# Natural Gas - What a Difference a Month Makes!

January 6, 2010
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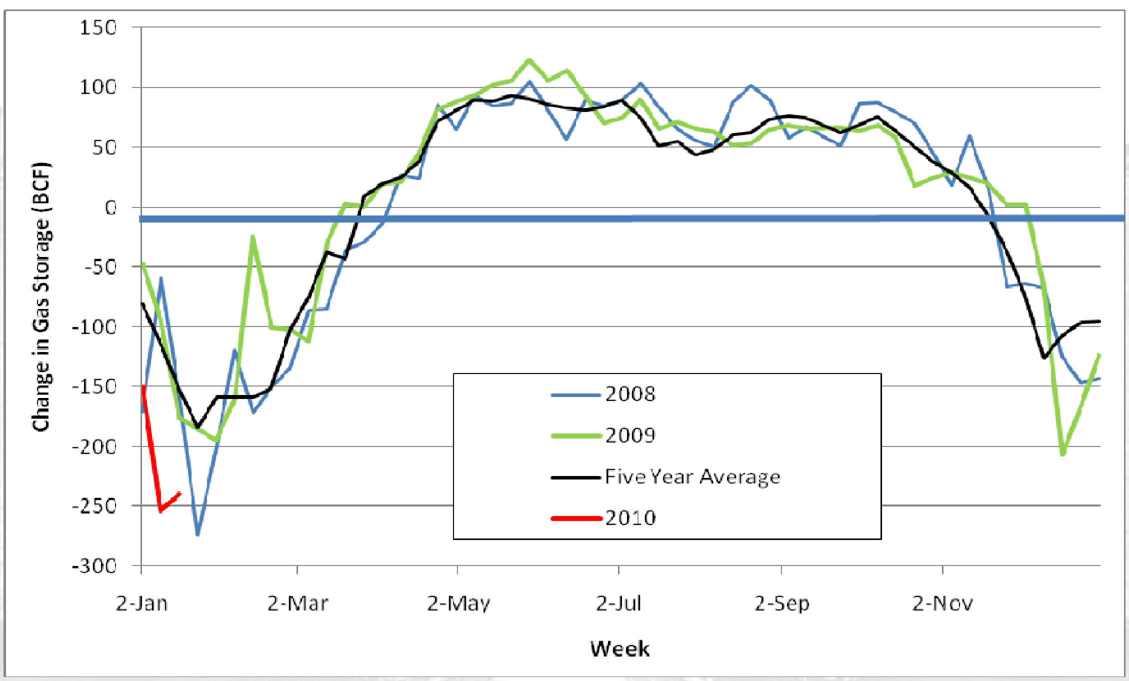
One month ago we were at the beginning of the natural gas withdraw season with a record amount of gas in inventories and many analysts purporting the industry as being "AWASH IN GAS". At the time (December 3, 2009) there was 3.8 TCF in storage, very near the theoretical levels of "FULL" storage, with 2 bcf injected the prior week. The record amount of natural gas in storage at this time was 507 bcf or 15% above the prior five year average. Many of the winter weather forecasts were tempered with the effects of El Nino, typically causing a mild winter. The resilient US natural gas production was seemingly being propped up by the activity around the prolific shale plays.

The month of December saw US gas demand running at an average of 85.2 bcf/d, a mere 8% above the five year average of 78.4 bcf, hardly cause for celebration for producers. The number of heating degrees days ("HDD") for the month was actually slightly below the HDD for the same period last year and yet the amount of gas draw from storage was 35% higher than the five year average.

The gas withdrawals reported for this week were 150 bcf, again, an amount considerably higher than the five year average of 133 bcf for the weekly draws in January. This week's inventory draws are reporting the inventories changes from last week of December and the affect of cold weather has yet to be witnessed.

For the next few weeks, inventory withdrawals are likely to be in excess of 200 bcf putting gas inventories very close to the five year average gas storage levels.

