LONGREACH ENERGY

Monthly Report

Longreach Energy Holdings LLC

June 2023

FIRM INFORMATION

Investment Manager
Longreach Alternatives Ltd
ABN 25 082 852 364
AFSL 246747

Sub-Advisor
Longreach Energy Holdings LLC
Delaware registered #565928

KEY INVESTMENT PERSONNEL

Andrew Sinclair
Principal – Commercial Director

Thomas Wagenhofer
Principal – Technical Director

CONTACT US

Longreach Alternatives Ltd
Level 13
1 Margaret Street
Sydney NSW 2000
T+61 2 9135 0428
client.services@longreachalternatives.com

1.0 Market and Portfolio Commentary

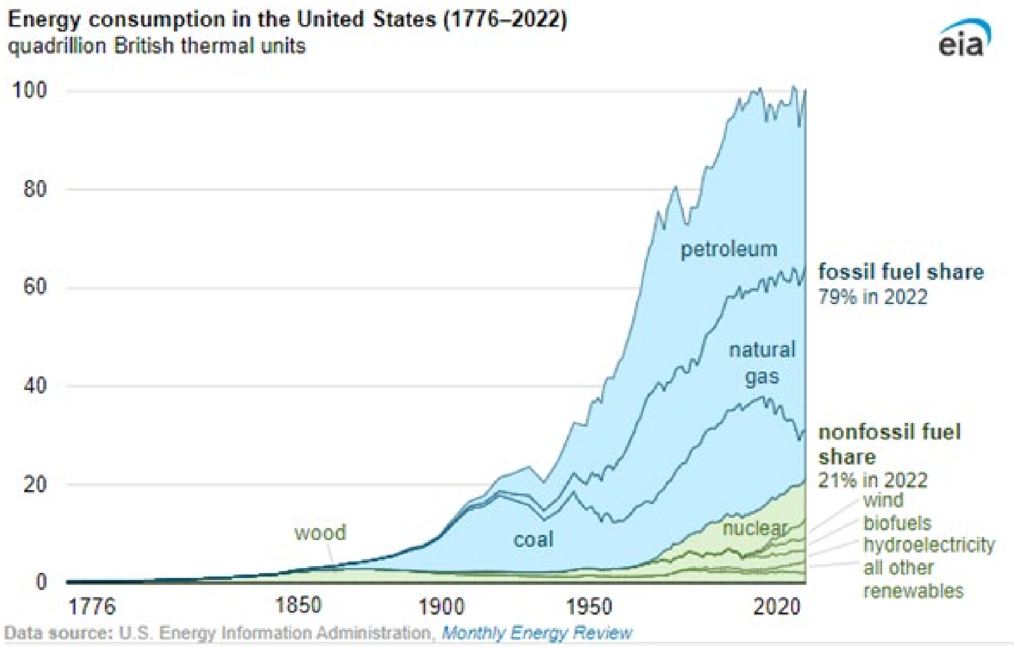
1.1 Macro Industry Commentary

US Henry Hub prompt gas prices rose in June, the prompt increased from $2.33/mmbtu at close on 31 May to $2.80/mmbtu at close on 30 June. Calendar 2023 also rose, beginning June at $2.67/mmbtu and closing at $3.06/mmbtu.

Oil prices increased modestly. The prompt opened June at $69.46/bbl and closed the month at $70.64/bbl. Calendar 2023 started the month at $69.25/bbl and closed at $70.60/bbl.

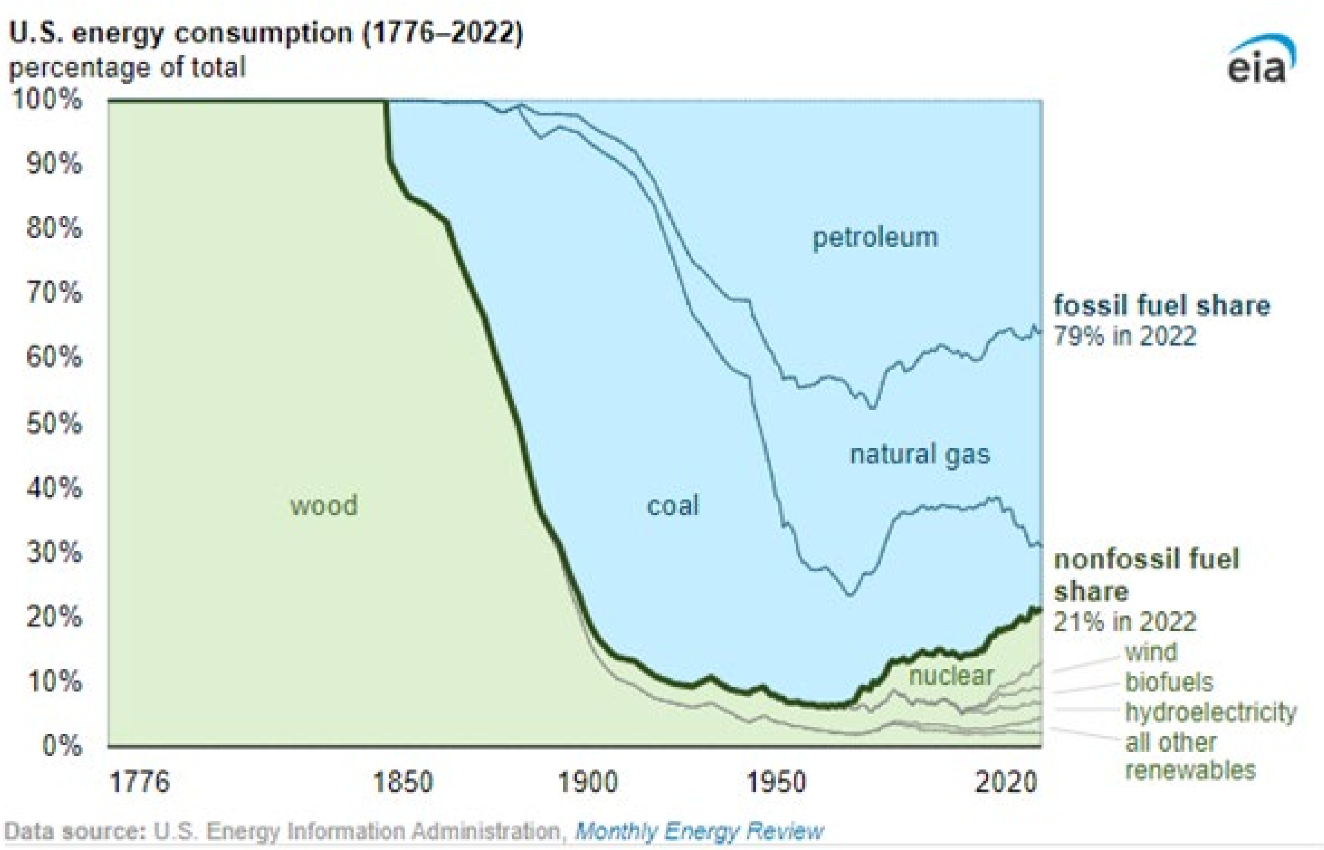
Primary energy consumption in the United States was 100.4 quadrillion British thermal units (quads) in 2022, a 3% increase from 2021. 79% of US energy consumption came from fossil fuels (Figure 1). US natural gas consumption totalled 33.4 quads in 2022, the most natural gas consumption in the United States on record. Growth in US natural gas consumption has largely been driven by increased use of natural gas in the electric power sector, which has consumed more natural gas than any other sector every year for the past five years.

