

**MINNESOTA PUBLIC OFFERING STATEMENT
FALL & GARDEN LAKES**

- A. The properties offered for lease have not been approved or disapproved by the Commissioner of Commerce, State of Minnesota, nor has the Department of Commerce passed upon the accuracy or adequacy of this offering statement. Any representation to the contrary would be a criminal offense.
- B. No act of a purchaser shall be effective to waive the right to rescind.
- C. You have the option to cancel your lease contract by notice to the landlord until midnight of the seventh day following the signing of the lease contract. If you did not receive a property report prepared pursuant to the rules and regulations of the Office of Interstate Land Sales Registration, U.S. Department of Housing and Urban Development, in advance of your signing the contract or agreement, the lease contract may be cancelled at your option for two years from the date of signing.

The undersigned acknowledges receipt of a copy of this "Minnesota Public Offering Statement".

Signed: _____ Date: _____

Signed: _____ Date: _____

**PUBLIC OFFERING STATEMENT
GARDEN & FALL LAKES**

1. Name (s) of subdivider

Minnesota Power, Attention: Land and Property Management

Address:

30 W. Superior St., Duluth, MN 55802

2. Name of Subdivision

These are scattered recreational lease lots.

Location:

This lease area is located in Fall Lake Township approximately 3 miles East of Ely, MN

County, State of

Lake County, Minnesota

a. Effective date of Public Offering Statement

August 1, 2005

b. This offering consists of

1.	MN Power Parcel #1, Govt. Lot 2 & NE/NE, Sec. 20, T63N, R11W, Garden Lake, Lake County, MN
2.	MN Power Parcel #2, Govt. Lot 2 & NE/NE, Sec. 20, T63N, R11W, Garden Lake, Lake County, MN
3.	MN Power Parcel #3, Govt. Lot 2 & NE/NE, Sec. 20, T63N, R11W, Garden Lake, Lake County, MN
4.	MN Power Parcel #4, Govt. Lot 2 & NE/NE, Sec. 20, T63N, R11W, Garden Lake, Lake County, MN
5.	MN Power Parcel #5, Govt. Lot 2 & NE/NE, Sec. 20, T63N, R11W, Garden Lake, Lake County, MN
6.	MN Power Parcel #1, Govt. Lot 6, Sec. 17, T63N, R11W, Fall Lake, Lake County, MN
7.	MN Power Parcel #2, Govt. Lot 6, Sec. 17, T63N, R11W, Fall Lake, Lake County, MN
8.	MN Power Parcel #3, Govt. Lot 6, Sec. 17, T63N, R11W, Fall Lake, Lake County, MN
9.	MN Power Parcel #4, Govt. Lot 6, Sec. 17, T63N, R11W, Fall Lake, Lake County, MN
10.	MN Power Parcel #5, Govt. Lot 6, Sec. 17, T63N, R11W, Fall Lake, Lake County, MN
11.	MN Power Parcel #6, Govt. Lot 6, Sec. 17, T63N, R11W, Fall Lake, Lake County, MN

3. List of names and populations of surrounding communities and list distances over paved and unpaved roads to the subdivision.

Community	Population	Paved Road	Unpaved Road	Total
a. Ely	3724	3	0	3
b. Winton	185	1	0	1
c. Aurora	1,850	25	0	25
d. Virginia	9,100	53	0	53
e. Duluth	86,918	100	0	100
f. Eveleth	3,865	56	0	56

4. If periodic payments are to be made by a purchaser (as in the case of installment sales contracts) complete all items under this paragraph 4. If not, enter "Not Applicable."

Our lease payment policy allows the new lessee to pay a portion of the lease offer based on the amount as follows:

<u>If lease offer amount is</u>	<u>This % required down</u>	<u>Over #years</u>
\$10,000 or more	20%	5 - 10 years

An Earnest Money Contract (requiring \$1000.00 earnest money payment) will be issued immediately upon acceptance of the offer, and lessee signs a promissory note at the time of closing for the amount owed based on the schedule above.

a. Will the sales contract be recordable? Yes or No?

No. There is no contract. The note is not recordable.

b. In the absence of an immediate recording of the contract or deed, could third parties or creditors of any person having an interest in the land acquire title to the property free of any obligation to deliver a deed? Yes or No?

No. There are no deeds, since this is a lease, which is issued immediately upon receipt of the percent of down payment indicated in the schedule above.

c. State when the contract or deed will be recorded, and who will record it. State who will bear the costs of recordation, and the amount if those costs are to be borne by the purchaser.

