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December 8, 1997

Ms. Gina L. Bulloch, RLP
Division Landman
Cyprus AMAX Minerals Company
P. O. Box 3299
Englewood, Colorado 80155-3299

Re: Appraisal Report -- Applications to Auction Water from State Land Nos. 21-102152 through 21-102156

Dear Ms. Bulloch:

This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2 (b) of the Uniform Standards of Professional Appraisal Practice for a Restricted Appraisal Report. As such it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated below. The appraiser is not responsible for unauthorized use of this report.

CLIENT: Cyprus Bagdad Copper Corporation ("Cyprus")

APPRAISER: Walter D. Armer, Jr., MAI, ARA
WALTER D. ARMER & ASSOCIATES
HC 2, Box 4105
Benson, Arizona 85602-9707

SUBJECT: The subject of this appraisal is the water to be withdrawn by Cyprus from State Trust lands in the vicinity of Bagdad, Yavapai County, Arizona. This consists of seven (7) wells located on five (5) different well sites. These well sites contain 10 to 20 acres and are under lease to Cyprus on Commercial Leases from the Arizona State Land Department.

The Application Numbers of these water withdrawals, the common name of the wells and the minimum amount of withdrawal for payment purposes is as follows:

21-102152	Skunk Canyon	1 well	80 acre feet
21-102153	Sycamore	2 wells	80 acre feet
21-102154	Contreras	1 well	80 acre feet

21-102155 Urie	1 well	80 acre feet
21-102156 Warm Springs	2 wells	80 acre feet

PURPOSE OF THE APPRAISAL:

The purpose of this appraisal is to provide the appraiser's best estimate of the market value of the subject as of the effective date. Market Value is defined by the federal financial institutions regulatory agencies as follows:

MARKET VALUE means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1) buyer and seller are typically motivated;
2) buyer and seller are well informed or well advised, and acting in what they consider to be their best interests;
3) a reasonable time is allowed for exposure in the open market;
4) payment is made in cash in U.S. dollars, its equivalent, or in specified financing terms comparable thereto; and
5) 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.

(Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions (f).)

INTENDED USE OF THE REPORT: For the sole purpose of assisting the client, Cyprus Bagdad Copper Corporation, in determining the value of the water to be withdrawn for use in their appeals of the State Land Department's appraised values.

INTEREST VALUED: Fee Simple Interest in Water

EFFECTIVE DATE OF VALUE: November 18, 1997, the date of inspection of the well sites.

DATE OF REPORT: December 8, 1997

APPRAISAL DEVELOPMENT AND REPORTING PROCESS: In preparing this appraisal, the appraiser inspected the well sites and related facilities from which the water is to be withdrawn; gathered information from the subject's vicinity or similar competitive vicinities; obtained comparable sales and lease data from the area or similar areas; confirmed all comparable information with a party familiar with the transaction; and analyzed the information gathered in applying the sales comparison, cost and income, approaches. I also relied upon research and related data provided by Mr. Walraven Ketellapper of Stillwater Resources & Investments, Inc. in a report dated December 4, 1997.

All three approaches were considered in this appraisal but only the Sales Comparison Approach was determined to be applicable.

To develop the opinion of value, the appraiser performed a complete appraisal process, as defined by the Uniform Standards of Professional Appraisal Practice. This means that no departures from Standard 1 were invoked.

This Summary Appraisal Report is a brief recapitulation of the appraiser's data, analyses, and conclusions. Supporting documentation is retained in the appraiser's file.

DESCRIPTION OF REAL ESTATE APPRAISED:

As discussed earlier, the subject of this appraisal is the water to be withdrawn from seven (7) wells located on five (5) different well sites. These well sites contain 10 to 20 acres and are under lease to Cyprus on Commercial Leases from the State Land Department. These wells are utilized to augment the water supply for the Town of Bagdad and/or the mine operation especially during peak summer months and to provide an emergency backup supply.

The Application Numbers of these water withdrawals and the common name of the wells is as follows:

21-102152	Skunk Canyon	1 well
21-102153	Sycamore	2 wells
21-102154	Contreras	1 well
21-102155	Urie	1 well
21-102156	Warm Springs	2 wells

The average depth of these 7 wells is 478 feet and they are 10" to 16" steel casings set in 22-24" boreholes. Six (6) of the wells have 200-400 GPM submersible pumps with switch gears, attached power lines and delivery pipelines and are currently in use. The seventh well (Skunk Canyon) has no pump equipment, power source or delivery system. The wells have very different locations, topography, access, water qualities and power and delivery systems and will be discussed individually.

Six of the subject wells (all except the Skunk Canyon well) are drilled into fractures and consequently do not produce high flow rates of water. Even at their low pumping rates, they must be rested periodically to allow for recharge. Therefore, they are categorized as low producing and relatively undependable wells.