Figure 1: Energy Consumption in the Unites States 1776-2022 (Source: EIA)



Much of the increased use of natural gas has been at the expense of coal (Figure 2). Renewables continue to grow albeit from a small base.

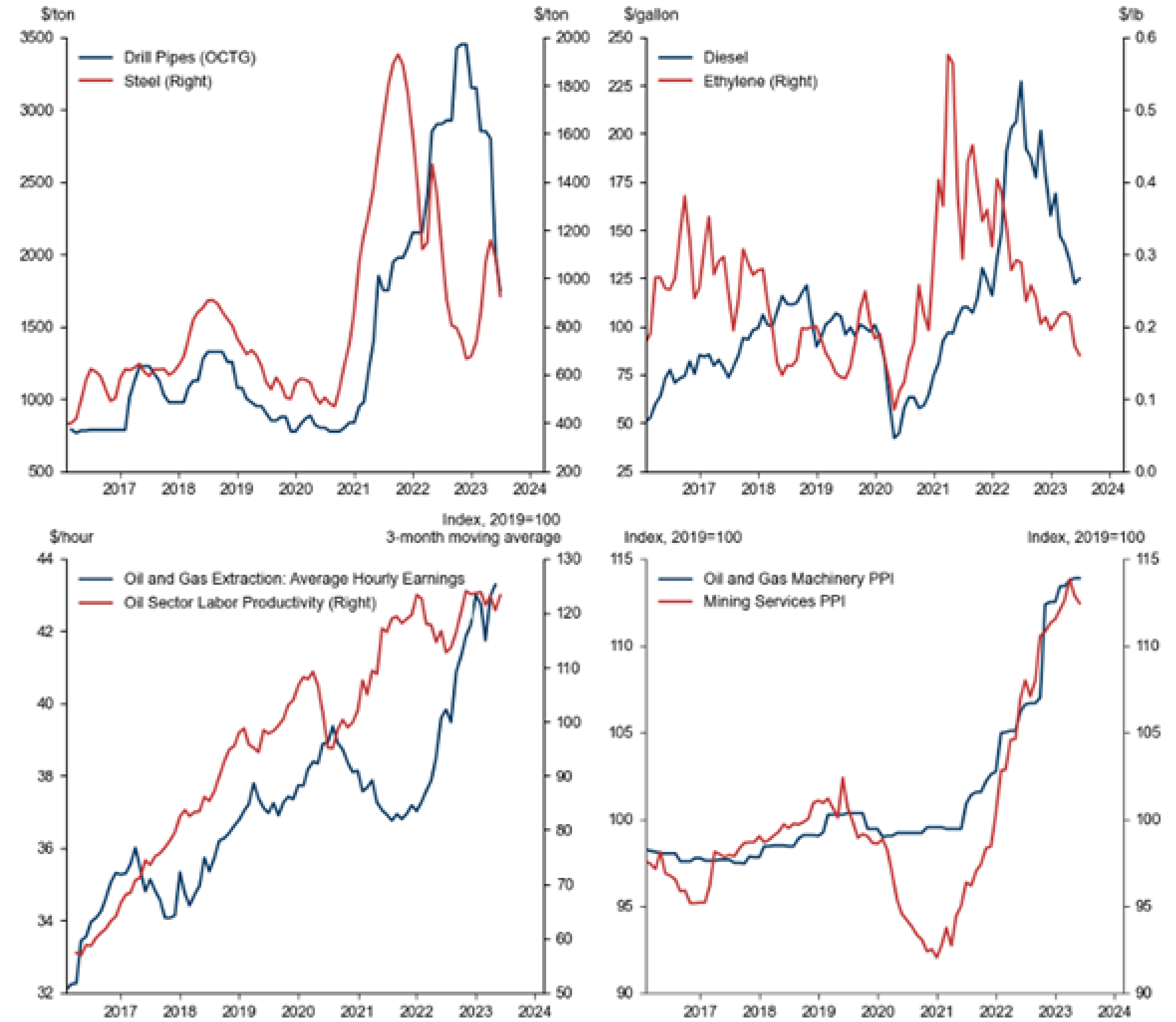
Figure 2: Percentage of Total Energy Consumption in the Unites States 1776-2022 (Source: EIA)



Tangible capital costs, such as drill pipe and diesel, have fallen from peak in 2022 although wages and other services continue to trend up (Figure 3).

Figure 3: Capital Cost Components – Pipe, Diesel, Wages and Machinery (Source: various, via GS)

Exhibit 2: While Drill Pipes Prices Are 50% Down from the 2022Q3 Peak, Oil & Gas Wages Keep Trending Up

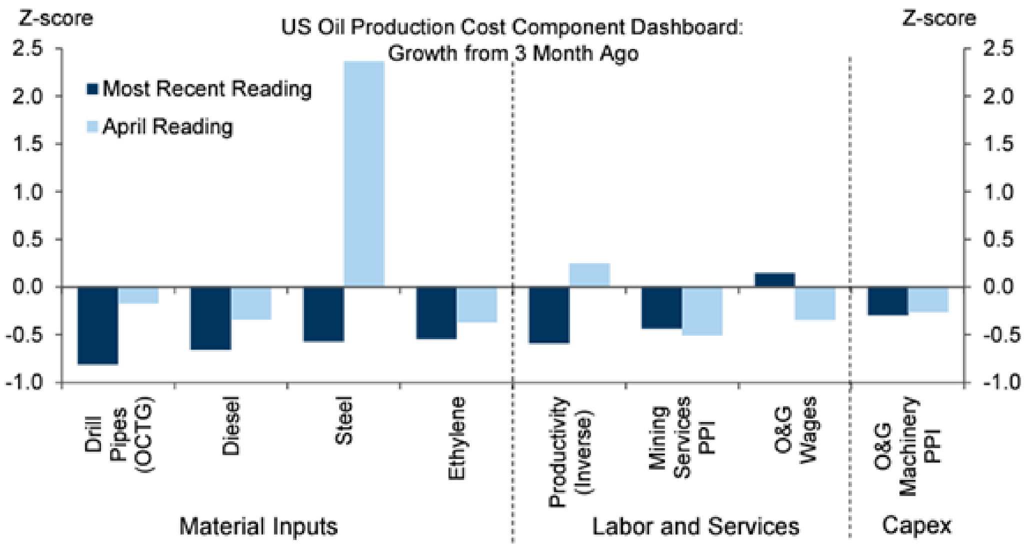


Source: Haver, Bloomberg, Platts, Goldman Sachs Global Investment Research

Total production costs have eased, with wages growth the only significant input increasing above average. The decline in pipe costs has provided the largest component of cost reduction (Figure 4). Reduction in costs is expected in periods of relatively weak commodity prices and serves to preserve production margins.

Figure 4: GS Oil Production Cost Dashboard (Source: various, via GS)

Exhibit 3: Our US Oil Production Cost Dashboard Shows Significant Easing in Oil Material Inputs Inflation Over the Last Two Months but Still Above Average Wage Growth



We report z-scores of 30-day moving averages of the materials input series. The wage and capex variables are monthly.