Not Applicable.

d. What provision, if any, has been made for refunds if purchaser defaults? If none, and the purchaser payments are to be retained, state whether his loss will be limited to the amount of his payments to date, or whether he will be responsible to the subdivider or his assignees for additional damages or for the balance of his contract.

If purchaser defaults, the lease is canceled. No refund is made of amounts paid, and lessee loss is limited to his/her payments made through date of lease cancellation.

5. Is there a blanket mortgage or other lien on the subdivision or portion thereof in which the subject property is located? Yes or No? If yes, list below and describe arrangements, if any, for protecting interests of the buyer or lessee if the subdivider defaults in payment of the lien obligation. If there is such a blanket lien, describe arrangement for release to a purchaser of individual lots when the full purchase price is paid.

Type of Lien

Refer to Exhibit C

Effect on purchaser if subdivider defaults

6. Does the offering contemplate leases of the property in addition to, or as distinguished from, sales? Yes or No? If yes, a lease addendum must be completed, attached and made a part of the Public Offering Statement.

Yes. The lease will run to February 1, 2035 (See Appendix D).

7. Is purchaser or lessee to pay taxes, special assessments, or to make payments of any kind for the maintenance of common facilities in the subdivision (a) before taking title or signing of lease or (b) after taking title or signing of lease? If yes, complete the schedule below:

	Approximate amount of purchaser's or lessee's annual payment
Taxes: Real estate tax on lessee improvements	\$ Varies, depending upon value of improvements
Special Assessments: None	
Payments to Property Owner's Association:	
Private Road Improvements	(See Below)
Other: None	
Specify: None	

Further road maintenance costs are shared by all lessees equally by mutually agreeable payments, which generally do not exceed \$150.00 per lot per year.

8. (a) Will purchaser's down payment and installment payments be placed in escrow or otherwise set aside? Yes or No? If yes, with whom? If not, will title be held in trust or in escrow?

No, not applicable. Lease issued immediately in all cases.

(b) Except for those property reservations which land subdividers commonly convey or dedicate to local bodies or public utilities for the purpose of bringing public services to the land being subdivided will purchaser receive a deed free of exceptions? Yes or No? If no, list all restrictions, easements, covenants, reservations and their effect upon buyer.

No. This is leased property only.

(c) List the permissible uses of the property based upon the restrictive covenants, and which are consistent with local zoning ordinances.

Recreational and Single Family Residential

(d) List all existing or proposed unusual conditions relating to the location of the subdivision and to noise, safety or other nuisances which might affect the subdivision:

Minnesota Power is responsible for managing hydro power generating reservoirs in multiple locations in northern and central Minnesota. All of the lots offered on hydroelectric reservoirs experience fluctuations in water elevation during the summer recreation season.

Garden Lake Reservoir is not a natural lake—specifically, it is a water reservoir facility used in association with Minnesota Power's hydro power generation at the Winton Hydro Dam Development, located one-quarter mile downstream from the Garden Lake Reservoir Subdivision. Federal licensing requires Minnesota Power to operate water levels on the reservoir throughout the year for hydro power and environmental considerations. Low water or drought conditions may effect water levels under certain conditions much like natural lakes in the region. During the

summer months the federal hydro license requires Minnesota Power to slowly lower the reservoir six inches from full pond by September 1, each year. Late winter regulations also allow Minnesota Power to lower the reservoir by two feet to help alleviate spring flooding potential on White Iron Lake, upstream. Spring run-off conditions (with higher watershed flows) typically bring the reservoir back to full pond shortly thereafter. **Warning:** Winter lake ice conditions are unpredictable on area lakes as well as on Garden Lake Reservoir, as well as above (on Garden Lake) and below (on Fall Lake) the Winton Hydro Dam Development due to strong water currents throughout the winter.

There are no guarantees of reservoir elevations. Consequently, during periods of low water elevation, areas previously submerged will be exposed. The extent of exposed lake bottom depends upon the slope of the lake bottom. Similarly, during periods of full pond these exposed areas of lake bottom will be submerged. The boundaries of Minnesota Power lease lots extend only to the high water shoreline of the reservoir. Exposed lake bottom areas are not part of lease lots. Pedestrian access to exposed lake bottom is not restricted. Minnesota Power provides a daily phone recording (218)-720-2777 of river flows and reservoir levels at these reservoir lakes. This same information is available online during week days only at www.shorelandtraditions.com.

Fall Lake is not a reservoir (it is a natural lake) and is subject to the amount of water flow present in the Kawishiwi River Watershed.

