

THIS AGREEMENT, made and entered into this 8th day of March, 1991, by and between M-I DRILLING FLUIDS COMPANY, a Texas general partnership, with an address at 3 Greenway Plaza, Houston, Texas 77046, hereinafter referred to as "Lessor", and BLACK HILLS BENTONITE COMPANY, a Wyoming general partnership, with an address at 55 South Salt Creek Highway, Casper, Wyoming, 82601, hereinafter referred to as "Lessee";

WITNESSETH

WHEREAS, Lessor is the owner of certain unpatented mining claims described in that certain instrument filed with the County Clerk and Ex Officio Registrar of Deeds of Washakie County, Wyoming and recorded in Book 51, Page 784-789 and also of certain patented mining claims described in that certain instrument filed with the County Clerk and Ex Officio Registrar of Deeds of Washakie County, Wyoming and recorded in Book 51, Page 790-798, hereinafter collectively referred to as the "mining claims", situated in Washakie County, Wyoming; and

WHEREAS, Lessee is engaged in the business of mining, processing and selling bentonite; and

WHEREAS, Lessor desires to enter into an agreement with Lessee for the lease of a portion of the mining claims for the purpose of mining and removing bentonite, and Lessee is willing to pay Lessor certain royalty payments for the bentonite mined, removed and

extracted therefrom. For purposes of this Agreement, "bentonite" shall mean merchantable bentonite with a barrel yield of 80 or greater.

NOW THEREFORE, Lessor and Lessee in consideration of the mutual covenants and promises set forth hereinbelow do hereby agree as follows:

1. LEASED PROPERTY AND TERM OF AGREEMENT

1.1. On or before March 15, 1994, Lessee shall notify Lessor of the identity of the specific mining claims it intends to mine hereunder, said mining claims so designated hereinabove, but limited to those located south and east of Cottonwood Creek, which shall hereinafter be referred to as the "property". Upon designation of the specific mining claims Lessee intends to mine, Lessee agrees to begin mining such in the southeastern most corner of the property located in T47N-R90W and continue in a contiguous manner in a northwesterly direction into T48N-R90W, as further outlined in red on the map labeled Exhibit "A" attached hereto and made a part hereof.

1.2. On March 15, 1994 or upon Lessee's designation of the specific mining claims it intends to mine, whichever shall first occur, all mining claims not designated in the property described hereinabove shall revert to Lessor and may be freely utilized by Lessor in whatever manner it deems appropriate.

1.3. In consideration of the royalties, covenants and agreements hereinafter reserved and set forth to be paid, kept and performed by Lessee, to which Lessee hereby agrees, Lessor hereby grants, demises, leases and lets exclusively unto Lessee the property, including all necessary easements, licenses and rights of way for the sole purpose of mining, extracting, removing, shipping and marketing bentonite, in accordance with the following terms and conditions.

1.4. Notwithstanding anything herein to the contrary, Lessee shall not mine, remove or extract more than 350,000 tons of bentonite from the property; further, Lessee shall not mine, remove or extract any other mineral or natural resource from the property. As used herein, one ton equals 2000 pounds.

1.5. Lessee's right to mine, extract and remove bentonite hereunder shall begin on the date hereinabove first written and continue thereafter until October 31, 2006 or until Lessee has mined 350,000 tons of bentonite from the property, whichever is earlier.

1.6. Upon performance of all of Lessee's obligations hereunder, Lessee shall peacefully surrender the property to Lessor and shall use its best efforts to obtain from the State of Wyoming a release of all liability for reclamation.

2. REPORTS

Lessee agrees to furnish Lessor a quarterly tonnage statement, together with an exact description showing the location of the pit from which the bentonite was mined and removed. In order to determine the accuracy of aggregate tonnage of bentonite, the weights of all bentonite removed from the premises by Lessee shall be determined by actual scale weights taken on the truck scales of Lessee at the time the bentonite is removed from the property. Lessor shall have the right during business hours to inspect said scales and, within ninety (90) days after the receipt of each quarterly tonnage statement furnished by Lessee to Lessor, shall have the right to inspect and audit the scale records of Lessee. If no objection is made to the quarterly statement within the 90-day period, the parties agree that such statement shall be deemed final, complete and binding upon Lessor and Lessee.

3. PAYMENTS UNDER THE LEASE

Lessee shall mine the first 150,000 tons royalty free and shall thereafter pay Lessor a royalty of One Dollar (\$1.00) per ton on the remaining 200,00 tons as it is mined.

4. PERMIT & REGULATIONS

It is further agreed by and between the parties hereto that a mining permit must be secured from the State of Wyoming and that Lessee will proceed with due diligence and make every reasonable

attempt to comply with any regulations incident to the issuance of said permit and to post any bond required.

5. POSSESSION

Lessor hereby acknowledges that it has the right to lease the property and that it will warrant and defend the Lessee's possession of the property against the lawful claim of any person or persons whatsoever.

6. USE OF PREMISES

6.1. Lessee agrees that it will comply with all Federal and State of Wyoming rules and regulations in the conduct of its mining operations on the property, including, without limitation, compliance with the Wyoming Environmental Quality Act and all such requirements relative to reclamation and restoration of the property after the completion of the mining and removal operations. Also, Lessee, during the reclamation process, will return the topography of the land as reasonably as possible, to be consistent with the natural terrain after the mining operations are concluded.