Skunk Canyon Well site is located on a 10 acre commercial lease site in Section 17, Township 13 North, Range 9 West. This site is just north of Highway 87 which is the main access route into the Bagdad area. The site is level with good access from the highway. This well has no pump equipment, electricity is located some 6 miles to the north, and approximately 8 miles of delivery pipeline would be required to utilize this water. This well has been utilized on an occasional basis by the Arizona Department of Transportation for local highway construction projects. When so utilized, power was supplied by portable generator or gas engine and water was transported by water tanker trucks.

Sycamore Well site has 2 wells located on an 20 acre commercial lease site in Section 29, Township 14½ North, Range 8 West. This site is along Little Sycamore Wash with good access from Bagdad. This site is approximately 4 miles northeast of Bagdad and both wells are equipped and used to supply the water for a trailer park 1± mile to the west.

Contreras Well site is located on a 10 acre commercial lease site in Section 1, Township 15 North, Range 9 West. This site is located on level land atop of Contreras Mesa some 7 air miles north of Bagdad. Access is very difficult via some 9± miles of four wheel drive dirt road which is impassable during inclement weather. This well is at the end of an 11½ mile power line and 11 mile potable water line. This water is utilized to augment the town water supply.

Urie Well site is located on a 10 acre commercial lease site in Section 11, Township 15 North, Range 9 West.

This level site is located along Contreras Wash in Urie Basin 2± miles south of Contreras Well and some 5 air miles north of Bagdad. Access is very difficult via some 7± miles of four wheel drive dirt road which is impassable during inclement weather. This well is along the 11½ mile power line and 11 mile potable water line discussed above. This water is also utilized to augment the town water supply.

Warm Springs Well site has two wells located on a 10 acre commercial lease site in Section 24, Township 15 North, Range 9 West. This site is located in the Warm Springs Creek basin 1+ mile southeast of Urie Well and some 4 air miles north of Bagdad. Access is very difficult via some 5½± miles of four wheel drive dirt road which is impassable during inclement weather. These wells are also along the 11½ mile power line discussed above. These wells commonly produce water containing radiochemical contaminants in concentrations exceeding drinking water standards. These contaminants prompted the Yavapai County Health Department to urge that water from the Warm Springs wells be physically separated from the water system serving the town of Bagdad. Cyprus complied with that request, and uses water from the Warm Springs wells only for industrial purposes.

The applications call for a minimum of 80 acre feet (af) per well site per year, for a 10 year period, while the actual withdrawals have been approximately as follows:

Skunk Canyon	0 af	(excluding ADOT use)
Sycamore	113 af	
Contreras	113 af	
Urie	210 af	
Warm Springs	470 af	
Total	906 af	

Therefore, the total amount of water estimated to be withdrawn, or the 80 af per year minimum to be paid for, under these applications is the 80 af minimum for the Skunk Canyon well and 906 af for the Sycamore, Contreras, Urie and Warm Springs wells for a total of some 986 af per year.

Cyprus has prepared an estimate of replacement costs for the wells to include drilling, casing, pumping equipment, power line and delivery pipeline construction and permitting and environmental costs assuming no EIS or significant mitigation requirements. The six active wells (Sycamore #1 and #2, Contreras, Urie and Warm Springs #2 and #3) have a total estimated replacement cost of $2,747,750 or $457,958 per well. The Skunk Canyon well has an estimated

replacement cost of $111,000 which includes only the well. The estimated replacement cost to equip this well with pump equipment, extend power lines for 6 miles and install a delivery pipeline is an additional $1,073,000. This results in a total cost for incorporating the Skunk Canyon Well into the water system of $1,184,000.

HIGHEST AND BEST USE:

The five well sites owned by the State of Arizona and leased by Cyprus are located in a very remote portion of Yavapai County with limited and very difficult access to three of them. In considering the Highest and Best Use, it is necessary to consider potential users for the water which is currently (or could be if fully developed in the case of Skunk Canyon) being used. With the exception of the mine and the town, there are no other industrial or municipal users for many miles around. There is extensive cattle ranching throughout the area which uses limited amounts of livestock and domestic water. There are a couple of very small farming operations but they already have more than adequate water to support the farmable acreage.

The only community of any size in the general area is the Prescott/Prescott Valley area, the county seat and a growing area with increasing water needs. However, this area is located some 65 miles to the east and any water delivery system from these wells to Prescott would involve a complex system of pipelines, pumping stations and power lines over tremendous elevation changes and it would not be cost effective.

