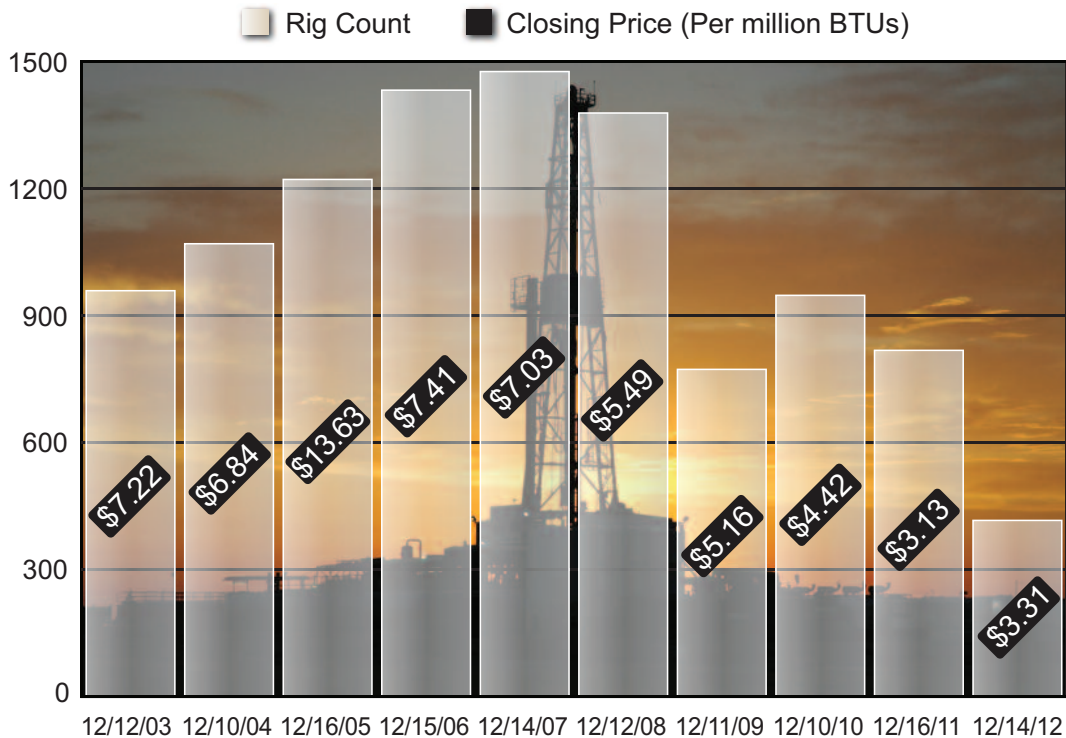


# Waiting Game Continues For Natural Gas Investors

## U.S. Natural Gas Rig Count & Closing Price



Sources: Baker Hughes & Bloomberg. BTUs: British Thermal Units

## View from the Observation Deck

1. The National Oceanic Atmospheric Administration has stated that 2012 will go down as the warmest year in the U.S. on record (118 years).
2. Prior to 2012, the warmest year for the lower 48 states in the U.S. was 1998. The price of natural gas averaged \$1.93 per million BTUs in December 1998, according to Bloomberg.
3. Natural gas prices declined steadily in the first half of 2012. The price bottomed at \$1.91 per million BTUs on 4/19/12. In line with December 1998.
4. The chart above shows a closing price for natural gas of \$3.31 per million BTUs on 12/14/12. Why is the price so much higher than back in April? The answer is less rigs and a pop in demand from electric utilities.
5. Natural gas producers cut the number of active rigs in the U.S. from 818 on 12/16/11 to just 416 on 12/14/12 in an effort to offset high inventory levels earlier this year.
6. The average number of active natural gas rigs for the 10 totals (spanning 10 years) referenced in the chart was 1,050.
7. The Energy Information Administration reported that the use of coal to generate electricity plunged 17% in the first eight months of 2012, while natural gas usage rose 27%.
8. While we believe the future for natural gas looks compelling, there are some fundamental challenges in the current climate.