



March 9, 2017

Ronald Ericsson
426 Lonesome Country Road
Alzada, Montana 59311

Subject: Mining Lease between Lonesome Country Ltd. ("LC")
and Bentonite Performance Minerals, LLC ("BPM")

Dear Mr. Ericsson,

As you are aware in February 2015, BPM initiated contact with LC to amend the existing Surface Use Agreement ("Agreement"), which expires on May 31, 2017, to add new surface lots not currently covered under the Agreement. The land covered under the Agreement is land in which BPM owns the mineral rights through patented minerals or state mineral leases and LC owns the surface. After discussions regarding outlining the future mining areas within LC surface ownership, LC preferred to have a new agreement for these new lands instead of amending the current Agreement. To that extent, LC proposed the following conditions as part of the new agreement:

- \$300 per acre surface disturbance one-time payment
- Haulage rate of \$0.3175/ton
- Construct 3 new reservoirs
- No mining or hauling during deer hunting season
- Assess and harvest marketable ponderosa pine trees before mining disturbance
- Reclaim land with specific grasses

LC also indicated it was in the process of being dissolved and replaced by Lonesome Country Limited Corporation which manages 2U Ranch, LLC ("2U Ranch) and Sextus Limited Corporation ("Sextus"), all of which were incorporated after the Agreement was signed in 2007. LC also stated that the new agreement would only cover land owned by 2U Ranch.

In February 2015, BPM reviewed LC's proposal and agreed to the following items:

- \$300 per acre surface disturbance one-time payment
- Constructing 3 new reservoirs
- No mining or hauling during deer hunting season
- Coordinate with LC's timber contractor to harvest ponderosa pine trees before mining
- Reseed with specified grasses from LC if approved by DEQ

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And BPM countered with the following:

- 12 year agreement (2 years on the current agreement and additional 10 years thereafter)
- Haulage rate of \$0.2553/ton for years 1-5 and \$0.2833/ton for the remainder of the agreement

In April 2015, LC countered BPM's above proposal for the additional mining lands with:

- 10 year agreement
- Haulage rate of \$0.26/ton with no inflection clause
- Construct permanent roads when mining is complete
- Meet with Neiman Timber Co. to assess commercial value of ponderosa pine trees
- Annual advanced hauling payment of \$20,000
- Construct permanent fences on sub-divided property boundaries

In May 2015, BPM reviewed LC's counter and agreed to the following:

- 10 year agreement
- Further look at the fences on sub-divided boundaries,
- Further look at the water system in the future to see what LC had in mind
- Coordinate with Neiman Timber Co for timber harvesting

Note, however, that BPM did not agree on either the \$0.26 haulage rate or the \$20,000 annual advanced payment.

All of the above items only cover the land owned by 2U Ranch and would be covered under the new agreement. This discussion did not include any lands covered under the Agreement that is set to expire on May 31, 2017. As stated above, LC requested two separate surface mining agreements: one agreement to cover lands owned by 2U Ranch and Sextus, and the other agreement to cover lands owned by 2U Ranch under which BPM owns or leases the mineral rights.

In July 2015, BPM met with LC to continue future mining discussions. At the conclusion of this meeting, it was agreed that instead of signing two separate agreements, BPM would create a new agreement with 2U Ranch and Sextus which would include all land owned by 2U Ranch and Sextus, and would be effective beginning at the expiration of the current Agreement.

In January 2016, BPM sent LC maps of the mine and reclamation plans for review and input. LC had questions regarding mining through a spring and requested BPM to (i) expand three existing reservoirs, (ii) create two new reservoirs outside the mining areas, (iii) build two ponds and (iv) construct permanent ranch roads when mining is complete. BPM agreed to these requests and would maintain the spring integrity if it was mined through. LC then asked BPM about the estimated disturbance area, tons mined, start date, and end date of the future mining area. BPM replied that there would be approximately 180 acres disturbed, approximately one million tons mined, it would be 3-6 years before mining begins and 15-20 years to complete dependent upon market conditions. LC then responded that the projected length of time for mining was too long and did not want mining for that long a duration. BPM explained the estimated time to mine was derived from the large amount of minerals owned by BPM and production capabilities at the Colony plant, as well as market conditions. It was agreed that BPM and LC would

discuss terms of a new agreement and BPM would postpone permitting the future mining areas for the additional land.