Minnesota Power is also required by its Federal Energy Regulatory Commission (FERC) Hydro License to provide public recreational facilities near the subdivision area, in coordination with the Minnesota Department of Natural Resources (MDNR). At Fall Lake, a new recreation facility is being developed to provide the public a parking lot and trail access to the Kawishiwi River Falls, as well as a new canoe portage that parallels the river. In the future, a spur of the North Country Hiking Trail (this trail is a part of the National Trails Network and is intended for non-motorized use only) will likely be located near the subdivisions as it passes through the region (moving east-west). The exact location has not been determined by the MDNR at this time, but will link to the Kawishiwi River Falls Viewing Trail, referenced above. On Garden Lake Reservoir, the existing boat launch is being upgraded/reconfigured and will include shorefishing access. None of these public recreation facilities are within the subdivisions on Fall Lake or Garden Lake Reservoir, and all are also available for leaseholders to use for recreational purposes without cost. The following map has been posted at several locations near the subdivision area to inform the public of these multiple projects occurring on Minnesota Power property:



9. (a) List all recreational facilities currently available (e.g., swimming pools, golf courses, ski slopes, etc.) State who owns or will own the facility and any costs or assessments to the purchaser or lessee.

None within the subdivision area.

10. State whether or not the following are available in the subdivision:

- (a) Roads: Yes.

1. Access to the subdivision: Paved 3 miles, unpaved 0, percentage of completion 100%, estimated completion date August 1, 2005.

From Ely, MN

2. Road system within the subdivision: Paved 0 miles, unpaved 0.5 miles, percentage of completion 100%, estimated completion date August 1, 2005 . All distances are from the Fernberg Rd.

- (b) Utilities:

1. **Water.** No. Individual well installed by lessee.
2. **Electricity.** Yes, Lake Country Power 1-800-662-5790
3. **Gas.** No. LP gas is available from area distributors. (Range LP, Farrell, Como)
4. **Telephone.** Frontier 1-800-921-8101
5. **Sewage disposal.** No. Individual system installed by lessee.
6. **Drainage and Flood Control.** No. Individual effort.
7. **Television.** Yes. Local reception adequate, Charter Communications or Satellite Dish.

- (c) Municipal Services:

1. **Fire Protection.** Yes. Ely Fire Department., Morse Fire Department
2. **Police Protection.** Yes. St. Louis County Sheriff's Dept. and Lake County Sheriff's Dept.

- 3. **Garbage and Trash Collection.** Yes. G-Men Garbage Service
- 4. **Public Schools.** Yes.
 - A. **Elementary Schools.** Washington Elementary (Pre Kindergarten – 6)
 - B. **Middle Schools.** Memorial Secondary School (7-12)
 - C. **High Schools.** Memorial Secondary School (7-12)
- 5. **Medical and Dental Facilities.** Yes
 - A. **Hospital facilities.** Ely Bloomenson Community Hospital, SMDC-Ely
 - B. **Physicians and dentists.** Local Ely
- 6. **Public Transportation.** None.
- 7. **U.S. Postal Service.** Yes. 2nd Ave. S., Ely, MN

11. Will the water supply be adequate to serve the anticipated population of the area?

Yes.

For a subdivision proposing the purchaser supply his/her own water, the public offering statement shall disclose the following:

A. The average, maximum and minimum depths to ground water within the subdivision;

average - 30 to 1100 feet in this general area of Ely
maximum - unknown
minimum - unknown

B. The recommended total depths of wells;

25 to 100 feet

C. The estimated yield from such wells;

1 to 50 gallons per minute with six inch casing

D. The life expectancy of the water supply under full development of the subdivision;

Estimated at 50 years to life

E. The lithologic character of formations through which the well is to be completed;

Solid rock or sand and gravel

F. The source and yield of surface water supply, if any;

Garden Lake and Fall Lake, unlimited yield

G. The use of the land prior to development, with emphasis on whether or not the soils and ground waters may be contaminated in some way;

Unimproved forestland, no known sources of contamination exist.

12. Is any drainage of surface water , or use of fill necessary to make lots suitable for construction of a one-story residential structure? Yes or No? If yes, state whether any provision has been made for drainage or fill and give estimate of any costs purchaser would incur.

No.

13. State whether shopping facilities are available in the subdivision; if not, state the distance in miles to such facilities and whether public transportation is available.

No. Shopping is available in Ely (3 miles) Public transportation is not available.

14. Approximately how many homes were occupied as of August 1, 2005 (insert date of filing)?

None

15. (a) State elevation of the highest and lowest lots in the subdivision and briefly describe topography and physical characteristics of the property.

