IAF Advisors
Energy Market Outlook

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Price Action: Prices continued to slide with the now prompt July futures contract shedding 30.1 cents (11.5%) to $2.326 on a 30.8 cent range.

Price Outlook: **The recent weakness is interesting as demand is increasing with cooling requirements on the rise. Monthly EIA data reported a continued drop in US production with January and February revised lower. While absolute storage levels remain a bearish factor, the underlying fundamentals are beginning to improve. CFTC data indicated an increase in the net long speculative position, despite the rather significant price drop. Total open interest across the complex also fell to just over 5.7 million contracts on May 29, 2012 as June options and futures expired.**

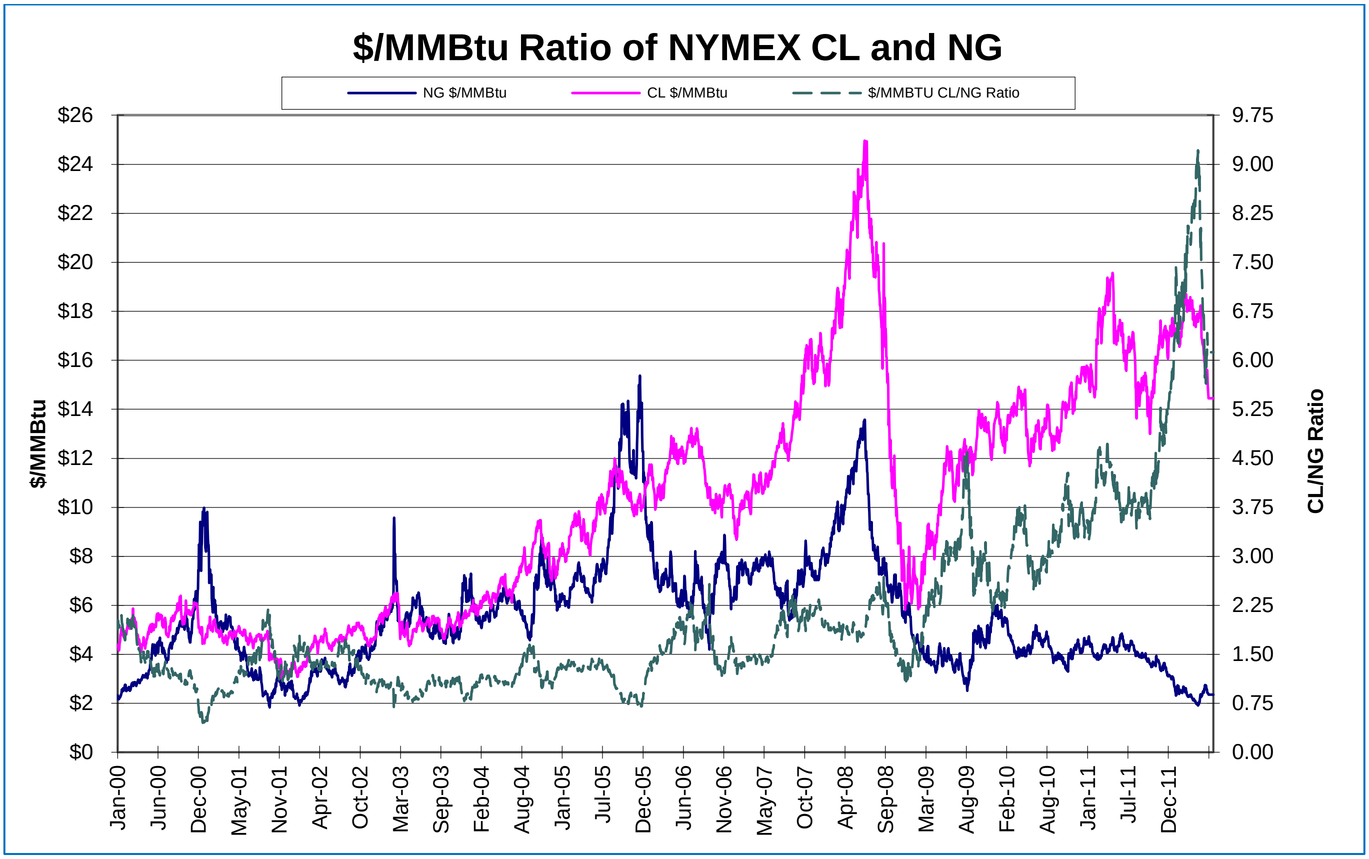
Weekly Storage: US working gas storage rose 71 BCF for the week ending May 25. Current inventory levels of 2,815 BCF now rise 708 BCF (33.6%) above last year while surpassing the 5 year average by 729 BCF (34.9%). This week was the 5th consecutive week of injections smaller than last year and the 5 year average. **Absolute North American storage levels remain the most obvious bearish fundamental factor.**

