IAF Advisors
Energy Market Outlook

Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com

August 31, 2012

Price Action: Prices rose as Hurricane Isaac shut in production across the Gulf Coast. Prices basis the now prompt October contract rose 6.5 cents (2.4%) to $2.799 on a 19.8 cent range.

Price Outlook: **Prices established another new weekly low and have now recorded a new low 5 weeks in a row. Thus 18 weeks since 2000 have witnessed exactly 5 weeks in a row of a new weekly low. Of those, just 9 have seen another new low. The string of new weekly lows may come to an end as supply slowly returns and the next storage injection is likely to be very small. Although Isaac never achieved the wind velocity forecast, it was large and the slow moving nature resulted in more supply disruption than initially anticipated. However, reports thus far indicate little infrastructure damage and supply should return in the coming week. While the next storage injection is likely to be quite small due to the supply loss, the implications of the 66 BCF injection reinforces the bearish implications of last week and future weeks are now forecast to rise substantially. CFTC data indicated a small drop in the speculative net long position. Total net length has been reduced by over 50,000 contracts since late July. Total open interest dropped to just over 5.1 million contracts as of August 28. With what seems to be little infrastructure damage and projected increasing injections, further long liquidation could lead to price weakness in coming weeks.**

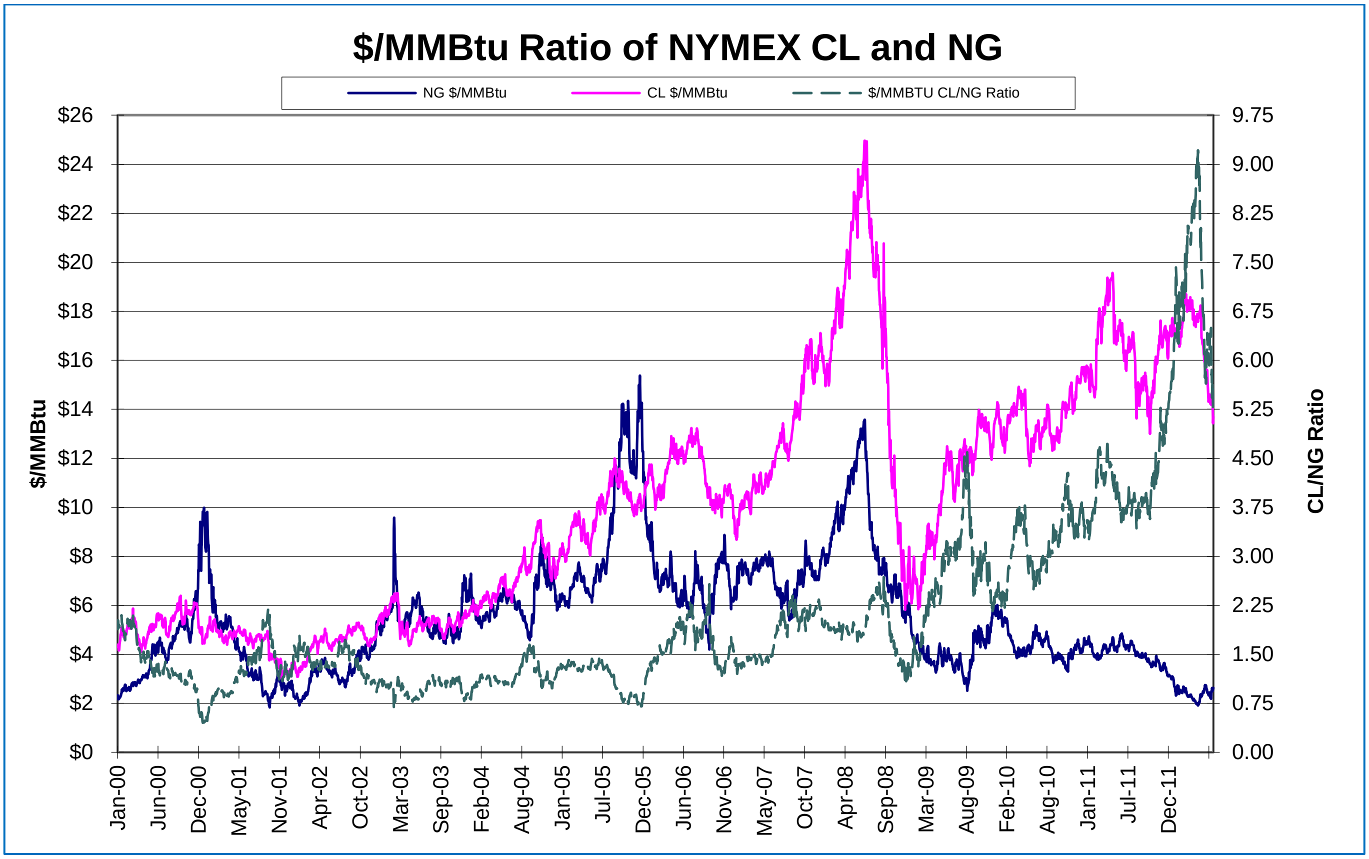
Weekly Storage: US working gas storage rose 66 BCF for the week ending August 24. Current inventory levels of 3,374 BCF now rise 413 BCF (13.9%) above last year while surpassing the 5 year average by 364 BCF (12.1%). The build was the first larger than last year and the 5 year average since late April.

