

2/2015

Scott:

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. **Since you are open to amending or essentially superseding the current agreement with a new agreement with the additional lands, BPM would like the new agreement to have a term 13 years. This would include the 3 years remaining on the current agreement and extending it an additional 10 years to provide BPM with certainty for long-term mining. This would mean the new agreement would expire December 31, 2027.**

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? **This is not a problem, as we have shared surfaces for mining and hauling in the past and as long as the mineral ownership is understood.** 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

BPM 07

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. **In the case of hauling payments, the originally agreement that began in 2007 was \$0.20/ton and after 5 years it increased to \$0.23/ton. The current agreement for \$0.23/ton expires on May 31, 2017. BPM would like to honor the \$0.23/ton until the December 31, 2016 under the new agreement. Then in January 1, 2017 the new haulage rate would increase to \$0.2553/ton ($\$0.23/\text{ton} \times 1.11 \text{ inflation} = \0.2553) for a 5 year term and then increase to \$0.2833/ton ($\$0.2553 \times 1.11 \text{ inflation} = \0.2833) for the remainder of the agreement. This is based on a calculation of 11% increase for inflation. The 11% increase is the averaged derived from a 12% CPI and 10%PPI for bentonite over a 5 year period from 2010-2014. This increase would reflect conditions under the current agreement and also incorporating increases based upon CPI and PPI for bentonite over the past 5 years.**

- **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. BPM understands the need for dual use of the property and we can work with Muleshoe Ranch when fences are temporarily removed, as Caleb Dacar of Muleshoe Ranch typically does the fence work for our mining operation.**
- **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. BPM can develop and construct reservoirs as requested by Lonesome Country and approved by Wyoming DEQ to ensure livestock revenues are received for the land covered under the mining agreement.**
- **Moratorium on mining activity during the Wyoming regular gun deer season or compensate Lonesome Country, LC for lost hunting revenue. BPM can include a clause in the new agreement to minimize or cease mining activities during the rifle deer season to ensure hunting revenue is not lost for Lonesome Country.**
- **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. Do you have an idea on how we would determine market value of ponderosa pines on the property? Is there a certain size of tree (diameter breast height DBA) that we would consider marketable? BPM is open to ideas you might have in mind. BPM can try to avoid removing large trees that are considered marketable for timber harvesting if you intend to log the area in the future. BPM would normally include this as part of surface disturbance compensation. Additionally, removing ponderosa pine trees increases grazing AUMs when the land is reclaimed for grazing purposes, thus increasing capacity for Lonesome Country to lease grazing to Muleshoe Ranch in the future.**
- **All reseeded areas will need to be established for grass seed production. BPM will reclaim the land with our standard seed mix that has been used for reclaiming grazing lands. BPM can adjust the seed mix per your request and approved by Wyoming DEQ to ensure your needs are met.**

Thank you and we look forward to your response and working with Lonesome Country in the future.

Sincerely,

Joel Severin
Tyler Tetrault