



United States
Department of
Agriculture

Forest
Service

Allegheny National Forest
Supervisor's Office

222 Liberty Street
PO Box 847
Warren, PA 16365
(814) 723-5180
FAX (814) 726-1465

File Code: 2460-1

Date: December 21, 2005

Mr. Arthur J. Stewart
President
Duhring Resource Company
7 Branch Street
Warren, PA 16365

Dear Mr. Stewart:


As a follow-up to our telephone discussion of November 16, 2005 with Forest Supervisor Morse concerning the disposition of OGM Timber Settlement Sale, Case 434 – 6 well package, awarded October 27, 2005 as contract number 03-153320 on contract FS-2400-3T), your issues with our contract language, and your proposed provisions, we believe we have a workable solution satisfactory to both parties.

We reviewed and considered the incorporation of your provisions into a new contract crafted on Forest (we actually drafted a new contract for review by our Regional Office). However, neither the Forest Supervisor nor I have the authority to independently create and use a new contract, based on subsequent discussion with the Regional Office regarding this draft contract.

As a result of these talks, we propose and are authorized to use for OGM timber settlement sales a more concise instrument, Forest Products Contract FS-2400-4, that we believe incorporates some of your suggested language. Furthermore, the Contracting Officer has the discretion to modify contract requirements that you believe conflict with your mineral estate rights (example, performance bond can be shown as "None required" or \$ 0.00). I have enclosed a sample copy of this abbreviated contract form for your review and consideration.

While this instrument may not satisfy all concerns, we believe it is a compromise solution to this issue for both parties. We are willing to meet with you to address questions you may have with this contract. Again, while perhaps not a perfect solution, we believe it is a workable solution, given the rights of both parties. We look forward to hearing from you.

Sincerely,


RANDALL A. DURNER
Contracting Officer

Enclosure



003644

cc: Randy Durner, Leon Blashock, Carol Burd, John R Schultz, Lois Demarco, Stan Kobielski,
Kathleen Morse

ARTHUR STEWART & ASSOCIATES, P.C.
ATTORNEYS AT LAW

600 MARKET STREET
WARREN, PENNSYLVANIA 16365

(814) 723-3445

FAX (814) 723-7950

November 4, 2005

Mr. Randall Durner
Allegheny National Forest
222 Liberty Street
Warren, PA 16365

RE: Contract No. 03-153320

Dear Mr. Durner:

I am in receipt of your October 27, 2005, letter advising that you are modifying your past contract award practice. You indicate that the reason for the modification is to ensure the proper management of the National Forest resources.

I assumed that the modification was because my client had refused to sign the previous timber contracts proposed by the Forest Service. In the event you are not aware of that refusal, permit me to share with you Duhring's position that the proposed contract does not fit the situation where Duhring is the owner of the subsurface and the Forest Service is the owner of the surface. I have corresponded twice with the Forest Service about the inapplicability of its contract. The most recent letter was sent July 13, 2005, to Mr. Blashock. That letter sets forth the problems with the contract in more detail and I enclose a photocopy for your reference.

In my letter to Mr. Blashock I suggested a meeting to talk about contract terms that might fit this situation. However, no representative of the Forest Service contacted me after I wrote to Mr. Blashock. The closest contact I had came a few days prior to mailing the letter to Mr. Blashock; I received a message from a Forest Service attorney threatening me with criminal prosecution if I failed to sign the contract.

Had the Forest Service responded to my request for a meeting, I would have discussed the purpose of the contract. Under Pennsylvania law the surface owner is burdened by the servient tenement; the oil and gas owner enjoys rights to operate upon the surface and suffers liabilities if it abuses those rights. Those items are well established under Pennsylvania law and a contract should not be used to add to or detract from either party's rights and obligations. Your proposed contract takes away certain of Duhring's rights.

Mr. Randall Durner

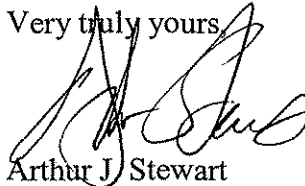
Page 2

November 4, 2005

I have prepared a contract which, I believe, is respectful of both parties' rights and obligations and I enclose duplicate copies executed by Duhring. I also enclose Duhring's check for the full amount of the timber at issue, namely \$53.04. I have advised Duhring to go ahead with the project.