Source: Haver, Platts, Bloomberg, Goldman Sachs Global Investment Research

The latest Baker Hughes rig count data follows. In June US total land rigs continued their decline, falling by 21 from 674 to 653. Oil rigs fell by 10 from 555 to 545 while gas rigs fell by 13 from 137 to 124. Changes in miscellaneous and inland waters rigs made up the difference.

Baker Hughes rig count

Rotary Rig Count

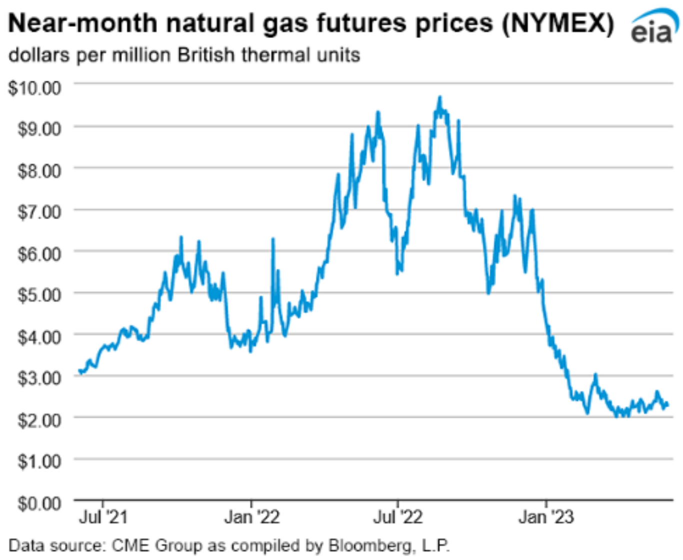
6/30/23

Location	Week	+/-	Week Ago	+/-	Year Ago
Land	653	-8	661	-77	730
Inland Waters	2	0	2	-1	3
Offshore	19	0	19	2	17
United States Total	674	-8	682	-76	750
Gulf Of Mexico	18	0	18	2	16
Canada	167	-2	169	1	166
North America	841	-10	851	-75	916
U.S. Breakout Information	**This Week**	**+/-**	**Last Week**	**+/-**	**Year Ago**
Oil	545	-1	546	-50	595
Gas	124	-6	130	-29	153
Miscellaneous	5	-1	6	3	2
Directional	50	0	50	7	43
Horizontal	606	-7	613	-76	682
Vertical	18	-1	19	-7	25

Gas Market

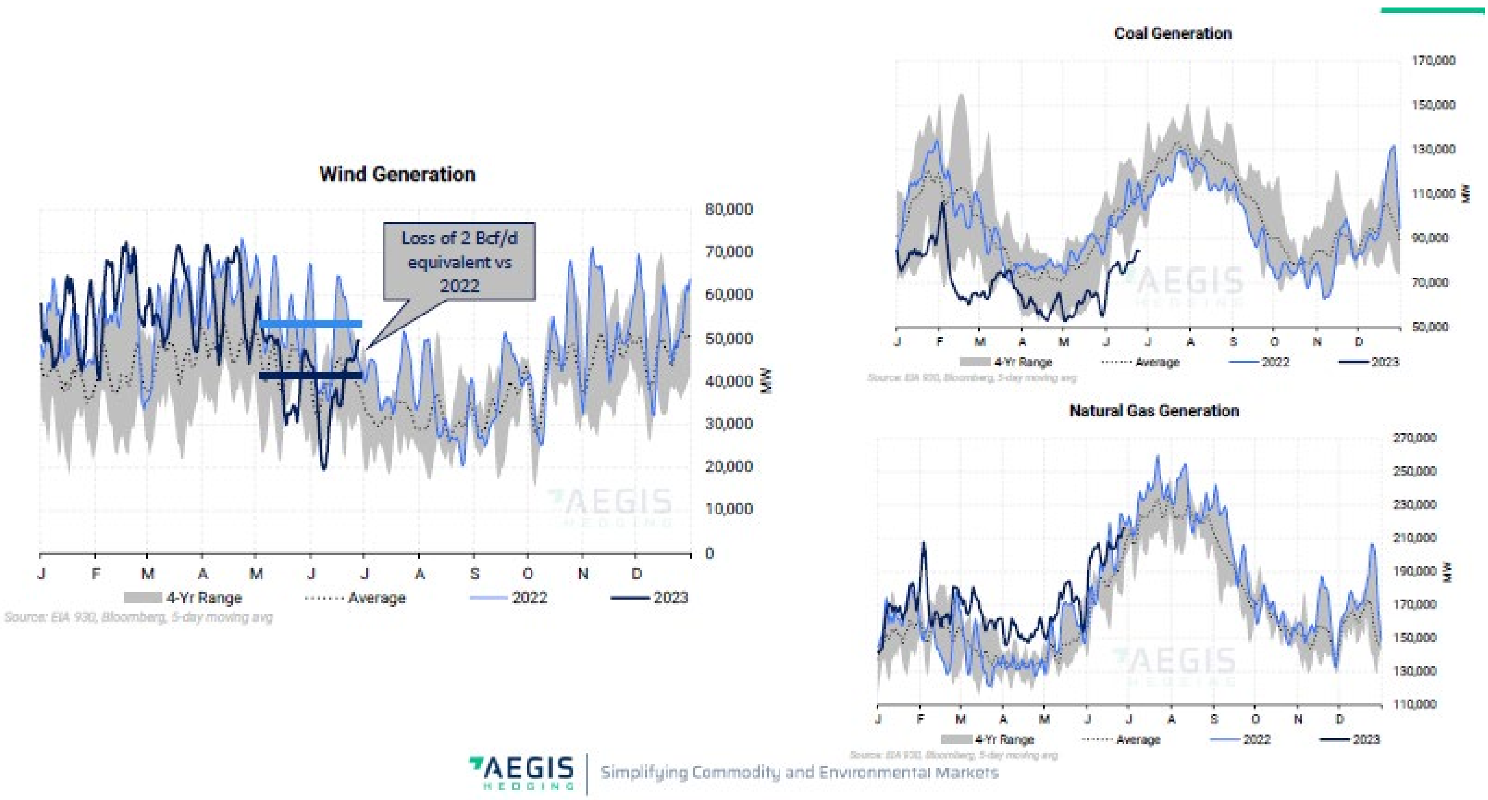
In June prompt Henry Hub gas futures steadily rose towards $3/mmbtu on the back of stronger demand, particularly driven by hot weather in Texas (Figure 5).

Figure 5: Near Month Henry Hub Futures (Source: EIA)



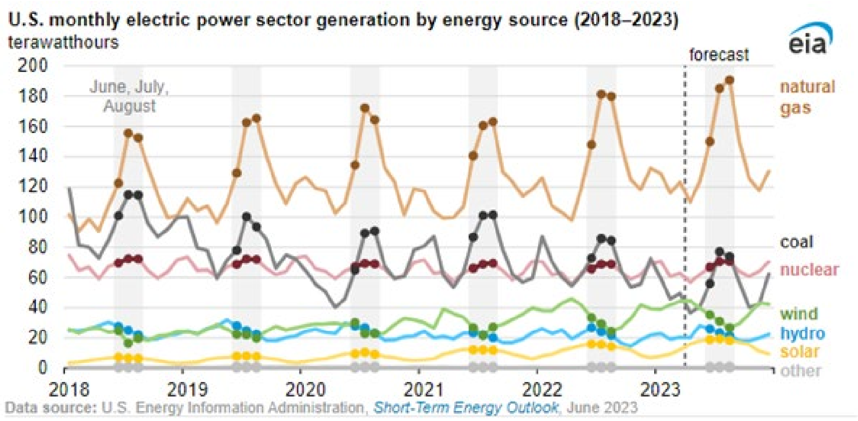
Natural gas demand was boosted in June by falls in wind generation that equated to 2bcf/d of power demand (LHS Figure 6). Coal generation too has declined (Top Right Figure 6), all combining to deliver strong demand for gas (Bottom Right Figure 6).

