HORNSBY & COMPANY, INC.

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Energy Risk Management Services

HIGHLY CONFIDENTIAL

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WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting an 88 bcf increase from the previous week, which had no revisions. Working storage totaled 2,655 bcf as of Friday, August 15. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,540	1,473	67	1,602
West	363	358	5	410
Producing	752	736	16	908
Total Lower 48	2,655	2,567	88	2,919

Despite the relatively lofty level of storage injections for the week ending August 15, at this point it does not appear we need to materially revise our outlook. Taking the numbers into the context of our Base Case natural gas balances, our numbers imply that come end October, working storage will still come up close to our long-standing target of 3.1+ tcf. We concede that the actual number could approach 3.2 tcf, but at this point we do not believe the bearish bias of consensus expectations will be realized.

With regard to price, as crude oil recovers from its recent trough, the prompt NYMEX natural contract has been struggling to find support at around $8.00 per mmBtu, and thus far has generally been able to do so. Given the inordinately large futures-only net short positions held by active funds as reflected by the CFTC data, if our balances are even remotely close to the mark we believe the odds favor natural eventually responding as a “coiled spring”, recovering significantly relative to crude oil. This is precisely what happened in the aftermath of last year’s pre-winter record storage level as we had anticipated, once the consensus realized it was too bearish. We retain our September (basis October NYMEX) target of $9.15 per mmBtu, some $0.70 per mmBtu above current levels. For 2009, we also retain our forecast prompt NYMEX/Henry Hub average of $8.50 per mmBtu.

W.H. Brown, III

9 Santo Domingo Circle, Santa Fe, New Mexico 87506 (505) 995 0003 fax (505) 995 0008