In closing, I want to note that one year ago, while doing culvert work, the Forest Service damaged a pipeline which Duhring acquired from Azco Oil Company. Several thousand dollars of gas production was vented into the atmosphere and Duhring incurred the cost of repairing the pipeline. From Duhring's perspective it would be good to have a contract (protecting Duhring's facilities) for every activity which the Forest Service wishes to conduct upon Duhring's oil and gas property. Will the Forest Service be willing to execute such a document, especially if I unilaterally prepare the same?

Very truly yours,

A handwritten signature in black ink, appearing to read 'Arthur J. Stewart', is written over the typed name below it.

Arthur J Stewart

AJS:lag

Encs.

cc: Leon Blashock
Kathleen Morris

TIMBER PURCHASE AGREEMENT

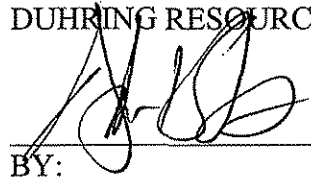
Page 2

1. Purchaser agrees to purchase from the Forest Service the timber described on page 1 hereof for the consideration set forth on page 1 hereof.
2. The timber sale area is set forth on the map attached as the last document hereof.
3. The Purchaser agrees to sever the timber in such a fashion so that trees adjacent to the sale area or located within the sale area but not designated for cutting are not damaged or cut. The Purchaser shall compensate the Forest Service for the fair market value of any such trees so damaged or cut.
4. The Purchaser agrees to hold harmless and indemnify the Forest Service, its agents and employees from and against any and all claims and causes of action of every kind and character, including reasonable attorney's fees, arising from or associated in any way with the Purchaser's timber purchase operations.
5. The Forest Service warrants that it has good title to the timber which is the subject of this Agreement.
6. The signatories hereto warrant that they have the authority to execute this document on behalf of the Party for whom they sign.

IN WITNESS WHEREOF, the said Parties to this Agreement intending to be legally bound hereby for themselves, their heirs, administrators, executors and assigns, have hereunto set their hands and seals the day and year first above written.

***SIGNED, SEALED AND DELIVERED
IN THE PRESENCE OF***

DUHRING RESOURCE COMPANY



(SEAL)

BY:

FOREST SERVICE

(SEAL)

BY:



USDA Forest Service
 ALLEGHENY NATIONAL FOREST
 222 Liberty St., P. O. Box 847
 Warren, PA 16365
 Telephone (814) 723-5150
 Timber Sale & Capital Resources FAX 814/723-0085



ATTENTION: Leon Blashock & John Schultz

Fax #: _____

Total # of Pages to follow: 6

Message: RE: Duhring Resource Co. Issues.

- Update on this latest issue
- Letter to Duhring was sent Friday
- Draft proposal for processes changes for review & comment.

- Leon - you can contact Paris & permit him to return to work.

From: Randall A. Dummer, TSCO
 Date: 23 July 2005

Please call if you have any problems with this transmission.

July 23, 2005

Leon Blashock, District Ranger, Marienville RD
John Schultz, District Ranger, Bradford RD
Lois Demarco, EM Team Leader, Supervisor's Office

Re: OGM Case 408 -- Duhring Resource Co.

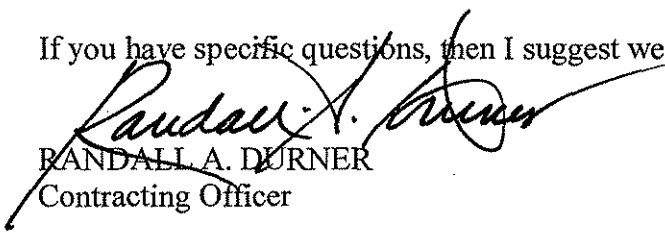
As a result of the recent letters from Mr. Arthur Stewart of Duhring Resource Co., and his refusal to sign two OGM settlement timber sale contracts, one on each Ranger District, we have agreed upon a response to Mr. Stewart in the OGM Case 408. Copy of my written response to Mr. Stewart follows, based upon consultation with Mike Danaher of OGC last Friday, with his co-authorship.

Considerable discussion and a conference call occurred, with Dale Dunshie, Linda Houston, Geoff Chandler, Kathleen Morse, and myself involved. Both Geoff and Kathleen agreed to this position and response to Mr. Stewart as outlined in the letter, and I as Contracting Officer concur with it. It separates Stewart's concerns over the contract from the ongoing activity, to be addressed separately. As Mr. Stewart is out of the country until August 3, 2005 and no one else in his business could or would act on this, we felt this was the best solution. We are specifically not condoning Mr. Stewart's actions, but under the circumstances, this is the best fit.