6.2. Where applicable, Lessee agrees to water the haul roads on Lessor's land used by Lessee to haul the bentonite from the property in such a manner as to meet at least minimum Federal and Wyoming air quality control standards.

6.3. Lessee agrees to repair and maintain any of the livestock auto gates on the property over which the bentonite may be hauled.

6.4. Lessor shall also have the right to enter and inspect the sites of Lessee's operations, provided, however, such right of inspection shall not unnecessarily interfere with Lessee's mining and removal operations.

6.5. Lessee shall observe and comply with all applicable Federal and State laws, statutes, rules, regulations and ordinances in connection with its operation hereunder. Lessee shall perform its operations hereunder in a good and workmanlike manner.

7. INDEMNITY & INSURANCE

Lessee shall defend, indemnify and hold Lessor harmless from and against any and all claims, liabilities and causes of actions in connection with or incident to Lessee's mining, removal and reclamation operations under this Lease Agreement and shall maintain in full force and effect Worker's Compensation and Employer's Liability Insurance or similar coverage. Lessee shall not be liable for any reclamation obligations arising out of any mining operations of Lessor on the placer mining claims and Lessor shall defend and indemnify Lessee therefor.

8. TAXES

8.1. Lessor shall, in accordance with the law, pay all taxes or charges in the nature of ownership taxes on the property, excepting any tonnage, license, or privilege tax levied on the severance, removal or mining of bentonite therefrom.

8.2. Lessee shall, in accordance with the law, file necessary tax returns applicable to all structures, machinery, equipment and other property placed by Lessee on, in and under the property and shall at such times as may be required by law pay all taxes or charges in the nature of taxes thereon. Lessee shall also pay any tonnage, license or privilege tax on the severance, removal or mining of such bentonite and all income, social security, old age and unemployment taxes that are or, during the life of this lease, may be imposed on Lessee or the employees of Lessee, and any other taxes that may be required by law with respect to the mining of bentonite from the property or the sale thereof.

9. IMPROVEMENTS

9.1. At any time while Lessee may conduct bentonite mining operations hereunder, Lessee shall have the right to construct any necessary buildings, fixtures and to place any machinery or equipment on the above property. It is further agreed that any improvements constructed or placed on the property or used in connection with the mining and removal of the bentonite, shall be the sole property of Lessee, that the same will be treated as trade fixtures, and that Lessee shall have the right to remove said objects, without waste or injury to the surface, at the termination of Lessee's right to mine bentonite hereunder. In the event such improvements are not removed within one hundred eighty (180) days from expiration or termination of Lessee's right to mine bentonite under this Lease Agreement, said improvements shall become the sole property of Lessor. Lessee

further agrees that if Lessor's taxes are increased as a result of any of Lessee's improvements on the property, Lessee will reimburse Lessor for such increase in taxes.

9.2. Lessee shall not cause or permit any liens or encumbrances to be attached to the property or to the bentonite in place thereon or thereunder, except as may be consistent with Lessee's rights hereunder, and in any event no such liens or encumbrances shall extend beyond Lessee's right of occupancy of the property and the same shall be inferior to Lessor's rights, title and interest to the property, and the bentonite in place, and Lessor's rights hereunder.

10. DEFAULT

In the event of a default of Lessee in performance of the provisions of this Lease Agreement, and if such default continues for a period of thirty (30) days after written notice thereof given by the Lessor, Lessor may terminate Lessee's right to mine bentonite hereunder, shall not be obligated to refund any of the advance minimum royalty payment and may engage legal counsel to pursue its rights hereunder, including the right of specific performance, and Lessee shall reimburse Lessor for the attorney's fees and other costs thereby incurred.

11. NOTICES

All notices required or convenient to be given hereunder shall be given by either party, in writing, to the other party by mailing the same by U.S. registered mail or certified mail, return receipt

requested, postage prepaid, addressed to the recipient's respective address hereinabove set forth.

12. ASSESSMENT

Lessee, at its cost, shall perform, in good faith, the assessment work required by law for the maintenance of each claim included in the property and to file reports and affidavits as required by law with respect thereto. Lessee shall provide Lessor with a copy of the assessment reports and affidavits at least 30 days prior to the filing of the same.

13. ASSIGNMENT

Lessee shall not assign or sublease this Lease Agreement without Lessor's prior written consent, except to a successor to all or substantially all of the assets of Lessee with Lessee owning at least 51% of any such successor. Any such assignment, if consented to, shall not relieve Lessee of its liability hereunder.

14. ENTIRE AGREEMENT

This Lease Agreement constitutes the entire Agreement concerning the subject matter hereof and any previous written or oral representations or understanding shall be without force or effect. Subject to the foregoing assignment and sublease provisions, this Lease Agreement shall be binding upon and inure to the benefit of the respective parties, their successors and assigns.

IN WITNESS WHEREOF, the parties have hereunto set their signatures the date hereinabove first written.

Witness:

W.B. Seavel

M-I DRILLING FLUIDS COMPANY

By: Ovid M. Johnson, Jr.
Ovid M. Johnson, Jr.
Senior Vice President -
Minerals & Chemical Operations

Witness:

Larry Madson

BLACK HILLS BENTONITE COMPANY

By: Thomas A. Thorson
Thomas A. Thorson
President