Figure 6: Wind, Coal and Gas Electricity Generation (Source: various, via Aegis)



Natural gas remains the primary source of generation in the electric power sector, and the EIA expects US natural gas fired generation will grow by 3% (16.7 terawatt hours (TWh), this summer compared to last year (Figure 7).

Figure 7: US Electric Power Generation by Source (Source: EIA)



Recent falls in production (Figure 8) and steady demand have caused the weather adjusted supply-demand balance for natural gas to fall into undersupply for the first time since last August (Figure 9). If sustained this will provide fundamental support to natural gas prices over the coming months.

Figure 8: Lower 48 Natural Gas Production (Source: PointLogic, va Aegis)

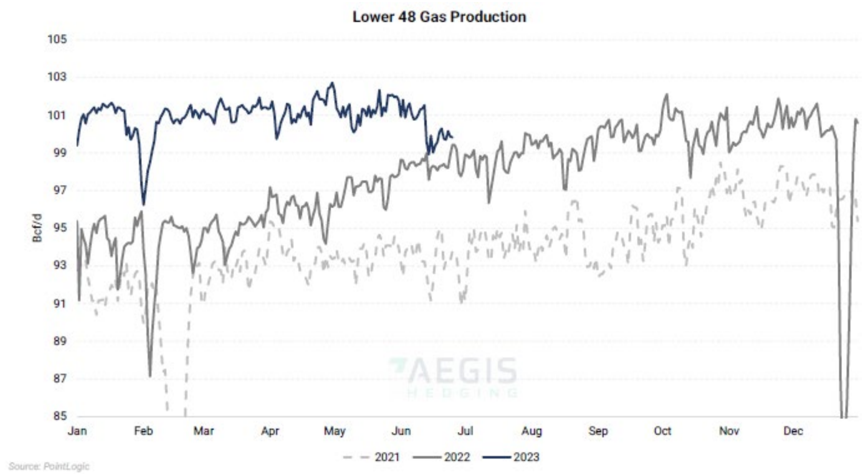
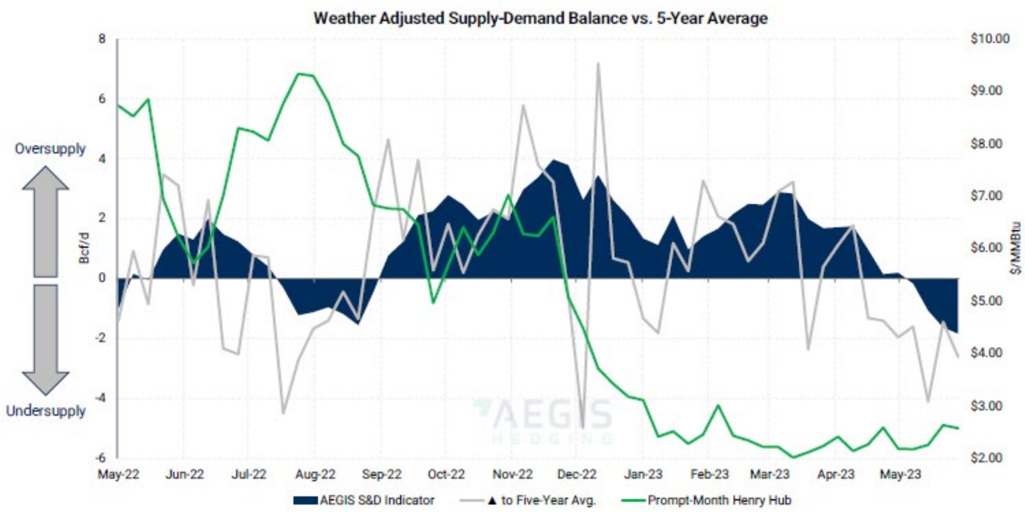
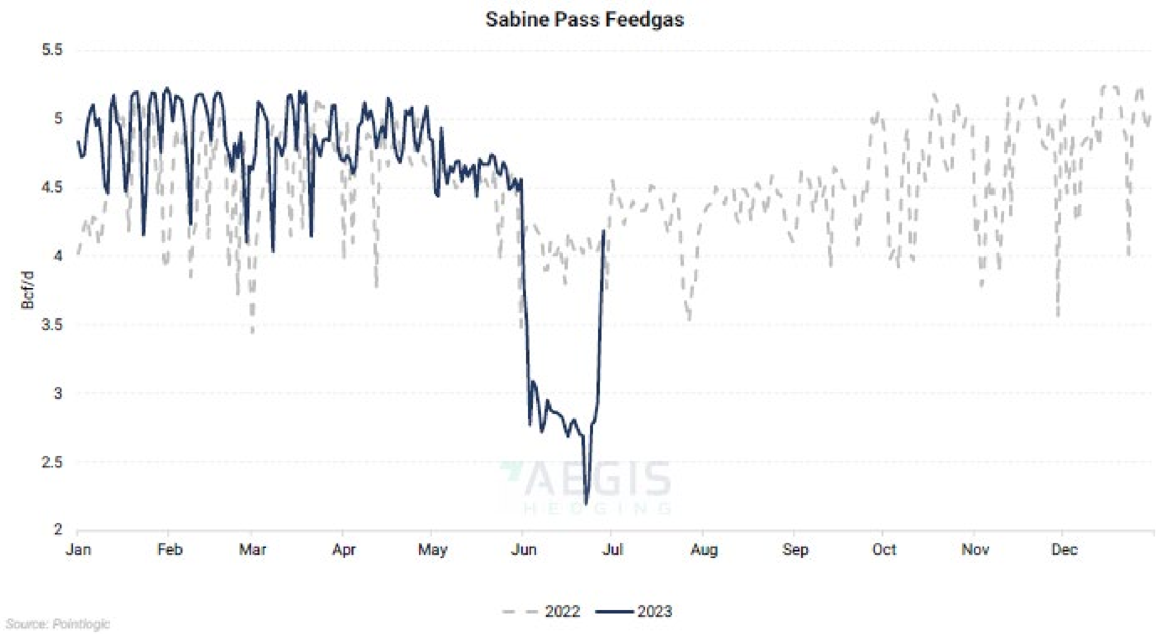


Figure 9: Weather Adjusted Supply-Demand Balance vs 5-yr Average (Source: Aegis)