Mr. Paris should be informed that he can resume his operations on OGM Case 408, but that we expect him to perform under the provisions of the 2400-3T contract. According to Dave Cotterman, his operations met our standards for acceptable workmanship under the contract.

There are processes changes that need to occur, so that appropriate accountability occurs and this situation does not occur again. A draft of proposed changes also follows, for your review and consideration.

If you have specific questions, then I suggest we discuss them at a conference call.


RANDALL A. DURNER
Contracting Officer



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222 Liberty Street
PO Box 847
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FAX (814) 726-1465

File Code: 2460

Date: July 22, 2005

Arthur J. Stewart
President
Duhring Resource Company
7 Branch Street
Warren, PA 16365

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Dear Mr. Stewart:

I have received copies of recent letters (June 30, 2005, and July 13, 2005, respectively) sent from Duhring Resource Company to Mr. Thomas Farrell, Resource Administrator on the Bradford Ranger District, and Leon Blashock, District Ranger for the Marienville Ranger District, regarding contracts (contract numbers 03-152629 and 02-153015 respectively) with the U.S. Forest Service for the sale of public timber on OGM lease developments.

Those letters outline specific provisions of the contract which you believe do not apply to Duhring Resources, or to which Duhring does not wish to be bound. On the basis of those points and the letters, it is clear that Duhring Resource Company is not willing nor desires to execute a formal timber sale contract for the disposal of that timber. Thus, your objection to signing the contracts should not be construed as any delay by the Government in this matter.

As of July 21, 2005, it was discovered that operations were in progress on the Marienville Ranger District for OGM Case 408 (contract # 02-153015). A Forest Officer contacted Mr. Buddy Paris who is conducting the logging and clearing operations and informed him that no formally executed contract exists at this time.

On July 22, 2005, a Forest Officer requested that Mr. Paris cease his logging operations until such time as this issue is resolved. Operations have ceased at this time.

In response to the Forest Service billing, the value of this timber has been paid to the Government. Payment alone is not sufficient basis to begin harvest of designated National Forest timber. Cutting without authorization is prohibited [36 CFR 261.6]. While Duhring has not signed and returned the formal FS 2400-3T contract, I have determined based upon discussions with legal counsel that upon acceptance by the Government of your payment for the timber a constructive contract by implication arose between Duhring and the Forest Service. The terms and provisions of that constructive contract are as set forth in the FS 2400-3T contract form with which you are familiar from past dealings with the Forest Service. In the harvest of designated timber by your agent Mr. Paris, we will look to Duhring and Mr. Paris for compliance and adherence with all of the contract requirements.



Duhring Resource Company – OGM Case 408
July 22, 2005

2

This Forest has strived to work cooperatively with OGM developers in a timely and reasonable manner and without unnecessary delay in the development of their mineral estates on the National Forest and to respect their rights. As surface owner, the Forest Service is legally entrusted by the Federal government, and required by law and regulation, to insure the protection of its resources as well. The timber sale contract is the instrument which enables the Forest Service to redeem that responsibility.

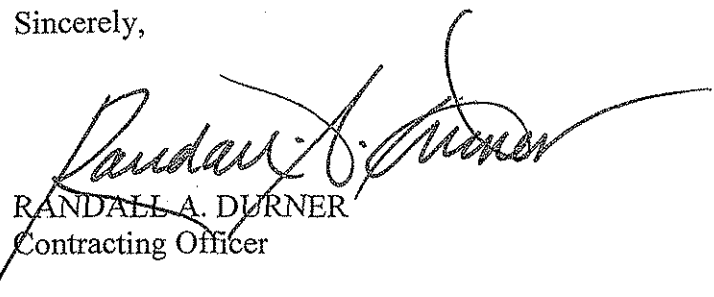
In as much as you have cited contractual concerns, I have requested legal assistance from our Office of the General Counsel (OGC) to provide me with guidance in dealing with this matter and in the future. I understand our OGC lawyers have attempted to make contact with you.

As for the disposal of National Forest timber on OGM lease developments, there are three available options to select from, based upon custom and usage with the rest of the OGM industry operating on the Forest. The first two can be accomplished in a reasonable time frame while the third option may require more time.

