

The Yellow Dog



Survival of the Fittest

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The term "Yellow Dog" was used to refer to a derrick lantern which provided the earliest source of light for night drilling. The nickname describes the yellowish shadow a dog's head cast by the lighted posts at night and symbolizes progress and innovation.



The Yellow Dog will be printed periodically to inform CSi/Reserve employees, clients & partners of the news and events occurring at CSi/Reserve.

As any seasoned oil and gas company can attest, things change quickly in this industry. Few 'modern' business plans are designed to withstand going from record high natural gas prices and 7 year low natural gas prices in a matter of just a few months. Now throw in the fact that many Appalachian producers are or will be unable to produce their gas due to pipeline capacity constraints associated with drilling in PA and a national recession, the situation gets more dire.

Both CSi and Reserve are well positioned to maintain their growth trends. How you may ask? Its comes down to one word for both companies — DISCIPLINE. Financial discipline, growth discipline, and performance discipline are the key factors.

Over the 'boom' years, both companies made strategic long term decisions which are paying dividends today. In anticipation of

an eventual market downturn, CSi entered into long term, multi-year agreements to provide its services and fund its continued growth. Although more lucrative, short term projects were bountiful a year or so ago, CSi was selective and did not 'jump' into or have explosive growth in any one market. For example, drilling and service rigs were in high demand for several years and CSi had the financial means to add a number of new rigs. Today, many new rigs are idled or, if working, the profit margins have been drastically reduced while bank loan payments remain the same.

The same holds true for Reserve. Reserve maintained its disciplined growth strategy and strived to continually improve its performance. Despite much interest in investing in Reserve drilling programs, Reserve stayed the course and didn't become enticed with large investor op-

portunities (i.e., we know greed leads to the demise of many companies and their reputations). Reserve and/or its Principals also initiated several long term initiatives to further optimize its results. The most important being the construction of its own gas gathering systems (which began in 2005). This foresight has allowed Reserve to continue to produce its gas when many other Appalachian Basin producers are shut in and enter into long term fixed price gas sales agreements. In other words, Reserve may be a small exploration and production (E&P) company but we can and do operate similar to the major E&P firms. BUT, unlike the majors, Reserve shares any realized gains with its investors and the mineral owners.

2010 looks brighter than 2009 for CSi and Reserve, but undoubtedly new obstacles will be encountered and addressed. Rest assured, both companies are lean, fit and positioned for steady growth

Employee Profile: Wayne Williams



Wayne Williams
Foreman

Title: Foreman—Environmental Services Group

Family Info: Married. Wife Judy; Children: Bo, Seth, Gabriel

Hometown: Spencer, West Virginia

Education: Spencer High School, 1983

Hobbies: Fishing and Hiking

Experience: Mr. Williams has essentially worked in one fashion or another in the energy and environmental service industry since his graduation in 1983. He was initially hired by CSi in 1987 to assist on well servicing and pipeline construction projects. He left CSi in 1988 and served in the US Army until 1992. He returned to CSi the same year and was an instrumental company employee involved in the transition of CSi into the environmental services market. Since that transition, Mr. Williams has been assigned and completed a variety of environmental projects for CSi throughout the continental US

Gas Marketing 201: To Hedge or Not To Hedge?— That is the Question

Hedging is defined as any strategy designed to offset or reduce the risk of price fluctuations for an asset or investment. This strategy is used by natural gas producers to protect its investors from gas price volatility and ensure the ultimate viability of the company.

By hedging, the gas producer/seller enters into a transaction with a gas buyer that ensures delivery of defined gas volumes at a defined, set gas price. A hedge is essentially a forward purchase that 'locks in' gas prices over an extended period. For gas producers, a well planned and executed hedging strategy is not necessarily designed to beat the market, but more to smooth out the market volatility and limit

downside risk (vs. upside risk for the gas buyer). A hedge program provides a higher degree of certainty going forward about what you will be receiving for your gas, but it is no guarantee of no losses against a volatile and often irrational gas market.

If you sell natural gas and you make no effort to fix prices, whether whole or in part, then you have a profile that exhibits an unlimited appetite for risk.