In February 2016, BPM presented a draft agreement for the land owned by 2U Ranch and Sextus which would be effective at the conclusion of the existing Agreement and would contain the following terms:

- 7 year term with a 3 year extension by both parties
- Surface disturbance of \$300 per acre one-time payment
- \$10,000 annual advanced hauling prepayment
- Hauling rate of \$0.26/ton
- Construct new fences on subdivided property boundary
- Coordinate mining with logging activities on the property.
- Construct permanent ranch roads as directed by LC
- Construct 3 reservoirs and improve 3 reservoirs
- Stop mining and hauling operations during hunting season

In February 2016, LC countered BPM's offer with:

- Surface disturbance increased to \$325 per acre one-time payment
- \$20,000 annual advanced hauling prepayment
- Construct a bridge across the Belle Fourche River as compensation for non-ponderosa pine trees disturbed by mining
- Haulage rate of \$ 0.26 per ton
- Survey and construct 3 miles of fence on subdivided property boundary
- Drill a new water well
- Install a water system from the new well with 6 tire tanks and 15,000 feet of buried water lines
- Clean and enhance 5 reservoirs
- Construct 2 new reservoirs

BPM's senior management discussed LC's requests, as they were not typical of standard mining agreements, and would was willing to agree to the following:

- Construct new fences subdivided property boundaries
- Construct 2 new reservoirs
- Enhance 5 existing reservoirs
- Surface disturbance of \$325/acre one-time payment
- Haulage rate \$0.26 per ton.

However, BPM would not agree to construct a bridge, water well, pipeline and tank system due to liability issues.

In March 2016, BPM proposed the following:

- Rolling over any advanced prepayment balances at the end of the existing Agreement into the new agreement;
- A contract term of 20 years (20 years is needed to mine the tons owned by BPM on the property and to spread out the cost of the excessive contractual demands requested by LC);

- A payment of \$20,000 for year 1 of the new agreement, no advanced prepayment on years 2-5 and then \$10,000 advanced prepayments for years 6-20 of the new agreement;
- Surface disturbance compensation would be deducted from the annual advanced prepayment.

In March 2016, LC responded with the following proposal:

- No rolling over advanced payment from current agreement
- New 3 year maximum term agreement
- No drilling in the spring or associated wetlands
- Replace water well which BPM drill truck allegedly ran over and crushed metal casing
- Non-ponderosa pine trees replanted
- Annual advanced haulage prepayment of \$15,000
- Haulage rate of \$0.30 per ton
- \$325 per acre one time surface disturbance not deducted from annual prepayment
- No mining or hauling during deer hunting season
- No longer asking for bridge, pipeline or water tanks.
- Determine value of non-ponderosa trees disturbed by mining and be assessed by an independent appraiser and compensated by BPM.

In July 2016, BPM met with LC to further discuss the new agreement and future mine planning. The parties agreed to the following terms:

- LC stated they would only consider a 3 year agreement;
- LC and BPM discussed a new agreement to only include lands which are currently mined by BPM in the current agreement;
- LC stated there would need to be 2 separate surface agreements, one with 2U Ranch and one with Sextus. Half of BPM's current mining is on land owned by 2U Ranch and the other half is on land belonging to Sextus.

