,400.00	\$170,720.00

February 13, 2014



Kevin T. Pearce, ARA
 Accredited Rural Appraiser, ASFMRA #1081
 Certified General Appraiser, MT #63 & WY #436



Tracey S. Pearce
 Appraiser Trainee, MT #926

ADDENDA



NEW FRONTIER
▪ R A N C H E S ▪

AGRICULTURAL & GRAZING LEASE OF STATE LANDS

This lease is entered into by the State of Montana, Board of Land Commissioners and Department of Natural Resources & Conservation (Department) as lessor, and the person herein named, as the lessee.

Date this lease takes effect: March 01, 2010

Name of Lessee: PATTERSON REPORT SERVICE INC

Address or Box No.: 485 PRYOR CREEK ROAD

City/State/Zip: HUNTLEY MT 59037

Land Located in Yellowstone County.

DESCRIPTION	Sec.	Twp.	Rge.	Acres
ALL	16	1N	28E	640.00

Total number of leased acres, 640 more or less belonging to Common Schools Grant.

Grazing Acres: 620 Agricultural Acres: 0 Unsuitable Acres: 20
 Other Acres: 0 Hayland Acres: 0 CRP Acres: 0
 Terms of Grazing Use and Rental Rate: Minimum

Terms of Agricultural Use and Rental Rate: Minimum

Purpose for which the land is leased: GRAZING

Term of lease: 10 years Date of expiration: February 29, 2020

THIS LEASE HAS A CARRYING CAPACITY OF 124 ANIMAL UNIT MONTHS. THE LESSEE SHALL NOT EXCEED SUCH CARRYING CAPACITY. THE ANNUAL GRAZING RENTAL IS BASED ON THIS CARRYING CAPACITY.

The State of Montana, in consideration of the payment of rentals as specified in this lease and the mutual agreements contained in this lease hereby leases the above-described lands to the lessee(s) named above.

The lessee(s) in consideration of the lease of the above-described lands and the mutual agreements contained in this lease hereby agrees to pay the rentals as specified in the lease and to perform all the conditions as specified in this lease, the applicable rules and the applicable statutes.

The parties to this lease mutually agree to the following terms and conditions:

1. ALL GRAZING RENTALS ARE DUE BY MARCH 1 EACH YEAR AND FAILURE TO PAY BY APRIL 1 AUTOMATICALLY CANCELS THE ENTIRE LEASE. A NOTICE OF RENTAL DUE OR ANY OTHER CORRESPONDENCE OR NOTICE FROM THE LESSOR WILL BE SENT TO THE ABOVE ADDRESS ONLY, UNLESS A CHANGE OF ADDRESS IS REQUESTED IN WRITING, SIGNED BY THE LESSEE AND RECORDED BY THE LESSOR.
2. ALL AGRICULTURAL RENTALS ARE DUE ON NOVEMBER 15 OF THE YEAR IN WHICH CROPS OR HAY ARE HARVESTED. IF THE RENTAL IS NOT PAID BY DECEMBER 31 OF THE SAME YEAR, THE ENTIRE LEASE IS CANCELED.
3. CONVERSION OF CLASSIFIED GRAZING LANDS TO CROPLAND WITHOUT PRIOR APPROVAL AS REQUIRED BY LAW SUBJECTS THIS ENTIRE LEASE TO CANCELLATION.
4. SUBLEASING (allowing any other person and/or their livestock to utilize the State land) WITHOUT FILING A FORM AND RECEIVING APPROVAL FROM THE DEPARTMENT MAY SUBJECT THE LEASE TO CANCELLATION. SUBLEASING ON TERMS LESS ADVANTAGEOUS TO THE SUBLESSEE THAN THE TERMS GIVEN BY THE STATE SHALL RESULT IN CANCELLATION.
 (a) SUBLEASING FOR MORE THAN TWO YEARS WILL RESULT IN LOSS OF THE PREFERENCE RIGHT.
 (b) SUBLEASING FOR MORE THAN THREE YEARS WILL RESULT IN THE LEASE BEING CANCELED. (The department's rules and applicable statutes concerning subleasing and pasturing agreements should be consulted.)
5. REPORTS--Lessee is required to submit reports as requested by the Director, including seeding and production reports. Failure to submit such reports may result in cancellation of the lease.
6. CULTIVATION--In the case of lands leased for agricultural purposes, the lessee hereby agrees to seed and cultivate such land in a husbandman-like manner and to strip farm if the land is subject to soil blowing. The lessee further agrees to keep the land clear of weeds and care for it in accordance with approved farm methods as determined by the state. The state shall have the right to impose reasonable restrictions on all state leases as are necessary to adequately protect the land, water, air or improvements in the area. Grain crops are to be delivered free of charge to the nearest elevator to the credit of the state of Montana on or before the fifteenth of November of each year. Other crops, including hay, are to be disposed of at the going market price unless otherwise directed. If a lessee decides to graze the stubble of harvested crops or hayland or grazes unharvested crops for haylands, he must contact the Department regarding payment for such grazing in classified agricultural lands. The Department shall determine the number of animal unit months of grazing available on the land and shall bill the lessee or licensee for the grazing use based on the minimum grazing rental established under Section 77-6-507, MCA or the competitive bid amount, whichever is greater. Failure or refusal to pay said rental or to notify the

department of such grazing may be cause for cancellation of the lease.

7. **FEDERAL FARM PROGRAM COMPLIANCE**—If a lessee or licensee has his lease or license canceled or terminated or for any reason is no longer the lessee or licensee, then he shall no longer be entitled to any payment or benefits from any federal farm program. If such a lessee or licensee does receive any such federal payment or benefit in connection with the state lease or license he shall be liable to the state for any amounts received after he is no longer recognized as the lessee or licensee. The lessee or licensee of any state land shall comply with the provisions of the federal farm program when applicable and shall indemnify the state against any loss occasioned by noncompliance with such provisions. In addition to any rentals provided in the lease or license, the state shall receive the same share as it receives for crops of all payments pursuant to any act or acts of the congress of the United States in connection with state lands under lease or license and the crops thereof. The state shall be entitled to such amounts annually for all leases based upon a cropshare, even if the lease states that the rental is based upon a crop share/cash basis, whichever is greater. All such leases shall be considered crop share leases for the purpose of receiving the state's share of the federal farm payments.
8. **IMPROVEMENTS**—The lessee may place a reasonable amount of improvements upon the lands under this lease upon approval of an improvement permit by the Department. A report of proposed improvements, containing such information as the Director may request concerning the cost of the improvements, their suitability for the uses ordinarily made of the land, and their character whether fixed or movable, shall be submitted to the Director before installation thereof on the premises. Failure to obtain approval prior to placement of the improvement may result in such improvements not being recognized by the Department for purposes of reimbursement of such improvements. In addition, placing improvements on state lands without receiving prior approval, may result in cancellation of the lease.
9. **LIENS ON BUILDINGS AND CROPS**—The state shall have a lien upon all buildings, structures, fences and all other improvements, whether movable or not, and also upon all crops growing upon the land for any rentals due the Department.
10. **COMPENSATION FOR IMPROVEMENTS**—(a) If the land under this lease is sold or exchanged to a party other than the present lessee, or is leased to another party while the present lessee owns improvements lawfully remaining thereon, on which the state has no lien for rentals or penalties, as herein provided, and which he desires to sell and dispose of, such purchaser or new lessee shall pay the former lessee the reasonable value of such improvements. If any of the improvements consist of approved breaking (meaning the original plowing of the land) and one year's crop has been raised on the land after the breaking thereof, the compensation for such breaking shall not exceed the sum of two dollars and fifty cents (\$2.50) per acre, and that in case two or more crops have been raised on the land after the breaking thereof, the breaking shall not be considered as an improvement to the land. In case the former lessee and the new lessee or purchaser are unable to agree on the reasonable value of such improvements, such value shall be ascertained and fixed by three arbitrators, one of whom shall be appointed by the owner of the improvements, one by the new lessee or purchaser and the third by the two arbitrators so appointed. The former lessee must initiate arbitration within 60 days of notification from the Department that there is a new lessee or purchaser. Failure to initiate this process within this time period results in all improvements becoming property of the state. The reasonable compensation that such arbitrators may charge for their services shall be paid in equal shares by the owner of the improvements and the purchaser or new lessee. The value of such improvements as ascertained and fixed shall be binding upon both parties; provided, however, that if either party is dissatisfied with the valuation so fixed he may within ten (10) days appeal from their decision to the Director who shall thereupon cause his agent to examine such improvements and whose decision shall be final. The Director shall charge and collect the actual cost of such reexamination to the owner and new lessee or purchaser in such proportion as in his judgment may be demanded.
(b) Upon the termination of a lease, the Department may grant a license to the former lessee to remove the movable improvements from the land. Upon authorization, the movable improvements must be removed within 60 days or they become the property of the state unless the department for good cause grants additional time for the removal. The department shall charge the former lessee for the period of time that the improvements remain on the land after the termination of the lease.
(c) Summer following (necessary cultivation done after the last crop grown) seeding, and growing crops on the land, which have not been harvested prior to March 1 next succeeding the date of sale or at the time of change of lessee, shall be considered as improvements. Their value shall be determined in the same manner as other improvements and shall be taken over by the purchaser or new lessee and paid for by him as other improvements.
11. **ASSIGNMENT OF LEASE**—If all rentals due have been paid and the terms of this lease have not been violated, the lease may be assigned on the forms provided for that purpose by the Director, but no such assignment shall be binding on the state unless the assignment is filed with the Director, approved by him, and the appropriate assignment fees submitted for such assignment. An assignment which is signed by both parties shall be conclusive proof that all payments for improvements have been paid to the assignor by the assignee. The leasehold interest herein may only be transferred to any other party by a properly executed assignment which must be approved by the Director prior to such transfer becoming effective. Until an assignment becomes effective, the Department will consider the lessee listed above to be the lessee for all purposes. There may be no consideration given for the assignment of a lease other than the value of the improvements, if any.
12. **RENEWAL LEASE**—If all rentals due under this lease have been paid, the lessee shall upon making proper application to the Director be entitled to have this lease renewed at any time within thirty (30) days prior to its expiration for an additional period of not exceeding ten years; and if there is no other applicant then offering to lease the land, the lease shall be issued at the minimum rental as determined under statutes then in effect. If there are two or more persons desiring to lease the same tract, the former lessee shall have the preference right to the lease to the extent that he may take the lease at the highest bid made by any other applicant. However, subleasing may cause loss of this renewal right. The department's rules concerning subleasing should be consulted. The lessee desiring to renew the lease must make application to the Department prior to January 28 of the year of expiration. Failure to do so will result in the lease becoming an unleased tract upon expiration, with the loss of the preference right and subject to competitive bidding.
13. **CANCELLATION OF LEASE BY THE STATE**—The Director shall have the power and authority in his discretion to cancel a lease for any of the following causes: For fraud or misrepresentation, or for concealment of facts relating to its issue, which if known would have prevented its issue in the form or to the party issued; for using the land for other purposes than those authorized by the lease, for overgrazing or any other misuse of the state lands involved, and for any other cause which in the judgement of the Director makes the cancellation of the lease necessary in order to do justice to all parties concerned, and to protect the interest of the state. Such cancellation shall not entitle the lessee to any refund of rentals paid or exemption from the payment of any rents, penalties or other compensation due the state. Lease cancellation for these causes is subject to appeal as provided in Section 77-6-211, MCA.
14. **LANDS MAY BE SOLD**—The Board of Land Commissioners may in their discretion exchange the lands under this lease for other lands, offer the lands under this lease for sale at any regular public sale of state lands held in the county where the land is situated upon the same terms and in the same manner as land not under lease, subject, however, to the rights of the lessee to compensation for improvements as herein provided; and subject also to the provision that the new owner will not be given possession by the state prior to March 1 next succeeding the date of exchange or sale unless the lease expires prior to that date, except through special agreement with the lessee.
15. **RESERVATION**—The state reserves all rights and interests to the land under this lease other than those specifically granted by this lease. These reservations include but are not limited to the following:
(a) **MINERAL AND TIMBER RESERVATION**—All coal, oil, gas and other minerals and all deposits of stone, gravel, sand, gems, and other nonminerals valuable for building, mining or other commercial purposes and all timber and trees are excepted from the operation of this lease. The lessee shall not open any mine or quarry or work or dig any of the minerals or nonminerals mentioned above from any mine or any quarry, pit or diggings situated on said land whether such mine, quarry, pit or diggings was open at the date of this lease or not. The lessee shall not cut, sell, remove, use or destroy any such timber dead or alive, or standing or fallen trees without the appropriate permit, license or lease.
(b) **ADDITIONAL RESERVATIONS**—The state reserves a right-of-way to the United States over the land above-described for ditches, canals, tunnels, telephone and telegraph, and power lines now constructed or to be constructed by the United States Government in furtherance of the reclamation of arid lands. The state also reserves the right of granting rights-of-way on the above-described land for other purposes. The state also reserves to itself and its representatives and other lessees or permittees the right to enter upon the lands embraced by this lease for the purpose of prospecting and exploring for minerals and for the purpose of mining, drilling for, developing and removing such minerals and for carrying on all operations related thereto and for any other management or administrative purposes; it also reserves to itself and its permittees the right to enter upon the said lands for the purpose of cutting and removing timber, wood and other forest products, and for removing gravel, sand, building stone, and other nonminerals. The state reserves the right to grant licenses, permits or leases for any alternative uses on state lands.
16. **NOXIOUS WEEDS AND PESTS**—The lessee agrees, at his own expense and cost, to keep the land free from noxious weeds, and if noxious weeds are present, then chemical application or other appropriate weed control measures must occur in time to prevent seed-set according to state law and to exterminate pests to the extent as required by the Department. In the event the land described in this lease shall be included in a weed control and weed seed extermination district, the lessee shall be required to comply with the provisions of Section 77-6-114, MCA, which provides as follows. "It shall be the duty of the Board in leasing any agricultural state land to provide in such lease, that the lessee of lands so leased lying within the boundaries of any noxious weed control and weed seed extermination district shall assume and pay all assessments and taxes levied by the board of County Commissioners for such district on such state lands, and such assessments and tax levy shall be imposed on such lessee as a personal property tax and shall be collected by the County Treasurer in the same manner as regular personal property taxes are collected." Failure to comply with this

provision when directed to do so by the Department may result in cancellation of the entire lease.

