

2/2015

Tyler:

We have reviewed and discussed the proposed "Amendment to Surface Use" and have come to the conclusion that a separate agreement would be more appropriate for the additional 400 acres due to the short time remaining on the original "Surface Use and Haulage Agreement" and the large number of acres on the 2U Ranch, LLC to be included into the amendment.

Some background information: Lonesome Country Limited has been dissolved and replaced by Lonesome Country, LC. They manage the 2U Ranch, LLC; 4 Horseman Ranch, LLC; and Sextus, LC. The 400 acres in the amendment are entirely on the 2U Ranch, LLC and when combined with the acreage in the existing BPM agreement it would amount to greater than 79% of the 2U Ranch, LLC. When you include the additional 13% included with Colloid in a Surface Use Agreement (not dually claimed by BPM and Colloid), 92% of the ranch is subject to Surface Use Agreements. Is there a problem with Surface Use Agreements on the same acreage by two different companies, because both companies have agreements on some of the same acreage? I think that this is leftover from when Colloid thought they had the State of Wyoming mineral rights on acreage that BPM eventually established a claim.

We understand the need for the mining, but we are also aware of the potentially negative effects on our livestock, hunting and logging operations. We have a grazing lease agreement with Muleshoe Ranch, LLC in which we need to insure that we are in compliance with the terms of this agreement. There is also the issue of the length time that normal ranch operations are disrupted due to mining on the 2U Ranch, LLC. Two owners will be in their 90's and two others in their 70's before the end of these agreements. It would be our guess that additional bentonite will be found and the mining will continue way past the terms of these agreements.

The U.S. Geological Survey, Mineral Commodity Summaries reported that the price of Bentonite (average, dollars per ton) increased 25% from 2007 (date of the original Surface Use and Haulage Agreement) to 2014 to \$65.00. At the conservative estimate of 1.1 million tons available on the 2U Ranch, LLC at \$65.00/ton = \$71,500,000. This should be more than enough revenue for BPM to show a robust profit after operating costs, paying mineral rights interests, and alleviating negative impacts on the surface rights owners.

Therefore we are requesting the following in a separate agreement:

- Earned bentonite haulage payment \$0.3175/ton. This is based on the Consumer Price Index (inflation) of the original earned bentonite haulage payment of \$0.23/ton (2007) having the same value of \$0.26/ton (2014). In addition, an increase of 0.0575/ton due to the 25% increase in bentonite prices from 2007-2014 ($\$0.26/\text{ton} + 0.0575/\text{ton} = \$0.3175/\text{ton}$). Ever if BPM does not receive on average of \$65.00/ton, we are confident that there are adequate funds to compensate for the burden on surface rights owners.
- Additional fencing and road development to insure that we honor our livestock lease agreement with Muleshoe Ranch, LLC and to insure that livestock operation revenues are received by Lonesome Country, LC.

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- Development and restoration of reservoirs and installation of a well water system to comply with livestock lease agreement with Muleshoe Ranch, LLC and to insure that livestock operation revenues are received by Lonesome Country, LC.
- Moratorium on mining activity during the Wyoming regular gun deer season or compensate Lonesome Country, LC for lost hunting revenue.
- Marketable ponderosa pine that will be disturbed by mining activity will need to be assessed and harvested prior to mining activity. The value of ponderosa pine not initially marketable, but marketable within the term of the agreement, that are disturbed by mining activity will need to be compensated by BPM to the 2U Ranch, LLC.
- All reseeded areas will need to be established for grass seed production.

Sincerely,

Scott