So why not hedge you may ask? First, the producer must guarantee delivery of a fixed volume to certain points. Since the pipelines are currently operating at/near full capacity, today's producer must have Firm Transportation Service (FTS) to ensure the gas can be shipped. Reserve acquired FTS with Columbia Gas Transmission in 2009. Also, the producer

obviously can not sell more than is produced and the volume produced changes on a daily basis (for a variety of factors). As a result, you must select a volume that matches the hedge period and incorporates well decline curves, Columbia's facility maintenance and repair schedules, and future new production. Second, what time period does one forward sale the gas (e.g., winter months, 1 year, 2 years, 5 years,..)? Third, market prices may fluctuate and potentially exceed the hedged price.

As most of you are aware, Reserve has hedged ~60% of our total daily production for a 2 year period. Our decision was based on our forecast of the gas market (and US economy) for the next two years and our desire to manage all of our investors risk. Time will judge Reserve's hedging strategy.

CSi Service Profile: Cement Pumping Services

Over the winter months, CSi's fabrication personnel were busy constructing a cement pumping unit to support CSi's well plugging and abandonment (P&A) projects. While constructing this unit, CSi adhered to the "KISS" construction approach—"Keep It Simple Stupid". CSi's cementing unit is low tech, but the design has proven dependable and cost effective throughout the

Appalachian Basin for over 50 years..

After several test runs at CSi headquarters, it was sent to the field in late March and, to date, has yielded the results we and CSi's clients were looking for—*quality cement jobs at a low cost.*

Once field proven, we anticipate mobilizing this unit to CSi's Graysville, PA office to



CSi's Cement Pumping Unit

provide additional support to CSi's three (3) plugging rigs in northern West Virginia and southeastern Pennsylvania.

CSi Project Profile: Rig #7

As many of you are aware, the first commercial oil and gas well in the world was drilled in Titusville, PA by Sir Edward Drake in 1859. Over the last 150 years, many, many news wells have been drilled in that region. Often the old tracts were drilled in a 'check board' fashion (i.e., every well is off-set 200 feet in each direction by another well) resulting of 100's of wells on a single tract of land. Prior to the advent of the EPA and state regulatory agencies requiring proper well closure, these wells were produced as long as possible and then simply abandoned in place. Today, many of these historical wells still exist throughout the Appalachian Basin and are a potential source of groundwater contamination, greenhouse gases, and a physical hazard,.



CSi Rig #7

CSi was recently commissioned by a major, well recognized, oil and gas production company to provide turn-key well plugging and abandonment (P&A) services in north central Pennsylvania (the 'place where it all began'). As a result, while many rigs were idled in 2009, CSi continued adding to its rig fleet.. Rig #7 (a Bucyrus Erie 60L cable tool rig) was 'rigged up' and packaged specifically for safe and efficient plugging of shallow oil and gas wells. It was deployed to the field on October 7, 2009

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CSI & Community

F.O.R.C.E.—Black Diamond Dinner

CSI provided financial support to the Black Diamond Dinner (with country music entertainment provided by the coal miner's daughter herself, Loretta Lynn) and raffle drawing materials to Families Organized to Represent the Coal Economy (or F.O.R.C.E.; www.families4pacoal.org). This group's mission is to be a unified voice in support of Pennsylvania coal, the families and business whose livelihood depend upon it and the importance of a healthy industry to the regional, state and national economies. CSI has been actively working in Greene and Washington County, PA since 1994.

Boy Scouts of America

2010 marks the centennial anniversary of the Boy Scouts of America and it is our opinion that if ever there was a need for Boy Scouts and the values that the program promotes, now is it. In addition to



DESIGN STUDY KOOTAGA CAMP LODGE Camp Kootaga, WV
10/11-10/12/11

being a *Friend of Scouting*, CSI, Reserve and friends made considerable contributions towards the construction of a new Camp Kootaga Lodge. Once complete, the new lodge will replace existing, dilapidated structures at Camp Kootaga and further enhance the scouting experience.

In Memoriam: Betty L. Quick

Reserve Oil & Gas, Inc. is saddened to announce the passing of Ms. Betty M. Quick. Reserve's President David A Freshwater stated: *"Betty was instrumental in the initial start-up of Reserve Oil & Gas in 2001 and the first appointee to Reserve's Board, Her business acumen in regards to the oil and gas business was unmatched and she provided tremendous direction and value to Reserve. On top of all that, Betty was a great friend and will be greatly missed. We at Reserve would like to express our sincere condolences to the Quick family"*.



Reserve Advisory Board, 2008 (Betty Quick, center)