Additionally, Arizona water law restricts the ability to transport groundwater from one basin to another. This leaves Cyprus as the sole potential user of these water sources. This is further evidenced in that there were no other bidders for the right to purchase water from these well sites. This results in a situation where the strict definition of Market Value is not met as we are faced with a single seller and a single buyer. However, this is not uncommon in water transactions.

SUMMARY OF ANALYSIS AND VALUATION:

Cost Approach: Since the improvements which allow for the transfer of the water from these wells are the property of Cyprus, this approach was not considered as applicable and was not utilized. However, the estimated replacement costs for the developed well sites and the estimated cost to construct the delivery system from Skunk Canyon are

adjustment factors in estimating a final value estimate for the water.

Income Approach: Again, since we are dealing with a single seller and a single buyer, this method is not considered applicable. Further, most water markets are imperfect in economic terms as there are generally only a few buyers. The buyer is often a governmental entity which enters the market only when population growth dictates the need for additional water resources.

Sales Comparison Approach: In estimating the market value for the water which is the subject of this appraisal I first searched the surrounding area for similar sales. I then analyzed the transactions relied upon by the State's appraisers and analyzed additional sales data provided by Mr. Walraven Ketellapper of Stillwater Resources & Investments, Inc. in a report dated December 4, 1997. I also analyzed two public auction water sales by the State Land Department in September 1997. I also reviewed some sales of so-called "water ranches" which occurred in Central Arizona in the mid 1980's. Lastly, I compared the above date to the historical sale price of $35 per af which has been in effect in the past for the purchase of water from these well sites.

Appraisal (sales) data for water or water rights must be adjusted for location, priority (if applicable), access, dependability, water quality, economic costs of development and operating costs. This in reality is very similar to conventional real estate in that acreage with good access, usable terrain that is relatively inexpensive to develop and enjoys a strong market demand is worth more than comparable acreage with poor access, rough terrain, high development costs and no market demand. The comparable sales data will be analyzed with these factors in mind.

State Comparables

The state appraisers utilized nine comparables from Arizona, California, Colorado and Oklahoma. I will not detail or reiterate all of the specifics of these transactions but summarize them with my analysis as to their applicability.

Comparable No. 1 is a lease of some 100,000 af of water owned by farmers in the Palo Verde Irrigation District (Blyth, California) to the Metropolitan Water District (MWD) of Southern California for approximately $135 per af. Essentially, MWD paid the farmers of the irrigation district not to grow crops so that the excess capacity in the Colorado River Aqueduct could be delivered to member water districts

in the very populated Southern California area. This resulted in a profit for the farmers far in excess of what they could reasonably expect from any farming operation. This involved a large amount of surface water with an established delivery system and a major metropolitan area as the end user, none of which applies to Cyprus and the Town of Bagdad. If utilized, a slight upward adjustment for quantity would be indicated while significant downward adjustments would be required to reflect factors such as the large populated end users and existing delivery system.

Comparables No. 2 and 3 are intergovernmental leases of a portion of Arizona's entitlement to the Colorado River to MWD and the Southern Nevada Water Authority (Las Vegas) of 100,000 af and 200,000 af for $68 and $105 per af respectively. This is a highly political issue with Arizona wanting to protect its entitlement but not being able to use the water at this time. Again it involved a very large amount of surface water with an established delivery system and major metropolitan areas as the end users, none of which applies to Cyprus and the Town of Bagdad. If utilized, a slight upward adjustment for quantity would be indicated while significant downward adjustments would be required to reflect factors such as the large populated end users and existing delivery system.

Comparables No. 4, 5 and 6 are three leases in Oklahoma for $20 to $80 per af. The Oklahoma Commission of the Land Office (CLO) was contacted and information on these three plus two additional leases was obtained. These five leases involved relatively small amounts and ranged from $16.25 to $82.05 per af with an average of $62.56 per af. If the low lease is eliminated, the average is $74.14 per af. It was reported that these leases are of land for the location of water well sites and that the wells and equipment are owned by the lessees. One of these sales (Beckham County) drilled two wells to a depth of 235 feet and extended power ¼ mile at a cost of $24,000. Another (Pawnee County) drilled 7 wells to a depth of 60 to 100 feet and the local REA paid to extend the power to each well. It was also reported that there is little competition for these leases. Therefore, there are several similarities to Cyprus in these leases. However, these leases were relatively close to power and the cost to drill these relatively shallow wells and provide the power was significantly less than Cyprus's costs requiring a significant downward adjustment.

Comparable No. 7 is a contemplated lease in Colorado between the Rangeview Metropolitan District and the Rocky Mountain Arsenal for 4,000 af at $80 to $90 per af. No

evidence was found that any lease has been executed. Rangeview is presently leasing similar ground water rights to the East Cherry Creek Valley Water District (a rapidly growing district in the Denver metropolitan area) at the bottom of the well, with facilities constructed and owned by East Cherry Creek, for $44 per af. The amount and the fact that the water is sold at the bottom of the well is similar to the Cyprus case. However, the power extension and delivery system costs are much less than they have been for Cyprus and the end user is a rapidly growing suburb of Denver.