- Dispose of timber through a direct sale settlement timber sale contract to the OGM developer, and pay for the timber. Both an executed contract and full payment must be provided before operations can proceed.
- If the prior option is unworkable, the Forest Service will grant written permission, and the OGM developer agrees in writing to certain stipulations and conditions, to fell, skid, and deck designated timber within the lease development boundary for later sale at the Forest Service's discretion. No compensation is provided to the OGM developer for this work.
- Failing the other options, the Forest Service may then undertake to make a commercial timber sale to be offered through competitive bidding. This may entail an environmental analysis through the NEPA process, which can be subject to possible appeal and litigation.

We are willing to meet with you to listen to your specific concerns. In the meantime, work may proceed on OGM Case 408 under the constructive contract by implication noted above.

Sincerely,



RANDALL A. DURNER
Contracting Officer



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FAX (814) 726-1465

File Code: 2460

Date: July 22, 2005

Arthur J. Stewart
President
Duhring Resource Company
7 Branch Street
Warren, PA 16365

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Dear Mr. Stewart:

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Those letters outline specific provisions of the contract which you believe do not apply to Duhring Resources, or to which Duhring does not wish to be bound. On the basis of those points and the letters, it is clear that Duhring Resource Company is not willing nor desires to execute a formal timber sale contract for the disposal of that timber. Thus, your objection to signing the contracts should not be construed as any delay by the Government in this matter.

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Duhring Resource Company – OGM Case 408
July 22, 2005

2

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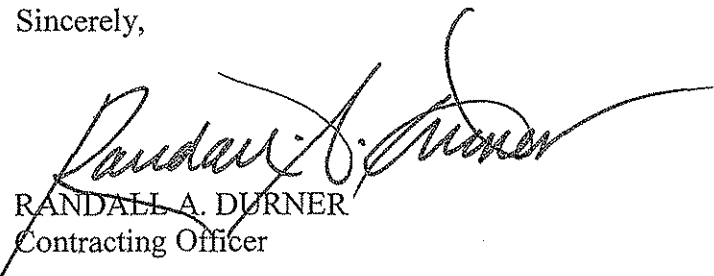
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- Dispose of timber through a direct sale settlement timber sale contract to the OGM developer, and pay for the timber. Both an executed contract and full payment must be provided before operations can proceed.
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- Failing the other options, the Forest Service may then undertake to make a commercial timber sale to be offered through competitive bidding. This may entail an environmental analysis through the NEPA process, which can be subject to possible appeal and litigation.

We are willing to meet with you to listen to your specific concerns. In the meantime, work may proceed on OGM Case 408 under the constructive contract by implication noted above.

Sincerely,



RANDALL A. DURNER
Contracting Officer



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Allegheny National Forest
Supervisor's Office

222 Liberty Street
PO Box 847
Warren, PA 16365
(814) 723-5150
FAX (814) 726-1465

File Code: 2450
Route To: (2460)

Date: July 21, 2005

Subject: Failure to Execute OGM Timber Settlement Contracts - Duhring Resource Co.
To: Acting Forest Supervisor, Geoff Chandler

I have received copies of two recent letters from Duhring Resource Company, one sent to Thomas Farrell, Resource Administrator on the Bradford Ranger District dated June 30, 2005, and the other to District Ranger Leon Blashock of the Marienville Ranger District dated July 13, 2005, regarding a decision not to sign OGM (oil, gas, and mineral) timber settlement contracts in connection with development of sub-surface mineral estates held by Duhring, beneath National Forest lands.

Normal protocol on the Forest has been to sell affected timber resources within proposed lease developments under an OGM timber settlement contract to the developer, after designating the timber and appraising it. Predicted bid premiums are added to determine final selling price. Most developers execute the contract, pay for the timber, and have the timber logged. Those few who object to or dispute the selling price are offered the option of cutting and decking (tree length) the designated timber upon written agreement (copy attached) with the Forest Service. The timber is then sold as a timber property sale.

The rationale set forth by Mr. Arthur Stewart who signed the letters, the owner of Duhring Resource Company and an attorney, for not executing the contract is that many of the terms of the Forest Service contract (a 2400-3T form) are not geared toward "co-ownership of the parcel" nor as he is suggesting, is there apparently any "consideration" (ostensibly to Duhring) that would create a valid contract. He further suggests the possibility of creating a more suitable contract that meets his terms.

I shared one of the letters with Acting Regional Timber Sale Contracting Officer Howard Freerksen who responded with comments regarding the situation. However, given the intertwined nature of the surface and sub-surface ownership rights, I believe that advice and counsel from the Office of General Counsel regarding those rights as well as the contract issue, is required in order for me to properly respond to Mr. Stewart. Copies of his letters are attached.