- 17. FIRE PREVENTION AND SUPPRESSION--The lessee assumes all responsibility for carrying on at his own cost and expense all fire prevention and suppression work necessary or required to protect the forage, trees, buildings and structures on the land. The lessee is not responsible for the suppression of or damages resulting from a fire caused by a general recreational user, except that he or she shall make reasonable efforts to suppress the fire or report it to the proper firefighting authority or both, as circumstances dictate.
- 18. UNLAWFUL USE OF LANDS OR PREMISES--If any part of the lands or premises under this lease are used or allowed or permitted to be used for any purpose contrary to the laws of this state or the United States, such unlawful use shall in the discretion of the Board of Land Commissioners constitute sufficient reason for the cancellation of the lease. The lessee shall not utilize or allow to be utilized any state land under the lease for purposes other than the purpose for which it is granted.
- 19. SURRENDER OF THE PREMISES UPON TERMINATION OF THE LEASE--The lessee shall upon the expiration, cancellation, or termination of this lease peaceably yield up and surrender the possession of the land to the state of Montana or its agents or to subsequent lessees or grantees.
- 20. INCREASED RENTAL--If the Montana Legislature or the Board of Land Commissioners raises the rentals on state grazing or agriculture lands during the term of this lease, the lessee agrees to pay such increased rental for the years after such increase becomes effective. Also, the state reserves the right to determine the grazing capacity of said lands annually or from time to time as the Director in his discretion shall determine necessary and increase or decrease the rental thereon accordingly. In the event the Director should increase or decrease the carrying capacity of said lands, the lessee agrees to pay an increased or decreased rental based upon the Director's determination, and to adjust livestock numbers accordingly.
- 21. INDEMNIFICATION--The lessee agrees to save harmless and indemnify the State of Montana for any losses to the state occasioned by the levy of any penalties, fines, charges or assessments made against the above lands or crops grown upon the lands, by the U.S. Government because of any violation of or noncompliance with, any federal farm program or other acts by the lessee.
- 22. LAWS AND RULES--The lessee agrees to comply with all applicable laws and rules in effect at the date of this lease, or which may, from time to time, be adopted.
- 23. MULTIPLE-USE MANAGEMENT--Pursuant to the obligations imposed by law, to administer state lands under a multiple-use management concept, the state reserves the right to dispose of any and all interests in the above-described land, subject, however to such interests granted to the lessee under the terms of this lease. The lessee may not close the land under lease at any time to the public for general recreational use," as defined in A.R.M. 36.25.145, without advanced written permission of the Department. Permission to close lands categorically closed under A.R.M. 36.25.150 is hereby granted and no further permission is required.
- 24. LEASE WITHDRAWAL--All or any portion of the land under lease may be withdrawn from this lease by the state. The lessee shall be entitled to reasonable compensation for any improvements thereon. The lands may be withdrawn to promote the duties and responsibilities of the Board of Land Commissioners.
- 25. SPECIAL CONDITIONS--

IN WITNESS WHEREOF, The State of Montana and the lessee have caused this lease to be executed in duplicate and the Director of the Department of Natural Resources and Conservation, pursuant to the authority granted him by the State Board of Land Commissioners of the State of Montana, has hereunto

set his hand and affixed the seal of the said Board of Land Commissioners this APR 15 2010 day of _____, 20_____

Tom Patterson, pres.
LESSEE SIGNATURE

MARY SEXTON
DIRECTOR, DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

485 Bryan Creek Rd.
ADDRESS OR BOX NO.

by Stephanie Kellogg

Huntley MT 59037
CITY STATE ZIP CODE



DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
AFFIDAVIT OF ASSIGNMENT OF STATE LEASE

State of MONTANA)
) ss
County of STILLWATER)

Mailing Address

Name of Assignor(s) PRINT
~~REDMAN COMPANY, (ROBERT REDMAN)~~
Cynthia Redman

Street/P.O. Box _____
Address Line 2 _____
City _____
State/Zip _____
Telephone No. _____

The above described Assignor(s), (or its Executor, Administrator, President, Attorney-in-fact, or authorized Agent), having first been duly sworn states that (he/she/they) is duly empowered to execute a transfer of all right, title and interest in and to State Agreement No. 7912 embracing the following-described lands:

LEGAL DESCRIPTION	SECTION	TWNSHP	RANGE	ACRES
<u>ALL</u>	<u>16</u>	<u>2S</u>	<u>R22E</u>	<u>640.00</u>

and containing 640.00 acres more or less and expiring on February 28, and does hereby assign and transfer all right, title and interest in and to the above-described lease and improvements to:

ENERGY EQUITY COMPANY, (JERRY NELSON, PRESIDENT)
Assignee(s) (PRINT)
POB 785 COLUMBUS MT 59019 406-672-1313
(P.O. Box, Street) (City) (State) (Zip) (Telephone No)

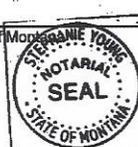
ASSIGNOR'S SIGNATURE(S)
[Signature]
Cynthia Redman

ASSIGNEE'S SIGNATURE(S)
The Assignee hereby accepts the rights, duties, and obligations inherent in the former lessee's interests & ownership of the above described state lease:

Subscribed and sworn to before me this 18 day of March, 2013

Subscribed and sworn to before me this _____ day of _____

Stephanie Young
Notary Public for the State of Montana
Residing at Absarokee, Montana
My commission expires Dec. 18, 2014



Stephanie Young Notary Public for the State of Montana
NOTARY PUBLIC for the State of Montana
Residing at Absarokee, Montana
My Commission Expires December 18, 2014

All rentals due under a lease must be paid before the assignment can be accepted. Original lease must be turned over to the assignee. Signatures by individuals other than named lessee must be accompanied by a true copy of their authority to assign the lease. The assignment is not in full force until dated and approved by the Department. The assignment will not be approved unless it contains the original signatures of the proper person.

Less/Assignor's signature shall constitute proof the the lessee/assignor has been dully compensated for all the improvements of the state lease. Assignments which result in a profit to the lessee/assignor over and above the value of improvements may result in cancellation of the lease.

APPROVAL OF ASSIGNMENT
(Department Use Only)

The foregoing affidavit of assignment for State Lease No. 7912 is hereby approved the May, 2013

Director of Department of Natural Resources & Conservation
By: [Signature]
Agriculture & Grazing Management Bureau Chief

JOHN E. TUBBS



Receipt Number

DS-414 6/11

11ES1326191

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
AFFIDAVIT OF ASSIGNMENT OF STATE LEASE

Fee \$50.00

RECEIVED

Distributed

3/28/13 AJT

MAR 27 2013

State of MONTANA)

County of STILLWATER)

SS

D.N.R.C.

Mailing Address

Name of Assignor(s) PRINT

~~REDMAN COMPANY, (ROBERT REDMAN)~~
Cynthia Redman

Street/P.O. Box _____
Address Line 2 _____
City _____
State/Zip _____
Telephone No. _____

The above described Assignor(s), (or its Executor, Administrator, President, Attorney-in-fact, or authorized Agent), having first been duly sworn states that (he/she/they) is duly empowered to execute a transfer of all right, title and interest in and to State Agreement No. 7912 embracing the following-described lands:

LEGAL DESCRIPTION	SECTION	TWNSHP	RANGE	ACRES
<u>ALL</u>	<u>16</u>	<u>2S</u>	<u>R22E</u>	<u>640.00</u>

and containing 640.00 acres more or less and expiring on February 28, 2020 and does hereby assign and transfer all right, title and interest in and to the above-described lease and improvements to:

ENERGY EQUITY COMPANY, (JERRY NELSON, PRESIDENT)

Assignee(s) (PRINT)
POB 785 COLUMBUS MT 59019 406-672-1313
(P.O. Box, Street) (City) (State) (Zip) (Telephone No)

ASSIGNOR'S SIGNATURE(S)

ASSIGNEE'S SIGNATURE(S)

The Assignee hereby accepts the rights, duties, and obligations inherent in the former lessee's interests & ownership of the above described state lease.

[Signature]

Subscribed and sworn to before me this _____ day of _____

Subscribed and sworn to before me this 14 day of March 2013

Notary Public for the State of Montana



Shelly Noe
NOTARY PUBLIC for the STATE OF MONTANA
Residing at Absarokee, MT
My Commission Expires September 16, 2014

Notary Public for the State of Montana

Residing at _____

My commission expires _____

All rentals due under a lease must be paid before the assignment can be accepted. Original lease must be turned over to the assignee. Signatures by individuals other than named lessee must be accompanied by a true copy of their authority to assign the lease. The assignment is not in full force until dated and approved by the Department. The assignment will not be approved unless it contains the original signatures of the proper person.

Less/Assignor's signature shall constitute proof the the lessee/assignor has been dully compensated for all the improvements of the state lease. Assignments which result in a profit to the lessee/assignor over and above the value of improvements may result in cancellation of the lease.

APPROVAL OF ASSIGNMENT
(Department Use Only)

The foregoing affidavit of assignment for State Lease No. 7912 is hereby approved the _____ day of _____

May 2013

Director of Department of Natural Resources & Conservation

JOHN E. TUBBS

By: [Signature]

Agriculture & Grazing Management Bureau Chief



AGRICULTURAL & GRAZING LEASE OF STATE LANDS

This lease is entered into by the State of Montana, Board of Land Commissioners and Department of Natural Resources & Conservation (Department) as lessor, and the person herein named, as the lessee.

Date this lease takes effect: March 01, 2010

Name of Lessee: REDMAN, ROBERT J/CYNTHIA A

Address or Box No.: PO BOX 549

City/State/Zip: INDIAN RIVER MI 49749

Land Located in Stillwater County.

DESCRIPTION	Sec.	Twp.	Rge.	Acres
ALL	16	2S	22E	640.00

Total number of leased acres, 640 more or less belonging to Common Schools Grant.

Grazing Acres: 640 Agricultural Acres: 0 Unsuitable Acres: 0
 Other Acres: 0 Hayland Acres: 0 CRP Acres: 0
 Terms of Grazing Use and Rental Rate: Minimum

Terms of Agricultural Use and Rental Rate: Minimum

Purpose for which the land is leased: GRAZING

Term of lease: 10 years Date of expiration: February 29, 2020

THIS LEASE HAS A CARRYING CAPACITY OF 125 ANIMAL UNIT MONTHS. THE LESSEE SHALL NOT EXCEED SUCH CARRYING CAPACITY. THE ANNUAL GRAZING RENTAL IS BASED ON THIS CARRYING CAPACITY.

The State of Montana, in consideration of the payment of rentals as specified in this lease and the mutual agreements contained in this lease hereby leases the above-described lands to the lessee(s) named above.

The lessee(s) in consideration of the lease of the above-described lands and the mutual agreements contained in this lease hereby agrees to pay the rentals as specified in the lease and to perform all the conditions as specified in this lease, the applicable rules and the applicable statutes.

The parties to this lease mutually agree to the following terms and conditions:

1. ALL GRAZING RENTALS ARE DUE BY MARCH 1 EACH YEAR AND FAILURE TO PAY BY APRIL 1 AUTOMATICALLY CANCELS THE ENTIRE LEASE. A NOTICE OF RENTAL DUE OR ANY OTHER CORRESPONDENCE OR NOTICE FROM THE LESSOR WILL BE SENT TO THE ABOVE ADDRESS ONLY, UNLESS A CHANGE OF ADDRESS IS REQUESTED IN WRITING, SIGNED BY THE LESSEE AND RECORDED BY THE LESSOR.
2. ALL AGRICULTURAL RENTALS ARE DUE ON NOVEMBER 15 OF THE YEAR IN WHICH CROPS OR HAY ARE HARVESTED. IF THE RENTAL IS NOT PAID BY DECEMBER 31 OF THE SAME YEAR, THE ENTIRE LEASE IS CANCELED.
3. CONVERSION OF CLASSIFIED GRAZING LANDS TO CROPLAND WITHOUT PRIOR APPROVAL AS REQUIRED BY LAW SUBJECTS THIS ENTIRE LEASE TO CANCELLATION.
4. SUBLEASING (allowing any other person and/or their livestock to utilize the State land) WITHOUT FILING A FORM AND RECEIVING APPROVAL FROM THE DEPARTMENT MAY SUBJECT THE LEASE TO CANCELLATION. SUBLEASING ON TERMS LESS ADVANTAGEOUS TO THE SUBLESSEE THAN THE TERMS GIVEN BY THE STATE SHALL RESULT IN CANCELLATION.
 (a) SUBLEASING FOR MORE THAN TWO YEARS WILL RESULT IN LOSS OF THE PREFERENCE RIGHT.
 (b) SUBLEASING FOR MORE THAN THREE YEARS WILL RESULT IN THE LEASE BEING CANCELED. (The department's rules and applicable statutes concerning subleasing and pasturing agreements should be consulted.)
5. REPORTS—Lessee is required to submit reports as requested by the Director, including seeding and production reports. Failure to submit such reports may result in cancellation of the lease.
6. CULTIVATION—In the case of lands leased for agricultural purposes, the lessee hereby agrees to seed and cultivate such land in a husbandman-like manner and to strip farm if the land is subject to soil blowing. The lessee further agrees to keep the land clear of weeds and care for it in accordance with approved farm methods as determined by the state. The state shall have the right to impose reasonable restrictions on all state leases as are necessary to adequately protect the land, water, air or improvements in the area. Grain crops are to be delivered free of charge to the nearest elevator to the credit of the state of Montana on or before the fifteenth of November of each year. Other crops, including hay, are to be disposed of at the going market price unless otherwise directed. If a lessee decides to graze the stubble of harvested crops or hayland or grazes unharvested crops for haylands, he must contact the Department regarding payment for such grazing in classified agricultural lands. The Department shall determine the number of animal unit months of grazing available on the land and shall bill the lessee or licensee for the grazing use based on the minimum grazing rental established under Section 77-6-507, MCA or the competitive bid amount, whichever is greater. Failure or refusal to pay said rental or to notify the

department of such grazing may be cause for cancellation of the lease.