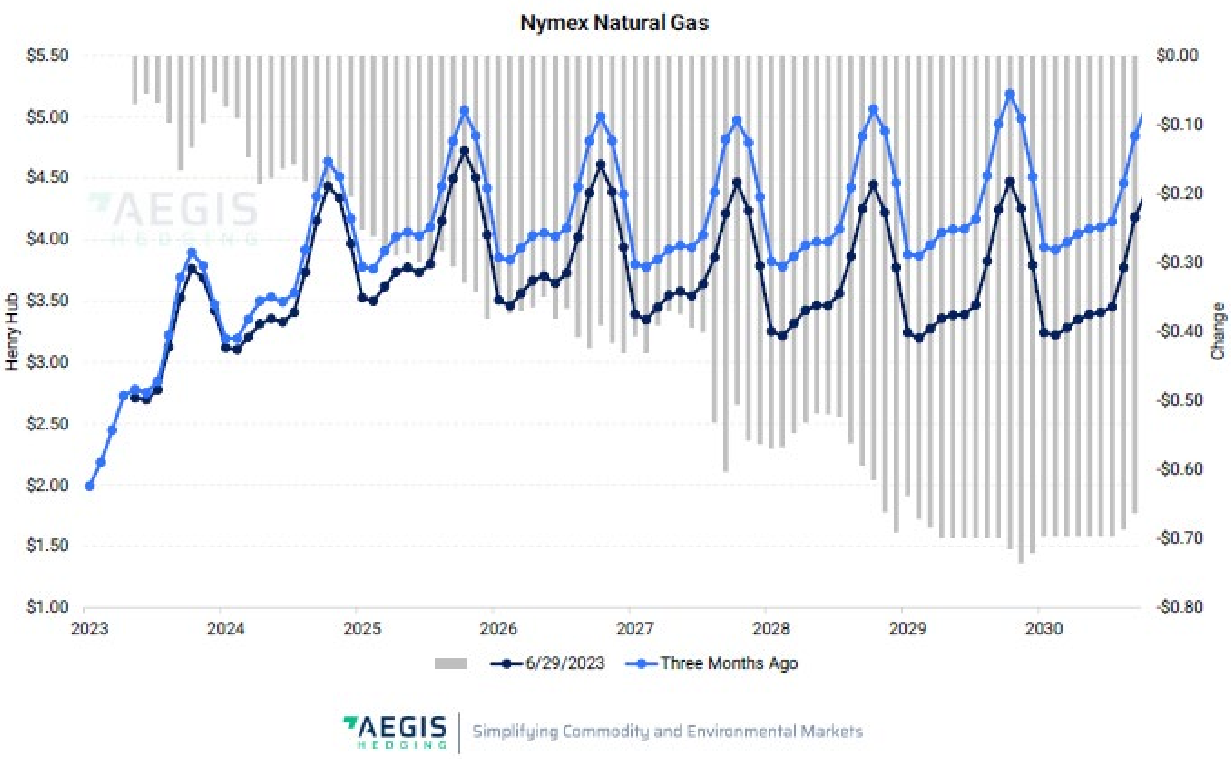
LNG demand was reduced in June because of scheduled maintenance at Sabine Pass. This is now complete and operating at full capacity will add 2bcf/d of demand (Figure 10).

Figure 10: Sabine Pass Feedgas (Source: PointLogic, via Aegis)



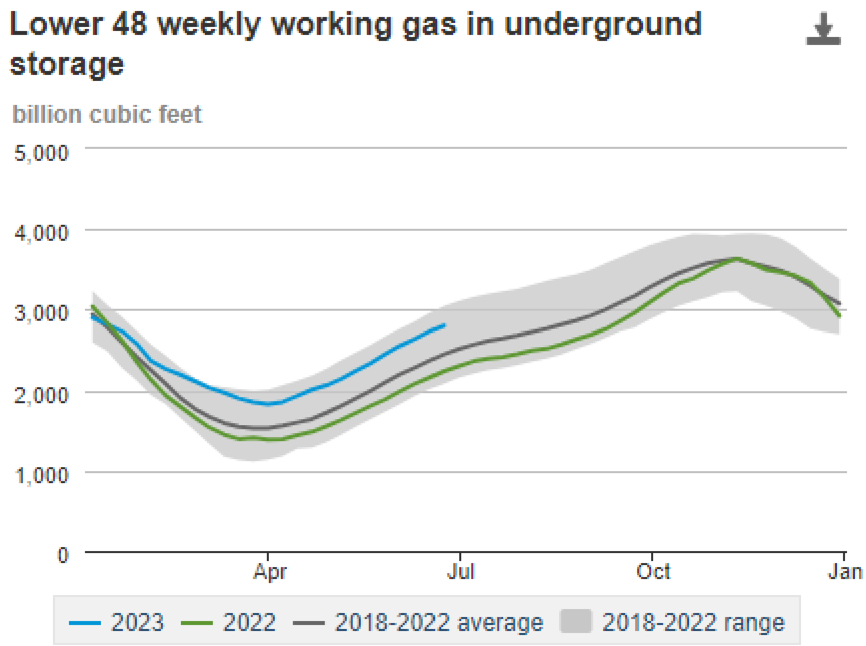
While the front-end of the curve has increased, the last three months have seen relatively large declines at the back end of the forward curve (Figure 11). There is little liquidity beyond 2 years and no fundamental supply/demand driver for the declines. Market analysts suggest that these falls have been driven by M&A driven forced producer hedging – companies compelled to hedge by lenders funding acquisitions. Supply and demand fundamentals should deliver increases in the forward curve over coming months.

Figure 11: Nymex Natural Gas Forwards (Source: Aegis)



According to EIA estimates working gas in storage was 2,805 bcf as of Wednesday 28 June 2023 (Figure 12). Stocks were 566bcf higher than last year at this time and 358bcf above the five-year average.

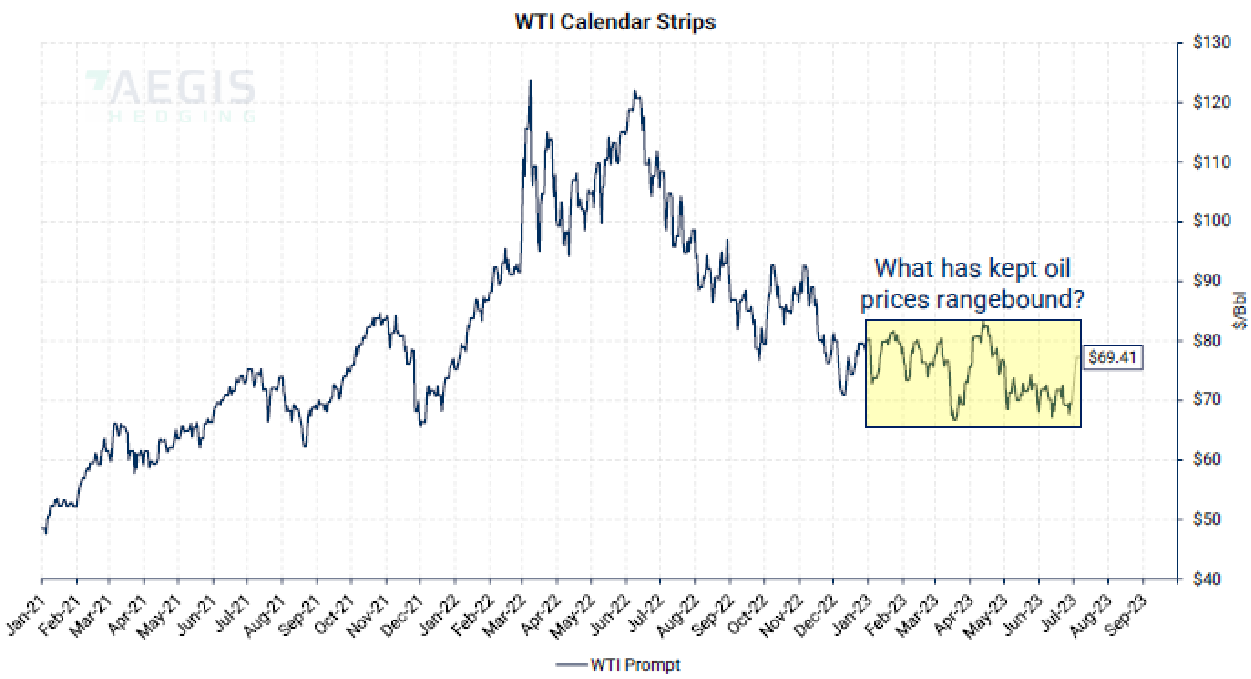
Figure 12: US Working Gas in Underground Storage (Source: EIA)