Comparable No. 8 is a compilation of some 70 Arizona State Land Department water leases. These are for a variety of uses including domestic, livestock, commercial, industrial and agriculture. Most of them are very small (less than 1 af to 10± af) and several are to other state agencies. All are at the price of $65 per af. All of these sales are close to power and are located on or very near to the point of use. Given their small size, the questionable arms-length nature of some of them, the availability of power and the lack of an extensive delivery system they would require downward adjustments.

Comparable No. 9 is a 150 to 520 af sale of water from the State of Arizona to a Tucson area golf course for $85 per af. Power is nearby, the golf course is some 3 miles to the southeast and the lift is only some 300 feet over gently sloping terrain. This transaction is for groundwater within the Tucson Active Management Area (AMA). This transaction involved not only the sale of water but also the right to withdraw groundwater under the Land Department's certificate of grandfathered groundwater right, a right without which the purchaser could not have pumped from a nonexempt well in this AMA. The water used by Cyprus is not within an AMA and cannot be moved into an AMA. Also, this is a major metropolitan area providing a much larger potential market. These factors require downward adjustments which were not applied in the state appraisals.

Other Comparables

Comparable No. 10 is a 1995 lease of 92 af of surface water from the Colorado River by the Arizona Department of Transportation from the U. S. Bureau of Reclamation for a state highway construction project. The Bureau's rate for municipal and industrial users in 1995 was $49.27 per af. The 1997 rate is $55.81 per af. Additionally, this rate is established by the Bureau and is not the result of arms-length negotiations.

VITAE

Walraven F. Ketellapper

EMPLOYMENT

1987 to present — **Stillwater Resources & Investments, Inc.**, Boulder, Colorado, President

The Company implements water marketing solutions to water supply problems. The Company manages projects related to the evaluation, development, acquisition, management and marketing of water resources in Colorado, California, Nevada, Arizona and other western states. Most projects involve the transfer of agricultural water rights to municipal, industrial and environmental uses. The company also performs consulting services for clients seeking to develop new water supplies and provides water marketing, appraisal and evaluation services.

1985 to 1987 — **Sundowner Western Corporation**, Lakewood, Colorado, Vice President

Manager of partnerships and joint ventures related to the acquisition, development, and marketing of water rights in Colorado. Provided consulting services in the areas of water rights evaluation and appraisal, work outs for lending institutions and the development of water and sewer systems.

1979 to 1985 — **Department of Utilities, City of Thornton**, Colorado

Acting Director of Utilities - Responsible to City Council and Utilities Board for the operation, financing, and development of a growing municipal water and sewer utility serving 75,000 people in the Denver metropolitan area. Manager of Planning - Responsible for water rights acquisition, modification, transfer and operations; water quality; finance and billing for the water and sewer utility. Coordinated many special projects including the preliminary engineering and environmental assessments for a proposed 80,000 acre foot reservoir. Negotiated intergovernmental agreements and coordinated lobbying efforts.

1977 to 1979 — **State of California Governor's Office**, Sacramento, California

Principal Researcher for the California Water Atlas, a general overview of water issues in California utilizing state of art graphics.

EDUCATION

Bachelor of Arts, University of California at Davis. Major in Geography and International Relations. 1977.

Graduate work in Geography, University of Colorado at Boulder. Emphasis on water resources development.

AWARDS

MetroNorth Chamber of Commerce Businessman of the Year - 1992
Adams County Food Bank - Golden Glow Award - 1991, 1994, 1995

ASSOCIATIONS - CURRENT	Board of Directors, MetroNorth Chamber of Commerce Adams County Economic Development Colorado Water Congress, State Affairs Committee
ASSOCIATIONS - PREVIOUS	Water for Colorado - Northeast Projects Committee Denver Metropolitan Water Providers - Steering Committee, Executive Committee Governor's Water Round Table - Environmental Impact Statement Committee National Water Resources Association - Municipal and Industrial Committee Metro North Chamber of Commerce, Chairman Environmental Committee 1985-1992
TESTIFIED BEFORE	Colorado State Legislature Colorado Water Quality Control Commission Colorado Ground Water Commission Federal District Court for Nevada Nevada State Engineer Colorado Water Court Division 1 Adams County District Court Various City, County, and Regional Governmental Agencies
PUBLICATIONS	Ketellapper, Walraven F., "Overview of Current Transfers, Transactions and Proposals" Water Marketing in Colorado's Future: Debate and Analysis (Copyright 1991, Institute for Advanced Legal Studies, University of Denver College of Law) Ketellapper, Walraven F., "Water as an Investment: Opportunities and Limitations," Water Marketing 1988: The Move to Innovation (Copyright 1988, University of Denver College of Law) Palmer, Cary, Lloyd Gronning, Walraven Ketellapper, "Developing a Water System Despite Federal Regulation," Proceedings AWWA 1979 Annual Conference (Denver, 1979) also published in Journal of the American Water Works Association, March, 1980. California Governor's Office of Planning and Research, California Water Atlas, Chapter 10, "Water Quality" (Copyright 1978, 1979, State of California).