7. **FEDERAL FARM PROGRAM COMPLIANCE**--If a lessee or licensee has his lease or license canceled or terminated or for any reason is no longer the lessee or licensee, then he shall no longer be entitled to any payment or benefits from any federal farm program. If such a lessee or licensee does receive any such federal payment or benefit in connection with the state lease or license he shall be liable to the state for any amounts received after he is no longer recognized as the lessee or licensee. The lessee or licensee of any state land shall comply with the provisions of the federal farm program when applicable and shall indemnify the state against any loss occasioned by noncompliance with such provisions. In addition to any rentals provided in the lease or license, the state shall receive the same share as it receives for crops of all payments pursuant to any act or acts of the congress of the United States in connection with state lands under lease or license and the crops thereof. The state shall be entitled to such amounts annually for all leases based upon a cropshare, even if the lease states that the rental is based upon a crop share/cash basis, whichever is greater. All such leases shall be considered crop share leases for the purpose of receiving the state's share of the federal farm payments.
8. **IMPROVEMENTS**--The lessee may place a reasonable amount of improvements upon the lands under this lease upon approval of an improvement permit by the Department. A report of proposed improvements, containing such information as the Director may request concerning the cost of the improvements, their suitability for the uses ordinarily made of the land, and their character whether fixed or movable, shall be submitted to the Director before installation thereof on the premises. Failure to obtain approval prior to placement of the improvement may result in such improvements not being recognized by the Department for purposes of reimbursement of such improvements. In addition, placing improvements on state lands without receiving prior approval, may result in cancellation of the lease.
9. **LIENS ON BUILDINGS AND CROPS**--The state shall have a lien upon all buildings, structures, fences and all other improvements, whether movable or not, and also upon all crops growing upon the land for any rentals due the Department.
10. **COMPENSATION FOR IMPROVEMENTS**--(a) If the land under this lease is sold or exchanged to a party other than the present lessee, or is leased to another party while the present lessee owns improvements lawfully remaining thereon, on which the state has no lien for rentals or penalties, as herein provided, and which he desires to sell and dispose of, such purchaser or new lessee shall pay the former lessee the reasonable value of such improvements. If any of the improvements consist of approved breaking (meaning the original plowing of the land) and one year's crop has been raised on the land after the breaking thereof, the compensation for such breaking shall not exceed the sum of two dollars and fifty cents (\$2.50) per acre, and that in case two or more crops have been raised on the land after the breaking thereof, the breaking shall not be considered as an improvement to the land. In case the former lessee and the new lessee or purchaser are unable to agree on the reasonable value of such improvements, such value shall be ascertained and fixed by three arbitrators, one of whom shall be appointed by the owner of the improvements, one by the new lessee or purchaser and the third by the two arbitrators so appointed. The former lessee must initiate arbitration within 60 days of notification from the Department that there is a new lessee or purchaser. Failure to initiate this process within this time period results in all improvements becoming property of the state. The reasonable compensation that such arbitrators may charge for their services shall be paid in equal shares by the owner of the improvements and the purchaser or new lessee. The value of such improvements as ascertained and fixed shall be binding upon both parties; provided, however, that if either party is dissatisfied with the valuation so fixed he may within ten (10) days appeal from their decision to the Director who shall thereupon cause his agent to examine such improvements and whose decision shall be final. The Director shall charge and collect the actual cost of such reexamination to the owner and new lessee or purchaser in such proportion as in his judgment may be demanded.
(b) Upon the termination of a lease, the Department may grant a license to the former lessee to remove the movable improvements from the land. Upon authorization, the movable improvements must be removed within 60 days or they become the property of the state unless the department for good cause grants additional time for the removal. The department shall charge the former lessee for the period of time that the improvements remain on the land after the termination of the lease.
(c) Summer following (necessary cultivation done after the last crop grown) seeding, and growing crops on the land, which have not been harvested prior to March 1 next succeeding the date of sale or at the time of change of lessee, shall be considered as improvements. Their value shall be determined in the same manner as other improvements and shall be taken over by the purchaser or new lessee and paid for by him as other improvements.
11. **ASSIGNMENT OF LEASE**--If all rentals due have been paid and the terms of this lease have not been violated, the lease may be assigned on the forms provided for that purpose by the Director, but no such assignment shall be binding on the state unless the assignment is filed with the Director, approved by him, and the appropriate assignment fees submitted for such assignment. An assignment which is signed by both parties shall be conclusive proof that all payments for improvements have been paid to the assignor by the assignee. The leasehold interest herein may only be transferred to another party by a properly executed assignment which must be approved by the Director prior to such transfer becoming effective. Until an assignment becomes effective, the Department will consider the lessee listed above to be the lessee for all purposes. There may be no consideration given for the assignment of a lease other than the value of the improvements, if any.
12. **RENEWAL LEASE**--If all rentals due under this lease have been paid, the lessee shall upon making proper application to the Director be entitled to have this lease renewed at any time within thirty (30) days prior to its expiration for an additional period of not exceeding ten years; and if there is no other applicant then offering to lease the land, the lease shall be issued at the minimum rental as determined under statutes then in effect. If there are two or more persons desiring to lease the same tract, the former lessee shall have the preference, right to the lease to the extent that he may take the lease at the highest bid made by any other applicant. However, subleasing may cause loss of this renewal right. The department's rules concerning subleasing should be consulted. The lessee desiring to renew the lease must make application to the Department prior to January 28 of the year of expiration. Failure to do so will result in the lease becoming an unleased tract upon expiration, with the loss of the preference right and subject to competitive bidding.
13. **CANCELLATION OF LEASE BY THE STATE**--The Director shall have the power and authority in his discretion to cancel a lease for any of the following causes: For fraud or misrepresentation, or for concealment of facts relating to its issue, which if known would have prevented its issue in the form or to the party issued; for using the land for other purposes than those authorized by the lease, for overgrazing or any other misuse of the state lands involved, and for any other cause which in the judgement of the Director makes the cancellation of the lease necessary in order to do justice to all parties concerned, and to protect the interest of the state. Such cancellation shall not entitle the lessee to any refund of rentals paid or exemption from the payment of any rents, penalties or other compensation due the state. Lease cancellation for these causes is subject to appeal as provided in Section 77-6-211, MCA.
14. **LANDS MAY BE SOLD**--The Board of Land Commissioners may in their discretion exchange the lands under this lease for other lands, offer the lands under this lease for sale at any regular public sale of state lands held in the county where the land is situated upon the same terms and in the same manner as land not under lease, subject, however, to the rights of the lessee to compensation for improvements as herein provided; and subject also to the provision that the new owner will not be given possession by the state prior to March 1 next succeeding the date of exchange or sale unless the lease expires prior to that date, except through special agreement with the lessee.
15. **RESERVATION**--The state reserves all rights and interests to the land under this lease other than those specifically granted by this lease. These reservations include but are not limited to the following:
(a) **MINERAL AND TIMBER RESERVATION**--All coal, oil, gas and other minerals and all deposits of stone, gravel, sand, gems, and other nonminerals valuable for building, mining or other commercial purposes and all timber and trees are excepted from the operation of this lease. The lessee shall not open any mine or quarry or work or dig any of the minerals or nonminerals mentioned above from any mine or any quarry, pit or diggings situated on said land whether such mine, quarry, pit or diggings was open at the date of this lease or not. The lessee shall not cut, sell, remove, use or destroy any such timber dead or alive, or standing or fallen trees without the appropriate permit, license or lease.
(b) **ADDITIONAL RESERVATIONS**--The state reserves a right-of-way to the United States over the land above-described for ditches, canals, tunnels, telephone and telegraph, and power lines now constructed or to be constructed by the United States Government in furtherance of the reclamation of arid lands. The state also reserves the right of granting rights-of-way on the above-described land for other purposes. The state also reserves to itself and its representatives and other lessees or permittees the right to enter upon the lands embraced by this lease for the purpose of prospecting and exploring for minerals and for the purpose of mining, drilling for, developing and removing such minerals and for carrying on all operations related thereto and for any other management or administrative purposes; it also reserves to itself and its permittees the right to enter upon the said lands for the purpose of cutting and removing timber, wood and other forest products, and for removing gravel, sand, building stone, and other nonminerals. The state reserves the right to grant licenses, permits or leases for any alternative uses on state lands.
16. **NOXIOUS WEEDS AND PESTS**--The lessee agrees, at his own expense and cost, to keep the land free from noxious weeds, and if noxious weeds are present, then chemical application or other appropriate weed control measures must occur in time to prevent seed-set according to state law and to exterminate pests to the extent as required by the Department. In the event the land described in this lease shall be included in a weed control and weed seed extermination district, the lessee shall be required to comply with the provisions of Section 77-6-114, MCA, which provides as follows. "It shall be the duty of the Board in leasing any agricultural state land to provide in such lease, that the lessee of lands so leased lying within the boundaries of any noxious weed control and weed seed extermination district shall assume and pay all assessments and taxes levied by the board of County Commissioners for such district on such state lands, and such assessments and tax levy shall be imposed on such lessee as a personal property tax and shall be collected by the County Treasurer in the same manner as regular personal property taxes are collected." Failure to comply with this

provision when directed to do so by the Department may result in cancellation of the entire lease.

- 17. FIRE PREVENTION AND SUPPRESSION--The lessee assumes all responsibility for carrying on at his own cost and expense all fire prevention and suppression work necessary or required to protect the forage, trees, buildings and structures on the land. The lessee is not responsible for the suppression of or damages resulting from a fire caused by a general recreational user, except that he or she shall make reasonable efforts to suppress the fire or report it to the proper firefighting authority or both, as circumstances dictate.
- 18. UNLAWFUL USE OF LANDS OR PREMISES--If any part of the lands or premises under this lease are used or allowed or permitted to be used for any purpose contrary to the laws of this state or the United States, such unlawful use shall in the discretion of the Board of Land Commissioners constitute sufficient reason for the cancellation of the lease. The lessee shall not utilize or allow to be utilized any state land under the lease for purposes other than the purpose for which it is granted.
- 19. SURRENDER OF THE PREMISES UPON TERMINATION OF THE LEASE--The lessee shall upon the expiration, cancellation, or termination of this lease peaceably yield up and surrender the possession of the land to the state of Montana or its agents or to subsequent lessees or grantees.
- 20. INCREASED RENTAL--If the Montana Legislature or the Board of Land Commissioners raises the rentals on state grazing or agriculture lands during the term of this lease, the lessee agrees to pay such increased rental for the years after such increase becomes effective. Also, the state reserves the right to determine the grazing capacity of said lands annually or from time to time as the Director in his discretion shall determine necessary and increase or decrease the rental thereon accordingly. In the event the Director should increase or decrease the carrying capacity of said lands, the lessee agrees to pay an increased or decreased rental based upon the Director's determination, and to adjust livestock numbers accordingly.
- 21. INDEMNIFICATION--The lessee agrees to save harmless and indemnify the State of Montana for any losses to the state occasioned by the levy of any penalties, fines, charges or assessments made against the above lands or crops grown upon the lands, by the U.S. Government because of any violation of or noncompliance with, any federal farm program or other acts by the lessee.
- 22. LAWS AND RULES--The lessee agrees to comply with all applicable laws and rules in effect at the date of this lease, or which may, from time to time, be adopted.
- 23. MULTIPLE-USE MANAGEMENT--Pursuant to the obligations imposed by law, to administer state lands under a multiple-use management concept, the state reserves the right to dispose of any and all interests in the above-described land, subject, however to such interests granted to the lessee under the terms of this lease. The lessee may not close the land under lease at any time to the public for general recreational use," as defined in A.R.M. 36.25.145, without advanced written permission of the Department. Permission to close lands categorically closed under A.R.M. 36.25.150 is hereby granted and no further permission is required.
- 24. LEASE WITHDRAWAL--All or any portion of the land under lease may be withdrawn from this lease by the state. The lessee shall be entitled to reasonable compensation for any improvements thereon. The lands may be withdrawn to promote the duties and responsibilities of the Board of Land Commissioners.
- 25. SPECIAL CONDITIONS--

IN WITNESS WHEREOF, The State of Montana and the lessee have caused this lease to be executed in duplicate and the Director of the Department of Natural Resources and Conservation, pursuant to the authority granted him by the State Board of Land Commissioners of the State of Montana, has hereunto

set his hand and affixed the seal of the said Board of Land Commissioners this 20 day of April, 2010

Cynthia O. Redman
LEASSEE SIGNATURE

MARY SEXTON

DIRECTOR, DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

P.O. Box 549
ADDRESS OR BOX NO.

by: *Stephanie Kellogg*

INDIAN RIVER MT 49749
CITY STATE ZIP CODE



Receipt Number

HE51313934

DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
AFFIDAVIT OF ASSIGNMENT OF STATE LEASE

DS-414 6/11

Distributed

1/2/13 AT

RECEIVED
Feb 15 2012

DEC 28 2012

State of Montana)

County of Stillwater)

Name of Assignor(s) PRINT
Element Land Company, LLC

SS **D.N.R.C.**

Mailing Address

Street/P.O. Box P.O. Box 638
Address Line 2 _____
City Sheridan
State/Zip Montana, 59749
Telephone No. _____

The above described Assignor(s), (or its Executor, Administrator, President, Attorney-in-fact, or authorized Agent), having first been duly sworn states that (he/she/they) is duly empowered to execute a transfer of all right, title and interest in and to State Agreement No. 8236 embracing the following-described lands:

LEGAL DESCRIPTION	SECTION	TWNSHIP	RANGE	ACRES
All	36	1S	21E	640.00

and containing 640.00 acres more or less and expiring on February 28 2020, and does hereby assign and transfer all right, title and interest in and to the above-described lease and improvements to:

Energy Equity Company
Assignee(s) (PRINT)
P.O. Box 785 Columbus, Montana 59019 406-322-9751
(P.O. Box, Street) (City) (State) (Zip) (Telephone No)

ASSIGNOR'S SIGNATURE(S)

[Signature]
Element Land Co, LLC

ASSIGNEE'S SIGNATURE(S)

The Assignee hereby accepts the rights, duties, and obligations inherent in the former lessee's interests & ownership of the above described state lease:

Subscribed and sworn to before me this 17th day of December, 2012

[Signature]
Notary Public for the State of Montana Minnesota

Residing at 2501 Wayzata Blvd, Mpls, MN
My commission expires 1/31/15

Subscribed and sworn to before me this _____ day of _____

Notary Public for the State of Montana

Residing at _____
My commission expires _____

All rentals due under a lease must be paid before the assignment can be accepted. Original lease must be turned over to the assignee. Signatures by individuals other than named lessee must be accompanied by a true copy of their authority to assign the lease. The assignment is not in full force until dated and approved by the Department. The assignment will not be approved unless it contains the original signatures of the proper persons.

Lessee/Assignor's signature shall constitute proof that the lessee/assignor has been fully compensated for all of the improvements on the state lease. Assignments which result in a profit to the lessee/assignor over and above the value of improvements may result in cancellation of the lease.

APPROVAL OF ASSIGNMENT
(Department Use Only)

The foregoing affidavit of assignment for State Lease No. 88236 is hereby approved the 15th

JANUARY, 2013

Director of Department of Natural Resources & Conservation JOHN E. TUBBS

By: [Signature]
Agriculture and Grazing Management Bureau Chief



**DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
AFFIDAVIT OF ASSIGNMENT OF STATE LEASE
Fee \$50.00**

DS-414 6/11

State of Montana)
) ss
County of Stillwater)

Name of Assignor(s) PRINT
Element Land Company, LLC

Mailing Address
Street/P.O. Box P.O. Box 638
Address Line 2 _____
City Sheridan
State/Zip Montana, 59749
Telephone No. _____

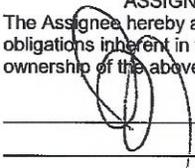
The above described Assignor(s), (or its Executor, Administrator, President, Attorney-in-fact, or authorized Agent), having first been duly sworn states that (he/she/they) is duly empowered to execute a transfer of all right, title and interest in and to State Agreement No. 8236 embracing the following-described lands:

LEGAL DESCRIPTION	SECTION	TWNSHP	RANGE	ACRES
<u>All</u>	<u>36</u>	<u>1S</u>	<u>21E</u>	<u>640.00</u>

and containing 640.00 acres more or less and expiring on February 28, 2020, and does hereby assign and transfer all right, title and interest in and to the above-described lease and improvements to:

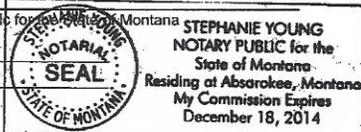
Energy Equity Company Assignee(s) (PRINT)
P.O. Box 785 Columbus, Montana 59019
(P.O. Box, Street) (City) (State) (Zip) (Telephone No)

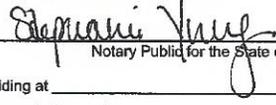
ASSIGNOR'S SIGNATURE(S)

ASSIGNEE'S SIGNATURE(S)
The Assignee hereby accepts the rights, duties, and obligations inherent in the former lessee's interests & ownership of the above described state lease:


Subscribed and sworn to before me this _____ day of _____

Subscribed and sworn to before me this 7 day of December, 2012.

