APPRAISAL REPORT
IN FEE SIMPLE INTEREST OF
LOT 7, BLOCK 60, USS 435, ADL 107559,
TOWNSITE OF SKAGWAY, ALASKA

081607_1537

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EFFECTIVE DATE: August 16, 2007

REPORT DATE: October 31, 2007

OUR FILE NO.: 07-080

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CERTIFICATION OF APPRAISAL

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- 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 is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to the review by its duly authorized representatives.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.

William G. Ferguson

William G. Ferguson

October 31, 2007

Report Date

August 16, 2007

Inspection and Effective Date

SKAGWAY AREA LOCATION MAP

1 INTRODUCTION

1.1 PROPERTY IDENTIFICATION

The subject property is identified as Lot 7, Block 60, Skagway Townsite, USS 435, ADL 107559. The property is physically located at the northeast corner of Broadway and 9th Avenue.

1.2 PURPOSE OF APPRAISAL

The purpose of this summary appraisal is to determine the market value as of the date of inspection to establish a minimum price for a sealed bid auction. The intended users are the State of Alaska Department of Natural Resources and the general public.

1.3 PROPERTY RIGHTS APPRAISED

The subject property is appraised in fee simple interest less any mineral rights.

1.4 TERMINOLOGY

Market Value: The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress

The Appraisal of Real Estate, Twelfth Edition, Appraisal Institute, 2001, page 22

Implicit in this definition is consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised and each acting in what he considers his own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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

The Dictionary of Real Estate Appraisal, Third Edition, 1993, Appraisal Institute, page 171.

Fee Simple Interest
"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."
Dictionary of Real Estate Appraisal, Third Edition, Page 140.

1.5 INSPECTION AND EFFECTIVE DATE

William G. Ferguson made a personal inspection of the property that is the subject of this report on August 16, 2007, the inspection date. This is the effective date of the report.

1.6 THREE-YEAR PROPERTY HISTORY

The subject property has been owned by the State of Alaska for many years and has not been listed on the open market.

1.7 SCOPE OF APPRAISAL

The land will be valued, based on the Sales Comparison Approach. The Sales Comparison approach utilizes the analysis of other comparable land sales, listings or leases and compares them on an appropriate unit basis to the subject. In the recent Skagway market, there has been very few vacant land sales in the downtown area due to most land being developed and minimal vacant land available. It has been necessary for the appraiser to abstract land values from improved property sales. We identify comparable information through interviews with knowledgeable participants in the real estate market, such as existing land owners, lenders, brokers, State Recorder's Office, the City of Skagway and others who are familiar with the real estate market in Skagway. Where we found transfers of property or leased properties that might be comparable, we attempted to contact the buyer, seller or other parties knowledgeable of the sale to confirm the details of the transaction and physical characteristics of the site.

Our office maintains market data information on sales and transfers organized on a geographic location basis. Within each of these areas, the data is further segmented into commercial and residential properties. Within these divisions of separation are divisions for zoning and whether the properties are waterfront or upland parcels. Horan & Company, LLC maintains and continually updates this library of sale transactions throughout the Sitka and Southeast Alaska region and has done so for over 25 years.

1.8 ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report and valuation contained herein are expressly subject to the following assumptions and/or conditions:

1. It is assumed that the data, maps and descriptive data furnished by the client or his representative are accurate and correct. Photos, sketches, maps, and drawings in this appraisal report are for visualizing the property only and are not to be relied upon for any other use. They may not be to scale.

2. The valuation is based on information and data from sources believed reliable, correct and accurately reported. No responsibility is assumed for false data provided by others.

3. No responsibility is assumed for building permits, zone changes, engineering or any other services or duty connected with legally utilizing the subject property.

4. This appraisal was made on the premise that there are no encumbrances prohibiting utilization of the property under the appraisers' estimate of the highest and best use.

5. It is assumed that the title to the property is marketable. No investigation to this fact has been made by the appraiser.