RANDALL A. DURNER
Contracting Officer



cc: Randy Durner, Lois Demarco, Linda Houston, Howard Freerksen

Randy Durner/R9/USDAFS
07/21/2005 03:37 PM

To Geoff Chandler/R9/USDAFS@FSNOTES, Leon
Blashock/R9/USDAFS@FSNOTES, John R
Schultz/R9/USDAFS@FSNOTES, Jim
Campbell/R9/USDAFS@FSNOTES, William
Novitske/R9/USDAFS@FSNOTES, Dale
Dunshie/R9/USDAFS@FSNOTES
Randy Durner/R9/USDAFS@FSNOTES, Howard
Freerksen/R8/USDAFS@FSNOTES, Beth A
cc Porter/R9/USDAFS@FSNOTES, Wendell
Wallace/R9/USDAFS@FSNOTES, Linda
Houston/R9/USDAFS@FSNOTES

bcc

Subject OGM Situation - Duhring Resources Company

Both Ranger Districts recently received letters from Arthur Stewart of Duhring Resources Co. regarding OGM settlement timber sale contracts, that he is unwilling to execute (Bradford's is contract # 03-152629; Marienvilles is 153015).

The value of both contracts it appears has been paid for, but the contracts were not signed by Duhring Resource officials, and I have no copy in our office with my signature on it. The Marienville contract is about \$ 165,000, while the Bradford contract ran about \$ 28,000.

It was learned today by an on-site visit that logging operations are on-going on the Marienville OGM lease area of Duhring's. About half of the included timber is estimated to be cut.

Without an executed contract, or a signed agreement to cut and deck the timber to facilitate a timber property sale, we do not believe operations should continue. Despite the payment, we should have one of these instruments in hand.

I want to review this situation with the Line Officers and consider shutting operations down. We will also want to give Duhring notice of this.

I will set up a conference call through Beth for around 8:30 AM, Friday , and have her send out the call in number to you.

RANDALL A. DURNER, TS Contracting Officer
Timber Sale Group, Ecosystem Mgmt Team
Forest Supervisor's Office, Allegheny NF, R9
rdurner@fs.fed.us 814-723-5180 xtn 202

Dave Lombardo/R9/USDAFS
07/20/2005 03:36 PM

To Leon Blashock/R9/USDAFS@FSNOTES
cc Randy Durner/R9/USDAFS@FSNOTES, Lauren Miles/R9/USDAFS@FSNOTES
bcc
Subject Re: Durhing resources letter re-timber contract

Leon,

will forward this on to Randy who is taking the lead on a responce. I am not sure of his time frame. If you want i can draft a letter and say we received it and are reviewing it - but Mr. Steward needs to understand that it is now him holding up his project and not the forest Service. He can not proceed with any cutting of timber till he either 1) executes the contract and pays his bill that we sent him or 2) he tells us that he doesn't want to now purchase the timber and executes an agreement with the FS on removing the timber. I say it's his call as to how he wants to proceed and at what pace. We responded to him in a very timely maner so as not to infringe on his outstanding rights.

Lauren check with cotterman he was going to go by this area and make sure they are not cutting any timber. If they are we are to contact LE immediately and have them take the lead on any trespass. Also put this note in Durhing Resources case folder so we can maintain documentation that their attorney/owner is the one who is holding up the project and not the FS

dave

David Lombardo
Operations Team Leader & R9 HEPM
US Forest Service
Allegheny National Forest
Internet: dlombardo@fs.fed.us
(814) 927-6628 ext 162
Leon Blashock/R9/USDAFS

Leon Blashock/R9/USDAFS
07/20/2005 11:28 AM

To Dave Lombardo/R9/USDAFS@FSNOTES
cc
Subject Re: Durhing resources letter re-timber contract

ok Dave.....I would expect you to keep track of this so we respond in a timely manner to Mr. Stewart...We may want to send him an 'interim' letter at least acknowledging that we have received his communication and are deliberating on it with our attorneys.....Also, we need to keep track of timelines on this and not be untimely.....Leon

Dave Lombardo/R9/USDAFS

Dave Lombardo/R9/USDAFS
07/18/2005 03:43 PM

To Leon Blashock/R9/USDAFS@FSNOTES, Randy Durner/R9/USDAFS@FSNOTES
cc Lauren Miles/R9/USDAFS@FSNOTES, Sherry Fountain/R9/USDAFS@FSNOTES, James Boyd/R9/USDAFS@FSNOTES, Dave Lombardo/R9/USDAFS@FSNOTES, Linda Houston/R9/USDAFS@FSNOTES
Subject Durhing resources letter re-timber contract

Leon,

I discussed the durhing resource letter with the CO and he was going to discuss with the RO folks and draft up a letter. As I wrote in my fax the first paragraph was correct in that we had a typo and the date should have been July 2 not July 20.