Notary Public for the State of Montana
Residing at _____
My commission expires _____



Notary Public for the State of Montana

All rentals due under a lease must be paid before the assignment can be accepted. Original lease must be turned over to the assignee. Signatures by individuals other than named lessee must be accompanied by a true copy of their authority to assign the lease. The assignment is not in full force until dated and approved by the Department. The assignment will not be approved unless it contains the original signatures of the proper persons.

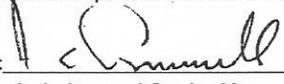
Lessee/Assignor's signature shall constitute proof that the lessee/assignor has been fully compensated for all of the improvements on the state lease. Assignments which result in a profit to the lessee/assignor over and above the value of improvements may result in cancellation of the lease.

**APPROVAL OF ASSIGNMENT
(Department Use Only)**

The foregoing affidavit of assignment for State Lease No. 8236 is hereby approved the 15th day of JANUARY, 2013.

Director of Department of Natural Resources & Conservation

JOHN E. TUBBS

By: 
Agriculture and Grazing Management Bureau Chief



AGRICULTURAL & GRAZING LEASE OF STATE LANDS

This lease is entered into by the State of Montana, Board of Land Commissioners and Department of Natural Resources & Conservation (Department) as lessor, and the person herein named, as the lessee.

Date this lease takes effect: March 01, 2010

Name of Lessee: ELEMENT LAND COMPANY, LLC

Address or Box No.: PO BOX 638

City/State/Zip: SHERIDAN MT 59749

Land Located in Stillwater County.

DESCRIPTION	Sec.	Twp.	Rge.	Acres
ALL	36	1S	21E	640.00

Total number of leased acres: 640 more or less belonging to Common Schools Grant.

Grazing Acres: 640 Agricultural Acres: 0 Unsuitable Acres: 0
 Other Acres: 0 Hayland Acres: 0 CRP Acres: 0
 Terms of Grazing Use and Rental Rate: Minimum

Terms of Agricultural Use and Rental Rate: Minimum

Purpose for which the land is leased: GRAZING

Term of lease: 10 years Date of expiration: February 29, 2020

THIS LEASE HAS A CARRYING CAPACITY OF 141 ANIMAL UNIT MONTHS. THE LESSEE SHALL NOT EXCEED SUCH CARRYING CAPACITY. THE ANNUAL GRAZING RENTAL IS BASED ON THIS CARRYING CAPACITY.

The State of Montana, in consideration of the payment of rentals as specified in this lease and the mutual agreements contained in this lease hereby leases the above-described lands to the lessee(s) named above.

The lessee(s) in consideration of the lease of the above-described lands and the mutual agreements contained in this lease hereby agrees to pay the rentals as specified in the lease and to perform all the conditions as specified in this lease, the applicable rules and the applicable statutes.

The parties to this lease mutually agree to the following terms and conditions:

- ALL GRAZING RENTALS ARE DUE BY MARCH 1 EACH YEAR AND FAILURE TO PAY BY APRIL 1 AUTOMATICALLY CANCELS THE ENTIRE LEASE. A NOTICE OF RENTAL DUE OR ANY OTHER CORRESPONDENCE OR NOTICE FROM THE LESSOR WILL BE SENT TO THE ABOVE ADDRESS ONLY, UNLESS A CHANGE OF ADDRESS IS REQUESTED IN WRITING, SIGNED BY THE LESSEE AND RECORDED BY THE LESSOR.
- ALL AGRICULTURAL RENTALS ARE DUE ON NOVEMBER 15 OF THE YEAR IN WHICH CROPS OR HAY ARE HARVESTED. IF THE RENTAL IS NOT PAID BY DECEMBER 31 OF THE SAME YEAR, THE ENTIRE LEASE IS CANCELED.
- CONVERSION OF CLASSIFIED GRAZING LANDS TO CROPLAND WITHOUT PRIOR APPROVAL AS REQUIRED BY LAW SUBJECTS THIS ENTIRE LEASE TO CANCELLATION.
- SUBLEASING (allowing any other person and/or their livestock to utilize the State land) WITHOUT FILING A FORM AND RECEIVING APPROVAL FROM THE DEPARTMENT MAY SUBJECT THE LEASE TO CANCELLATION. SUBLEASING ON TERMS LESS ADVANTAGEOUS TO THE SUBLESSEE THAN THE TERMS GIVEN BY THE STATE SHALL RESULT IN CANCELLATION.
 (a) SUBLEASING FOR MORE THAN TWO YEARS WILL RESULT IN LOSS OF THE PREFERENCE RIGHT.
 (b) SUBLEASING FOR MORE THAN THREE YEARS WILL RESULT IN THE LEASE BEING CANCELED. (The department's rules and applicable statutes concerning subleasing and pasturing agreements should be consulted.)
- REPORTS—Lessee is required to submit reports as requested by the Director, including seeding and production reports. Failure to submit such reports may result in cancellation of the lease.
- CULTIVATION—In the case of lands leased for agricultural purposes, the lessee hereby agrees to seed and cultivate such land in a husbandman-like manner and to strip farm if the land is subject to soil blowing. The lessee further agrees to keep the land clear of weeds and care for it in accordance with approved farm methods as determined by the state. The state shall have the right to impose reasonable restrictions on all state leases as are necessary to adequately protect the land, water, air or improvements in the area. Grain crops are to be delivered free of charge to the nearest elevator to the credit of the state of Montana on or before the fifteenth of November of each year. Other crops, including hay, are to be disposed of at the going market price unless otherwise directed. If a lessee decides to graze the stubble of harvested crops or hayland or grazes unharvested crops for haylands, he must contact the Department regarding payment for such grazing in classified agricultural lands. The Department shall determine the number of animal unit months of grazing available on the land and shall bill the lessee or licensee for the grazing use based on the minimum grazing rental established under Section 77-6-507, MCA or the competitive bid amount, whichever is greater. Failure or refusal to pay said rental or to notify the

department of such grazing may be cause for cancellation of the lease.

7. **FEDERAL FARM PROGRAM COMPLIANCE**--If a lessee or licensee has his lease or license canceled or terminated or for any reason is no longer the lessee or licensee, then he shall no longer be entitled to any payment or benefits from any federal farm program. If such a lessee or licensee does receive any such federal payment or benefit in connection with the state lease or license he shall be liable to the state for any amounts received after he is no longer recognized as the lessee or licensee. The lessee or licensee of any state land shall comply with the provisions of the federal farm program when applicable and shall indemnify the state against any loss occasioned by noncompliance with such provisions. In addition to any rentals provided in the lease or license, the state shall receive the same share as it receives for crops of all payments pursuant to any act or acts of the congress of the United States in connection with state lands under lease or license and the crops thereof. The state shall be entitled to such amounts annually for all leases based upon a cropshare, even if the lease states that the rental is based upon a crop share/cash basis, whichever is greater. All such leases shall be considered crop share leases for the purpose of receiving the state's share of the federal farm payments.
8. **IMPROVEMENTS**--The lessee may place a reasonable amount of improvements upon the lands under this lease upon approval of an improvement permit by the Department. A report of proposed improvements, containing such information as the Director may request concerning the cost of the improvements, their suitability for the uses ordinarily made of the land, and their character whether fixed or movable, shall be submitted to the Director before installation thereof on the premises. Failure to obtain approval prior to placement of the improvement may result in such improvements not being recognized by the Department for purposes of reimbursement of such improvements. In addition, placing improvements on state lands without receiving prior approval, may result in cancellation of the lease.
9. **LIENS ON BUILDINGS AND CROPS**--The state shall have a lien upon all buildings, structures, fences and all other improvements, whether movable or not, and also upon all crops growing upon the land for any rentals due the Department.
10. **COMPENSATION FOR IMPROVEMENTS**--(a) If the land under this lease is sold or exchanged to a party other than the present lessee, or is leased to another party while the present lessee owns improvements lawfully remaining thereon, on which the state has no lien for rentals or penalties, as herein provided, and which he desires to sell and dispose of, such purchaser or new lessee shall pay the former lessee the reasonable value of such improvements. If any of the improvements consist of approved breaking (meaning the original plowing of the land) and one year's crop has been raised on the land after the breaking thereof, the compensation for such breaking shall not exceed the sum of two dollars and fifty cents (\$2.50) per acre, and that in case two or more crops have been raised on the land after the breaking thereof, the breaking shall not be considered as an improvement to the land. In case the former lessee and the new lessee or purchaser are unable to agree on the reasonable value of such improvements, such value shall be ascertained and fixed by three arbitrators, one of whom shall be appointed by the owner of the improvements, one by the new lessee or purchaser and the third by the two arbitrators so appointed. The former lessee must initiate arbitration within 60 days of notification from the Department that there is a new lessee or purchaser. Failure to initiate this process within this time period results in all improvements becoming property of the state. The reasonable compensation that such arbitrators may charge for their services shall be paid in equal shares by the owner of the improvements and the purchaser or new lessee. The value of such improvements as ascertained and fixed shall be binding upon both parties; provided, however, that if either party is dissatisfied with the valuation so fixed he may within ten (10) days appeal from their decision to the Director who shall thereupon cause his agent to examine such improvements and whose decision shall be final. The Director shall charge and collect the actual cost of such reexamination to the owner and new lessee or purchaser in such proportion as in his judgment may be demanded.
(b) Upon the termination of a lease, the Department may grant a license to the former lessee to remove the movable improvements from the land. Upon authorization, the movable improvements must be removed within 60 days or they become the property of the state unless the department for good cause grants additional time for the removal. The department shall charge the former lessee for the period of time that the improvements remain on the land after the termination of the lease.
(c) Summer fallowing (necessary cultivation done after the last crop grown) seeding, and growing crops on the land, which have not been harvested prior to March 1 next succeeding the date of sale or at the time of change of lessee, shall be considered as improvements. Their value shall be determined in the same manner as other improvements and shall be taken over by the purchaser or new lessee and paid for by him as other improvements.
11. **ASSIGNMENT OF LEASE**--If all rentals due have been paid and the terms of this lease have not been violated, the lease may be assigned on the forms provided for that purpose by the Director, but no such assignment shall be binding on the state unless the assignment is filed with the Director, approved by him, and the appropriate assignment fees submitted for such assignment. An assignment which is signed by both parties shall be conclusive proof that all payments for improvements have been paid to the assignor by the assignee. The leasehold interest herein may only be transferred to any other party by a properly executed assignment which must be approved by the Director prior to such transfer becoming effective. Until an assignment becomes effective, the Department will consider the lessee listed above to be the lessee for all purposes. There may be no consideration given for the assignment of a lease other than the value of the improvements, if any.
12. **RENEWAL LEASE**--If all rentals due under this lease have been paid, the lessee shall upon making proper application to the Director be entitled to have this lease renewed at any time within thirty (30) days prior to its expiration for an additional period of not exceeding ten years; and if there is no other applicant then offering to lease the land, the lease shall be issued at the minimum rental as determined under statutes then in effect. If there are two or more persons desiring to lease the same tract, the former lessee shall have the preference right to the lease to the extent that he may take the lease at the highest bid made by any other applicant. However, subleasing may cause loss of this renewal right. The department's rules concerning subleasing should be consulted. The lessee desiring to renew the lease must make application to the Department prior to January 28 of the year of expiration. Failure to do so will result in the lease becoming an unleased tract upon expiration, with the loss of the preference right and subject to competitive bidding.
13. **CANCELLATION OF LEASE BY THE STATE**--The Director shall have the power and authority in his discretion to cancel a lease for any of the following causes: For fraud or misrepresentation, or for concealment of facts relating to its issue, which if known would have prevented its issue in the form or to the party issued; for using the land for other purposes than those authorized by the lease, for overgrazing or any other misuse of the state lands involved, and for any other cause which in the judgement of the Director makes the cancellation of the lease necessary in order to do justice to all parties concerned, and to protect the interest of the state. Such cancellation shall not entitle the lessee to any refund of rentals paid or exemption from the payment of any rents, penalties or other compensation due the state. Lease cancellation for these causes is subject to appeal as provided in Section 77-6-211, MCA.
14. **LANDS MAY BE SOLD**--The Board of Land Commissioners may in their discretion exchange the lands under this lease for other lands, offer the lands under this lease for sale at any regular public sale of state lands held in the county where the land is situated upon the same terms and in the same manner as land not under lease, subject, however, to the rights of the lessee to compensation for improvements as herein provided; and subject also to the provision that the new owner will not be given possession by the state prior to March 1 next succeeding the date of exchange or sale unless the lease expires prior to that date, except through special agreement with the lessee.
15. **RESERVATION**--The state reserves all rights and interests to the land under this lease other than those specifically granted by this lease. These reservations include but are not limited to the following:
(a) **MINERAL AND TIMBER RESERVATION**--All coal, oil, gas and other minerals and all deposits of stone, gravel, sand, gems, and other nonminerals valuable for building, mining or other commercial purposes and all timber and trees are excepted from the operation of this lease. The lessee shall not open any mine or quarry or work or dig any of the minerals or nonminerals mentioned above from any mine or any quarry, pit or diggings situated on said land whether such mine, quarry, pit or diggings was open at the date of this lease or not. The lessee shall not cut, sell, remove, use or destroy any such timber dead or alive, or standing or fallen trees without the appropriate permit, license or lease.
(b) **ADDITIONAL RESERVATIONS**--The state reserves a right-of-way to the United States over the land above-described for ditches, canals, tunnels, telephone and telegraph, and power lines now constructed or to be constructed by the United States Government in furtherance of the reclamation of arid lands. The state also reserves the right of granting rights-of-way on the above-described land for other purposes. The state also reserves to itself and its representatives and other lessees or permittees the right to enter upon the lands embraced by this lease for the purpose of prospecting and exploring for minerals and for the purpose of mining, drilling for, developing and removing such minerals and for carrying on all operations related thereto and for any other management or administrative purposes; it also reserves to itself and its permittees the right to enter upon the said lands for the purpose of cutting and removing timber, wood and other forest products, and for removing gravel, sand, building stone, and other nonminerals. The state reserves the right to grant licenses, permits or leases for any alternative uses on state lands.
16. **NOXIOUS WEEDS AND PESTS**--The lessee agrees, at his own expense and cost, to keep the land free from noxious weeds, and if noxious weeds are present, then chemical application or other appropriate weed control measures must occur in time to prevent seed-set according to state law and to exterminate pests to the extent as required by the Department. In the event the land described in this lease shall be included in a weed control and weed seed extermination district, the lessee shall be required to comply with the provisions of Section 77-6-114, MCA, which provides as follows. "It shall be the duty of the Board in leasing any agricultural state land to provide in such lease, that the lessee of lands so leased lying within the boundaries of any noxious weed control and weed seed extermination district shall assume and pay all assessments and taxes levied by the board of County Commissioners for such district on such state lands, and such assessments and tax levy shall be imposed on such lessee as a personal property tax and shall be collected by the County Treasurer in the same manner as regular personal property taxes are collected." Failure to comply with this

provision when directed to do so by the Department may result in cancellation of the entire lease.