Oil Market

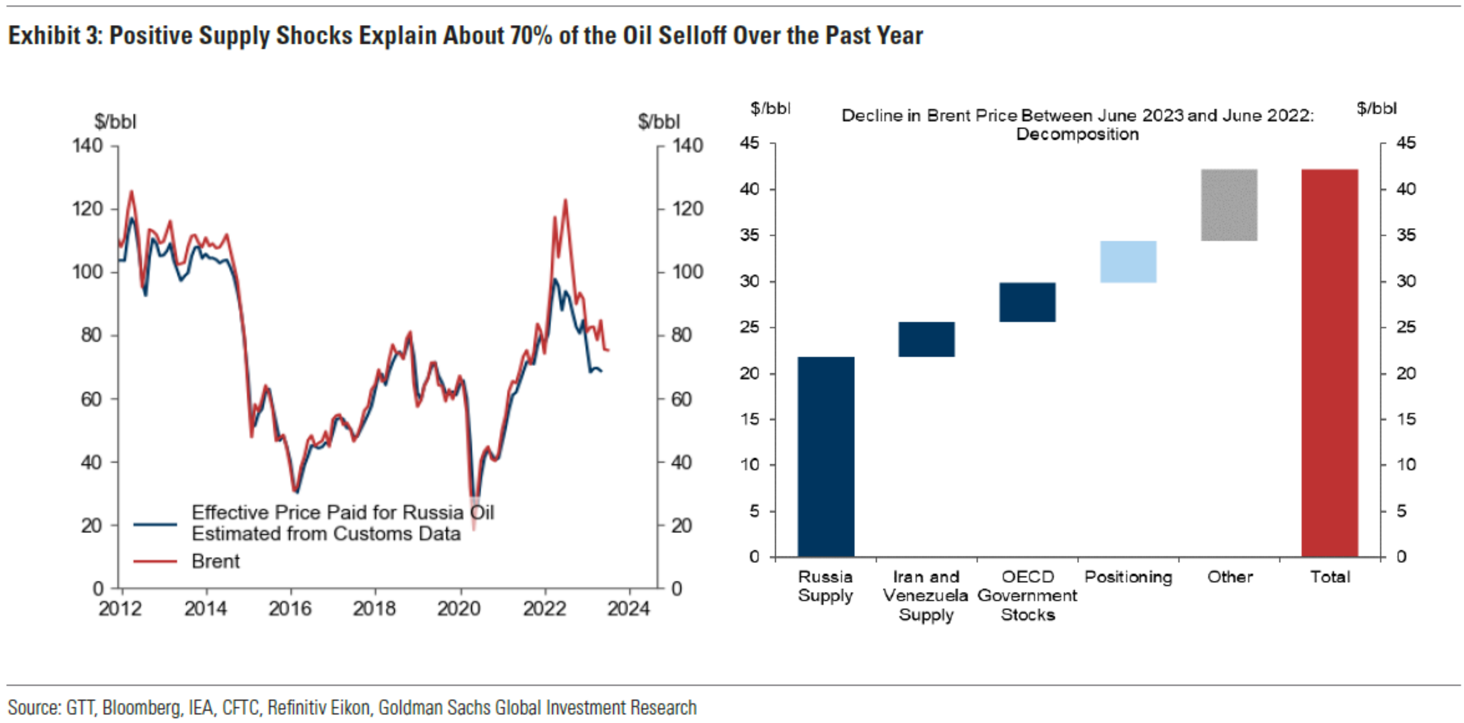
Prompt WTI has traded in tight range between $67/bbl and $82/bbl since late last year (Figure 13). This has been the product of a balance between weaker than expect demand growth from China, as it emerges from extended Covid-19 lockdowns, and general fears of global recession on one side and declining investment and consequential restricted supply growth on the other.

Figure 13: WTI Prompt Contract (Source: Aegis)



Higher than expected oil deliveries from Russia have also played a part in lowering prices (Figure 14).

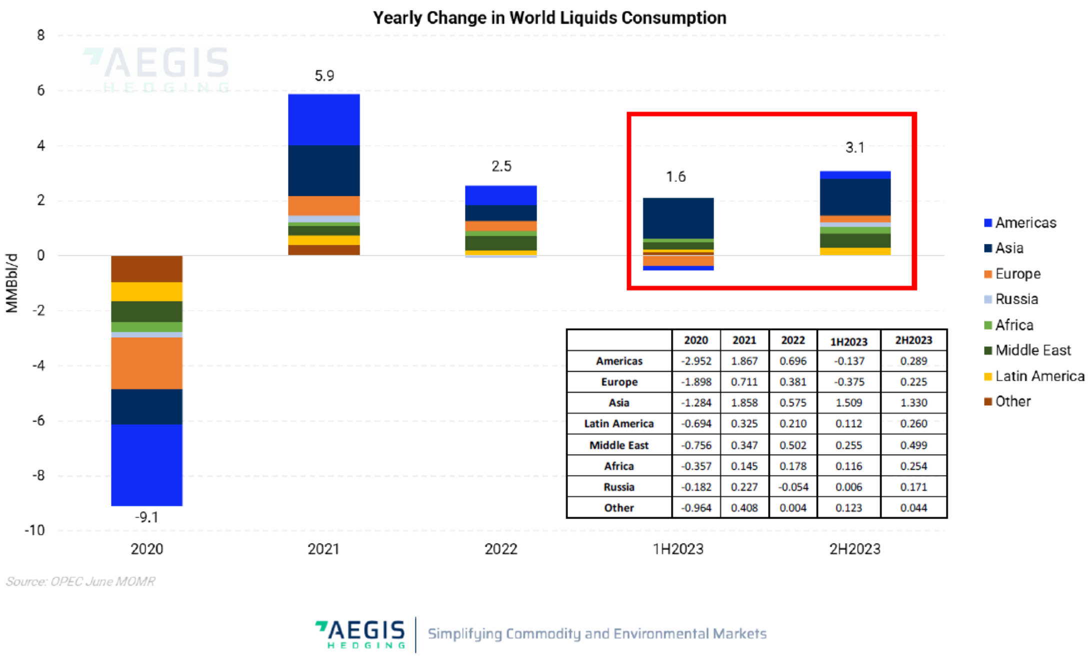
Figure 14: Positive Oil Supply Variances (Source: various, via GS)



It is unlikely that this trading range will endure through the second half of 2023 with supply and demand fundamentals supporting higher prices.