6. No responsibility is assumed for matters of law or legal interpretation.

7. It is assumed no conditions exist that are not discoverable through normal diligent investigation which would affect the use and value of the property. No engineering report was made by or provided to the appraiser.

8. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

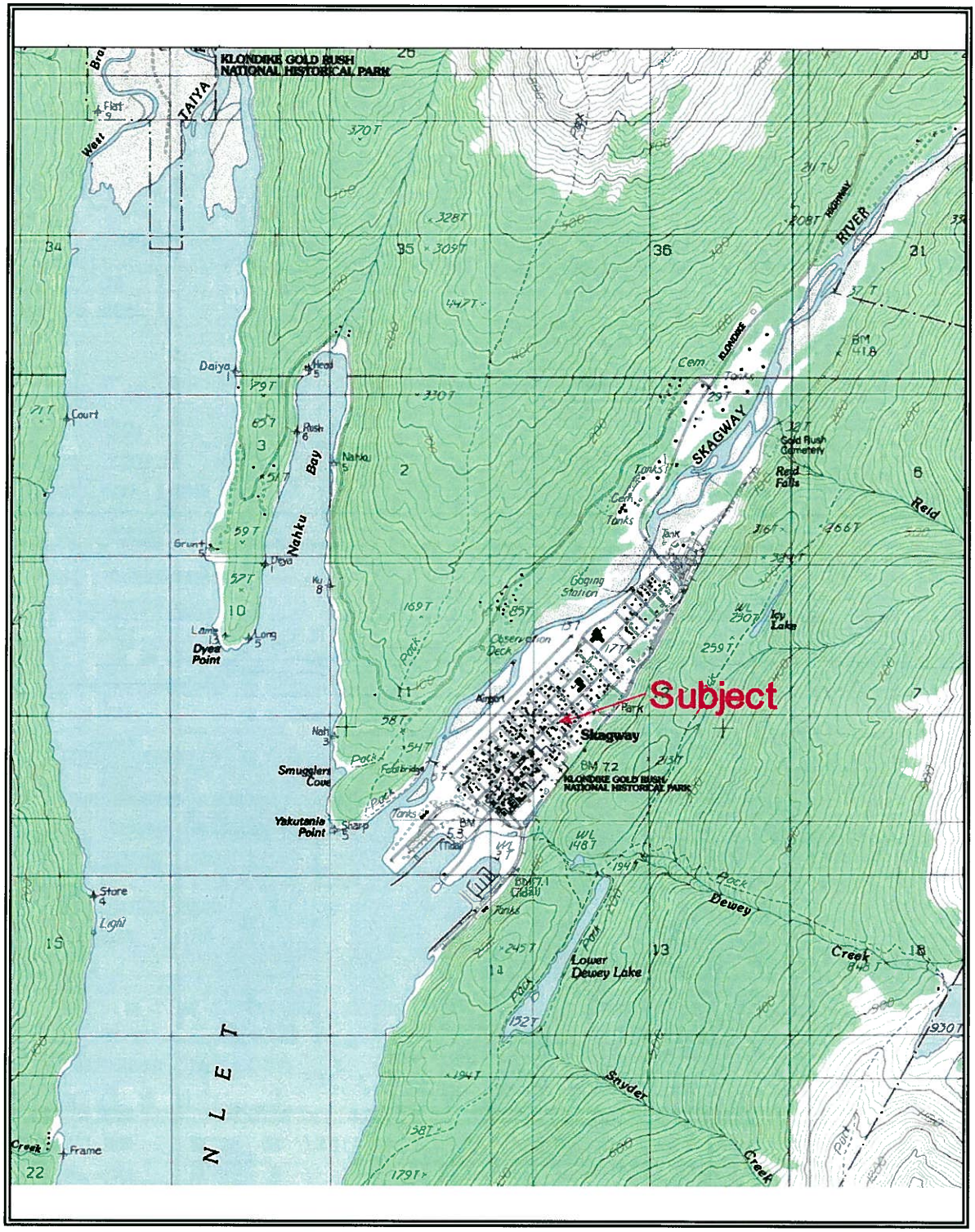
9. The value estimate is made subject to the purpose, date and definition of value.