- 17. FIRE PREVENTION AND SUPPRESSION—The lessee assumes all responsibility for carrying on at his own cost and expense all fire prevention and suppression work necessary or required to protect the forage, trees, buildings and structures on the land. The lessee is not responsible for the suppression of or damages resulting from a fire caused by a general recreational user, except that he or she shall make reasonable efforts to suppress the fire or report it to the proper firefighting authority or both, as circumstances dictate.
- 18. UNLAWFUL USE OF LANDS OR PREMISES—If any part of the lands or premises under this lease are used or allowed or permitted to be used for any purpose contrary to the laws of this state or the United States, such unlawful use shall in the discretion of the Board of Land Commissioners constitute sufficient reason for the cancellation of the lease. The lessee shall not utilize or allow to be utilized any state land under the lease for purposes other than the purpose for which it is granted.
- 19. SURRENDER OF THE PREMISES UPON TERMINATION OF THE LEASE—The lessee shall upon the expiration, cancellation, or termination of this lease peaceably yield up and surrender the possession of the land to the state of Montana or its agents or to subsequent lessees or grantees.
- 20. INCREASED RENTAL—If the Montana Legislature or the Board of Land Commissioners raises the rentals on state grazing or agriculture lands during the term of this lease, the lessee agrees to pay such increased rental for the years after such increase becomes effective. Also, the state reserves the right to determine the grazing capacity of said lands annually or from time to time as the Director in his discretion shall determine necessary and increase or decrease the rental thereon accordingly. In the event the Director should increase or decrease the carrying capacity of said lands, the lessee agrees to pay an increased or decreased rental based upon the Director's determination, and to adjust livestock numbers accordingly.
- 21. INDEMNIFICATION—The lessee agrees to save harmless and indemnify the State of Montana for any losses to the state occasioned by the levy of any penalties, fines, charges or assessments made against the above lands or crops grown upon the lands, by the U. S. Government because of any violation of or noncompliance with, any federal farm program or other acts by the lessee.
- 22. LAWS AND RULES—The lessee agrees to comply with all applicable laws and rules in effect at the date of this lease, or which may, from time to time, be adopted.
- 23. MULTIPLE-USE MANAGEMENT—Pursuant to the obligations imposed by law, to administer state lands under a multiple-use management concept, the state reserves the right to dispose of any and all interests in the above-described land, subject, however to such interests granted to the lessee under the terms of this lease. The lessee may not close the land under lease at any time to the public for general recreational use," as defined in A.R.M. 36.25.145, without advanced written permission of the Department. Permission to close lands categorically closed under A.R.M. 36.25.150 is hereby granted and no further permission is required.
- 24. LEASE WITHDRAWAL—All or any portion of the land under lease may be withdrawn from this lease by the state. The lessee shall be entitled to reasonable compensation for any improvements thereon. The lands may be withdrawn to promote the duties and responsibilities of the Board of Land Commissioners.
- 25. SPECIAL CONDITIONS—

IN WITNESS WHEREOF, The State of Montana and the lessee have caused this lease to be executed in duplicate and the Director of the Department of Natural Resources and Conservation, pursuant to the authority granted him by the State Board of Land Commissioners of the State of Montana, has hereunto

set his hand and affixed the seal of the said Board of Land Commissioners this JUN 15 2010 day of _____, 20_____.

Changelly, Pines, Elned Land Co. LLC
LESSEE SIGNATURE

MARY SEXTON
DIRECTOR, DEPARTMENT OF NATURAL RESOURCES & CONSERVATION

PO Box 16109
ADDRESS OR BOX NO.

by: *Stephanie Kellogg*

Minneapolis MN 55416
CITY STATE ZIP CODE



DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
 AFFIDAVIT OF ASSIGNMENT OF STATE LEASE
 Fee \$50.00

DS-414 6/11

State of Montana)
) SS
 County of Stillwater)

Mailing Address

Name of Assignor(s) PRINT
1969 A Trust

Street/P.O. Box P.O. Box 638
 Address Line 2 _____
 City Sheridan
 State/Zip Montana, 59749
 Telephone No. _____

The above described Assignor(s), (or its Executor, Administrator, President, Attorney-in-fact, or authorized Agent), having first been duly sworn states that (he/she/they) is duly empowered to execute a transfer of all right, title and interest in and to State Agreement No. 3614 embracing the following-described lands:

LEGAL DESCRIPTION	SECTION	TOWNSHIP	RANGE	ACRES
A11	16	2S	21E	640.00

and containing 640.00 acres more or less and expiring on February 28, 2018, and does hereby assign and transfer all right, title and interest in and to the above-described lease and improvements to:

Energy Equity Company
 Assignee(s) (PRINT)
P.O. Box 785 Columbus Montana 59019
 (P.O. Box, Street) (City) (State) (Zip) (Telephone No)

ASSIGNOR'S SIGNATURE(S)
Albert Lundberg, LLC

ASSIGNEE'S SIGNATURE(S)
 The Assignee hereby accepts the rights, duties, and obligations inherent in the former lessee's interests & ownership of the above described state lease:



Subscribed and sworn to before me this 7th day of December, 2012
Sandra S. Demars
 Notary Public for the State of Minnesota
 Residing at 2501 Wyzata Blvd, mpls. mn
 My commission expires 1/9/15

Subscribed and sworn to before me this _____ day of _____

 Notary Public for the State of Montana
 Residing at _____
 My commission expires _____

All rentals due under a lease must be paid before the assignment can be accepted. Original lease must be turned over to the assignee. Signatures by individuals other than named lessee must be accompanied by a true copy of their authority to assign the lease. The assignment is not in full force until dated and approved by the Department. The assignment will not be approved unless it contains the original signatures of the proper persons.

Lessee/Assignor's signature shall constitute proof that the lessee/assignor has been fully compensated for all of the improvements on the state lease. Assignments which result in a profit to the lessee/assignor over and above the value of improvements may result in cancellation of the lease.

APPROVAL OF ASSIGNMENT
 (Department Use Only)

The foregoing affidavit of assignment for State Lease No. 3614 is hereby approved the 15th day of JANUARY, 2013

Director of Department of Natural Resources & Conservation JOHN E. TUBBS
 By: [Signature]
 Agriculture and Grazing Management Bureau Chief



DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
AFFIDAVIT OF ASSIGNMENT OF STATE LEASE
Fee \$50.00

State of Montana)
County of Stillwater) ss

Name of Assignor(s) PRINT
1969 A Trust

Mailing Address
Street/P.O. Box P.O. Box 638
Address Line 2
City Sheridan
State/Zip Montana, 59749
Telephone No.

The above described Assignor(s), (or its Executor, Administrator, President, Attorney-in-fact, or authorized Agent), having first been duly sworn states that (he/she/they) is duly empowered to execute a transfer of all right, title and interest in and to State Agreement No. 3614 embracing the following-described lands:

Table with 5 columns: LEGAL DESCRIPTION, SECTION, TWNSHP, RANGE, ACRES. Row 1: All, 16, 2S, 21E, 640.00

and containing 640.00 acres more or less and expiring on February 28, 2018, and does hereby assign and transfer all right, title and interest in and to the above-described lease and improvements to:

Energy Equity Company
Assignee(s) (PRINT)
P.O. Box 785, Columbus, Montana, 59019
(P.O. Box, Street) (City) (State) (Zip) (Telephone No)

ASSIGNOR'S SIGNATURE(S)

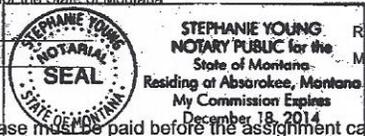
ASSIGNEE'S SIGNATURE(S)
The Assignee hereby accepts the rights, duties, and obligations inherent in the former lessee's interests & ownership of the above described state lease:

Subscribed and sworn to before me this ___ day of

Subscribed and sworn to before me this 7 day of December, 2012.

Notary Public for the State of Montana
Residing at
My commission expires

Stephanie Young
Notary Public for the State of Montana
Residing at
My commission expires



All rentals due under a lease must be paid before the assignment can be accepted. Original lease must be turned over to the assignee. Signatures by individuals other than named lessee must be accompanied by a true copy of their authority to assign the lease. The assignment is not in full force until dated and approved by the Department. The assignment will not be approved unless it contains the original signatures of the proper persons.

Lessee/Assignor's signature shall constitute proof that the lessee/assignor has been fully compensated for all of the improvements on the state lease. Assignments which result in a profit to the lessee/assignor over and above the value of improvements may result in cancellation of the lease.

APPROVAL OF ASSIGNMENT (Department Use Only)

The foregoing affidavit of assignment for State Lease No. 3614 is hereby approved the 15th day of January, 2013.

Director of Department of Natural Resources & Conservation
By: Agriculture and Grazing Management Bureau Chief

JOHN E. TUBBS



AGRICULTURAL & GRAZING LEASE OF STATE LANDS

This lease is entered into by the State of Montana, Board of Land Commissioners and Department of Natural Resources & Conservation (Department) as lessor, and the person herein named, as the lessee.

Date this lease takes effect: **March 01, 2008**

Name of Lessee: 1969 A TRUST

Address or Box No.: C/O CHUCK BOWEY RANCH PO BOX 638
RESOURCE

City/State/Zip: SHERIDAN MT 59749

Land Located in Stillwater County.

DESCRIPTION	Sec.	Twp.	Rge.	Acres
ALL	16	2S	21E	640.00

Total number of leased acres, **640** more or less belonging to **Common Schools** Grant.

Grazing Acres: **640** Agricultural Acres: **0** Unsuitable Acres: **0**
Other Acres **0** Hayland Acres **0** CRP Acres **0**

Terms of Grazing Use and Rental Rate: **Minimum**

Terms of Agricultural Use and Rental Rate: **Minimum**

Purpose for which the land is leased: **GRAZING**

Term of lease: **10 years** Date of expiration: **February 28, 2018**

THIS LEASE HAS A CARRYING CAPACITY OF 127 ANIMAL UNIT MONTHS. THE LESSEE SHALL NOT EXCEED SUCH CARRYING CAPACITY. THE ANNUAL GRAZING RENTAL IS BASED ON THIS CARRYING CAPACITY.

The State of Montana, in consideration of the payment of rentals as specified in this lease and the mutual agreements contained in this lease hereby leases the above-described lands to the lessee(s) named above.

The lessee(s) in consideration of the lease of the above-described lands and the mutual agreements contained in this lease hereby agrees to pay the rentals as specified in the lease and to perform all the conditions as specified in this lease, the applicable rules and the applicable statutes.

The parties to this lease mutually agree to the following terms and conditions:

- ALL GRAZING RENTALS ARE DUE BY MARCH 1 EACH YEAR AND FAILURE TO PAY BY APRIL 1 AUTOMATICALLY CANCELS THE ENTIRE LEASE. A NOTICE OF RENTAL DUE OR ANY OTHER CORRESPONDENCE OR NOTICE FROM THE LESSOR WILL BE SENT TO THE ABOVE ADDRESS ONLY, UNLESS A CHANGE OF ADDRESS IS REQUESTED IN WRITING, SIGNED BY THE LESSEE AND RECORDED BY THE LESSOR.
- ALL AGRICULTURAL RENTALS ARE DUE ON NOVEMBER 15 OF THE YEAR IN WHICH CROPS OR HAY ARE HARVESTED. IF THE RENTAL IS NOT PAID BY DECEMBER 31 OF THE SAME YEAR, THE ENTIRE LEASE IS CANCELED.
- CONVERSION OF CLASSIFIED GRAZING LANDS TO CROPLAND WITHOUT PRIOR APPROVAL AS REQUIRED BY LAW SUBJECTS THIS ENTIRE LEASE TO CANCELLATION.
- SUBLEASING (allowing any other person and/or their livestock to utilize the State land) WITHOUT FILING A FORM AND RECEIVING APPROVAL FROM THE DEPARTMENT MAY SUBJECT THE LEASE TO CANCELLATION. SUBLEASING ON TERMS LESS ADVANTAGEOUS TO THE SUBLESSEE THAN THE TERMS GIVEN BY THE STATE SHALL RESULT IN CANCELLATION.
(a) SUBLEASING FOR MORE THAN TWO YEARS WILL RESULT IN LOSS OF THE PREFERENCE RIGHT.
(b) SUBLEASING FOR MORE THAN THREE YEARS WILL RESULT IN THE LEASE BEING CANCELED. (The department's rules and applicable statutes concerning subleasing and pasturing agreements should be consulted.)
- REPORTS--Lessee is required to submit reports as requested by the Director, including seeding and production reports. Failure to submit such reports may result in cancellation of the lease.
- CULTIVATION--In the case of lands leased for agricultural purposes, the lessee hereby agrees to seed and cultivate such land in a husbandman-like manner and to strip farm if the land is subject to soil blowing. The lessee further agrees to keep the land clear of weeds and care for it in accordance with approved farm methods as determined by the state. The state shall have the right to impose reasonable restrictions on all state leases as are necessary to adequately protect the land, water, air or improvements in the area. Grain crops are to be delivered free of charge to the nearest elevator to the credit of the state of Montana on or before the fifteenth of November of each year. Other crops, including hay, are to be disposed of at the going market price unless otherwise directed. If a lessee decides to graze the stubble of harvested crops or hayland or grazes unharvested crops for haylands, he must contact the Department regarding payment for such grazing in classified agricultural lands. The Department shall determine the number of animal unit months of grazing available on the land and shall bill the lessee or licensee for the grazing use based on the minimum grazing rental established under Section 77-6-507, MCA or the competitive bid amount, whichever is greater. Failure or refusal to pay said rental or to notify the

department of such grazing may be cause for cancellation of the lease.