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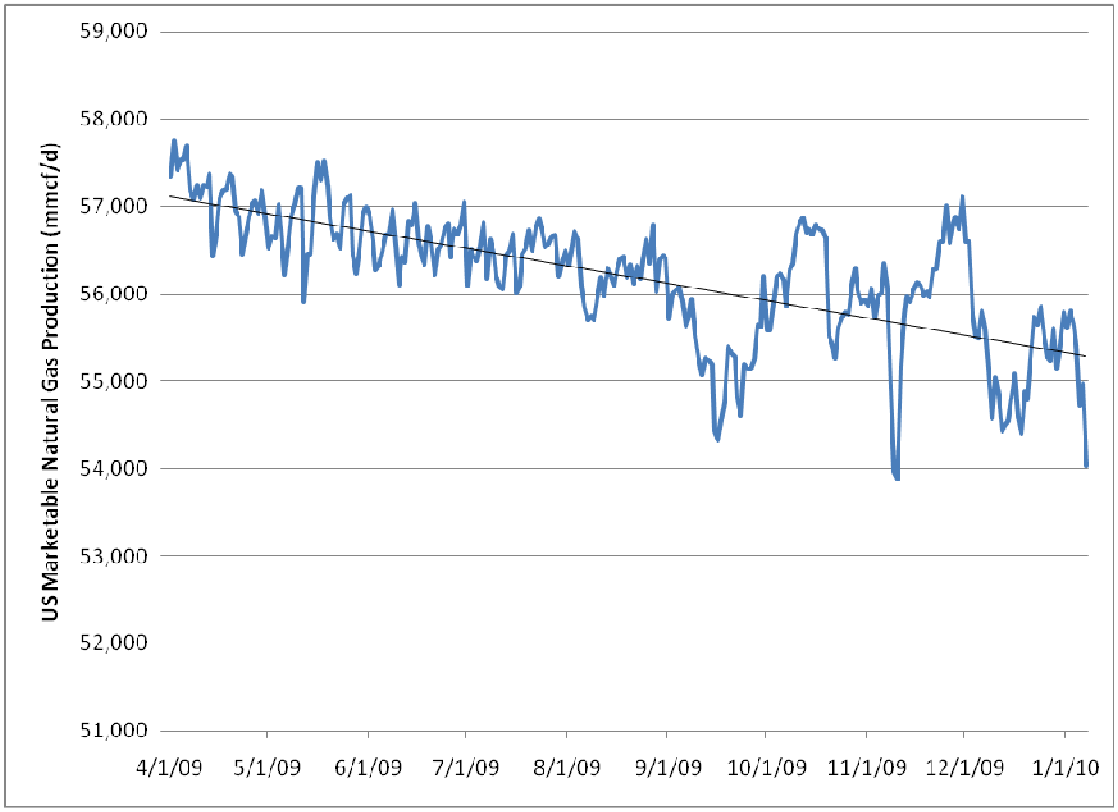
Behind the scenes of the buoyant inventory levels are the feelings of "being full after a Christmas dinner" and "there is a lot more where that came from". No more exploration risk and vast amounts of natural gas supplies from the prolific shales.

## US Natural Gas Production




Since April, 2009 US natural gas production has fallen from 57.7 bcf/d to approximately 55.2 bcf/d in December. And it shows no sign of reversing this trend notwithstanding that US gas directed rig count has recovered from its low of 672 rigs to 757 rigs and most of those returning to work are horizontal rigs focused on shale plays. Canada's experience is worse with gas production falling from over 14 bcf/d to less than 13 bcf/d in 2009 and gas directed rig count at a 10 year low resulting in gas exports to the US being reduced by nearly 2 bcf/d.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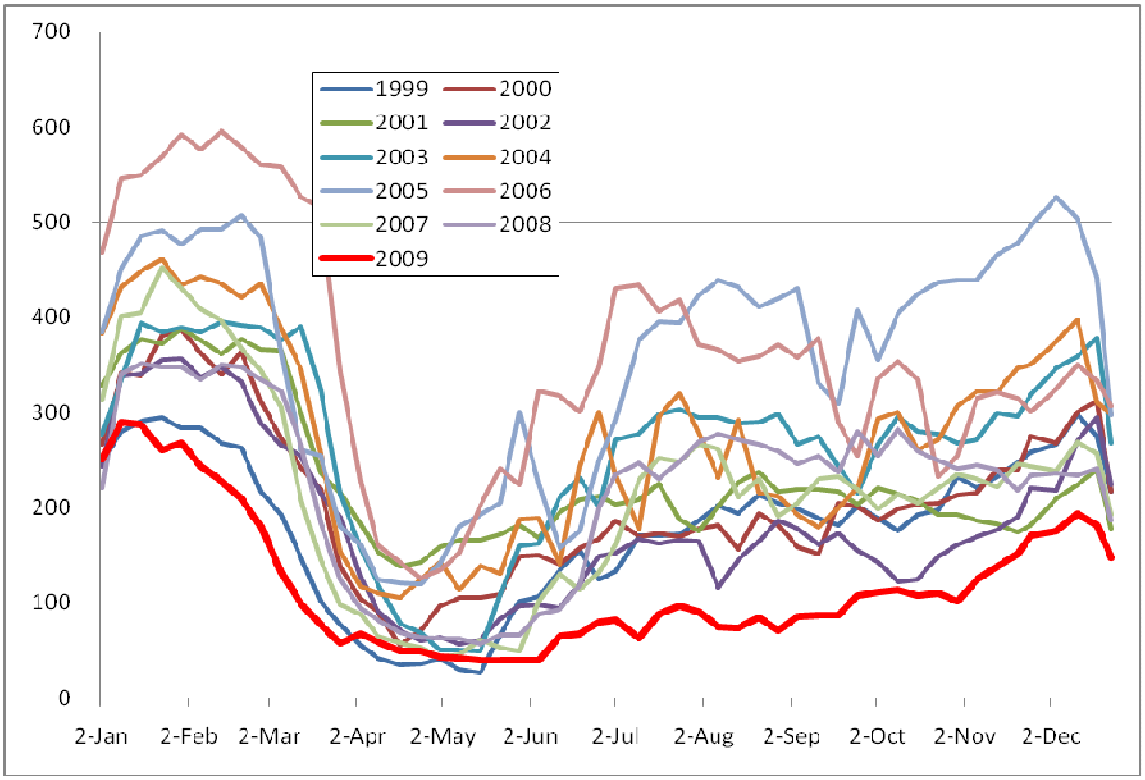
## Canadian Gas Directed Rig Count