As for Mr. Stewards concerns about the various contract provisions and clauses Randy Durner would address those. I told Randy that my preference is that if he doesn't want to accept the contract we have always used that we tell him that he has the option to sign a timber removal agreement with us and he can cut, skid and deck government timber per that agreement at his expense. We can then sell the timber via a competitive bid timber sale. We have an agreement that steve chinault and myself designed a few years back with Randy's review.

But as I told Randy, Mr. Steward probably wouldn't like those provisions either and I don't know if he refuses to sign that what our next step is. But figure let's take this one step at a time and see what Randy and the RO come up and what Mr. Steward decides. Then if there was/are still concerns the Government attorneys may need to deal with this.

Dave

David Lombardo
Operations Team Leader & R9 HEPM
US Forest Service
Allegheny National Forest
Internet: dlombardo@fs.fed.us
(814) 927-6628 ext 162

Duhring Resource Co.

7 Branch Street
Warren, Pa. 16365

July 13, 2005

Leon Blashock, District Ranger
Allegheny National Forest
HC 2, Box 130
Marienville, PA 16239

RE: Timber Contract 2153015

Dear Mr. Blashock:

I write in follow up to your letter Notice to Proceed dated July 20, 2005 (I note the envelope was postmarked July 9, 2005; today is July 13. I assume the notice was probably intended to be dated July 2, 2005.) I have concerns about the contract form.

The essential problem with the contract is that it is not geared to the situation of co-ownership of the parcel. That manifests itself in a variety of ways. I will not recite all of the difficulties here. However, permit me to give some examples so the nature of the problem is clear.

Section BT5.3 pertains to Road Maintenance. This section (and the referenced attachment) do not fit the circumstances of our oil and gas removal.

Concerning cultural resources our legal obligations are different (and not nearly as stringent) as the restrictions under which the Forest Service operates. We would not want to be bound by the more stringent requirements set forth in the contract.

The contract obliges us to operate under a schedule. We do not agree with that.

The contract contains operating restrictions (such as skidding, bulldozer operation and the like) which do not reflect the rights which a co-owner enjoys.

The contract requires the submission of plans such as fire prevention plans. We do not adhere to these kinds of requirements.

The contract requires Duhring to agree to various non-discrimination provisions. While I don't believe Duhring discriminates there is no reason to require Duhring to adhere to the several provisions, including Executive Orders.

*Dave - Please
draft up a reply
after confering
with appropriate
staff Tom*

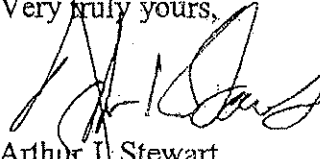
Leon Blashock, District Ranger
Page 2
July 13, 2005

The contract requires Duhring to provide a performance bond. Obviously, Duhring does not provide a bond.

The contract requires Duhring to submit to a particular claim resolution procedure.

This is not an exclusive list. But from what I have cited you can understand our inability to execute the document. I will be happy to work with a Forest representative to review a document that fits our setting. However, I also note that in my experience, and except in the ANF situation, I have never seen a case where a separate contract was utilized, between a surface owner and a sub-surface owner, concerning timber removal.

Very truly yours,



Arthur J. Stewart

AJS:lag

ARTHUR STEWART & ASSOCIATES, P.C.
ATTORNEYS AT LAW

600 MARKET STREET
WARREN, PENNSYLVANIA 16365

(814) 723-3445

FAX (814) 723-7950

July 13, 2005

Leon Blashock, District Ranger
Allegheny National Forest
HC 2, Box 130
Marienville, PA 16239

RE: Timber Contract 2153015

Dear Mr. Blashock:

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The contract requires the submission of plans such as fire prevention plans. We do not adhere to these kinds of requirements.

The contract requires Duhring to agree to various non-discrimination provisions. While I don't believe Duhring discriminates there is no reason to require Duhring to adhere to the several provisions, including Executive Orders.


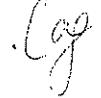
Leon Blashock, District Ranger
Page 2
July 13, 2005

The contract requires Duhring to provide a performance bond. Obviously, Duhring does not provide a bond.

The contract requires Duhring to submit to a particular claim resolution procedure.