Elevations are 1,320 to 1,440 feet above sea level. This lease area has primarily high rolling topography. Subsoil is primarily sandy gravel with loamy topsoil, and includes Birch, White Cedar, Quaking Aspen, White spruce, Balsam and Pine tree cover.

(b) State in inches the average annual rainfall and, if applicable, the average annual snowfall for the subdivision or the area in which it is located.

Average annual rainfall = 27.75"

Average annual snowfall = 46.6"

(c) State temperature ranges for summer and winter, including highs, lows and means.

Average summer high = +75.5°

Average winter high = +18.8°

Average summer low = +53.6°

Average winter low = -2.6°

Mean summer temp = +64.6°

Average winter temp = +8.1°

16. Will any subsurface improvement, or special foundation work be necessary to construct one story residential or commercial structures on the land? Yes or No? If yes, state if any provision has been made and estimate any costs purchaser would incur.

No.

17. State whether there is physical access (by conventional automobile) over legal rights-of-way to all lots and common facilities in the subdivision. State whether the access will be by public or private roads and streets and whether they will be maintained by public or private funds.

Access to all lots is via private gravel road maintained by lessee road association.

18. Has land in the subdivision been platted of record? Yes or No? If not, has it been surveyed? Yes or No? If not, state estimated cost to purchaser to obtain a survey.

Yes

19. Has each individual lot been staked or marked so that the purchaser can identify the boundary lines of his lot? If not, state estimated cost to purchaser or lessee to obtain a survey and to have boundary lines staked and marked.

Yes.

20. State whether a comprehensive program is in effect to control soil erosion, sedimentation, and flooding throughout the entire subdivision? Yes or No. If yes, has the plan been approved by officials responsible for the regulation of land development? Yes or No.

Yes As required under the Minnesota Pollution Control Agency Storm Water Permit issued for this project, a sedimentation and erosion control plan including temporary and permanent measures have been written and implemented. Garden Lake is a reservoir used to produce hydro electric power. Under it's Federal Energy Regulatory Commission License, Minnesota Power is required to operate the reservoir to lessen the possibility of flooding within the Kawishiwi River watershed.

21. Will the subdivider represent as a part of his sales program that the lot has investment potential? Yes or No. No.

If you as a prospective purchaser are considering the purchase of a lot as an investment for future resale you should consider the following potentially adverse factors:

- (a) A significant percentage of the sales price may have been committed to promotional advertising and sales commissions.
- (b) Significant costs may be incurred in the resale of the lot.
- (c) Your lot may have to be sold in direct competition with the subdivider's sales program.
- (d) Substantial population growth within the subdivision cannot be assured.
- (e) Promotional sales stimulus such as that used by the subdivider will not be available to you.
- (f) No assurance can be given that a real estate broker will agree to list your lot or to show it to prospective purchasers. This is especially important if your lot is located in a remote subdivision.

22. State whether the subdivider offers a resale program for those purchasers who wish to resell their lot. Yes or No? No. State how the purchaser will resell his lot in the absence of such a program. List any factors which may limit or affect the purchaser's ability to resell his lot.

(See Item #2, below)

MINNESOTA ADDENDUM

In addition to the information required above, Public Offering Statements authorized for use in the State of Minnesota shall include the following:

1. A statement whether the subdivider holds any options to purchase adjacent properties, and if so, a description of such options and the location and zoning of the adjacent properties.

Minnesota Power holds no options to purchase adjacent properties.

2. A statement indicating whether there is as of the date of registration an existing market for resale of any properties sold pursuant to this offering.

Each lessee has the right to transfer their lease to another individual upon approval by Minnesota Power of a written request to transfer the lease. Sale of lease improvements accompanying a lease transfer is the sole responsibility of the lessee, and many such arrangements are made through local realtors.

3. The material terms of any encumbrances, easements, liens, and restrictions, including zoning and other regulations affecting the subdivided lands and each unit or lot, a statement of the subdivider's efforts to remove such lien or encumbrance, and statement of all existing taxes and existing or proposed special taxes or assessments which affect the subdivided lands.

Refer to Exhibit C.

4. The name, principal address and telephone number of the subdivider and of its offices and agents in this state.

Minnesota Power
Land and Property Management
30 W. Superior St.
Duluth, MN 55802
(218)722-2641

5. A statement asserting that the subdivision is in compliance with federal, state and local environmental quality standards. If the subdivision is not in compliance, a listing of the steps to be taken, if any to insure compliance.

These lots are in compliance with federal, state, and local environmental quality standards.

Signature of the Senior Executive Officer of the Subdivider:

Claudia R. Scott Welty
Senior Vice President - Support & Chief Administrative Officer

(Date) _____