

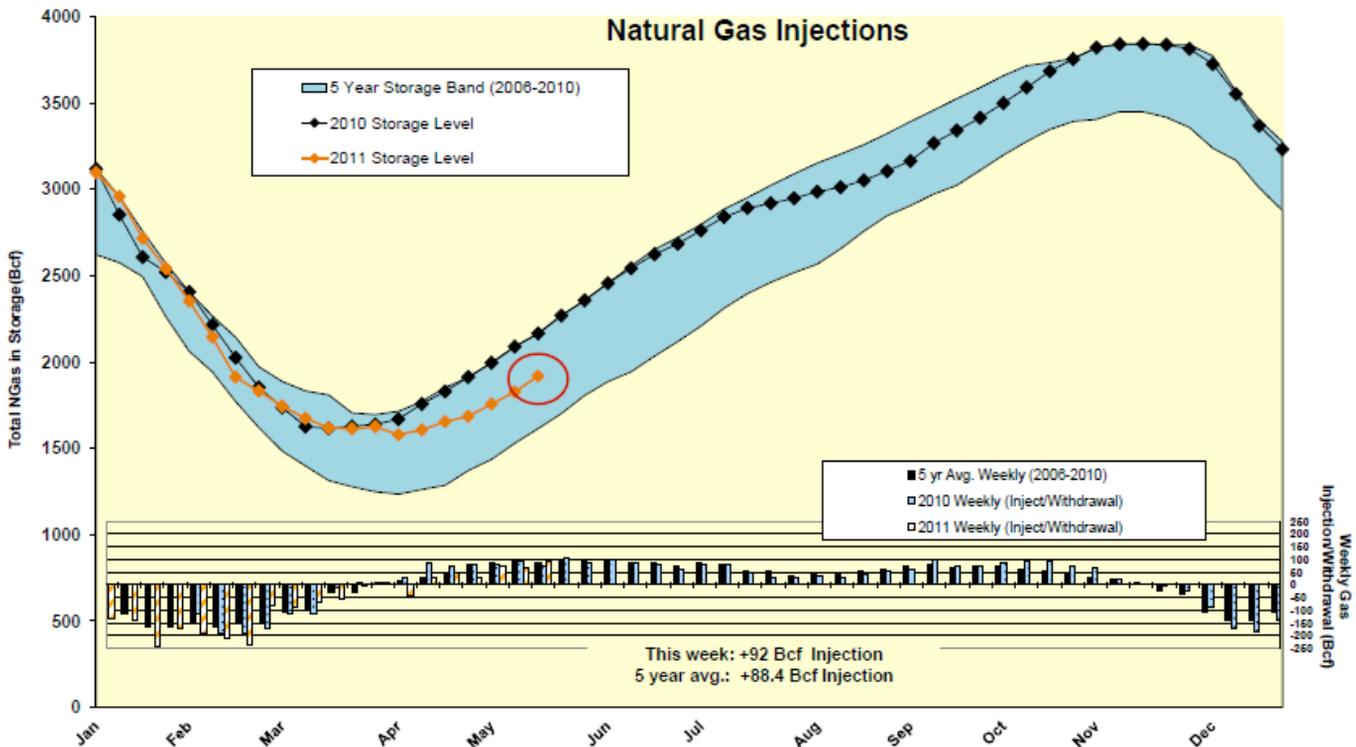
2) We Recommend Buying Natural Gas Companies While Reducing Oil Weighted Ones

Recent natural gas injections have been at an overall slower pace than the 5-year average. Last week, the injection of 92Bcf still leaves storage 1.8% below the 5-year average and more importantly 10.9% below last year.

Region	Stocks in billion cubic feet (Bcf)			Historical Comparisons			
	05/13/11	05/06/11	Change	Year Ago (05/13/10)		5-Year (2006-2010) Average	
				Stocks (Bcf)	% Change	Stocks (Bcf)	% Change
East	804	748	56	987	-18.5	913	-11.9
West	251	240	11	357	-29.7	297	-15.5
Producing	864	839	25	810	6.7	744	16.1
Total	1,919	1,827	92	2,154	-10.9	1,955	-1.8

Source: EIA Weekly Natural Gas Storage Report for the Week Ending May 13, 2011

This years' injections are coming slower than normal and if by the end of June we are near the bottom of the 5-year band, it would be very constructive and supportive of price rise.



Source: Schachter Asset Management Inc. / EIA, May 19, 2011

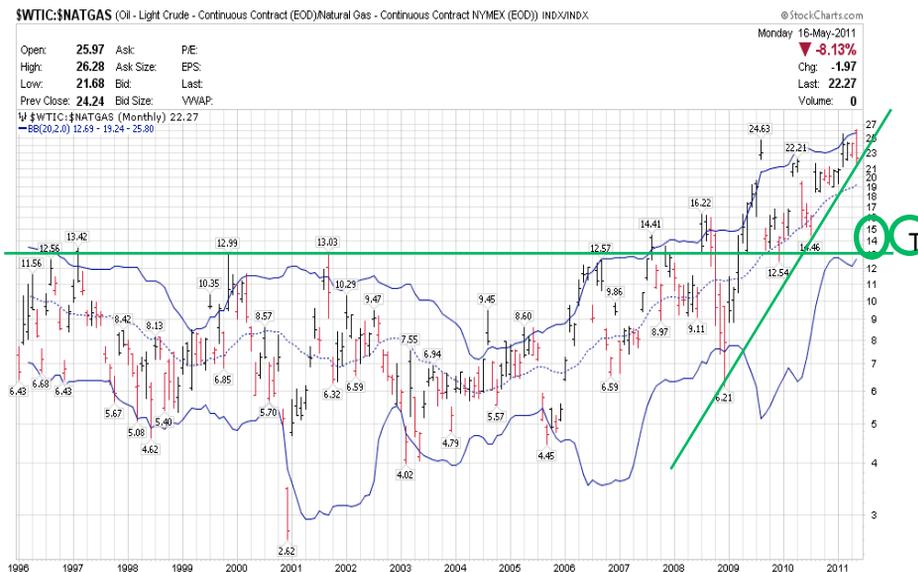
Oil/Gas Ratio



Source: Stockcharts.com, May 16, 2011

The price of natural gas has begun to improve versus oil prices over the last month. The peak in oil prices at US\$114.88 in April coincided with the Libya rebellion getting significant world attention. Since then there have been no more significant dominos in major oil producers facing the “Arab Spring” democracy movement. The ratio of oil prices to gas prices has retreated from a high of 27.9 to 1 in April 2011 and we expect over the coming months that the ratio could decline to 13-14 to 1 as demand for natural gas rises and field production falls off as depletion and a slower pace of drilling affects deliverability.

Oil/Gas Ratio (1996 – 2011)



Source: Stockcharts.com, May 16, 2011

In winter 2011 – 2012 we look for natural gas prices to rise for NYMEX to over US\$7/Mcf and for AECO to rise to >C\$5/Mcf. If this occurs at the same time as oil prices retreat, a target of 10 to 1 could be seen at some time in the coming quarters.

Natural Gas – Continuous Contract NYMEX



Source: Stockcharts.com, May 16, 2011