Comparable No. 11 is a lease of up to 5,000 af by the City of Brownsville (Texas) from a local irrigation district. This is for 20 years and the current price is $26.91 per af which includes the cost for pumping and delivering the water to the city. This would suggest upward adjustments for quantity and delivery costs.

Comparable No. 12 is a purchase by the Canadian River Municipal Water Authority (near Amarillo, Texas) of well sites and a total of 2,000,000 af for $7.25 per af. However, they will build the well fields and associated delivery systems. A significant upward adjustment is indicated for the quantity of water involved with a slight downward adjustment to account for the well sites which were also included.

Comparable No. 13 is a standing offer by the City of El Paso, Texas to lease water allocations from the Rio Grande Federal Reclamation Project for $2.67 per af. These 75 year leases also include annual taxes which bring the total cost to approximately $18 per af. This is for surface water from a federal water project and is an indicator of value but should not be greatly relied upon.

Comparable No. 14 is a series of leases from the Lavaca-Navidad River Authority (Texas) to a number of lessees. These leases are from 56 to 30,000 af of surface water and the $48 per af cost includes operations and maintenance requiring downward adjustments.

Comparable No. 15 is an active lease market for surface water in the Rio Grande River in Texas for municipal uses for $15 to $30 per af.

September 1997 Land Department Water Sales

On September 17, 1997, the Arizona State Land Department sold two blocks of water at public auction. The first was for 161.2 af at a price of $85 per af. The only bidder was ASARCO, Inc., the applicant, and the usage is for a local mining operation. The well site is at the Ray Mine, the point of usage, power is to the site and a delivery system exists.

The second sale was of 63 af at a price of $85 per af and involved a Type 2 Water Right. This sale was to the applicant and only bidder, the Biosphere 2 complex. The well is located very near to the point of use with power to it. Also, being a Type 2 Water Right, this water can be

transferred anywhere within the Tucson AMA and used with an existing well or a new well could be drilled for its use.

Both of these would require downward adjustments to reflect the location of the point source and the ease of delivery of the water and in the case of the second sale the fact that it involves a Type 2 Water Right.

Arizona Water Ranch Sales

In the mid-1980's there was a great deal of speculation of farm properties being purchased primarily for the potential of transporting the water to the metropolitan Phoenix area. During that time there was a fairly active market for this purpose.

Between May and September 1985, the City of Mesa purchased 11,822.20 acres in Pinal County including 10,281 acres with associated Grandfathered Groundwater Rights. They paid a total of $29,072,300 or $2,828 per farm acre. Historical prices at that time were $1,000 to $1,500 per acre. Mesa is allowed to convert 3 af per acre per year from agriculture to municipal and industrial uses. They calculated a 10% loss factor due to various factors which resulted in them basing their acquisition on 2.7 af per acre. This results in a total of 27,759 af for $1,047 per af. It must be emphasized at this point that this price includes 2.7 af per acre per year and that the City of Mesa owns the underlying real estate in perpetuity. If we consider perpetuity to be only 20 years, this calculates out to $52.37 per af per year during a highly speculative market.

Another example is the April 1995 sale of the Crowder-Weisser farm in La Paz County to Lincoln Commercial Properties (AMCOR). This large farm contained 2,653 acres of deeded farmland plus 1,253 acres of deeded desert, 2,388 acres of State Agricultural Lease, and 3,863 acres of State desert (grazing). The amount of af per acre was uncertain but the buyer's attorneys concluded a worst case of 3 af per acre per year. Without deducting any credit for any of the non-farm deeded or state acreage, this results in a price of $1,257 per af. Again, this includes 3 af per acre per year and Lincoln owns the underlying real estate, including an additional 1,253 deeded acres and a large block of state lease, in perpetuity. Again, if we consider perpetuity to be only 20 years, this calculates out to $62.83 per af per year during a highly speculative market.

This sale can also be analyzed by deducting the land values which were attributed to the farm by the parties. From the total price of $10,000,000 we can deduct all deeded

acreage at the rate of the desert land values and the state leases. This results in a total water only price of $7,380,830 or $927.50 per af. On a 20 year basis this is equivalent to $46.37 per af per year.