Storage Outlook: **The storage report continued to indicate a rather bullish temperature adjusted supply/balance and our current forecast is that the storage surplus will be below 600 BCF by the end of June. This trend of much lower than average injections is expected to remain in place and combined with new storage capacity additions, current projections do not anticipate storage containment issues in October or November.**

Supply Trends: Total supply rose 0.5 BCF/D to 67.9 BCF/D. US production and Canadian imports were higher while Mexican exports fell. The US Baker Hughes rig count slipped as the very solid trend of increased oil activity not overcoming the drop in natural gas continued. The Canadian rig count also slid and thus the total North American rig count fell 5 to 2,136, 98 higher than last year. **The higher efficiency horizontal rig count slipped 8 and at 1,183 remains 132 higher YOY.**

Demand Trends: Total demand rose 0.8 BCF/D to 57.0 BCF/D. Increased power demand offset lower R&C consumption. Electricity demand rose 5,717 gigawatt-hrs to 77,998 which is 1,350 (1.8%) above last year and 3,191 (4.3%) over the 5 year average. **Above normal temperatures will now be considered bullish as cooling requirements rise.**

Other Factors: Equity markets were very weak as the US employment report showed only a small increase in US jobs with previous estimates also lowered.



$/MMBtu Ratio of NYMEX CL and NG
NG $/MMBtu
CL $/MMBtu
$/MMBTU CL/NG Ratio
$/MMBtu
CL/NG Ratio
$26
$24
$22
$20
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
9.75
9.00
8.25
7.50
6.75
6.00
5.25
4.50
3.75
3.00
2.25
1.50
0.75
0.00
Jan-00
Jun-00
Dec-00
May-01
Nov-01
Apr-02
Oct-02
Mar-03
Sep-03
Feb-04
Aug-04
Jan-05
Jul-05
Dec-05
Jun-06
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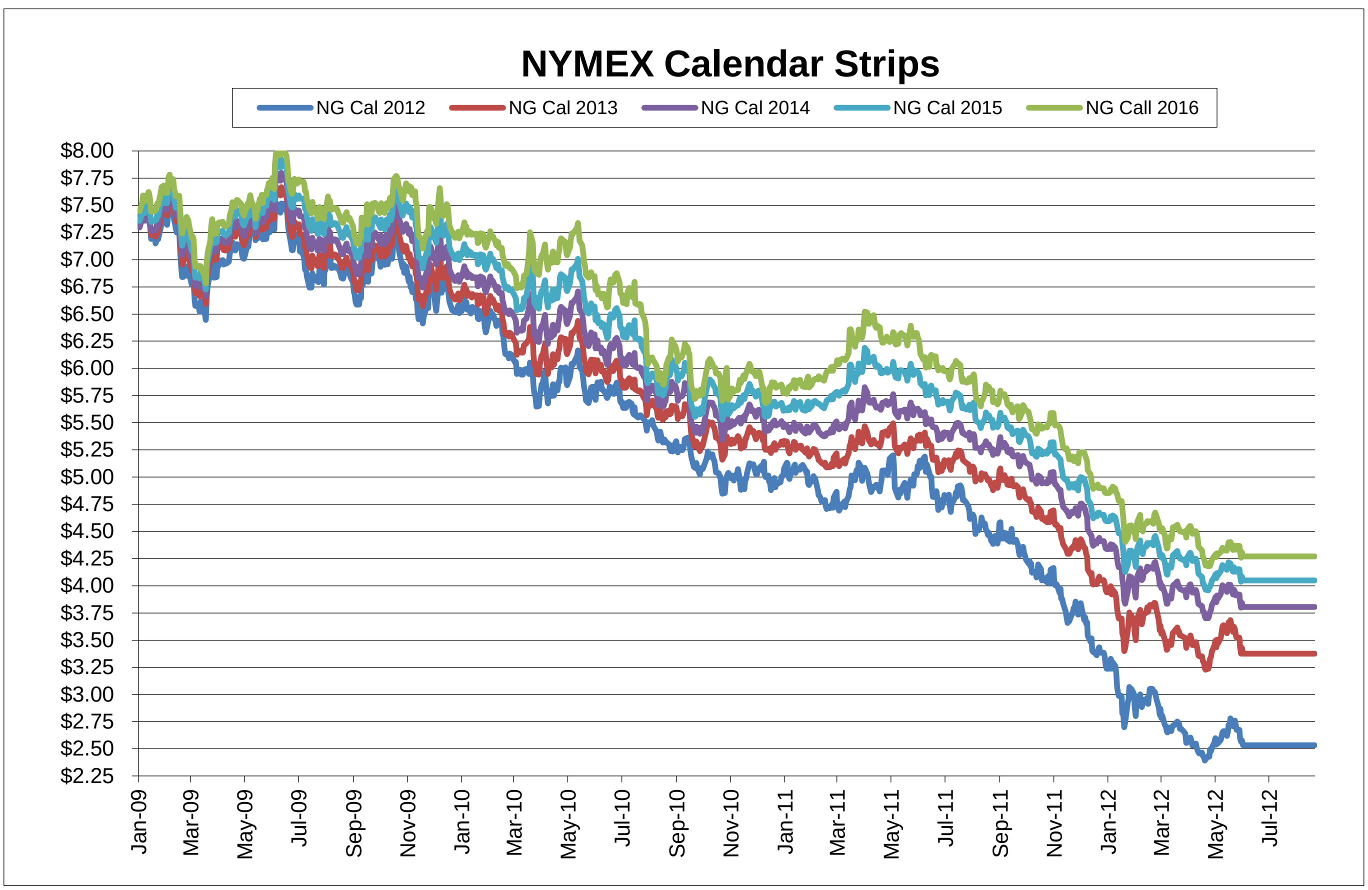
Aug-10
Jan-11
Jul-11
Dec-11