Storage Outlook: **The build reinforced the bearish temperature adjusted implications of last week's 47 BCF injection. Although the next week will witness a small injection due to Isaac's supply disruptions, future weeks are likely to see a dramatic increase in injections.**

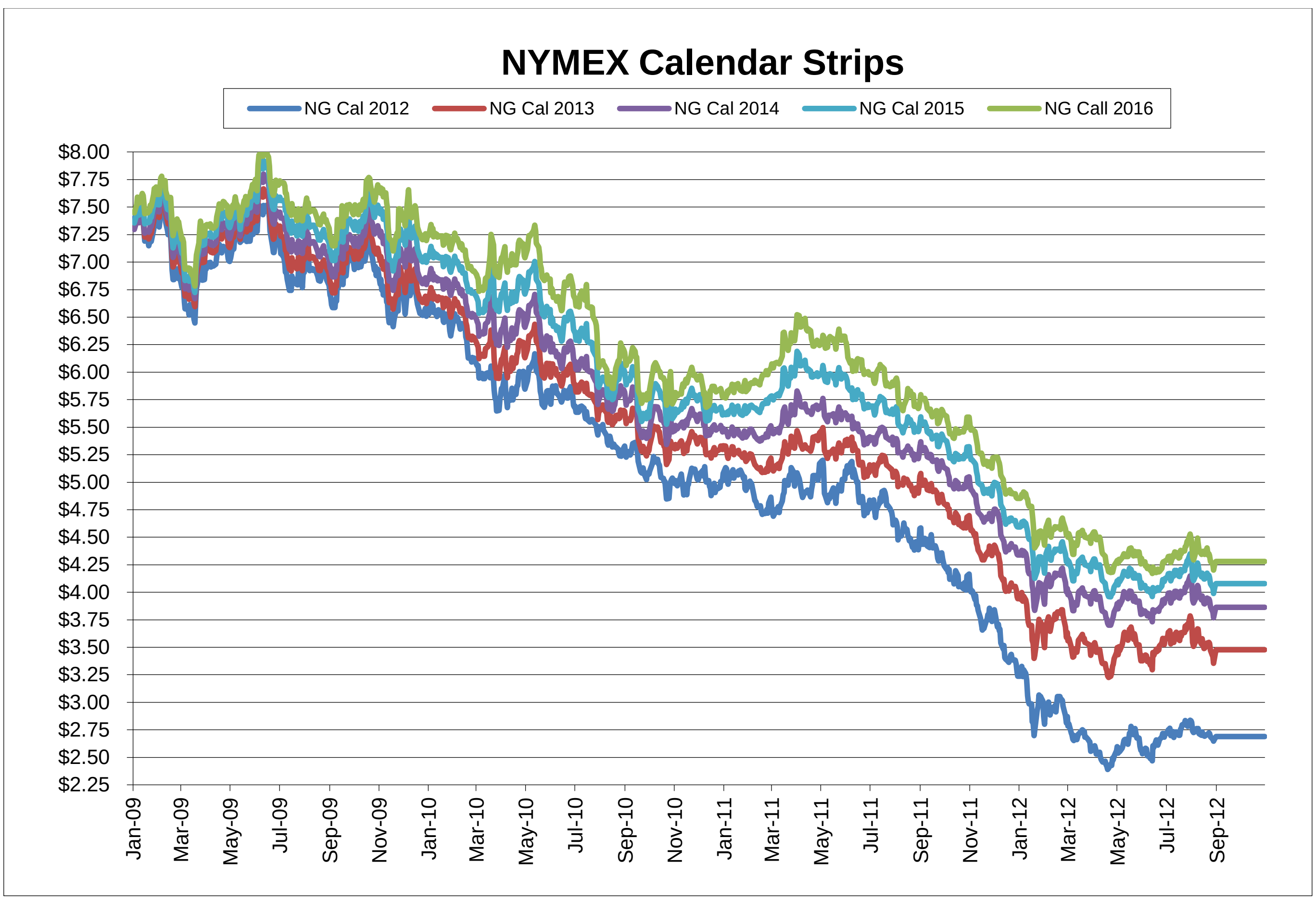
Supply Trends: Total supply rose 0.1 BCF/D to 68.4 BCF/D. Increased US production was again offset by lower imports with exports little changed. The US Baker Hughes rig count resumed the 2012 trend with increased oil exploration more than offset by reduced natural gas activity. Combined with lower Canadian activity, the total North American rig count fell 22 and at 2,210 now trails last year by 275. **The higher efficiency US horizontal rig count fell 10 and at 1,149 remains just 13 higher YOY.**