AMCOR also purchased the GP Farms, much closer to Phoenix, for $7,801,010 for 2,239.3 farm acres and 6,178.6 af per acre per year. This calculates to $63.13 per af and the same conditions of ownership as above apply.

While these are not really similar to the subject, they indicate that at the height of a speculative boom in water rights farms generally in a much superior location, including all real estate rights, could be purchased for $50 to $63 per af per acre per year using a very conservative time span of 20 years. Considering only the water rights the cost was $46 per af. The Cyprus water would require a slight upward adjustment for quantity but significant downward adjustments for location and time reflecting the boom period and the absence of acquisition of any real property interest.

Reconciliation and Value Conclusion:

In determining a value for the subject water there are several factors which must be considered. First, this water is located in a very remote location with no potential for competing users. Secondly, this remote location, rough terrain and lack of power has resulted in extremely high costs to bring these wells into production and deliver the water to the Town of Bagdad and/or the mine. Lastly, in the case of the Warm Springs wells, the inferior water quality resulted in a separate pipeline to deliver the water for industrial uses.

In analyzing the above data it is seen that downward adjustments must be applied to most of the comparable sales/leases. This indicates a subject water value less than Comparable Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 14 at $44 to $135 per acre foot and more than Comparable Nos. 11, 12, 13 and 15 at $7 to $30 per acre foot. A subject value less than the September 1997 sales at $85 per af is also indicated.

Further, it is demonstrated that in the highly speculative era of the mid 1980's, water could be purchased for $46 to $63 per acre foot including all ownership rights in the real estate.

Lastly, there is little or no data available to indicate that the value of remote water that is comparably

expensive to develop and utilize has risen significantly since the last sale was negotiated at the rate of $35 per af.

Analyzing all of the available data and giving consideration to the special nature of the subject water sources (remoteness, difficult access, high cost of power and delivery systems, general weakness of most wells, water quality concerns on Warm Springs and lack of competition) I have concluded a value for this water as follows:

Application No. 102152-Skunk Canyon: This well site has excellent location but is some 6 miles from a power source and some 8 miles from the point of use requiring an investment of over $1 million to utilize this water. I have concluded a value for this application of $35 per acre foot.

Application No. 102153-Sycamore: This well site has 2 wells and excellent location with only a short power and delivery system required. I have concluded a value for this application of $65 per acre foot.

Application No. 102154-Contreras: This well site has very poor access and requires some 11± miles of power and delivery systems to the point of use. I have concluded a value for this application of $35 per acre foot.

Application No. 102155-Urie: This well site also has very poor access and requires some 7± miles of power and delivery systems to the point of use. I have concluded a value for this application of $35 per acre foot.

Application No. 102156-Warm Springs: This well site also has very poor access and requires some 5± miles of power and delivery systems to the point of use. Further, these two wells produce inferior quality water as explained above, requiring a separate delivery line and preclude the water from being used for potable uses. I have concluded a value for this application of $30 per acre foot.

Summary

Application 102152 -	Skunk Canyon	$35 per acre foot
Application 102153 -	Sycamore	$65 per acre foot
Application 102154 -	Contreras	$35 per acre foot
Application 102155 -	Urie	$35 per acre foot
Application 102156 -	Warm Springs	$30 per acre foot

It should be noted that these value estimates are predicated on a 10 year sales agreement which provides a constant and predictable cost for a definitive time period. Should this 10 year period be amended to a shorter period it would have a negative impact on the above values to the buyer.

ASSUMPTIONS AND LIMITING CONDITIONS:

This Appraisal Report, in its entirety, is made expressly subject to the following Assumptions and Limiting Conditions, and any special limiting conditions contained in the report which are incorporated herein by reference.

1. This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2 (b) of the Uniform Standards of Professional Appraisal Practice for a Restricted Appraisal Report. As such it does not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in the report. The appraiser is not responsible for unauthorized use of this report.

2. I assume no responsibility for matters legal in character, nor do I render any opinion as to the Title, which is assumed to be good. All existing liens and encumbrances, if any, have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management.

3. I have made no survey of the property and assume no responsibility in connection with such matters.

4. I believe to be reliable the information which was furnished by others, but I assume no responsibility for its accuracy.

5. Possession of this report does not carry with it the right of publication, nor may it be used for any purpose by any but the applicant without the previous written consent of the appraiser or the applicant and then only with proper qualification, subject to governmental requirements.

6. I am not required to give testimony or to appear in court by reason of this appraisal unless arrangements have been previously made therefore.

7. The value conclusions arrived at in this report are only as of the date specified. Said values should not be considered as accurate on any other than the specified date.