In September 2016, LC proposed:

- 3 year agreement (separate agreements for 2U Ranch and Sextus)
- Annual advanced prepayment of \$12,500 each
- Haulage rate of \$0.26/ton
- Surface disturbance of \$300/ acre one-time payment
- Relocate and construct fences on subdivided property lines
- Permanent ranch roads as determined by LC
- Construct 2 reservoirs and clean 2 reservoirs
- No mining or hauling during hunting season
- No mining through springs or riparian zones
- \$43,000 to compensate for non-ponderosa pine trees disturbed by mining
- Install cattle guards with locking gates on roads which enter 2U Ranch

- If well casing is disturbed by mining activities, then BPM will replace existing 50'-100' well casing with new water well which is 4" diameter and min. of 450' deep and location determined by LC

In October 2016, BPM reviewed LC proposal and would agree to the following:

- 3 year agreement (separate agreements for 2U Ranch and Sextus, LC)
- Haulage rate of \$0.26/ton
- Surface disturbance of \$300/acre one-time payment
- Relocate and construct fences on subdivided property lines
- Construct permanent ranch roads as determined by LC
- Construct 2 reservoirs and clean 2 reservoirs
- No mining during hunting season
- Install cattle guards with locking gates where you enter 2U Ranch.

BPM proposed the following:

- Only include current mining lands, as discussed during July meeting, since mining will not begin in future mining areas during the 3 year term
- Remove language which pertained to the non-ponderosa pine trees payments, water well and springs, as these lands would not be disturbed by future mining within the 3 year agreement
- BPM would agree to keep the annual advanced hauling prepayment for Sextus at \$12,500 but proposed to change the annual advanced haulage prepayment for 2U Ranch to \$6,250. This was due to the fact that half of the minerals are on Sextus surface, and bentonite mined, and hauled from Sextus surface but does not cross land owned by 2U Ranch, making it difficult to deplete a \$12,500 advanced payment

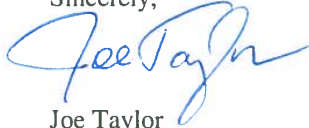
In November 2016, LC responded by stating BPM was trying to avoid paying for non-ponderosa pine trees 2U Ranch logged solely based on BPM future mine planning, and BPM is obligated to compensate 2U Ranch for non-ponderosa pine trees even if it is not mined. BPM replied and stated that no trees will be disturbed within the 3 year agreement and when mining advances into the new area with trees in future agreements, then BPM may compensate LC for those trees if agreed upon in the future agreement. LC stated they disagreed and logging was only initiated due to BPM stating these areas would be mined in the near future; otherwise, they would have not logged at this time and the decision to delay mining was unilaterally made by BPM, which is incorrect based on the March 2016 proposal by LC. In November 2016, BPM responded by forwarding LC an email which was sent to LC by BPM indicating before logging began and based on the BPM mine plan, mining would commence in the logging area in 3 - 6 years.

In January 2017, LC stated the new agreement needs to include a 3 year mine plan and details of where, when and the number of tons of bentonite are to be mined per year in the agreement. BPM responded to the LC request and provided a map of the disturbance areas in the 3 year term, as well as planned tonnages to be mined on a yearly basis from Sextus and 2U Ranch combined. LC responded stating they wanted this information and mining map to be included in the new agreement with DEQ documents but LC will not sign an agreement which does not compensate LC \$43,000 for non-ponderosa trees.

During this extensive negotiation process, BPM has been more than reasonable trying to work with LC by negotiating the terms for a new agreement as shown above. Unfortunately, these negotiations have been unproductive. The minerals owned by BPM require approximately twenty years to mine, and it is unrealistic to require BPM to continually negotiate short term agreements as proposed by LC. BPM requires a sufficient amount of time to mine and reclaim the lands without the constant threat of suspension while renegotiating multiple surface contracts.

BPM wants to reach a common ground on the commercial terms with LC and enjoy a productive relationship. To that extent, BPM proposes a meeting at your earliest convenience so we can negotiate and sign a new agreement that will be mutually beneficial to both parties.

Sincerely,



Joe Taylor
Global Manager
Bentonite Performance Minerals, LLC