Demand Trends: Total demand fell 3.4 BCF/D to 57.8 BCF/D. Lower power demand again more than offset increased R&C and industrial consumption. Electricity demand fell 4,060 gigawatt-hrs to 82,356 which trails last year by 7,476 (8.3%) and the 5 year average by 6,607 (7.4%). **Demand has now peaked and unlikely to reach recent levels until late October.**

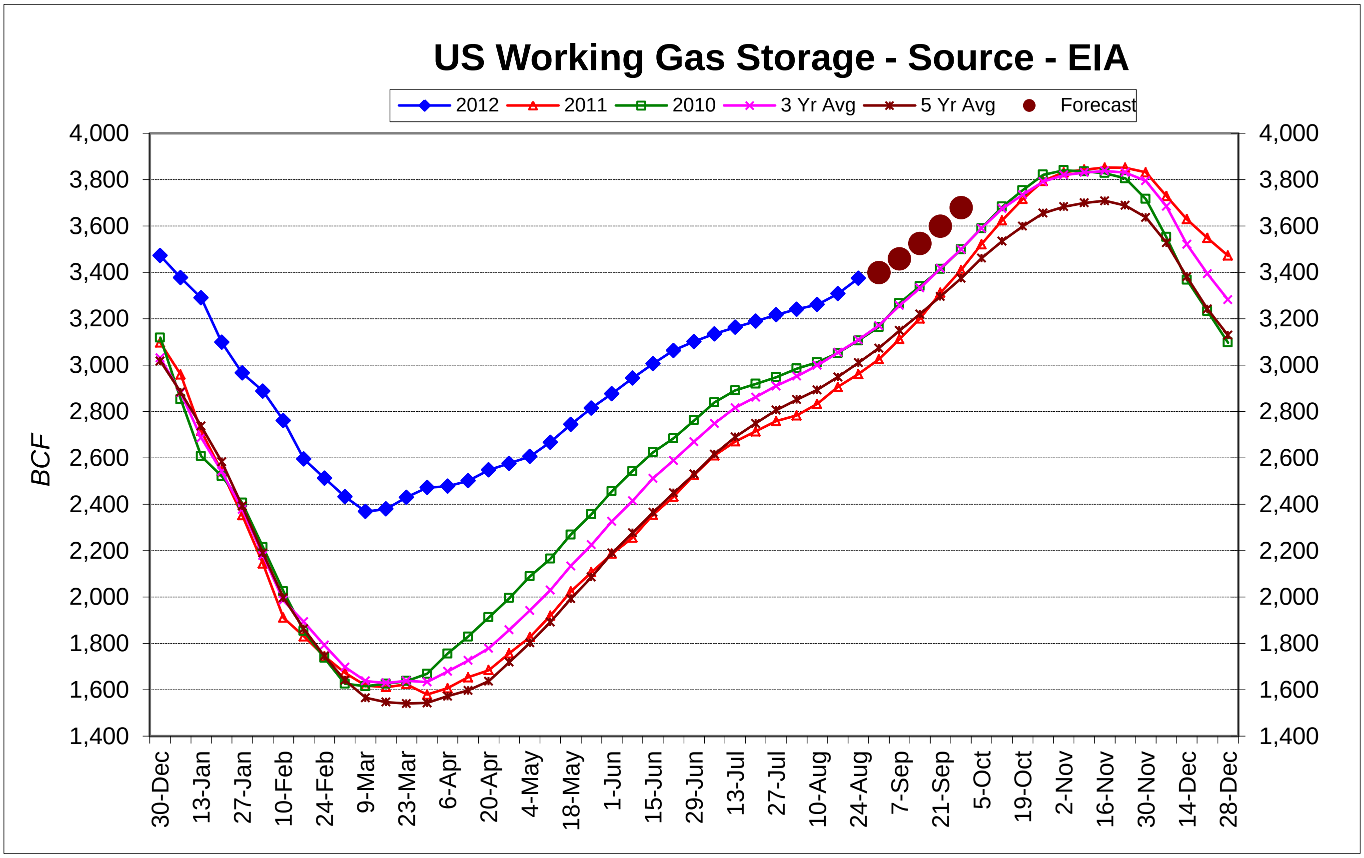
Other Factors: The S&P 500 index again slipped as another round of Fed easing does not appear immediate.