7. **FEDERAL FARM PROGRAM COMPLIANCE**--If a lessee or licensee has his lease or license canceled or terminated or for any reason is no longer the lessee or licensee, then he shall no longer be entitled to any payment or benefits from any federal farm program. If such a lessee or licensee does receive any such federal payment or benefit in connection with the state lease or license he shall be liable to the state for any amounts received after he is no longer recognized as the lessee or licensee. The lessee or licensee of any state land shall comply with the provisions of the federal farm program when applicable and shall indemnify the state against any loss occasioned by noncompliance with such provisions. In addition to any rentals provided in the lease or license, the state shall receive the same share as it receives for crops of all payments pursuant to any act or acts of the congress of the United States in connection with state lands under lease or license and the crops thereof. The state shall be entitled to such amounts annually for all leases based upon a cropshare, even if the lease states that the rental is based upon a crop share/cash basis, whichever is greater. All such leases shall be considered crop share leases for the purpose of receiving the state's share of the federal farm payments.
8. **IMPROVEMENTS**--The lessee may place a reasonable amount of improvements upon the lands under this lease upon approval of an improvement permit by the Department. A report of proposed improvements, containing such information as the Director may request concerning the cost of the improvements, their suitability for the uses ordinarily made of the land, and their character whether fixed or movable, shall be submitted to the Director before installation thereof on the premises. Failure to obtain approval prior to placement of the improvement may result in such improvements not being recognized by the Department for purposes of reimbursement of such improvements. In addition, placing improvements on state lands without receiving prior approval, may result in cancellation of the lease.
9. **LIENS ON BUILDINGS AND CROPS**--The state shall have a lien upon all buildings, structures, fences and all other improvements, whether movable or not, and also upon all crops growing upon the land for any rentals due the Department.
10. **COMPENSATION FOR IMPROVEMENTS**--(a) If the land under this lease is sold or exchanged to a party other than the present lessee, or is leased to another party while the present lessee owns improvements lawfully remaining thereon, on which the state has no lien for rentals or penalties, as herein provided, and which he desires to sell and dispose of, such purchaser or new lessee shall pay the former lessee the reasonable value of such improvements. If any of the improvements consist of approved breaking (meaning the original plowing of the land) and one year's crop has been raised on the land after the breaking thereof, the compensation for such breaking shall not exceed the sum of two dollars and fifty cents (\$2.50) per acre, and that in case two or more crops have been raised on the land after the breaking thereof, the breaking shall not be considered as an improvement to the land. In case the former lessee and the new lessee or purchaser are unable to agree on the reasonable value of such improvements, such value shall be ascertained and fixed by three arbitrators, one of whom shall be appointed by the owner of the improvements, one by the new lessee or purchaser and the third by the two arbitrators so appointed. The former lessee must initiate arbitration within 60 days of notification from the Department that there is a new lessee or purchaser. Failure to initiate this process within this time period results in all improvements becoming property of the state. The reasonable compensation that such arbitrators may charge for their services shall be paid in equal shares by the owner of the improvements and the purchaser or new lessee. The value of such improvements as ascertained and fixed shall be binding upon both parties; provided, however, that if either party is dissatisfied with the valuation so fixed he may within ten (10) days appeal from their decision to the Director who shall thereupon cause his agent to examine such improvements and whose decision shall be final. The Director shall charge and collect the actual cost of such reexamination to the owner and new lessee or purchaser in such proportion as in his judgment may be demanded.
(b) Upon the termination of a lease, the Department may grant a license to the former lessee to remove the movable improvements from the land. Upon authorization, the movable improvements must be removed within 60 days or they become the property of the state unless the department for good cause grants additional time for the removal. The department shall charge the former lessee for the period of time that the improvements remain on the land after the termination of the lease.
(c) Summer fallowing (necessary cultivation done after the last crop grown) seeding, and growing crops on the land, which have not been harvested prior to March 1 next succeeding the date of sale or at the time of change of lessee, shall be considered as improvements. Their value shall be determined in the same manner as other improvements and shall be taken over by the purchaser or new lessee and paid for by him as other improvements.
11. **ASSIGNMENT OF LEASE**--If all rentals due have been paid and the terms of this lease have not been violated, the lease may be assigned on the forms provided for that purpose by the Director, but no such assignment shall be binding on the state unless the assignment is filed with the Director, approved by him, and the appropriate assignment fees submitted for such assignment. An assignment which is signed by both parties shall be conclusive proof that all payments for improvements have been paid to the assignor by the assignee. The leasehold interest herein may only be transferred to any other party by a properly executed assignment which must be approved by the Director prior to such transfer becoming effective. Until an assignment becomes effective, the Department will consider the lessee listed above to be the lessee for all purposes. There may be no consideration given for the assignment of a lease other than the value of the improvements, if any.
12. **RENEWAL LEASE**--If all rentals due under this lease have been paid, the lessee shall upon making proper application to the Director be entitled to have this lease renewed at any time within thirty (30) days prior to its expiration for an additional period of not exceeding ten years; and if there is no other applicant then offering to lease the land, the lease shall be issued at the minimum rental as determined under statutes then in effect. If there are two or more persons desiring to lease the same tract, the former lessee shall have the preference right to the lease to the extent that he may take the lease at the highest bid made by any other applicant. However, subleasing may cause loss of this renewal right. The department's rules concerning subleasing should be consulted. The lessee desiring to renew the lease must make application to the Department prior to January 28 of the year of expiration. Failure to do so will result in the lease becoming an unleased tract upon expiration, with the loss of the preference right and subject to competitive bidding.
13. **CANCELLATION OF LEASE BY THE STATE**--The Director shall have the power and authority in his discretion to cancel a lease for any of the following causes: For fraud or misrepresentation, or for concealment of facts relating to its issue, which if known would have prevented its issue in the form or to the party issued; for using the land for other purposes than those authorized by the lease, for overgrazing or any other misuse of the state lands involved, and for any other cause which in the judgement of the Director makes the cancellation of the lease necessary in order to do justice to all parties concerned, and to protect the interest of the state. Such cancellation shall not entitle the lessee to any refund of rentals paid or exemption from the payment of any rents, penalties or other compensation due the state. Lease cancellation for these causes is subject to appeal as provided in Section 77-6-211, MCA.
14. **LANDS MAY BE SOLD**--The Board of Land Commissioners may in their discretion exchange the lands under this lease for other lands, offer the lands under this lease for sale at any regular public sale of state lands held in the county where the land is situated upon the same terms and in the same manner as land not under lease, subject, however, to the rights of the lessee to compensation for improvements as herein provided; and subject also to the provision that the new owner will not be given possession by the state prior to March 1 next succeeding the date of exchange or sale unless the lease expires prior to that date, except through special agreement with the lessee.
15. **RESERVATION**--The state reserves all rights and interests to the land under this lease other than those specifically granted by this lease. These reservations include but are not limited to the following:
(a) **MINERAL AND TIMBER RESERVATION**--All coal, oil, gas and other minerals and all deposits of stone, gravel, sand, gems, and other nonminerals valuable for building, mining or other commercial purposes and all timber and trees are excepted from the operation of this lease. The lessee shall not open any mine or quarry or work or dig any of the minerals or nonminerals mentioned above from any mine or any quarry, pit or diggings situated on said land whether such mine, quarry, pit or diggings was open at the date of this lease or not. The lessee shall not cut, sell, remove, use or destroy any such timber dead or alive, or standing or fallen trees without the appropriate permit, license or lease.
(b) **ADDITIONAL RESERVATIONS**--The state reserves a right-of-way to the United States over the land above-described for ditches, canals, tunnels, telephone and telegraph, and power lines now constructed or to be constructed by the United States Government in furtherance of the reclamation of arid lands. The state also reserves the right of granting rights-of-way on the above-described land for other purposes. The state also reserves to itself and its representatives and other lessees or permittees the right to enter upon the lands embraced by this lease for the purpose of prospecting and exploring for minerals and for the purpose of mining, drilling for, developing and removing such minerals and for carrying on all operations related thereto and for any other management or administrative purposes; it also reserves to itself and its permittees the right to enter upon the said lands for the purpose of cutting and removing timber, wood and other forest products, and for removing gravel, sand, building stone, and other nonminerals. The state reserves the right to grant licenses, permits or leases for any alternative uses on state lands.
16. **NOXIOUS WEEDS AND PESTS**--The lessee agrees, at his own expense and cost, to keep the land free from noxious weeds, and if noxious weeds are present, then chemical application or other appropriate weed control measures must occur in time to prevent seed-set according to state law and to exterminate pests to the extent as required by the Department. In the event the land described in this lease shall be included in a weed control and weed seed extermination district, the lessee shall be required to comply with the provisions of Section 77-6-114, MCA, which provides as follows. "It shall be the duty of the Board in leasing any agricultural state land to provide in such lease, that the lessee of lands so leased lying within the boundaries of any noxious weed control and weed seed extermination district shall assume and pay all assessments and taxes levied by the board of County Commissioners for such district on such state lands, and such assessments and tax levy shall be imposed on such lessee as a personal property tax and shall be collected by the County Treasurer in the same manner as regular personal property taxes are collected." Failure to comply with this

provision when directed to do so by the Department may result in cancellation of the entire lease.

17. FIRE PREVENTION AND SUPPRESSION—The lessee assumes all responsibility for carrying on at his own cost and expense all fire prevention and suppression work necessary or required to protect the forage, trees, buildings and structures on the land. The lessee is not responsible for the suppression of or damages resulting from a fire caused by a general recreational user, except that he or she shall make reasonable efforts to suppress the fire or report it to the proper firefighting authority or both, as circumstances dictate.
18. UNLAWFUL USE OF LANDS OR PREMISES—If any part of the lands or premises under this lease are used or allowed or permitted to be used for any purpose contrary to the laws of this state or the United States, such unlawful use shall in the discretion of the Board of Land Commissioners constitute sufficient reason for the cancellation of the lease. The lessee shall not utilize or allow to be utilized any state land under the lease for purposes other than the purpose for which it is granted.
19. SURRENDER OF THE PREMISES UPON TERMINATION OF THE LEASE—The lessee shall upon the expiration, cancellation, or termination of this lease peaceably yield up and surrender the possession of the land to the state of Montana or its agents or to subsequent lessees or grantees.
20. INCREASED RENTAL—If the Montana Legislature or the Board of Land Commissioners raises the rentals on state grazing or agriculture lands during the term of this lease, the lessee agrees to pay such increased rental for the years after such increase becomes effective. Also, the state reserves the right to determine the grazing capacity of said lands annually or from time to time as the Director in his discretion shall determine necessary and increase or decrease the rental thereon accordingly. In the event the Director should increase or decrease the carrying capacity of said lands, the lessee agrees to pay an increased or decreased rental based upon the Director's determination, and to adjust livestock numbers accordingly.
21. INDEMNIFICATION—The lessee agrees to save harmless and indemnify the State of Montana for any losses to the state occasioned by the levy of any penalties, fines, charges or assessments made against the above lands or crops grown upon the lands, by the U.S. Government because of any violation of or noncompliance with, any federal farm program or other acts by the lessee.
22. LAWS AND RULES—The lessee agrees to comply with all applicable laws and rules in effect at the date of this lease, or which may, from time to time, be adopted.
23. MULTIPLE-USE MANAGEMENT—Pursuant to the obligations imposed by law, to administer state lands under a multiple-use management concept, the state reserves the right to dispose of any and all interests in the above-described land, subject, however to such interests granted to the lessee under the terms of this lease. The lessee may not close the land under lease at any time to the public for general recreational use," as defined in A.R.M. 36.25.145, without advanced written permission of the Department. Permission to close lands categorically closed under A.R.M. 36.25.150 is hereby granted and no further permission is required.
24. LEASE WITHDRAWAL—All or any portion of the land under lease may be withdrawn from this lease by the state. The lessee shall be entitled to reasonable compensation for any improvements thereon. The lands may be withdrawn to promote the duties and responsibilities of the Board of Land Commissioners.
25. SPECIAL CONDITIONS--

IN WITNESS WHEREOF, The State of Montana and the lessee have caused this lease to be executed in duplicate and the Director of the Department of Natural Resources and Conservation, pursuant to the authority granted him by the State Board of Land Commissioners of the State of Montana, has hereunto

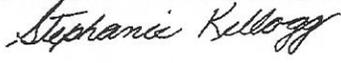
set his hand and affixed the seal of the said Board of Land Commissioners this 8 day of April, 2008



LESSEE SIGNATURE

MARY SEXTON

DIRECTOR, DEPARTMENT OF NATURAL RESOURCES & CONSERVATION



by:

P.O. Box 638
ADDRESS OR BOX NO.

Shelton,
CITY

MT
STATE

59749
ZIP CODE

FOR DNRC USE ONLY

Maximum amount under this agreement: \$4,470

Source of Funds
Land Banking Private Closing Costs

Fund Name Fund No.
Land Banking Private Closing Costs 02031

Subclass Org. No. Percent
555HA 6043-59 100%

Approved

No. 147030
Amendment No. _____
Division JLor.
F.S.O. JLor.
Legal JLor.



DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
TRUST LAND MANAGEMENT DIVISION

APPRAISAL OF POTENTIAL LAND BANKING SALE PARCELS IN
STILLWATER & YELLOWSTONE COUNTIES

1. PARTIES

THIS CONTRACT is entered into by and between the State of Montana, Department of Natural Resources and Conservation (DNRC), (hereinafter referred to as "the State"), whose address and phone number are P.O. Box 201601, Helena, MT 59620-1601, (406) 444-4165 and Kevin Pearce, New Frontier Ranches, (hereinafter referred to as the "Contractor"), whose address and phone number are 111 N. Main Street, P.O. Box 469, Twin Bridges, Montana, 59754 and (406) 684-5850, and kevin@newfrontierranches.com.

THE PARTIES AGREE AS FOLLOWS:

2. EFFECTIVE DATE, DURATION, AND RENEWAL

2.1 Contract Term. This contract shall take effect upon contract execution and terminate on March 31, 2013, unless terminated earlier in accordance with the terms of this contract. (Section 18-4-313, MCA) **The appraisal report is to be completed and forwarded to Montana DNRC, Emily Cooper, at P.O. Box 201601, Helena, MT 59620-1601 by January 15, 2013.**

FEBRUARY 15, 2014 and JLB.

2.2 Contract Renewal. This contract may, upon mutual agreement between the parties and according to the terms of the existing contract, be renewed in any interval that is advantageous to the State. This contract, including any renewals, may not exceed a total of one year.

3. SERVICES AND/OR SUPPLIES

Contractor agrees to provide to the State the following: The Contractor shall be responsible for providing a credible appraisal, in a summary report format, conducted and prepared in compliance with the current Uniform Standards of Professional Appraisal Practice, for the parcels in Stillwater & Yellowstone Counties, as described in Attachment B, Montana DNRC Trust Land Management Division Supplemental Appraisal Instructions.

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

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

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

4. CONSIDERATION/PAYMENT

4.1 Payment Schedule. In consideration for the services to be provided, the State shall pay an amount not to exceed Four Thousand Four Hundred Seventy and No/100 Dollars (\$4,470). The Contractor shall submit an invoice with the submission of the appraisal report to the DNRC for payment for services rendered. Payment will be made within thirty (30) days of delivery of services/goods and receipt of a properly executed invoice, as long as the DNRC's review of said services/goods finds them acceptable. If the work submitted fails to meet Contract specifications set out herein, payment will be withheld for the unsatisfactory work. The Contractor shall, at no additional expense to the State, correct unsatisfactory work before payment is made. If agreed upon work is not brought to acceptable standards, the Contract Agreement will be terminated for unsatisfactory performance and no payment will be made.

4.2 Withholding of Payment. The State may withhold payments to the Contractor if the Contractor has not performed in accordance with this contract. Such withholding cannot be greater than the additional costs to the State caused by the lack of performance.

5. ACCESS AND RETENTION OF RECORDS

5.1 Access to Records. The Contractor agrees to provide the State, Legislative Auditor or their authorized agents access to any records necessary to determine contract compliance. (Section 18-1-118, MCA)

5.2 Retention Period. The Contractor agrees to create and retain records supporting the a summary appraisal report provided for a period of three years after either the completion date of this contract or the conclusion of any claim, litigation, or exception relating to this contract taken by the State of Montana or a third party.

6. ASSIGNMENT, TRANSFER, AND SUBCONTRACTING

The Contractor shall not assign, transfer, or subcontract any portion of this contract without the express written consent of the State. (Section 18-4-141, MCA) The Contractor shall be responsible to the State for the acts and omissions of all subcontractors or agents and of persons directly or indirectly employed by such subcontractors, and for the acts and omissions of persons employed directly by the Contractor. No contractual relationships exist between any subcontractor and the State.

