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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

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WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending April 4, and we wish to provide our customary thoughts on the numbers within the context our forecast U.S. refinery balances. Relative to consensus expectations, the numbers were bullish across the board.

Turning first to crude oil, inventories declined by 3.2 million barrels. Stocks now stand at 316.0 million barrels and retain a 16.4 million barrel deficit to last year at this time. Supplies in PAD II declined by 300,000 barrels, but were unchanged at Cushing. Stocks in PAD III fell by 2.4 million barrels. Adding up all other districts yields a net inventory fall of 500,000 barrels.

Refinery crude oil runs rose by 142 MB/D on the week to average over 14.3 MMB/D. Gross crude oil imports dropped by almost 1.4 MMB/D and averaged around 8.9 MMB/D. Taking the latest DOE estimate of domestic crude oil production, total stocks "should have" declined by almost 2.4 million barrels.

With regard to refined products, the DOE reported that primary gasoline inventories fell by 3.4 million barrels. The decline included a 600,000 barrel fall in finished mogas supplies and a 2.8 million barrel drop in blendstocks. Gasoline inventories total 221.3 million barrels and lie 20.5 million barrels above last year.

Refinery production of finished gasoline increased by 288 MB/D from the previous week and averaged almost 8.9 MMB/D. Gross imports of total mogas fell by 37 MB/D to average 907 MB/D.

Implied gasoline demand eased by 44 MB/D from the prior period and averaged less than 9.3 MMB/D. For the past four weeks implied gasoline demand is up by 0.3% versus last year, while year to date is down by 0.1% versus the comparable period in 2007.

Finally, the DOE reported that distillate fuel oil inventories dropped by 3.7 million barrels. Stocks now stand at 106.0 million barrels and retain a 13.8 million barrel deficit to last year. The aggregate stock decline was composed of a 400,000 barrel increase in ultra low-sulphur diesel stocks, a 1.4 million barrel drop in other diesel supplies, and a 2.7 million barrel decline in heating oil inventories.

Refinery production of distillate fuel oil gained by 134 MB/D from the previous week to average almost 4.0 MMB/D. Gross distillate imports fell by 161 MB/D and averaged only 161 MB/D.

Implied distillate demand rose by 233 MB/D on the week to average almost 4.5 MMB/D. Over the last four weeks implied distillate demand is unchanged versus last year, while year to date has declined by 2.3% versus the comparable period in 2007.

On balance, while our outlook will be subject to review, at this point we do not believe that on a net basis U.S. crude oil inventories have turned the corner and will progressively decline from here. Gasoline and distillate stocks remain broadly in line with our targeted path for the remainder of the second quarter.

William H. Brown, III

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