Global oil consumption in the second half of 2023 is forecast by OPEC to increase by 3.1mmbbld (Figure 15). The IEA and other forecasters only differ a little from OPEC's numbers.

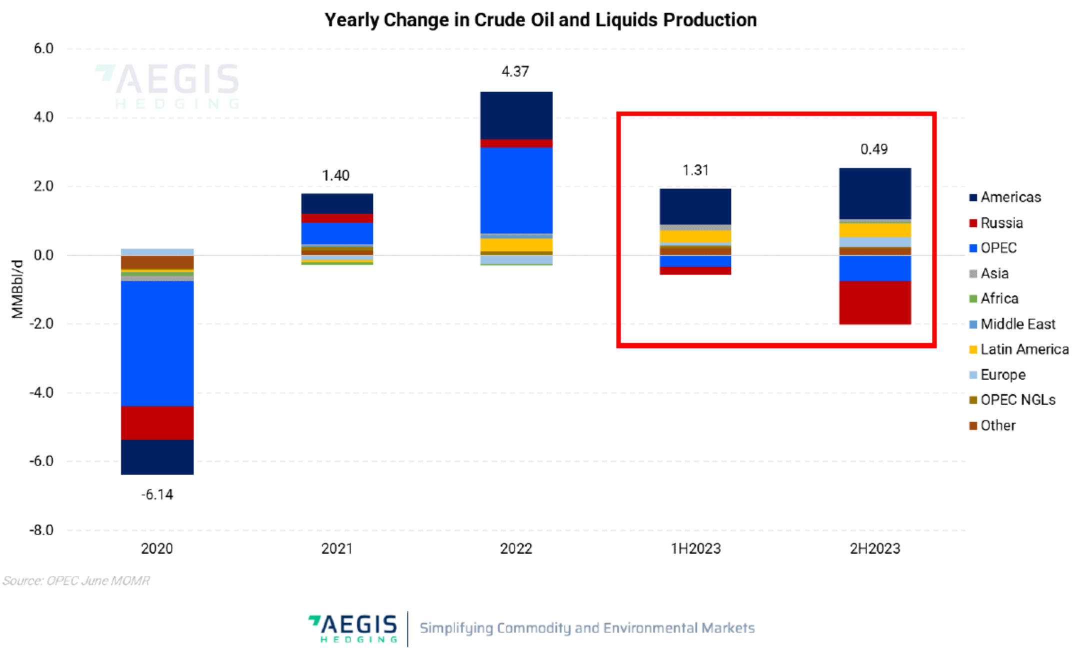
Figure 15: Changes in World Liquids Consumption (Source: OPEC, via Aegis)



	2020	2021	2022	1H2023	2H2023
Americas	-2.952	1.867	0.696	-0.137	0.289
Europe	-1.898	0.711	0.381	-0.375	0.225
Asia	-1.284	1.858	0.575	1.509	1.330
Latin America	-0.694	0.325	0.210	0.112	0.260
Middle East	-0.756	0.347	0.502	0.255	0.499
Africa	-0.357	0.145	0.178	0.116	0.254
Russia	-0.182	0.227	-0.054	0.006	0.171
Other	-0.964	0.408	0.004	0.123	0.044

After broadly matching the growth in demand in 1H23, supply is forecast to fall well behind demand growth in 2H23 as increases in production from the Americas is substantially offset by falls in production from Russia and OPEC (Figure 16).

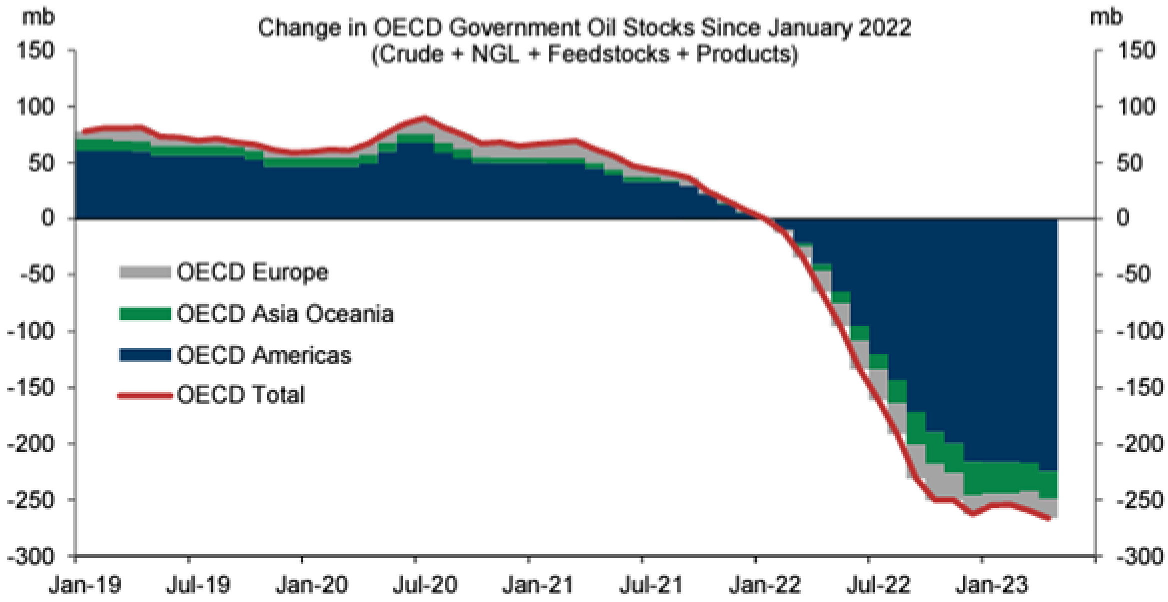
Figure 16: Changes in World Liquids Production (Source: OPEC, via Aegis)



Demand in 2H23 will be boosted by the need for OECD governments to start refilling their strategic petroleum reserves after releasing 270 mmbbls over the last 18 months (Figure 17).

Figure 17: Change in OECD Govt Oil Stocks (Source: IEA, via GS)

Exhibit 2: OECD Governments Have Released 270 Million Barrels Over the Past 18 Months