Putting the cold weather aside and forecasting what next Christmas could potentially bring looks daunting. Assuming that US natural gas drilling activity remains at these depressed levels of 757 rigs and the remainder of the year experiences no more than average gas demand, the following is the forecast of natural gas storage levels over the 2010 year.

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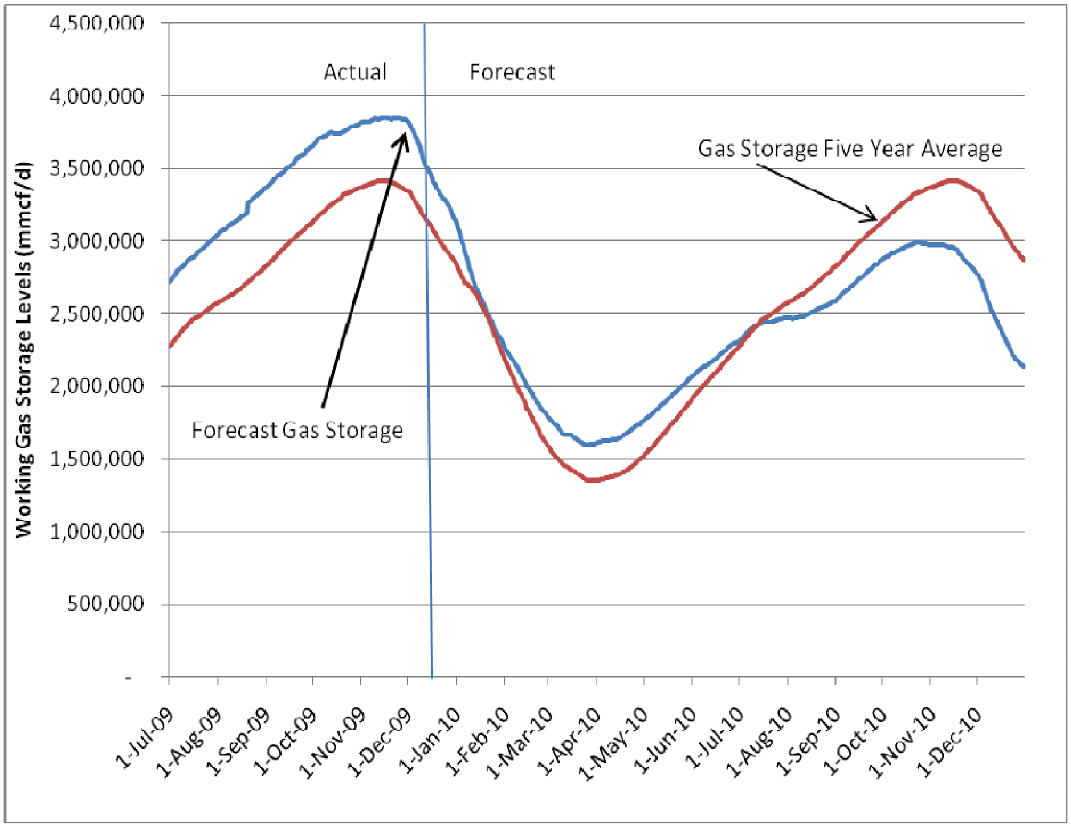
## US Natural Gas Inventories




There is simply an insufficient amount of gas supply to refill storage levels back to five year average levels in preparation of the 2011 winter withdrawal season.

Unless natural gas prices improve, it is not possible to expect supplies to increase or even remain stable with the current drilling activity. To compound the problem, it will take some time before we will see the impact of improving supplies once drilling rigs do return to work.

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For further details of this analysis please go to our website:

http://www.fortressenergy.ca/files/NANGM%20January%207th%202010.ppt