10. The appraisal is to be considered in its entirety, the use of only a portion thereof will render the appraisal invalid.

11. The signer of this appraisal report is an associate member of the Appraisal Institute. The bylaws and regulations of the Institute require each member and candidate to control the use and distribution of each appraisal report signed by such member or candidate. Therefore, except as hereinafter provided, the party for whom this appraisal report was prepared may distribute copies of this appraisal report in its entirety to such third parties as selected by the party for whom this appraisal report was prepared; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media or other media for public communication without the prior written consent of signatories of this appraisal report.

12. The appraiser shall not be required to give testimony or appear in court by reason of this appraisal with reference to the property described herein unless prior arrangements have been made.

13. The market rent is estimated for the tract with no value for improvements to the land or improvements on the land which are owned or leased by the lessee.



SUBJECT SITE LOCATION MAP

07-080 / Lot 7, Block 60, USS 435

2 AREA ANALYSIS

2.1 SKAGWAY AREA ANALYSIS

Skagway is situated at the northern most point of the inside passage in Southeast Alaska. It is 90 air miles northwest of the state capital, Juneau. The town site is located on a level area at the mouth of the Skagway River and is surrounded by scenic, rugged mountains rising some 7,000' from sea level.

This small, historic community was first settled by Captain John Moore in the 1880s who saw the potential of the area as a port of entry into the Alaskan and Canadian interiors. Its sleepy, slow growth exploded with the discovery of gold in the Klondike and the subsequent stampede over the trail of 1898 which began in Skagway. Skagway soon became the first incorporated city in Alaska. It has been an important port of entry into the interior since the earliest days. The relics and convivial life style reminiscent of this era have been an interest to tourists throughout the years and culminated in the dedication of downtown Skagway as part of the Klondike Gold Rush National Historic Park in 1976 by President Gerald Ford.

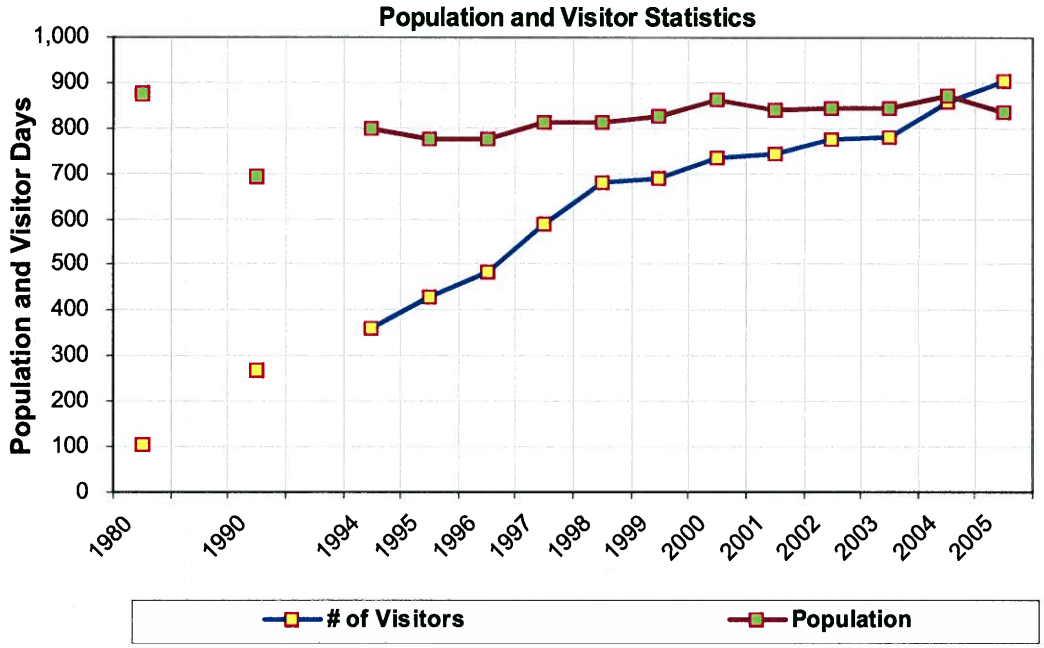
Skagway is an important transportation hub with highway access into the Yukon Territory and interior of Alaska tied into the deep water port accessing Lynn Canal and points south. Historically, it has been used for the shipping of mining products originating in the Yukon which traveled by rail prior to the completion of the highway. They shipped to points south.