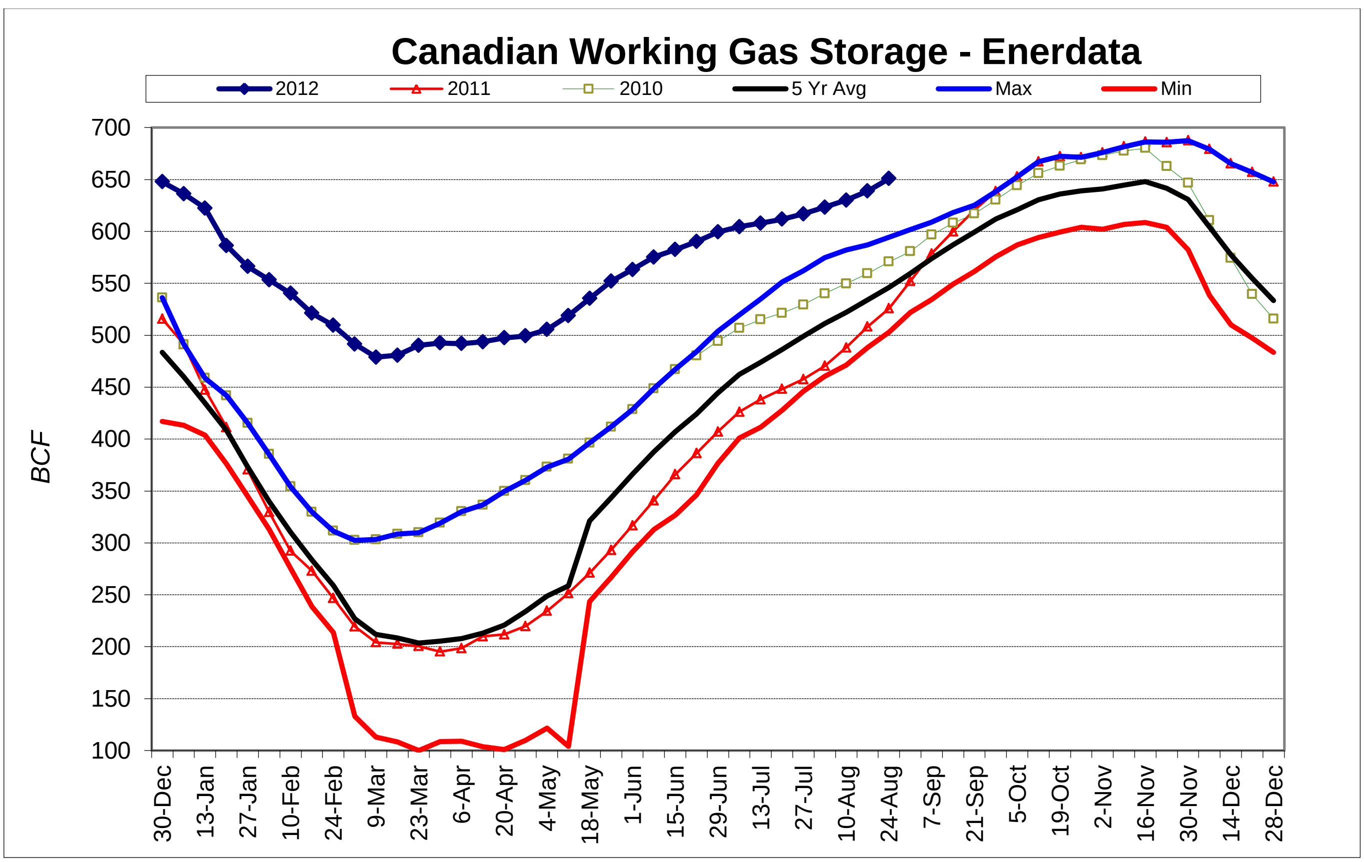


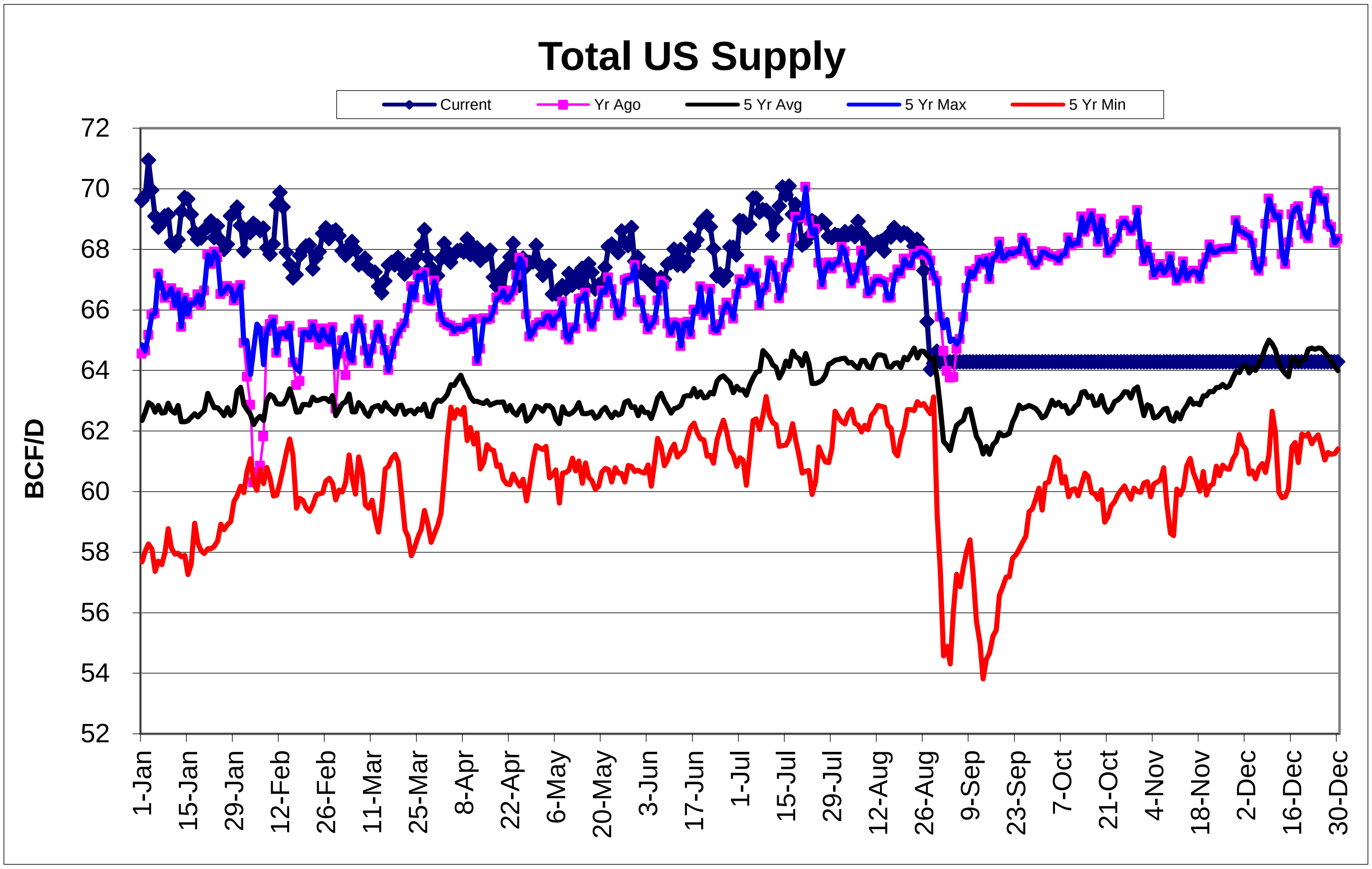
$/MMBtu Ratio of NYMEX CL and NG
NG $/MMBtu
CL $/MMBtu
$/MMBTU CL/NG Ratio
$/MMBtu
CL/NG Ratio
$26
$24
$22
$20
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
9.75
9.00
8.25
7.50
6.75
6.00
5.25
4.50
3.75
3.00
2.25
1.50
0.75
0.00
Jan-00
Jun-00
Dec-00
May-01
Nov-01
Apr-02
Oct-02
Mar-03
Sep-03
Feb-04
Aug-04
Jan-05
Jul-05
Dec-05
Jun-06
Nov-06
May-07
Oct-07
Apr-08
Sep-08
Mar-09
Aug-09
Feb-10
Aug-10
Jan-11
Jul-11
Dec-11

