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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

April 8, 2009

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending April 3, and we wish to provide our perspective on the data within the context of our forecast U.S. refinery balances. Overall the crude oil and distillate data were more constructive than consensus expectations, with the gasoline build considered bearish.

With regard to crude oil, stocks rose by 1.7 million barrels and now stand at 361.1 million barrels, some 47.6 million barrels above last year at this time. Supplies in PAD II fell by 2.0 million barrels, which included a draw at Cushing of 900,000 barrels. Stocks in PAD III increased by 2.2 million barrels. Adding up all other districts yields a net inventory gain of 1.5 million barrels.

Refinery crude oil runs rose by 129 MB/D on the week and averaged almost 14.3 MMB/D. Gross crude oil imports declined by 222 MB/D to average close to 9.3 MMB/D. Taking the DOE estimate of domestic crude oil production, total stocks "should have" increased by almost 3.6 million barrels.

Turning to refined products, the DOE reported that primary gasoline stocks rose by 600,000 barrels. The aggregate increase was composed of a 100,000 barrel gain in finished gasoline supplies and a 500,000 barrel rise in blendstocks. Inventories now total 217.4 million barrels and retain a 3.1 million barrel deficit to last year.

Refinery output of finished mogas increased by 233 MB/D from the prior period and averaged almost 9.0 MMB/D. Imports of total gasoline declined by 205 MB/D and averaged about 1.0 MMB/D.

Implied gasoline demand fell by 101 MB/D on the week to average around 9.0 MMB/D. Over the past four weeks implied demand is off by 0.2% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil stocks declined by 3.4 million barrels, now totaling 140.8 million barrels and standing 33.7 million barrels above last year. Stocks of ultra low-sulphur diesel fuel fell by 2.8 million barrels, while other diesel supplies rose by 700,000 barrels. Heating oil inventories declined by 1.1 million barrels.

Refinery production of total distillate increased by 36 MB/D from the prior week and averaged around 3.9 MMB/D. Gross distillate imports fell by 102 MB/D to average 161 MB/D.

Implied distillate demand recovered by 412 MB/D from the previous period and averaged almost 4.1 MMB/D. For the last four weeks implied distillate demand has declined by 7.2% versus the comparable period in 2008.

With regard to crude oil stocks, our forecast balances still suggest a peak coming later in the month, followed by a progressive decline in stocks, which should start to flatten the curve, further reducing the incentive to hold inventories.

Gasoline and distillate supplies, however, should remain ample though the end of the second quarter, with the days supply stabilizing and declining modestly by year end, consistent with our more optimistic outlook for the U.S. economy for the second half of 2009.

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