NYMEX Calendar Strips
NG Cal 2012
NG Cal 2013
NG Cal 2014
NG Cal 2015
NG Call 2016
$8.00
$7.75
$7.50
$7.25
$7.00
$6.75
$6.50
$6.25
$6.00
$5.75
$5.50
$5.25
$5.00
$4.75
$4.50
$4.25
$4.00
$3.75
$3.50
$3.25
$3.00
$2.75
$2.50
$2.25
Jan-09
Mar-09
May-09
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
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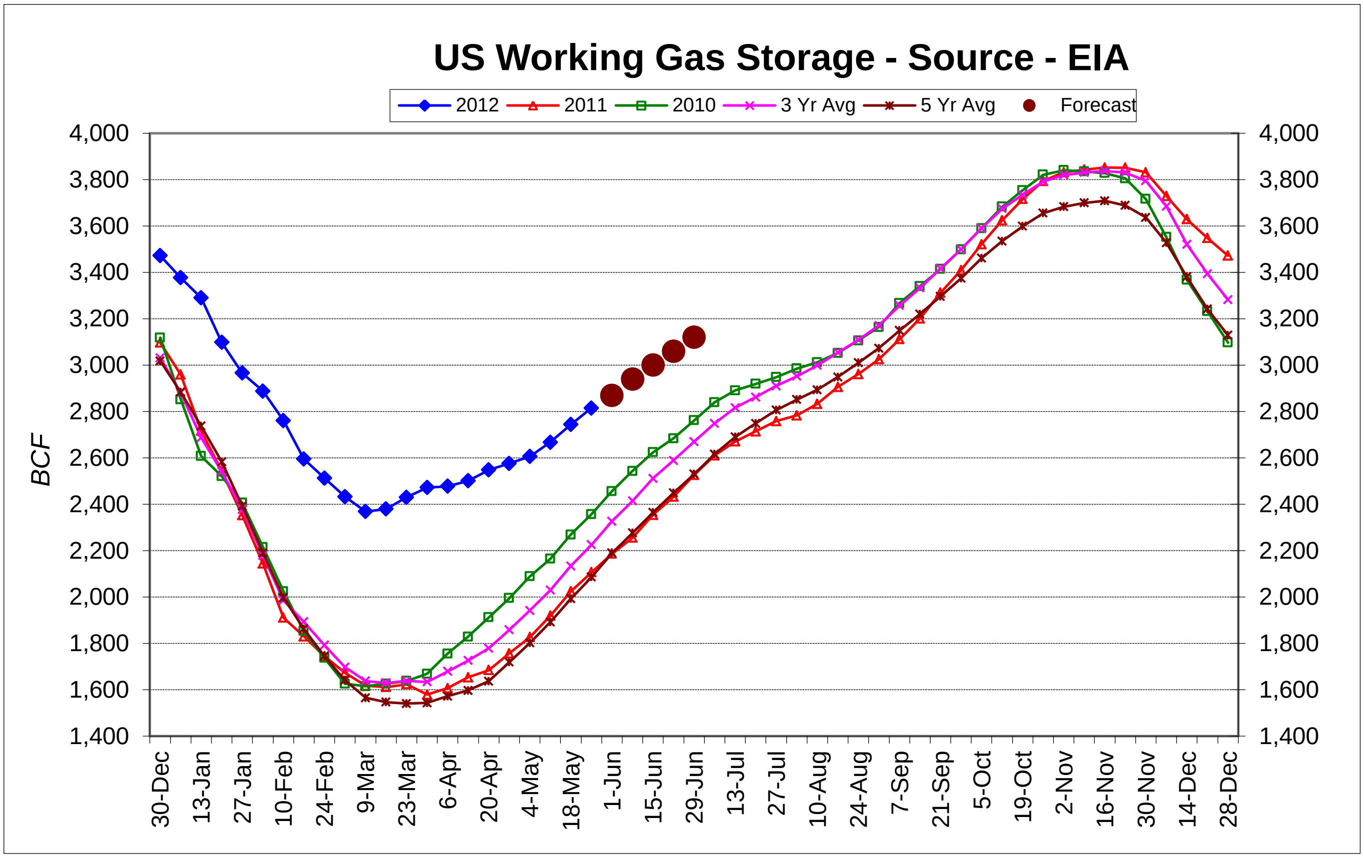
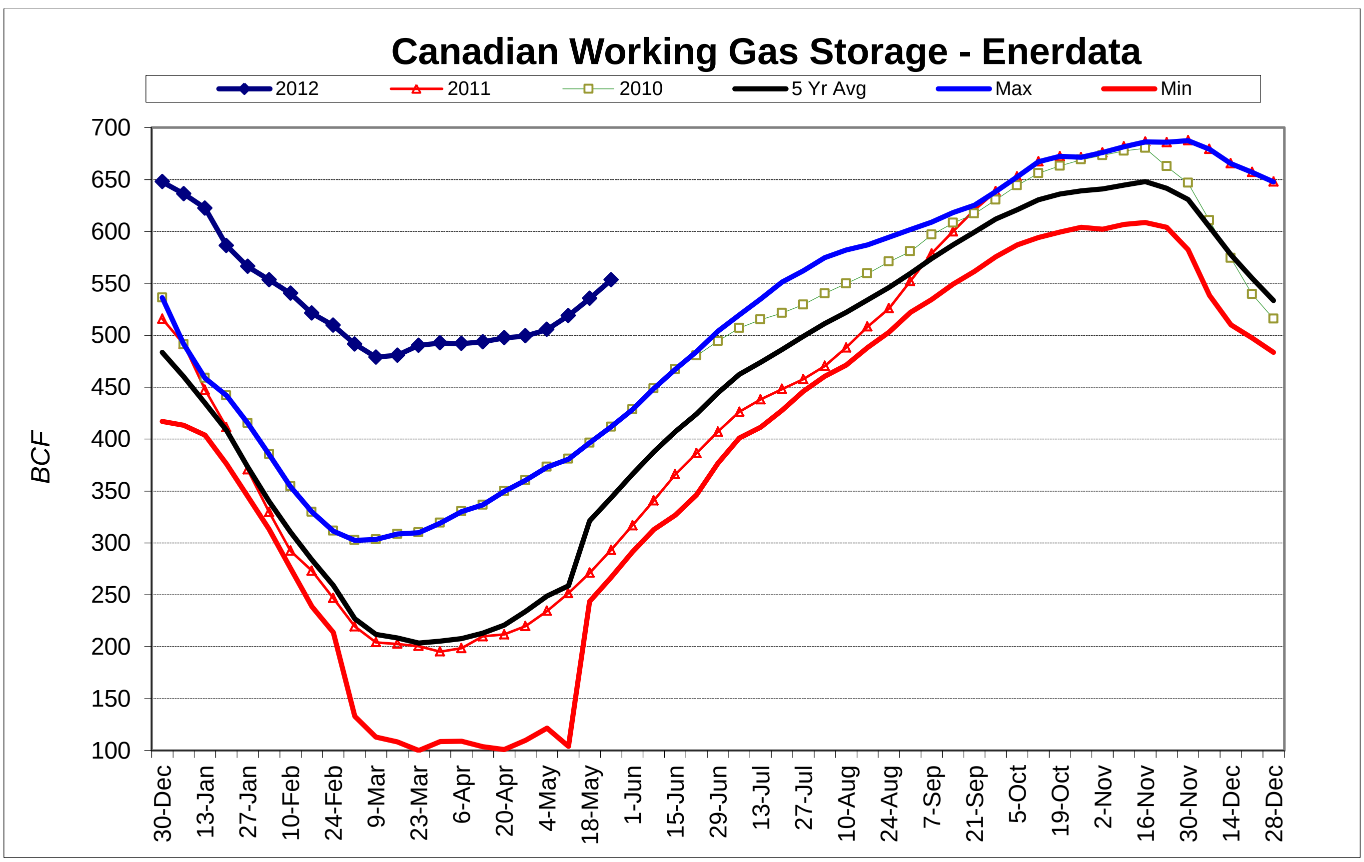
Mar-12
May-12
Jul-12


US Working Gas Storage - Source - EIA
2012
2011
2010
3 Yr Avg
5 Yr Avg
Forecast
BCF
4,000
3,800
3,600
3,400
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