7. HOLD HARMLESS/INDEMNIFICATION

The Contractor agrees to protect, defend, and save the State, its elected and appointed officials, agents, and employees, while acting within the scope of their duties as such, harmless from and against all claims, demands, causes of action of any kind or character, including the cost of defense thereof, arising in favor of the Contractor's employees or third parties on account of bodily or personal injuries, death, or damage to property arising out of services performed or omissions of services or in any way resulting from the acts or omissions of the Contractor and/or its agents, employees, representatives, assigns, subcontractors, except the sole negligence of the State, under this agreement.

8. REQUIRED INSURANCE

8.1 Primary Insurance. The Contractor's insurance coverage shall be primary insurance with respect to the State, its officers, officials, employees, and volunteers and shall apply separately to each project or location. Any insurance or self-insurance maintained by the State, its officers, officials, employees or volunteers shall be excess of the Contractor's insurance and shall not contribute with it.

8.2 Specific Requirements for Professional Liability. The Contractor shall purchase and maintain occurrence coverage with combined single limits for each wrongful act of \$300,000 per occurrence and \$600,000 aggregate per year to cover such claims as may be caused by any act, omission, negligence of the Contractor or its officers, agents, representatives, assigns, or subcontractors. Note: if "occurrence" coverage is unavailable or cost prohibitive, the Contractor may provide "claims made" coverage provided the following conditions are met: (1) the commencement date of the contract must not fall outside the effective date of insurance coverage and it will be the retroactive date for insurance coverage in future years; and (2) the claims made policy must have a three-year tail for claims that are made (filed) after the cancellation or expiration date of the policy.

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

8.4 Certificate of Insurance/Endorsements. A certificate of insurance from an insurer with a Best's rating of no less than A- indicating compliance with the required coverage's, has been received by the Department of Natural Resources and Conservation PO Box 201601, Helena, MT 59620-1601. The Contractor must notify the State immediately, of any material change in insurance coverage, such as changes in limits, coverage's, change in status of policy, etc. The State reserves the right to require complete copies of insurance policies at all times.

9. COMPLIANCE WITH WORKERS' COMPENSATION ACT

Contractors are required to comply with the provisions of the Montana Workers' Compensation Act while performing work for the State of Montana in accordance with sections 39-71-401, 39-71-405, and 39-71-417, MCA. Proof of compliance must be in the form of workers' compensation insurance, an independent contractor's exemption, or documentation of corporate officer status. Neither the contractor nor its employees are employees of the State. This insurance/exemption must be valid for the entire term of the contract. A renewal document must be sent to the State Procurement Bureau, P.O. Box 200135, Helena, MT 59620-0135, upon expiration.

10. COMPLIANCE WITH LAWS

The Contractor must, in performance of work under this contract, fully comply with all applicable federal, state, or local laws, rules, and regulations, including the Montana Human Rights Act, the Civil Rights Act of 1964, the Age Discrimination Act of 1975, the Americans with Disabilities Act of 1990, and Section 504 of the Rehabilitation Act of 1973. Any subletting or subcontracting by the Contractor subjects subcontractors to the same provision. In accordance with section 49-3-207, MCA, the Contractor agrees that the hiring of persons to perform the contract will be made on the basis of merit and qualifications and there will be no discrimination based upon race, color, religion, creed, political ideas, sex, age, marital status, physical or mental disability, or national origin by the persons performing the contract.

11. CONTRACT TERMINATION

11.1 Termination for Cause. The State may, by written notice to the Contractor, terminate this contract in whole or in part at any time the Contractor fails to perform this contract.

11.2 Reduction of Funding. The State must terminate this contract if funds are not appropriated or otherwise made available to support the State's continuation of performance of this contract in a subsequent fiscal period. (See section 18-4-313(4), MCA.)

12. LIAISON AND SERVICE OF NOTICES

All project management and coordination on behalf of the State shall be through a single point of contact designated as the State's liaison. Contractor shall designate a liaison that will provide the single point of contact for management and coordination of Contractor's work. All work performed pursuant to this contract shall be coordinated between the State's liaison and the Contractor's liaison.

Emily Cooper will be the liaison for the State.

(Address): PO Box 201601
(City, State, ZIP): Helena, MT 59620-1601
Telephone: (406)444-4165
Cell Phone:
Fax: (406)444-2684
E-mail: ecooper@mt.gov

Kevin Pearce will be the liaison for the Contractor.

(Address): 111 N. Main Street, P.O. Box 469

(City, State, ZIP): Twin Bridges, MT 59754
Telephone: (406) 684-5850
Cell Phone:
Fax: (406) 684-5870
E-mail: kevin@newfrontierranches.com

The State's liaison and Contractor's liaison may be changed by written notice to the other party. Written notices, requests, or complaints will first be directed to the liaison.

13. MEETINGS

The Contractor is required to meet with the State's personnel, or designated representatives, to resolve technical or contractual problems that may occur during the term of the contract or to discuss the progress made by Contractor and the State in the performance of their respective obligations, at no additional cost to the State. Meetings will occur as problems arise and will be coordinated by the State. The Contractor will be given a minimum of three full working days notice of meeting date, time, and location. Face-to-face meetings are desired. However, at the Contractor's option and expense, a conference call meeting may be substituted. Consistent failure to participate in problem resolution meetings two consecutive missed or rescheduled meetings, or to make a good faith effort to resolve problems, may result in termination of the contract.

14. CONTRACTOR PERFORMANCE ASSESSMENTS

The State may do assessments of the Contractor's performance. This contract may be terminated for one or more poor performance assessments. Contractors will have the opportunity to respond to poor performance assessments. The State will make any final decision to terminate this contract based on the assessment and any related information, the Contractor's response and the severity of any negative performance assessment. The Contractor will be notified with a justification of contract termination. Performance assessments may be considered in future solicitations.

15. TRANSITION ASSISTANCE

If this contract is not renewed at the end of this term, or is terminated prior to the completion of a project, or if the work on a project is terminated, for any reason, the Contractor must provide for a reasonable period of time after the expiration or termination of this project or contract, all reasonable transition assistance requested by the State, to allow for the expired or terminated portion of the services to continue without interruption or adverse effect, and to facilitate the orderly transfer of such services to the State or its designees. Such transition assistance will be deemed by the parties to be governed by the terms and conditions of this contract, except for those terms or conditions that do not reasonably apply to such transition assistance. The State shall pay the Contractor for any resources utilized in performing such transition assistance at the most current rates provided by the contract. If there are no established contract rates, then the rate shall be mutually agreed upon. If the State terminates a project or this contract for cause, then the State will be entitled to offset the cost of paying the Contractor for the additional resources the Contractor utilized in providing transition assistance with any damages the State may have otherwise accrued as a result of said termination.

16. CHOICE OF LAW AND VENUE

This contract is governed by the laws of Montana. The parties agree that any litigation concerning this bid, proposal or subsequent contract must be brought in the First Judicial District in and for the

County of Lewis and Clark, State of Montana and each party shall pay its own costs and attorney fees. (See section 18-1-401, MCA.)

17. SCOPE, AMENDMENT, AND INTERPRETATION

17.1 Contract. This contract consists of 6 numbered pages, Attachment A, Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program, pages 7 & 8; Attachment B, Montana DNRC Trust Land Management Division Supplemental Appraisal Instructions, page 9 through 12. In the case of dispute or ambiguity about the minimum levels of performance by the Contractor the order of precedence of document interpretation is in the same order.

17.2 Entire Agreement. These documents contain the entire agreement of the parties. Any enlargement, alteration or modification requires a written amendment signed by both parties.

18. PUBLIC INFORMATION AND OWNERSHIP OF PRODUCTS

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

19. EXECUTION

The parties through their authorized agents have executed this contract on the dates set out below.

John Grimm, Chief Real Estate Mgt Bureau
Department of Natural Resources & Conservation
PO Box 201601
Helena, MT, 59620-1601

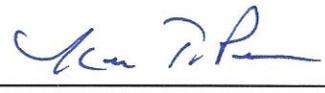
Kevin Pearce
New Frontier Ranches
111 N. Main Street, P.O. Box 469
Twin Bridges, MT 59754
FEDERAL ID # 2055 764 89

BY: John Grimm, Chief Real Estate Mgt Bureau
(Name/Title)

BY: Kevin T. Pearce, Pres.
(Name/Title)



(Signature)



(Signature)

DATE: 12/30/2013

DATE: 12/26/13

ATTACHMENT A

Scope of Work for Appraisal 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 properties and is intended for use in the decision making process concerning the potential sale of said subject properties.

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 properties at a level that will allow the appraiser to render a credible opinion of value about the properties. 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.

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

ATTACHMENT B
MONTANA DNRC TRUST LAND MANAGEMENT DIVISION
Supplemental Appraisal Instructions

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

Subject Properties (Located in Stillwater County):

Sale #	Acres ±	Legal
706	640	ALL, Section 16, T2S-R22E
707	640	ALL, Section 36, T1S-R21E
708	640	ALL, Section 16, T2S-R21E

Subject Property (Located in Yellowstone County):

Sale #	Acres ±	Legal
705	640	ALL, Section 16, T1N-R28E

The assignment will require one appraisal report, with separate market value analysis for each subject parcel listed above.

Area Office Contact Information:

Jeff Bollman – Southern Land Office Planner
 1371 Rintop Drive
 Billings, MT 59105
 Phone: 406/247-4404
 Fax: 406/247-4410

Lessees:

Parcel	Lease #	Lessee	Phone#
706	7912	Energy Equity Company	(406) 672-1313
707	7236	Energy Equity Company	(406) 672-1313
708	3614	Energy Equity Company	(406) 672-1313
705	7936	Patterson Report Services Inc.	(406) 348-2196

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

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

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

The DNRC will provide access to the 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, acres, costs, etc.), and any known property issues. 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.

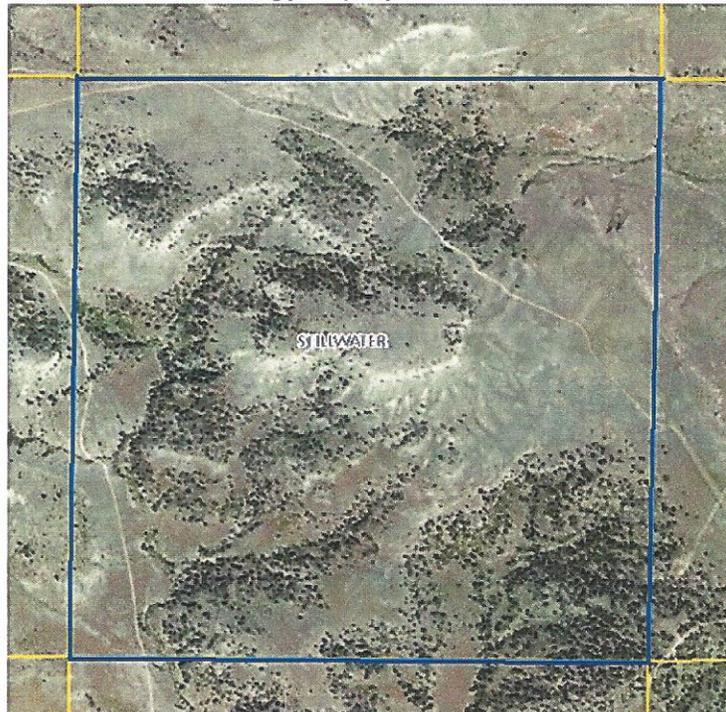
Stillwater County Sale Location Map



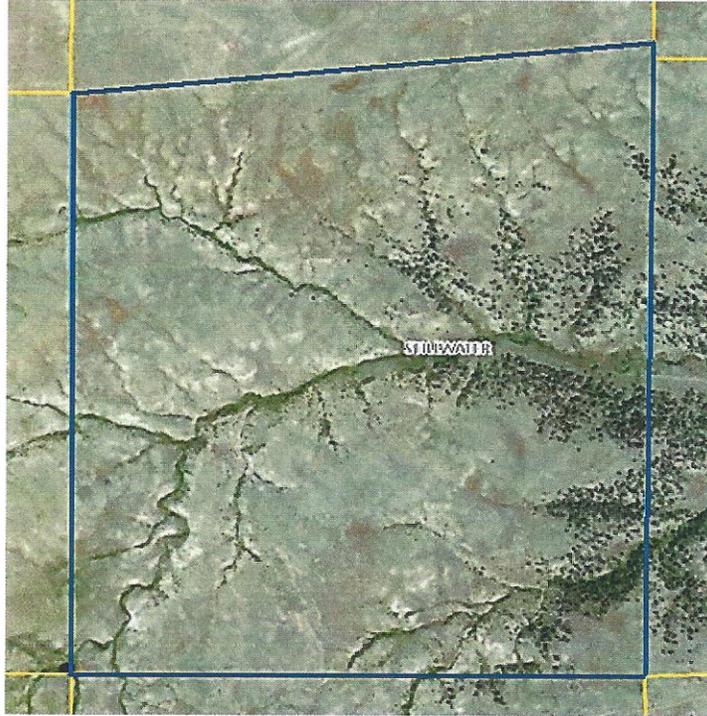
Land Banking Sales Parcel Maps

Sale #706

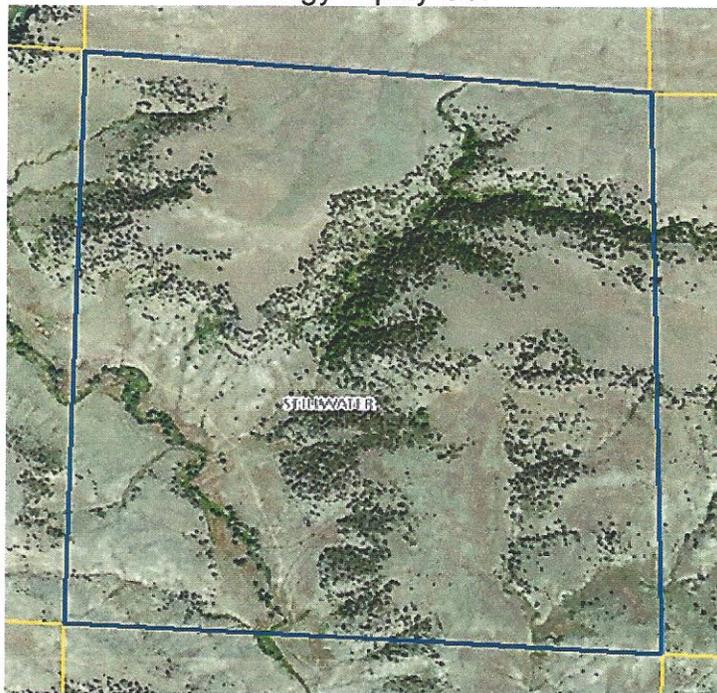
ALL, Section 16, T2S-R22E, Stillwater County
Energy Equity Co.