Population and Tourism

Skagway has also proven to be an important player in the tourism market of Southeast Alaska. The National Park Service presence, reserved historic character, White Pass Railroad, and the historic location of the community all serve to draw a large number of tourists on an annual basis. History shows tourism has been increasing over the past 11 to 12 years with several substantial spurts of growth. Along with this increase and demand for property, rental spaces and sales prices have increased substantially through the years after 2000. The future tourism outlook is expected to be continued stability for growth.

Population census figures are summarized in the following chart. At the height of the gold rush, the boom town population was reportedly over 10,000. The population in modern times, however, has been fairly stable as evidenced by U.S. Census Bureau statistics.

The population in the mid 1970s was higher than 1980 due to road construction of the Klondike Highway to Canada and the impact of tourism with the opening of the Klondike Gold Rush National Historic Park. With the closure of the railroad in October 1982, the year round population declined, however, the population has been increasing since 1984 at about 800 to 870 currently. The number of residents swells in the summer tourist season, nearly doubling.



This increased seasonal demand has caused significant appreciation in general real estate housing and commercial land. Statistics kept for assessment adjustments show that values have gone up about 170% since 1995 for real estate land in general and over 200% for land in the central Historic Business District.

Conclusion

As long as the demand for tourism in Alaska holds up and the cruise ships continue to call on Skagway, the future outlook appears to be good. The rate of growth is expected to moderate since the rapid expansion for tourist ship stops and capacity into the port of Skagway has neared a saturation point. The outlook is for stability and moderate growth.