8. The land, and particularly the soil, of the area under appraisement appears firm and solid. Subsidence in the area

is unknown or uncommon, but this appraiser does not warrant against this condition or occurrence.

9. Subsurface rights (mineral and oil) were not considered in making this appraisal.

10. The data relied upon in this appraisal is believed to be from reliable sources, however, it was necessary to rely on information furnished by others as to said data, therefore, the value conclusions are subject to the correctness and verification of said data.

11. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media, without the written consent of the appraiser, particularly as to valuation conclusions, the identity of the appraiser or firm with which he is connected, or any reference to the Appraisal Institute, or the MAI designation; subject to governmental requirements of need.

12. This appraisal report is intended to be used only in its entirety.

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

14. This appraiser very carefully inspected any buildings involved in this appraisal report, and damage, if any, by termites, dry rot, wet rot, or other infestations, was reported as a matter of information by your appraiser, as I do not guarantee the amount or degree of damage, if any.

15. All furnishings and equipment, except those specifically indicated and typically considered as a part of real estate, have been disregarded by this appraiser. Only the real estate has been considered.

16. The appraiser has inspected, as far as possible, by observation, the land and the improvements thereon, however, it was not possible to personally observe conditions beneath the soil or hidden structural components within the improvements, therefore, no representations are made herein as to these matters and unless specifically considered in the report, the value estimate is subject to any such conditions that could cause a loss in value. Condition of heating, cooling, ventilation, electrical and plumbing equipment is

considered to be commensurate with the condition of the balance of the improvements unless otherwise stated.

17. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test such substances or conditions. If the presence of such substances as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimate is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

CERTIFICATION:

I HEREBY CERTIFY THAT

..... I have no present or contemplated future interest in the real estate that is the subject of this appraisal report.

..... I have no personal interest or bias with respect to the subject matter of this appraisal report or the parties involved.

..... No one other than the undersigned formed the analyses, conclusions, and opinions concerning real estate that are set forth in this appraisal report, unless such participation by another party is indicated by the co-signing of this report by such other party.

..... To the best of my knowledge and belief, the statements of fact contained in this appraisal report upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

..... This appraisal report sets forth all of the limiting conditions (imposed by the terms of this assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.

..... This appraisal report shall not be quoted or referred to in any report or financial statement of the client or in any documents filed with any governmental agency without my prior written consent. Neither all nor any part of the contents of this report (especially the conclusions as to value, the identity of the appraisers, references to the Appraisal Institute, the American Society of Farm Managers and Rural Appraisers, or the MAI or ARA designations) shall be disseminated to the public through advertising media, public relations media, news media, sales media, or other public means of communication without my prior written consent and approval.

..... I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

..... The appraiser has personally conducted a physical inspection of the subject property.

..... My analyses, opinions, and conclusions were developed, and this report has been made in conformity with the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute and the Code of Ethics of the American Society of Farm Managers and Rural Appraisers and required by the Appraisal Foundation.

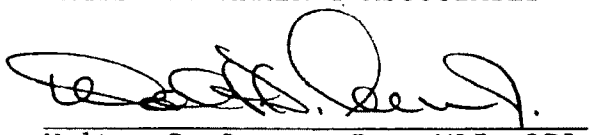
..... The Appraisal Institute conducts a voluntary program of continuing education for its designated members while the American Society of Farm Managers and Rural Appraisers program is mandatory. Those members who meet the minimum standards of these programs are awarded periodic educational certification. As of the date of this report, Walter D. Armer, Jr., MAI, ARA has completed the requirements of the continuing education programs of the Appraisal Institute and the American Society of Farm Managers and Rural Appraisers.

..... My value conclusion as well as other opinions expressed herein are not based on a minimum requested value, a specific value or the approval of a loan.

It is my opinion that the Market Value of the Subject Property, as of November 18, 1997, is:

Application 102152 - Skunk Canyon	$35 per acre foot
Application 102153 - Sycamore	$65 per acre foot
Application 102154 - Contreras	$35 per acre foot
Application 102155 - Urie	$35 per acre foot
Application 102156 - Warm Springs	$30 per acre foot

WALTER D. ARMER & ASSOCIATES



December 8, 1997
Date

Walter D. Armer, Jr., MAI, ARA
State Certified General Real
Estate Appraiser (#30185)

QUALIFICATIONS OF WALTER D. ARMER, JR.

MAI, ARA

PROFESSIONAL AFFILIATIONS AND MEMBERSHIPS:

Member, Appraisal Institute (MAI). Mr. Armer earned his MAI designation (Certificate #6200) in 1981. The Institute conducts a voluntary program of continuing education for its designated members. Mr. Armer is currently certified under this program.

