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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

July 1, 2009

WEEKLY INVENTORY REVIEW

The DOE released the latest Weekly Petroleum Status Report for the week ending June 26, and we provide our thoughts on the numbers within the context of our forecast refinery balances. In a nutshell, the crude oil draw was bullish relative to consensus expectations, while the builds in gasoline and distillate supplies were both larger than the market was looking for.

With regard to crude oil, inventories declined by 3.7 million barrels. Stocks now stand at 350.2 million barrels and are 54.1 million barrels above last year at this time. Supplies in PAD II fell by 200,000 barrels, but rose at Cushing by 400,000 barrels. Stocks in PAD III declined by 1.6 million barrels. Adding up all other districts yields a net inventory draw of 2.1 million barrels.

Refinery crude oil runs eased by 39 MB/D on the week to average less than 15.0 MMB/D. Gross crude oil imports rose by 79 MB/D and averaged almost 9.4 MMB/D. Taking the DOE estimate of domestic crude oil production averaging 5.163 MMB/D, total stocks "should have" declined by some 3.3 million barrels.

Turning to refined products, the DOE reported that primary gasoline supplies rose by 2.3 million barrels. The aggregate increase included a build in finished mogas supplies of 2.0 million barrels, and a 400,000 barrel gain in blendstocks. Supplies now total 211.2 million barrels and stand 1.8 million barrels above last year.

Refinery production of finished gasoline rose by 17 MB/D from the previous week to average more than 9.2 MMB/D. Gross imports of total gasoline increased by 8 MB/D and averaged 979 MB/D.

Implied gasoline demand declined by 76 MB/D from the prior period to average less than 9.1 MMB/D. Over the past four weeks implied gasoline demand is up by 0.9% from last year, while year to date has declined by 0.7% versus the comparable period in 2008.

Finally, the DOE reported that distillate fuel oil stocks increased by 2.9 million barrels. Supplies total 155.0 million barrels and lie a full 35.3 million barrels above last year. The gain was composed of unchanged ultra low-sulphur diesel supplies, unchanged other diesel stocks, and a 2.8 million barrel increase in heating oil inventories.

Refinery output of total distillate gained by 115 MB/D on the week to average almost 4.2 MMB/D. Gross distillate imports fell by 124 MB/D and averaged 165 MB/D.

Implied distillate demand fell by 126 MB/D from the prior week to average less than 3.3 MMB/D. Over the last four weeks implied distillate demand is off by 9.4% from last year, while year to date has declined by 8.7% versus the comparable period in 2008.

On balance, the crude oil stock decline remains consistent with our forecast U.S. refinery balances. Gasoline supplies clearly remain ample, while distillate stocks remain on a path to reach 160.0 million barrels or so in the third quarter. Implied distillate demand on a DOE basis remains quite weak, suggesting that manufacturing activity continues to bump along a depressed trough.

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