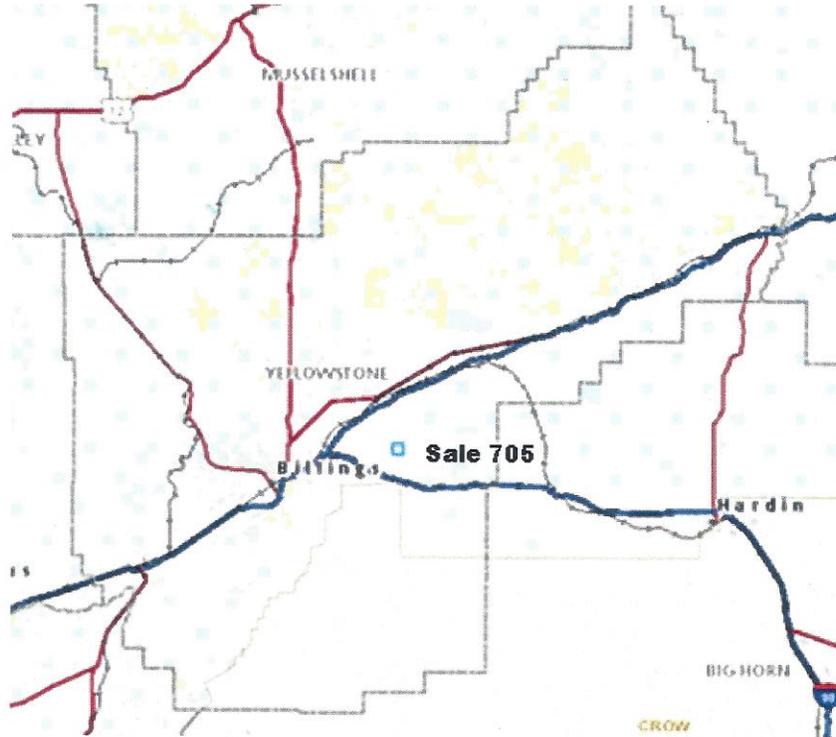
Sale #707
ALL, Section 36, T1S-R21E, Stillwater County
Energy Equity Co.



Sale #708
ALL, Section 16, T2S-R21E, Stillwater County
Energy Equity Co.

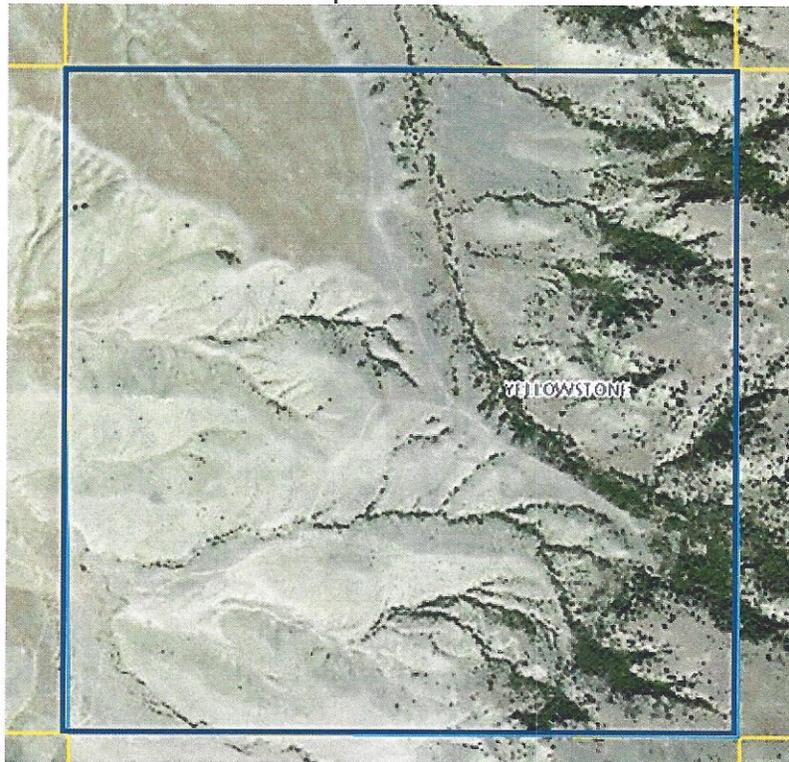


Yellowstone County Sale Location Map



Sale #705

ALL, Section 16, T1N-R28E, Yellowstone County
Patterson Report Services Inc.



Tracey S. Pearce

Appraiser Trainee #926

New Frontier Ranches, Inc.

111 N Main Street ~ Twin Bridges, MT (406) 684-5850 ~ tracey@newfrontierranches.com

Profile

Substantial real estate background with more than ten years experience in various positions in the real estate profession. Experienced in negotiating and handling multiple real estate transactions and completing in-depth research of properties across Montana and Wyoming.

Education

B. A. in Communication Studies & Public Relations - Carroll College, Helena, MT *May 2003*

Professional Appraisal Course Education

- Advanced Approaches to Value (A300) ASFMRA *August 2010*
- Intermediate Approaches to Value (A200) - ASFMRA *March 2010*
- Highest & Best Use (A290) - ASFMRA *June, 2009*
- Introduction to the Approaches to Value for Rural Appraisal (A110) - ASFMRA *March 2009*
- National Uniform Standards of Professional Appraisal Practice (USPAP) - Appraisal Institute, Denver, CO *May 2008*
- Basic Appraisal Procedures - Appraisal Institute, Denver, CO *April 2008*
- Basic Appraisal Principles - Appraisal Institute, Denver, CO *April 2008*

Experience

New Frontier Ranches, Inc. - Twin Bridges, MT *October 2006 - current*
Co-Owner and Vice President

- Currently run the diversified company operations and actively engaged in appraisals, sales, and management with emphasis in ranch, recreational, rural residential, and vacant land properties
- Strong background in real property research and GIS mapping
- MT Real Estate Appraiser Trainee #926 since May 2008
- MT Real Estate Agent #15918

Headwaters Realty - Twin Bridges & Sheridan, MT *May 1998- August 2006*
Marketing & Advertising Director and Financial Manager

- Designed and implemented company marketing procedures and advertising campaigns for a variety of real estate properties including ranches, residential, commercial, and vacant land
- Oversaw agent/company transactions and office policies for three different offices and nine agents
- Developed annual company budgets and oversaw financial goals and progress
- Managed company trust accounts



NEW FRONTIER

■ R A N C H E S ■

State of Montana
Business Standards Division
Board of Real Estate Appraisers

This certificate verifies licensure as:
APPRAISER TRAINEE

Supervised By **KEVIN PEARCE**

License #: REA-RET-LIC-926
Status: Active
Expiration Date: 3/31/2014

**TRACEY S PEARCE
NEW FRONTIER RANCHES
111 N MAIN
PO BOX 469
TWIN BRIDGES, MT 59754**

 **STATE OF MONTANA
BUSINESS STANDARDS DIVISION
BOARD OF REAL ESTATE APPRAISERS**
RENEW OR VERIFY YOUR LICENSE AT
<https://ebiz.mt.gov/pol/>

To use license as a Wall License, cut off excess paper and affix the above to wall for display.

Remember to renew online if possible. Benefits of renewing online include:

- The ability to change an address (for most professions)
- The ability to print license(s) the same day as the renewal
- The ability to print additional licenses for no additional charge up to 45 days following the end of the renewal cycle

To verify licenses or renew online: <https://ebiz.mt.gov/pol>

APPRAISER QUALIFICATIONS

Kevin T. Pearce, ARA

Accredited Rural Appraiser, #1081
Montana Certified General Appraiser, #63
Wyoming Certified General Appraiser, #436

Education

Montana State University, B.S. Degree in Agricultural Business, June 1984. Graduated with Honors and recipient of Joe Somers Memorial Scholarship. Inducted into Alpha Zeta Fraternity (Agricultural Honorary).

Experience

Real Estate Appraiser:

Actively engaged in the appraisal profession since July 1985. Currently (2006 -) President and Owner of New Frontier Ranches, Inc., a full-service real estate appraisal, brokerage, and consulting firm. Formerly associated with Norman C. Wheeler and Associates (1986 – 2006). Awarded the Accredited Rural Appraiser (ARA) designation by the American Society of Farm Managers and Rural Appraisers in November 1995. Montana Certified General Real Estate Appraiser, #63. Wyoming Certified General Real Estate Appraiser, #436.

Properties appraised include livestock ranches, irrigated and dryland farms, recreational properties, improved and suburban tracts, commercial buildings, and residential homes and homesites. Appraisal purposes and assignments include bankruptcy, conservation easements, land partitioning, land exchanges, loan servicing, estate and tax planning, marital and business dissolutions, and purchase and sale negotiations. Clients have included individual owners, corporations, attorneys, accountants, banks and lenders, and governmental agencies.

Court Appointed Referee and Expert Witness Testimony:

Appointed as a Montana District Court Referee in matters pertaining to land division and valuation suits. Investigated conflict and prepared written findings of fact and referee opinions and successfully negotiated settlement. Have testified in Montana and Wyoming at the District Court level as an Expert Witness in support of completed appraisals.

Ranch Manager:

Professional property manager for agricultural properties near Big Timber, Montana, 1985-1991, 1998-2001 and 2006-present. Responsible for general operation and supervision of ranch operations for absentee owners. Currently the owner and operator of a diverse family-held livestock ranch operation at Sheridan, Montana.

Real Estate Broker:

Licensed Montana real estate broker and salesman since April, 1984.

Professional Affiliations

Accredited Rural Appraiser (ARA): American Society of Farm Managers and Rural Appraisers, #1081

Certified General Real Estate Appraiser: Montana Certificate #63 & Wyoming Permit #436

Real Estate Broker: Montana License #2134

Past President: Montana Chapter of American Society of Farm Managers and Rural Appraisers, 1993-94; Vice President 1992-93; Director 1991-94. Served on Ethics, Membership & Appraisal Review Committees.

Member: Montana Cattlemen's Association, Inc., Montana Farm Bureau, & R-CALF USA



APPRAISER QUALIFICATIONS – Kevin T. Pearce, ARA

Professional Education

Accreditation by the American Society of Farm Managers and Rural Appraisers requires a minimum of 60 hours of continuing education every three years to maintain the ARA designation. Current until December, 2013.

General Appraisal State Certification requires a minimum of 31 hours of continuing education every two years to maintain the General Certification. Current in Montana until March, 2014. Current in Wyoming until February, 2015.

Have attended numerous brokerage and appraisal education courses that include:

Uniform Standards of Professional Appraisal Practice (USPAP)	2014
ASFMRA Ethics	2014
Appraising Natural Resources Seminar (ASFMRA)	2013
Wind Power Seminar (ASFMRA)	2013
Supervising Appraiser Trainees (HONDROS)	2012
MT Access and Easement Law (ASFMRA)	2012
Uniform Standards of Professional Appraisal Practice (USPAP)	2012
Sales Comparison Approach Seminar (ASFMRA)	2011
Montana Agriculture: Legal Issues	2010
Uniform Standards of Professional Appraisal Practice (USPAP)	2010
ASFMRA Ethics	2009
Wind Lease Seminar (ASFMRA)	2009
Cost Approach Review Seminar (ASFMRA)	2009
Valuation of Conservation Easements (ASFMRA, LTA, AI)	2008
Uniform Standards of Professional Appraisal Practice (USPAP)	2008
Subdivision Analysis Seminar	2008
Minerals Appraisal (ASFMRA)	2007
Timber Appraisal (ASFMRA)	2007
Discounting and Leases (ASFMRA)	2006
Uniform Standards of Professional Appraisal Practice (National)	2006
Appraising Agricultural Lands in Transition (ASFMRA)	2006
Uniform Standards of Professional Appraisal Practice (National)	2005
Scope of Work in Appraisals (NAIFA 5.3)	2004
Appraising Rural Residential Properties (ASFMRA)	2004
Uniform Standards of Professional Appraisal Practice (National)	2003
Highest and Best Use (ASFMRA A-29)	2002
Fractional Interest Seminar (ASFMRA)	2001
Conservation Easement Seminar (ASFMRA)	2001
Uniform Standards of Professional Appraisal Practice (USPAP)	2000
Appraising for Federal Land Exchanges (ASFMRA)	2000
Litigation Valuation - The Appraiser's Role as an Expert Witness (NAIFA 2.3)	1998
Montana Agricultural Lenders' Range School	1998
Uniform Standards of Professional Appraisal Practice (USPAP)	1997
Income Capitalization - Unleveraged (ASFMRA A-27)	1996
The New Uniform Residential Appraisal Report	1994
Understanding Limited Appraisals and Reporting Options	1994
Environmental Liabilities and Risk Management in Real Estate	1994
Eminent Domain Appraisal (ASFRMA A-25)	1993
Administrative Appraisal Review (ASFMRA A-31)	1992
Advanced Rural Appraisal (ASFMRA A-30)	1991
1031 Tax-deferred Exchanges	1991
Easement Valuation (AIREA)	1990



State of Montana
Business Standards Division
Board of Real Estate Appraisers

This certificate verifies licensure as:
CERTIFIED GENERAL APPRAISER

License #: REA-RAG-LIC-63
Status: Active
Expiration Date: 3/31/2014

Endorsement: Real Estate Appraiser
Mentor

KEVIN T PEARCE
NEW FRONTIER RANCHES
111 N MAIN
PO BOX 469
TWIN BRIDGES, MT 59754

RENEW OR VERIFY YOUR LICENSE AT
<https://ebiz.mt.gov/pol/>

Permit Number 436

STATE OF WYOMING

NON TRANSFERABLE

CERTIFIED REAL ESTATE APPRAISER PERMIT

KEVIN T. PEARCE
CERTIFIED GENERAL APPRAISER
AS PROVIDED FOR BY THE LAWS OF WYOMING.

Issued: 02/26/2013
Expires: 02/25/2015

NEW FRONTIER RANCHES
111 NORTH MAIN STREET
TWIN BRIDGES, MT 59754

AUTHORIZED BY THE WYOMING CERTIFIED
REAL ESTATE APPRAISER BOARD WITNESS MY
HAND AND THE OFFICIAL SEAL AT CHEYENNE,
WYOMING.



Nicole Novotny Smith Executive Director

AMERICAN SOCIETY of FARM MANAGERS and RURAL APPRAISERS,® INC.®

Kevin T. Pearce

Has met all of the requirements prescribed by the American Society of Farm Managers and Rural Appraisers for an Accredited Rural Appraiser and is therefore entitled to carry the title of

ACCREDITED RURAL APPRAISER® A.R.A.®

The above named has shown by examination and required evidence of experience that this individual is qualified and is therefore authorized to use the above title in practicing the profession of rural appraising.

IN WITNESS WHEREOF, we have subscribed our signatures and affixed the seal of the American Society.

John W. Wilford
PRESIDENT

John Frome
CHAIRMAN ACCREDITING COMMITTEE

John W. Ross
SECRETARY

November 3, 1995



1081
CERTIFICATE NUMBER

This is the highest rank and the only title conferred on Rural Appraisers by this organization. This certificate is the property of the American Society of Farm Managers and Rural Appraisers and is issued subject to the provisions of the Constitution and By-Laws. It must be surrendered immediately upon