Accredited Rural Appraiser (ARA) of the American Society of Farm Managers and Rural Appraisers. Mr. Armer earned his ARA designation (Certificate #444) in 1973. The Society conducts a mandatory program of continuing education for its designated members. Mr. Armer is currently certified under this program.

Certified General Real Estate Appraiser (Certificate #30185), State of Arizona Board of Appraisal

Tucson Chapter of the Appraisal Institute

Arizona Chapter of the American Society of Farm Managers and Rural Appraisers - Board of Directors 1967 - 1987.

Licensed Real Estate Broker, State of Arizona

BACKGROUND AND PROFESSIONAL EXPERIENCE:

Raised and worked on farms and ranches in Arizona, Colorado and New Mexico.

Commissioned Officer U.S. Army - Active Duty 1964 to 1966. Active Reserve Status 1966 to 1994. Retired with rank of Colonel.

1966 to present - Principal Appraiser, Walter D. Armer & Associates, Agricultural Appraisers, Consultants, Brokers and Managers.

Actively ranch and assist in the management of a family cattle ranching operation.

FORMAL EDUCATION

Bachelor of Science Degree, University of Arizona, 1964, dual majors in Agricultural Economics and Animal Science.

APPRAISAL EDUCATION:

I have attended and successfully completed numerous courses offered by the Appraisal Institute, American Society of Farm Managers and Rural Appraisers, University of Arizona Extension Program and the University of California Extension Program. These have included "Basic Principles, Methods and Techniques", "Urban Properties", "Condemnation", "Rural Properties", "Capitalization Theory and Techniques", "Case Studies in Real Estate Valuation", "Narrative Report Writing", "Uniform Standards of Professional Appraisal Practice", "Ranch Appraisal", "Valuation of Contaminated Properties", "Appraising Agricultural Chattels" and others.

I have also attended and continue to attend various educational seminars covering a broad spectrum of appraisal theory and practice offered by the above professional organizations as well as International Right of Way Association, Arizona Association of Real Estate Exchangors, Arizona and Tucson Boards of Realtors, Society of Range Management, Farm and Land Institute, Resolution Trust Corporation and others.

QUALIFIED WITNESS FOR:

Various Arizona Superior Courts
United States District Court
United States Indian Claims Commission (now U.S. Court of Claims)

COMMUNITY MEMBERSHIPS:

(Not a Professional Endorsement)
Arizona Cattle Growers Association: Board of Directors 1986-Present; President 1992-1995
Southern Arizona Cattlemen's Protective Association: Board of Directors 1986-1992; President 1990-1992
Arizona Beef Council: Board of Directors 1989-1992, Chairman 1990-1991
National Cattlemens Association: Board of Directors 1992-1996
Agri-Business Council of Arizona: Board of Directors 1993-1999
Arizona National Livestock Show

University of Arizona College of Agriculture,
Alumni Council, President 1982-1983,
Board of Directors 1982-1988
University of Arizona Alumni Association,
Board of Directors 1987-1993
University of Arizona Foundation, Board of
Directors 1990-1993
Commission on the Arizona Environment, appointed
by Governor Fife Symington 1992-1996
Arizona State Parks Board, appointed by Governor
Fife Symington 1997-2003
Arizona Town Hall
Association of the United States Army
Reserve Officers Association
American Legion

SCOPE OF PRACTICE:

Engaged in appraisal, management, sales and consulting on agricultural properties and large vacant tracts throughout Arizona with limited assignments in adjacent states. Agricultural assignments have included ranches, irrigated farms, tree orchards, livestock feedlots, grain elevators and vacant acreage. Non-agricultural properties have included vacant tracts, residential, commercial and light industrial.

Appraisals for market value for private negotiations, estate planning, taxation, mortgage loans, litigation and eminent domain purposes.

Clientele includes local, state and federal governmental agencies, corporate organizations, financial institutions, public and private educational institutions, public utilities, attorneys, accountants and individuals.

Representative clients have included Arizona Department of Transportation, Arizona State Land Department, Pima County, City of Tucson, Internal Revenue Service, Department of Justice, U.S. Army Corps of Engineers, Valley National Bank of Arizona, Security Pacific Bank, First Interstate Bank of Arizona, Mellon Bank, SANWA Bank, Aetna Life Insurance Company, Harris Bank and Trust Company, First Security Bank of Utah, Anaconda Copper Company, Continental Oil Company, ASARCO, Cyprus Mining Company, Southwest Gas Corporation, Tucson Electric Power Company, El Paso Natural Gas Company, Southern California Edison Company, Union Oil Company, Phelps Dodge Corporation, Page Land and Cattle Company, The Nature Conservancy, Farmers Home Administration, U.S. Fish and Wildlife Service, Bureau of Land Management, U.S. Forest Service, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Resolution Trust Corporation and others.