

DUHRING RESOURCE COMPANY

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September 5, 2007

Kathleen Morse, Forest Supervisor
Allegheny National Forest
222 Liberty Street
P.O. Box 847
Warren, PA 16365

RE: Lots 7, 8 and 9

Dear Ms. Morse:

Thank you for your letter of August 31, 2007, providing a status update. Please note Duhring's proper mailing address: P.O. Box 726, Sheffield, Pennsylvania 16347. Our telephone number is 968-3337.

I just received the timber contract for Lot 7 (it too went to the old address). That contract contains some of the problematic provisions I have written about, to you, in the past. To keep this process moving, I am (provided the forester approves the price) making some small modifications, executing it, and returning it to the contract officer. In the larger scope, I continue to request that you discontinue the utilization of these inappropriate contracts. There is past precedent for foregoing the contract and merely exchanging a bill and payment. This simple exchange is a swift procedure that reasonably fits the circumstances. If you feel compelled to utilize a contract, I suggest the use of the simple form I drafted and sent to you over one year ago.

Also, with respect to Lot 7, please note that the contract forwarded by your office pertains to only 2 of the 15 wells. I was advised, for the first time last week, that the remaining 13 wells on the Lot 7 project are subject to an existing timber contract the ANF has with Mr. Al Smith. Obviously, I have no control over Mr. Smith. I urge you to utilize whatever contractual or other authority you have to ensure that Mr. Smith removes the timber promptly.

Turning to Lots 8 and 9, permit me to correct your thought that additional adjustments were being made on August 31, 2007. In fact, I was meeting with Mr. Winters merely to review the pit plan. No adjustments were made to road layout on Lot 9. (When applying

the two-stripe markings on a portion of Lot 9, Mr. Winters made a slight change to the road layout. On August 27, 2007, Mr. Winters asked me to look at that change to see if it was satisfactory. My partner and I examined that change on August 29 and were satisfied with it.) I do not want there to be any confusion as to the source of the delays on Lot 9.

Likewise, the marking of the timber and the issuance of the Notice to Proceed on Lot 8 continues to be delayed. Before his departure for vacation, Mr. Winters communicated to me that his superiors wanted Duhring's surveyor to do additional work on the portion of the Lot 8 area map marked "future wells" before the Forest Service would complete its analysis of the Lot 8 project. As you will recall, I was troubled by this delay and sent a letter to you on August 22, 2007, expressing my concern. You telephoned me the next day to discuss my concerns. With respect to Lot 8, you indicated that you had discussed the matter with Tony Scardina, that because of Duhring's cooperation on the changes on Lot 7 and the Forest Service's delay on Lot 8, you and Tony had agreed that Duhring would not need to provide any further information with respect to Lot 8, that the Forest Service was approving Duhring's Lot 8 Plan of Operations, and that the Notice to Proceed would issue by the end of the following week (August 31, 2007).

Last week, however, it became apparent that there remained confusion on the part of the Forest Service concerning Lot 8. I received telephone calls from Mr. Winters and a conference call from Messrs. Weese and Scardina. Your staff was inquiring whether Duhring wanted timber marked for a mere right-of-way versus a roadway on the southerly portion of Lot 8 and when/if Duhring would be building those locations marked "future" well sites. At the end of the process, Mr. Scardina acknowledged that the confusion had arisen on the part of the Forest Service and that Duhring had not, in any way, changed its Plan since it was submitted in March. Again, I want the record to be entirely clear that Duhring has not modified its Plan of Operations for Lot 8 in any way and that the cause for delay does not rest upon Duhring's shoulders.

Concerning timber removal on Lots 8 and 9, I learned, for the first time, on August 31, 2007, that Highland Forest Resources has a timber sale contract covering both of those lots. Assuming that Highland Forest Resources elects to purchase the timber involved in Duhring's Plans of Operation, Duhring will, obviously, have no control over Highland Forest Resources. As in the situation with Mr. Smith, I respectfully ask you to create contractual clauses or do those other items, within your power, in order that Highland Forest Resources be obliged to remove the timber immediately. I cannot sufficiently underscore how desperate the time situation is at this stage.