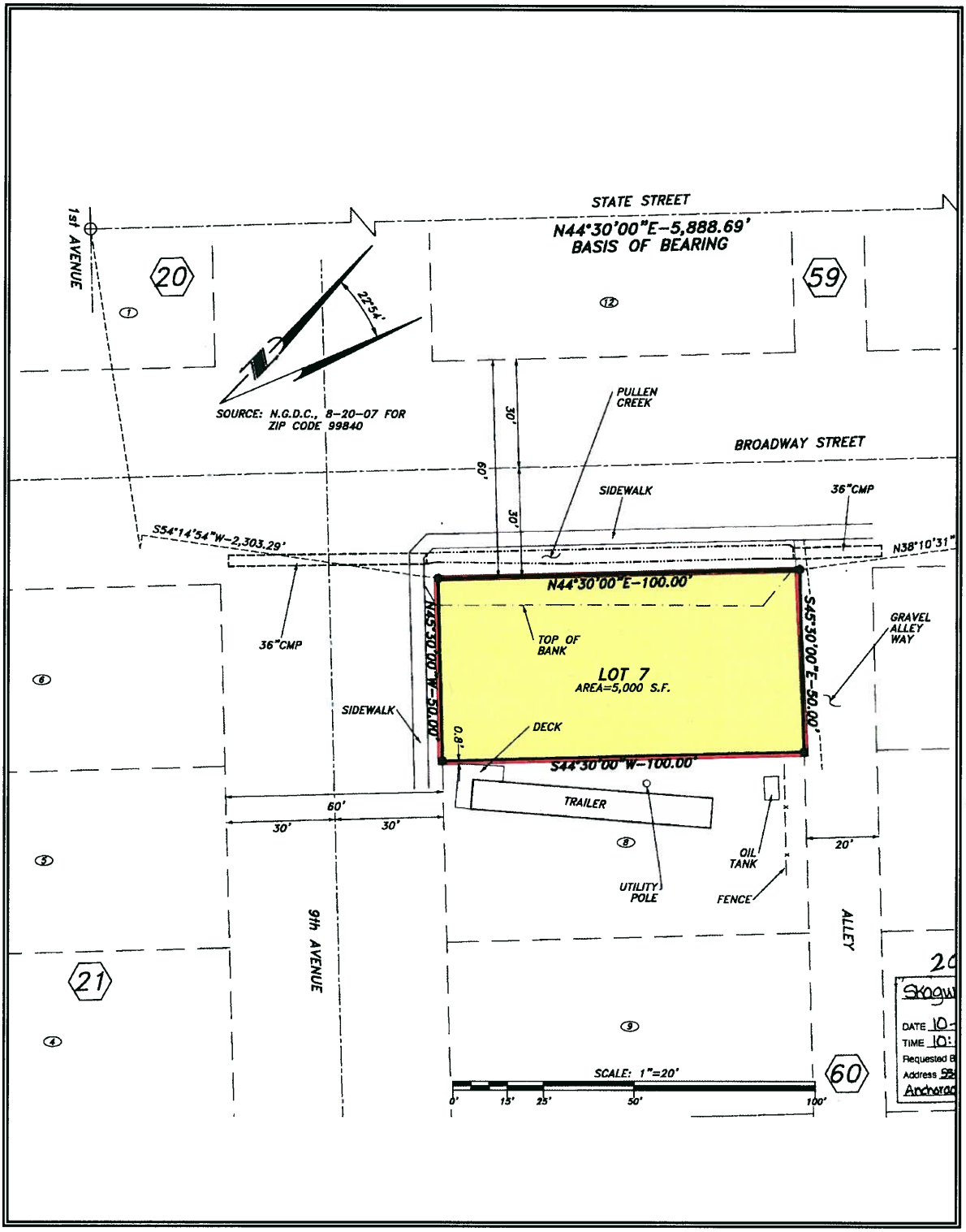
2.2 NEIGHBORHOOD

The subject is in the midst of a residential neighborhood, within approximately one to two blocks of the more developed downtown core with Business Historic zoning. Streets are paved and all utilities are available. Generally, the residential neighborhood is developed with homes between approximately $200,000 and $450,000 in value, of varying sizes and qualities. There is also a variety in age in the composition of the improvements. The immediate neighborhood reflects the overall Skagway market with values stable to increasing. In recent years, much of the demand has been based on the tourism market's need for employee housing during the very busy summer months. This has kept values strong to increasing in the general downtown area. In conclusion, the neighborhood, as well as the rest of Skagway's market is expected to experience values to be stable to increasing as long as the tourism market is strong.

Real estate prices in the neighborhood have been gradually increasing along with that of the Skagway market. We have made an analysis of various sales over the past ten years or so, and have charted typical land appreciation in the Skagway market in general, showing the accumulative appreciation to the present time over the past several years.

Year	Indicated Cumulative Market Appreciation	Annual Tourist Visitation	Assessment Changes
2006	0	872,397	+10%
2005	10%	903,341	+10%
2004	20%	857,405	0
2003	20%	781,435	+50%
2002	37%	758,793	0
2001	53%	743,739	0
2000	70%	734,515	+10%
1999	80%	690,417	+10%
1998	85%	678,774	0
1997	90%	590,868	+10%
1996	100%	482,521	+50%
1995	150%	428,347	+10%
1994	160%	361,694	+10%

This small community is driven by tourism, both from the highway, marine highway, and cruise ship visits. The subject property is well positioned to capture business and/or access from the pedestrian activity along the area of the dock.



SITE MAP

07-080 / Lot 7, Block 60, USS 435

3 SITE DESCRIPTION

3.1 SITE DESCRIPTION

The subject property is a typical downtown lot, located at the northeast corner of 9th and Broadway. It is 50' x 100' for a total of 5,000 SF, as are most of the lots in the downtown area. It is legally described as Lot 7, Block 60, USS 435, ADL 107559, Skagway Townsite.

3.2 EASEMENTS

There are no known easements on the subject property.