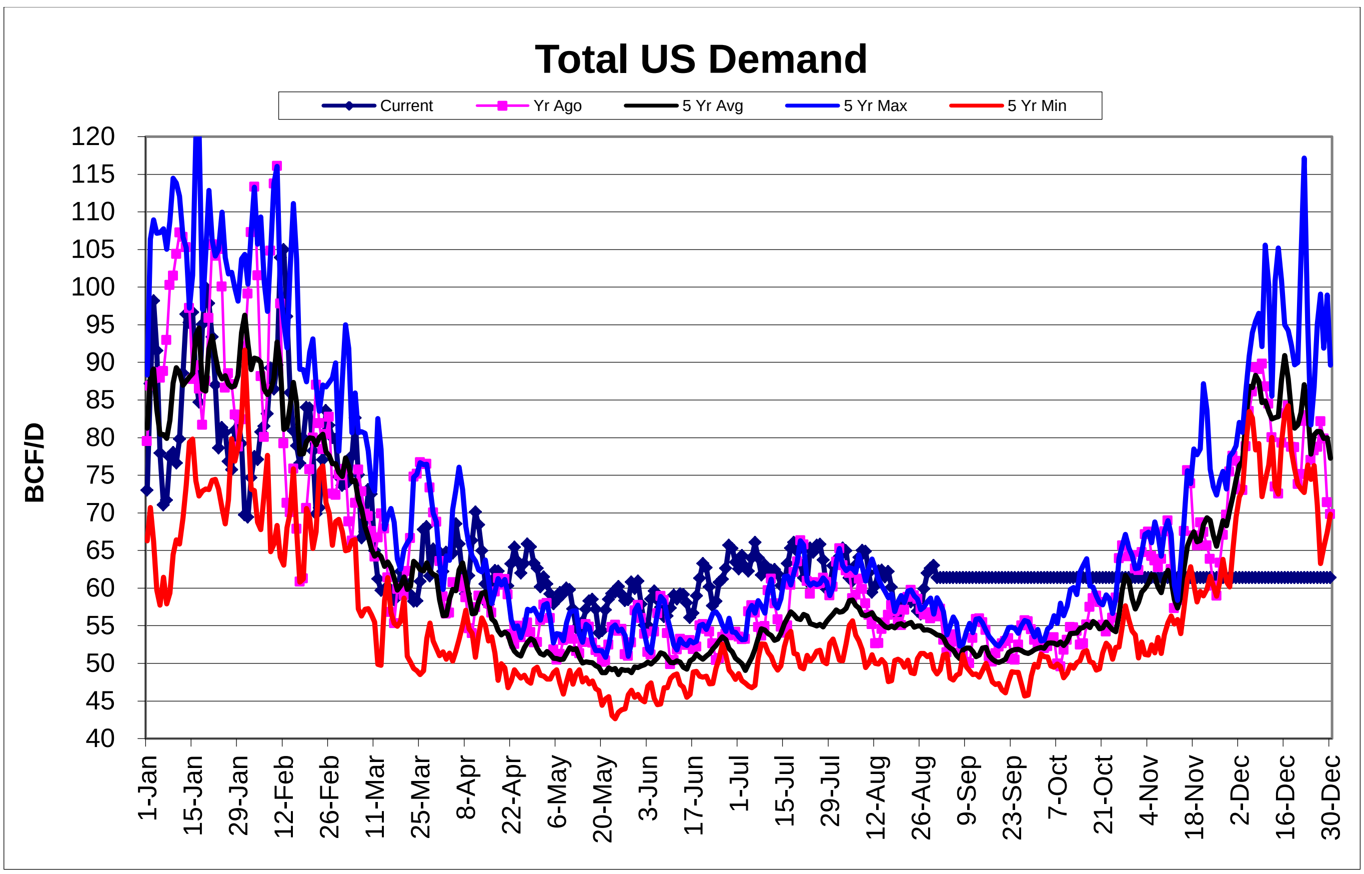


NYMEX Calendar Strips
NG Cal 2012
NG Cal 2013
NG Cal 2014
NG Cal 2015
NG Call 2016
$8.00
$7.75
$7.50
$7.25
$7.00
$6.75
$6.50
$6.25
$6.00
$5.75
$5.50
$5.25
$5.00
$4.75
$4.50
$4.25
$4.00
$3.75
$3.50
$3.25
$3.00
$2.75
$2.50
$2.25
Jan-09
Mar-09
May-09
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
Sep-11
Nov-11
Jan-12
Mar-12
May-12
Jul-12
Sep-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
10-Aug
24-Aug
7-Sep
21-Sep
5-Oct
19-Oct
2-Nov
16-Nov
30-Nov
14-Dec
28-Dec





ADDITIONAL INFORMATION AVAILABLE UPON REQUEST