Permit me to also address two matters related to the ANF's timber removal projects on Lots 8 and 9. Approximately three weeks ago, Duhring was invited to attend a meeting with your employee Jeff Stevenson and your contractor Steve Dyne concerning work the Forest Service had contracted Mr. Dyne to perform on Forest Roads 148 and 162. Mr. Stevenson advised us that this work is being done in order to improve the roadways for your upcoming timber removal. Mr. Dyne and Mr. Stevenson were concerned about pipelines that might be buried in those roadways.

We advised both Messrs. Dyne and Stevenson that those pipelines had been buried by our predecessor, Azco Operating Company. Although the Trustee in the Azco Bankruptcy gave us the Azco records, we have not located accurate pipeline maps, and we have little information as to pipeline locations in and along those roads. Nevertheless, Mr. Stevenson asked that we assist Mr. Dyne. As your staff is aware, Mr. Dyne struck several pipelines during the course of the road improvement work. We received calls for assistance from both Mr. Dyne and your staff. We responded to all of those requests with men, equipment, and supplies.

Attached are the time sheets from the various crews who responded to those requests. Also attached is an invoice summarizing the crews' labor and supplies utilized. I have set forth the labor at \$27.50 per hour which is the same rate Duhring charges under its various operating contracts to third parties. As you can see, the total charge is \$2,184.20. Since the labor and materials ultimately went to a road improvement project, I am willing to have the dollar amount of \$2,184.20 offset against road permit fees charged by the ANF to Duhring. Alternatively, the issuance of a check would be satisfactory. Kindly advise.

The other matter concerns timber removal by Highland Forest Resources, not on areas of new construction proposed by Duhring but, rather, upon Duhring's existing oil and gas roads. This is, essentially, the same topic I have written about, to you, in the past and for which Duhring has submitted compensation items to Mr. Scardina arising from the recent Forest Service project on Henry's Mills.

We acknowledge your right, as surface owner, to move about your surface and remove timber therefrom. However, you must do so with reasonable care to protect Duhring's oil and gas improvements. If your contractor wishes to utilize Duhring's roadways, well locations, and tank batteries, advance arrangements will have to be made with Duhring.

In a generic context, I discussed this need with Messrs. Weese and Scardina on June 29, 2007. During that conversation, Mr. Weese advised Mr. Scardina that such arrangements were typically handled, directly, between the timber contractor and the oil and gas operator. I observed that there is no privity between the timber contractor and Duhring and that such arrangements were thus inappropriate. Mr. Scardina agreed.

If the Forest Service contractor requires the use of Duhring's roads, locations, and the like, Duhring will expect the Forest Service to provide a Plan of Operations, in advance, for this usage. The Plan should specify the particular portions of Duhring's improvements which the Forest Service or its contractor intends to utilize. An approximate timeframe should be provided. It is particularly important that the Forest Service identify areas where equipment, logs, tops, or other items are intended to be parked or stored.

Duhring will then analyze that Plan of Operations based on its need to gain access to its facilities for regular operations, for service, and for emergency situations. Duhring will advise you if any portion of the Plan is not consistent with Duhring's operational and

safety needs. If a review of your Plan reveals such concerns, I expect we can work them out through discussion.

Finally, the Forest Service will need to keep track of the number of trips made by heavy equipment (log trucks, skidders, lowboys, and the like) over Duhring's facilities. Duhring will simply charge the same rate of compensation as that charged by the Forest Service for the usage of roads maintained by the Forest Service.

I would like to avoid the types of problems created by the Forest Service timber removal operations at Henry's Mills. During the Henry's Mills project, Duhring's oil and gas production was unnecessarily shut down for long periods, pipelines were damaged, and Duhring's roads were utilized and occupied by timber equipment and logs. By way of example, I enclose a photograph. I think the process I have outlined above is one that takes into better account the protection of Duhring's property and improvements.

I apologize for the length of this letter, but I thought it made more sense to cover these several related items in one document.

Very truly yours,

A handwritten signature consisting of a stylized 'A' followed by a vertical line and a slanted 'S'.

Arthur J. Stewart

AJS/ame
Enclosures