30-Dec
13-Jan
27-Jan
10-Feb
24-Feb
9-Mar
23-Mar
6-Apr
20-Apr
4-May
18-May
1-Jun
15-Jun
29-Jun
13-Jul
27-Jul
10-Aug
24-Aug
7-Sep
21-Sep
5-Oct
19-Oct
2-Nov
16-Nov
30-Nov
14-Dec
28-Dec


Canadian Working Gas Storage - Enerdata
2012
2011
2010
5 Yr Avg
Max
Min
BCF
700
650
600
550
500
450
400
350
300
250
200
150
100
30-Dec
13-Jan
27-Jan
10-Feb
24-Feb
9-Mar
23-Mar
6-Apr
20-Apr
4-May
18-May
1-Jun
15-Jun
29-Jun
13-Jul
27-Jul
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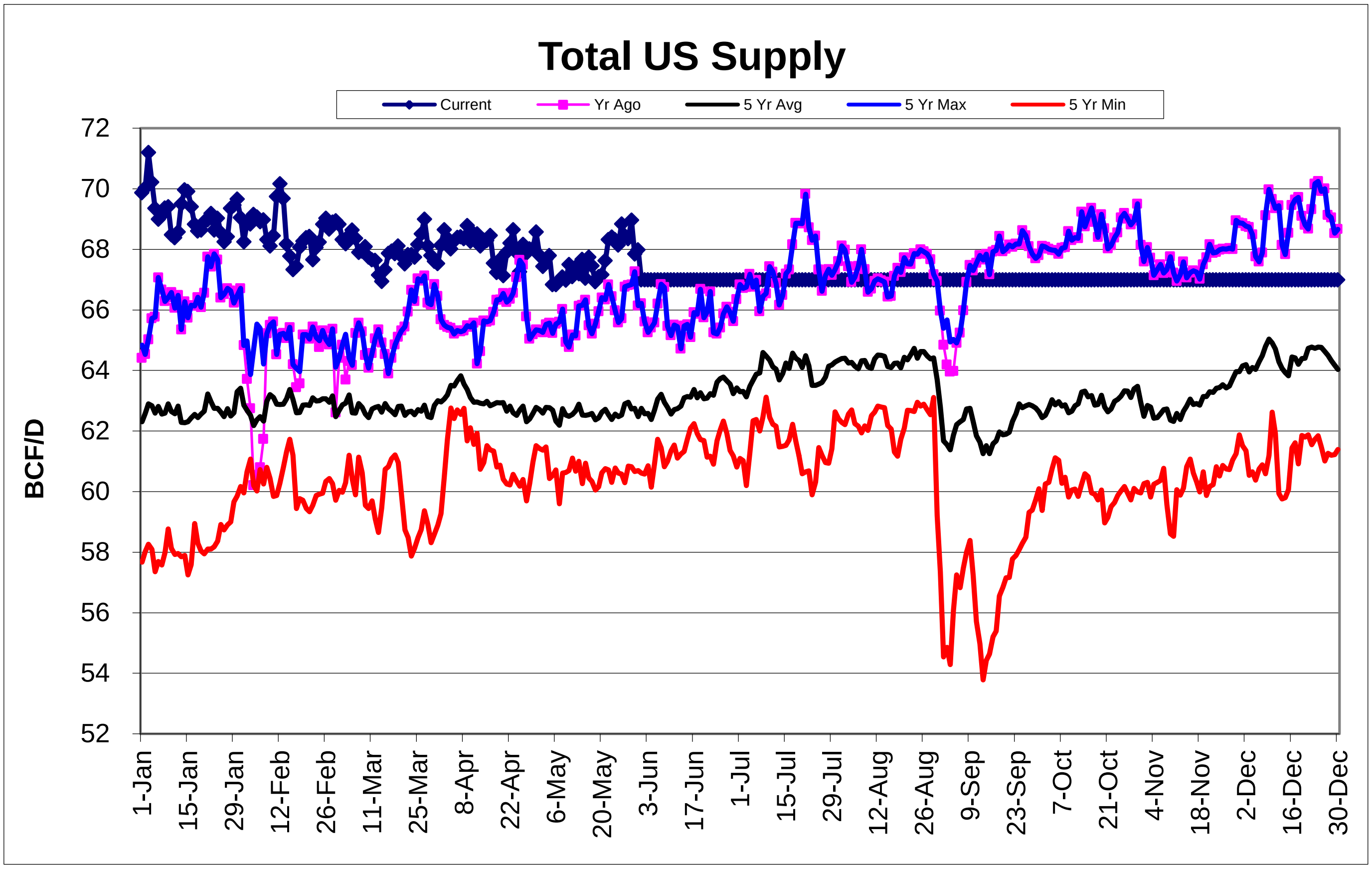
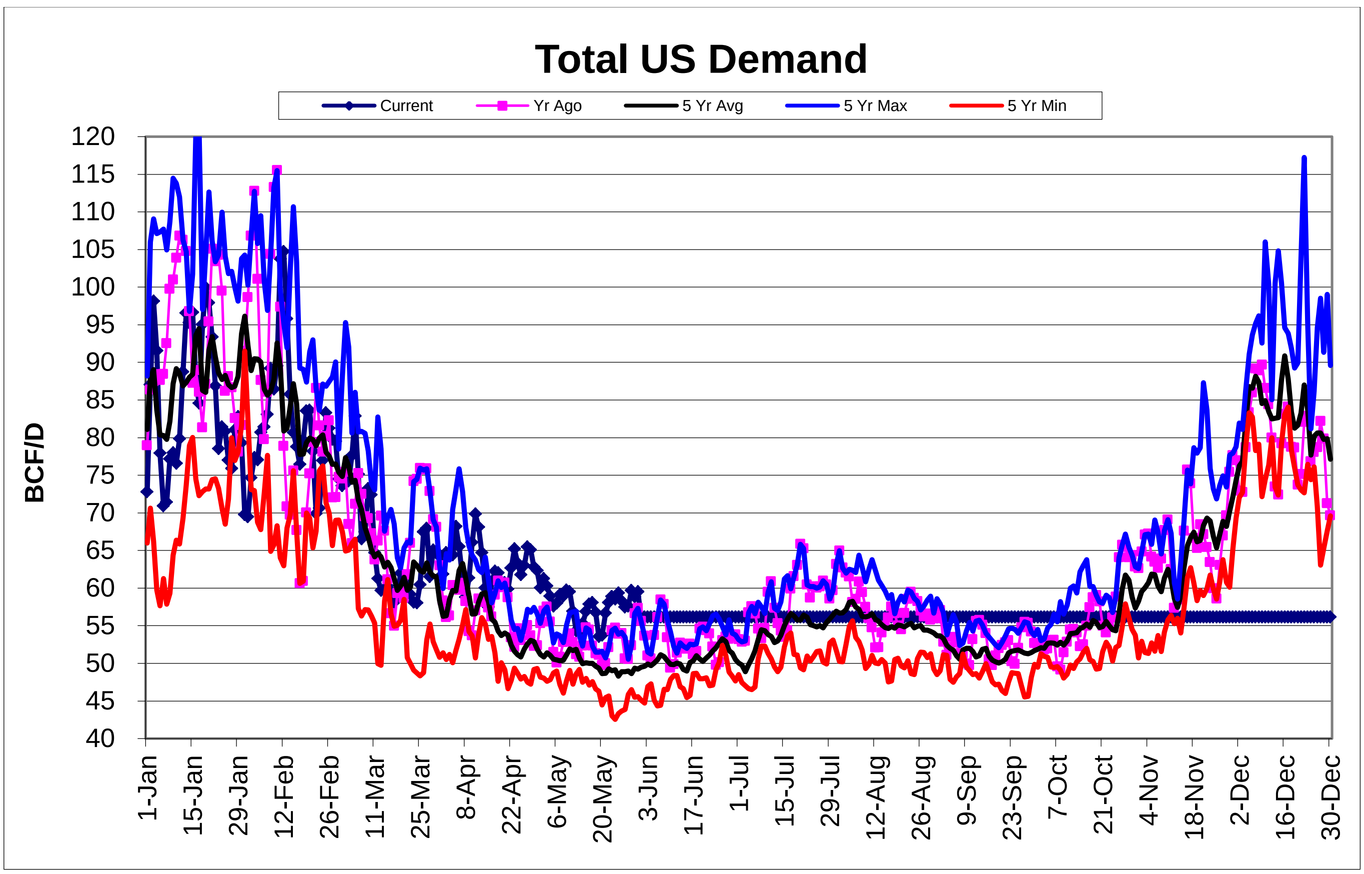
30-Nov
14-Dec
28-Dec





ADDITIONAL INFORMATION AVAILABLE UPON REQUEST