3.3 TOPOGRAPHY AND ACCESS

The subject lot is level, as are most of the lots in the downtown area of Skagway. As noted, it is located at the corner of the relatively well-traveled Broadway Street and the less-traveled 9th Avenue. 9th Avenue dead-ends within approximately one block of the subject near the railroad track on the eastern edge of town. Both of these roads are paved and have sidewalks and curbs. There is a handrail along the sidewalk located on Broadway due to the small stream (Pullen Creek) located along the property's western edge. There are 10'-wide alley ways in the center of each block serving to access each lot from the rear. These alley ways are not paved but fully accessible and used on a regular basis.

3.4 ANADROMOUS STREAM

Pullen Creek is a very small, anadromous stream located within the Broadway Street right-of-way and adjacent to the subject property. It is noted that any conveyance of the subject property will be subject to a reservation, substantially consistent with the following:

> *"Subject to a natural vegetative buffer on any portion of the lot that is within 15' of the ordinary high water line of Pullen Creek. The purpose of this buffer is to protect riparian habitat, water quality and fish habitat. There shall be no development or clearing of vegetation within this buffer. The removal of dead, dying or hazard trees or replacement of vegetation is allowed, provided replacement vegetation is of a riparian species native to the area. The intent is to maintain a 15' zone of native riparian vegetation adjacent to Pullen Creek."*

It is noted that the stream is approximately two to three feet outside the lot line, which generally places this area of required native riparian vegetation largely within the 10' setback zone. The vegetation currently existing provides additional screening from Broadway Street. The riparian zone is not felt to strongly impede any future residential development which could be accessed easily from 9th Avenue. The stream is typical in the neighborhood and there are privately-owned lots where the stream crosses directly through the lots.

3.5 ZONING

The subject property is zoned Residential General (RG). This allows single-family and multi-family residential housing. Due to the subject's lot size of 5,000 SF, single-family homes and duplexes

would be allowed. The zone is intended to provide an area for medium to high density residential development. Please see the Zoning Ordinance within the Addenda for further notations regarding this zone.

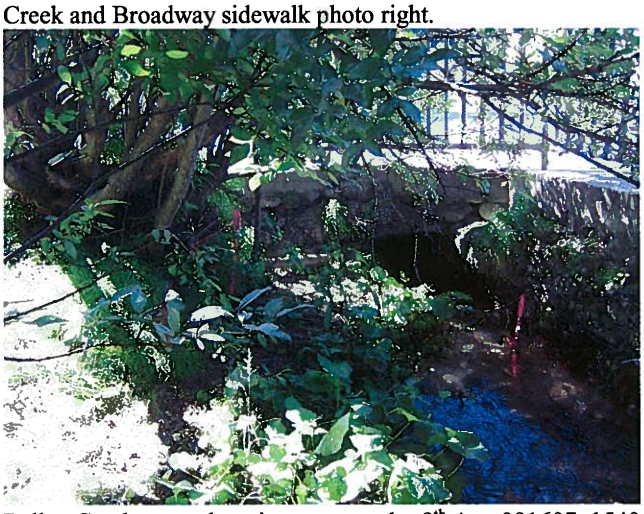
3.6 ASSESSED VALUATION AND TAXES

Since the subject is currently owned by the State of Alaska, there is no assessed valuation for the subject property.

SUBJECT PHOTOGRAPHS

Subject property looking North from 9th Ave. 081607_1537
Pullen Creek photo left.

Subject property looking approximately South 081607_1543
from near the corner of the alleyway and Broadway. Pullen
Creek and Broadway sidewalk photo right.



Pullen Creek near where it crosses under 9th Av. 081607_1540
Note subject corner marker approximate photo center. Pullen
Creek is adjacent to and along side subject property line;
however, is not on the property line.

SUBJECT PHOTOGRAPHS

9th Avenue looking East. Subject property photo left. 081607_1541

Alleyway looking East. Subject property photo right. 081607_1544

Broadway looking South. Subject property photo left with wooded vegetation along Pullen Creek. 081607_1542