This is not an exclusive list. But from what I have cited you can understand our inability to execute the document. I will be happy to work with a Forest representative to review a document that fits our setting. However, I also note that in my experience, and except in the ANF situation, I have never seen a case where a separate contract was utilized, between a surface owner and a sub-surface owner, concerning timber removal.

Very truly yours,


Arthur J. Stewart


AJS:lag

003664

Fax (814) 725-7950

"Harvesting Our Natural Resources In Harmony With Nature"

Phone (814) 725-5445

Duhring Resource Co.**7 Branch Street
Warren, Pa. 16365**

June 30, 2005

Thomas Ferrell, Resource Forest Administrator
Allegheny National Forest
29 Forest Service Drive
Bradford, PA 16701

RE: Timber Contract 152629

Dear Tom:

I write in follow up to our telephone conversations regarding the timber contract. I encountered the same problem several years ago in Forest County. I recognize that you will not personally have the authority to make decisions in this matter. However, you can forward this letter as you feel appropriate.

The essential problem with the contract is that it is not geared to the situation of co-ownership of the parcel. That manifests itself in a variety of ways. I will not recite all of the difficulties here. However, permit me to give some examples so the nature of the problem is clear.

Section BT5.3 pertains to Road Maintenance. This section (and the referenced attachment) do not fit the circumstances of our oil and gas removal.

Concerning cultural resources our legal obligations are different (and not nearly as stringent) as the restrictions under which the Forest Service operates. We would not want to be bound by the more stringent requirements set forth in the contract.

The contract obliges us to operate under a schedule. We do not agree with that.

The contract contains operating restrictions (such as skidding, bulldozer operation and the like) which do not reflect the rights which a co-owner enjoys.

The contract requires the submission of plans such as fire prevention plans. We do not adhere to these kinds of requirements.

The contract requires Duhring to agree to various non-discrimination provisions. While I don't believe Duhring discriminates there is no reason to require Duhring to adhere to the several provisions, including Executive Orders.

Thomas Farrell
Page 2
June 30, 2005

The contract requires Duhring to provide a performance bond. Obviously, Duhring does not provide a bond.

The contract requires Duhring to submit to a particular claim resolution procedure.

This is not an exclusive list. But from what I have cited you can understand our inability to execute the document. I will be happy to work with a Forest representative to review a document that fits our setting. However, I also note that in my experience, I have never seen a situation where a separate contract was utilized, between a surface owner and a sub-surface owner, concerning timber removal. Indeed, there would be no consideration for such a contract--the rights of the parties are already set forth by underlying documents. In some situations the underlying document is a lease arrangement. In the current context the underlying documents are the documents of severance (separating the surface from the oil and gas). This lack of consideration is an element not to be overlooked because it remains valid law in Pennsylvania that a contract not underpinned by consideration is invalid. Hence, before we get to the terms of such a contract we would need to discuss what that contract consideration would be.

Very truly yours,



Arthur J. Stewart

003666

ARTHUR STEWART & ASSOCIATES, P.C.
ATTORNEYS AT LAW

600 MARKET STREET
WARREN, PENNSYLVANIA 16365

(814) 723-3445

December 27, 2000

FAX (814) 723-7950

VIA FACSIMILE and FIRST CLASS MAIL

Leon F. Blashock, District Ranger
ALLEGHENY NATIONAL FOREST
USFS - Marienville Ranger District
H.C. 2, Box 130
Marienville, Pennsylvania 16239

Re: Duhring Resource Company
Your Case Number: 339

Dear Mr. Blashock:

Thank you for your letter of December 18, 2000. On behalf of Duhring Resource Company I would be happy to meet with you to discuss further the second option set forth in your December 18 letter: "The mineral operator arranges for the disposition of the merchantable timber in a manner and at locations acceptable to the Forest Service. The Forest Service then markets and has the merchantable timber removed."

Up until now that option for discussion has not be open. Up until this date we have always been informed that Duhring would be obligated to cut, skid and deck the timber (without Duhring being compensated for these efforts). I sense from your phraseology that there may be room for Duhring to do something less expensive than that, and I am at your disposal to meet for that type of discussion. I am available January 2, 3, and 4. I am available the morning of January 8.

Noting that this matter has now made its way to your desk, I thought I would take a few moments to provide you with the history from Duhring's perspective. It has been the accepted practice of the Allegheny National Forest and Duhring for the mineral operator to purchase the timber, cut it and remove it. This cannot be achieved, however, if the price of the timber is arbitrarily established by the ANF at a price above market levels. The price of the timber on these particular nine wells (\$67,000.00) was established several months ago when the price of cherry was significantly lower. When that price came in your representative, Mr. Miles, expressed his surprise at how high the figure was.

Nevertheless, we attempted to locate purchasers for timber at that price. We were literally laughed at. At that time the purchaser who has purchased all of the other timber sales for our mineral development indicated that the timber had a value of only approximately fifty to sixty percent that estimated by the ANF.

Leon F. Blashock, District Ranger
ALLEGHENY NATIONAL FOREST
December 27, 2000
Page Two

We have since learned that the ANF arrived at the \$67,000.00 amount by treating this timber sale in an unusual way, specifically, by assessing the value of the timber and then adding to it an OGM surcharge. Your representative, Mr. Treese, stated to one of the potential purchasers that the price was so high because the ANF did not want the timber removed in the first place, and that the surcharge was added to discourage the timber sale. Mr. Miles confirmed that the ANF does not wish to see the timber removed.

* I state to you in the strongest possible terms that I regard this as a serious intrusion upon the rights of Duhring. The ANF's actions in discouraging the timber sale is tantamount to discouraging the development of Duhring's mineral rights. As I have indicated to Mr. Miles, I see this very much as a breach of the civil and property rights of Duhring, and if necessary Duhring is prepared to bring action for the protection of Duhring's rights.

Proceeding further along those lines let me also say that Duhring takes issue with your statement that "there are three ways of timber removal for oil and gas development upon the Allegheny National Forest." That is a unilateral statement made up by your office, and is not embodied in any applicable law or regulation. Please recall that Duhring's oil, gas and mineral title devolves from an early separation, and Duhring is not obligated to operate under a special use permit.

There are countless ways that, under Pennsylvania Law, a surface owner and sub-surface owner might resolve a dispute as to timber removal. Duhring stands ready and willing to purchase the timber provided that a reasonable price for same could be arrived at. Duhring is willing to foot the cost for a timber appraisal by an independent professional appraiser, and to pay the cost determined by that appraiser or to even share the cost with the ANF of hiring two appraisers and to pay the average of the values established by those appraisers. Also be aware that I have continually said to Mr. Miles that Duhring would be happy to cut, skid and deck the logs at locations specified by the ANF, provided that the ANF was willing to reimburse Duhring for these costs and provided that appropriate arrangements could be established concerning liability. Given that the cutting, skidding and decking of the logs would cause the ANF to receive a greater purchase price than if the logs were sold standing, it is logical that the Forest Service would reimburse Duhring for the costs of cutting, skidding and hauling. Despite that logic, however, Duhring has been repeatedly informed that the ANF would not be willing to make that reimbursement. Ns.

Finally, I believe you overlook the other option that was in fact at play in the Minard Run case. In that case the fundamental issue being litigated was whether Minard Run could "clear" the timber, which in that case involved Minard Run simply cutting the trees and moving them out of

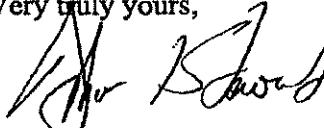
Leon F. Blashock, District Ranger
ALLEGHENY NATIONAL FOREST
December 27, 2000
Page Three

Minard Run's way. In accordance with Minard Run, Duhring can simply clear the well sites. In so doing, Duhring would certainly exercise caution to drop and move the trees as carefully as possible.

In closing I want to say to you that although I am a lawyer, I do not readily move to the threat of litigation. In many years of practice I think I have been consistent in holding litigation back as the measure of last resort. Likewise, Duhring does not relish litigation with its neighbor. I think Duhring continues to conduct itself as a reasonable neighbor. For example, a large timber sale is presently occurring adjacent to much of Duhring's operations. The successful purchaser in that sale was told by the ANF that the purchaser could not remove logs over one of the oil and gas roads without Duhring's permission. We were happy to facilitate their removal operation; Duhring gave them that permission and has cooperated in other ways as best it can.

However, in the ten years that Duhring has been doing business with the ANF as a neighbor, it is becoming increasingly difficult to carry on amicable discussions with the ANF. The last two years have been particularly difficult, and Duhring has suffered numerous delays. Although this current dispute only involves nine wells, Duhring is prepared to litigate to protect its rights to carry on reasonable development and to avoid the establishment of unreasonable precedent (i.e. that there are only three ways to remove timber as dictated by the ANF).

Very truly yours,



Arthur J. Stewart

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