Source: IEA, Goldman Sachs Global Investment Research

Longreach Energy Holdings LLC

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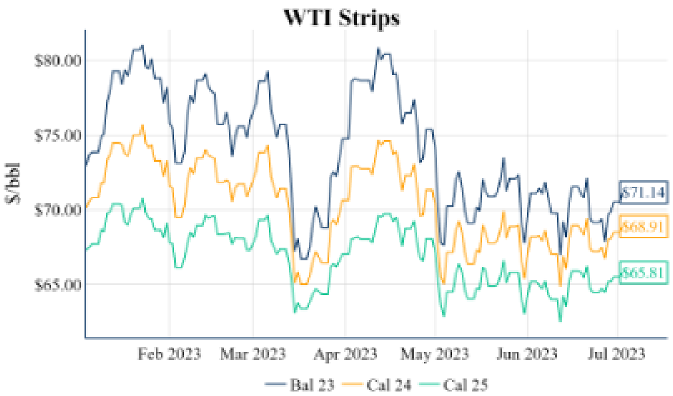
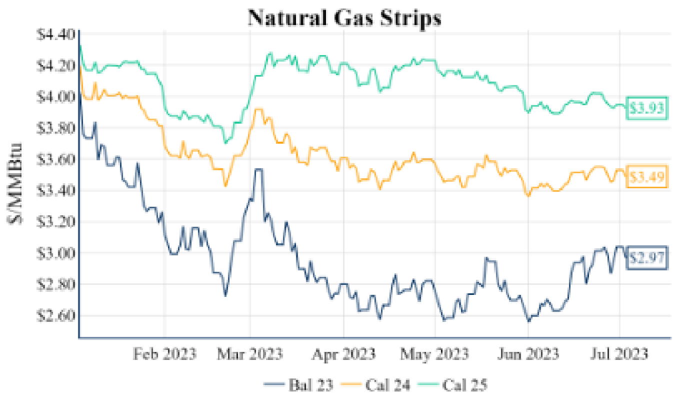
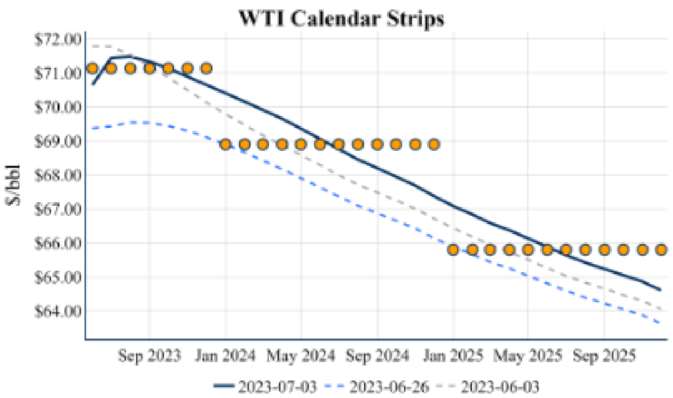
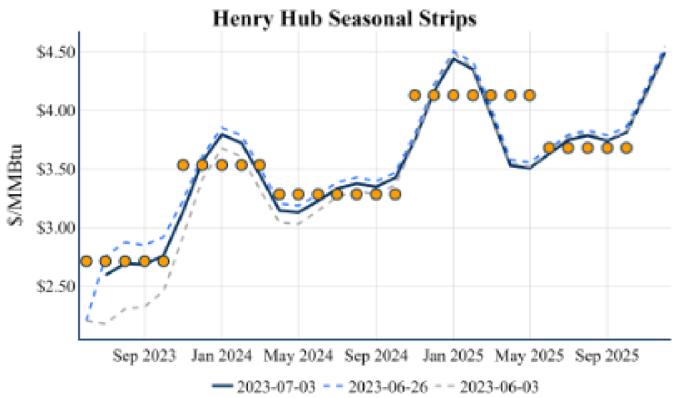
Gas and Oil Prices 3 July 2023





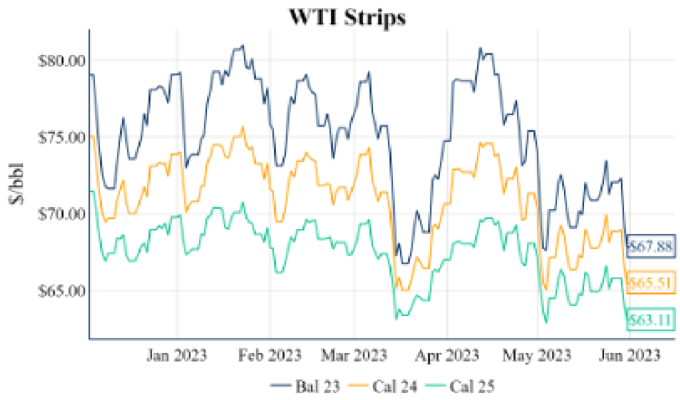


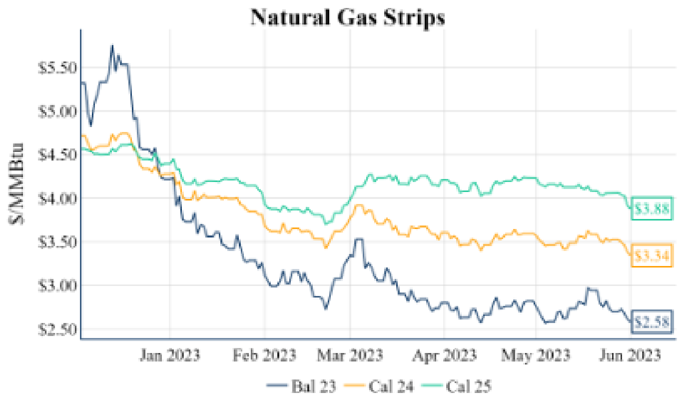


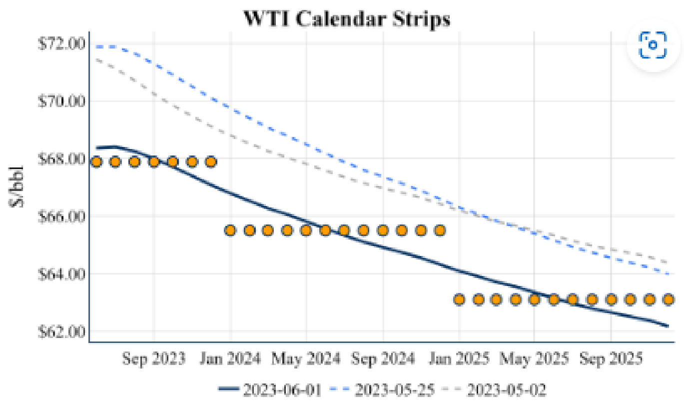
Swap Pricing	Bal 23	Cal 24	Cal 25	Cal 26
NYMEX WTI	$71.13	$68.90	$65.80	$63.30
ICE Brent	$75.50	$73.31	$70.86	$68.95
LLS	$73.35	$71.44	$68.47	$65.92
Mars	$71.17	$67.81	$63.50	$61.08
West TX Sour (WTS)	$71.25	$68.39	$65.10	$62.61

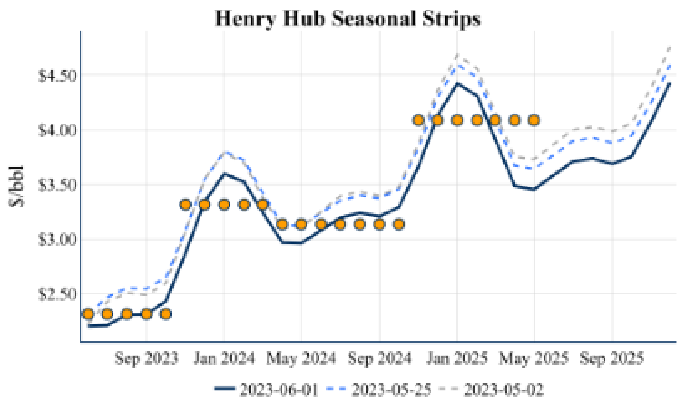
Swap Pricing	Month 1	Summer 23	Winter 23/24	Summer 24	Winter 24/25
Henry Hub Fixed	$2.695	$2.717	$3.538	$3.284	$4.126
Eastern Gas South	-$1.348	-$1.496	-$0.835	-$0.931	-$0.801
Waha	-$0.487	-$0.627	-$0.500	-$0.399	-$0.075
TETCO M3	-$1.088	-$1.304	$1.421	-$0.736	$1.226
Houston Ship Channel	-$0.189	-$0.241	-$0.059	-$0.242	-$0.076
Columbia Gulf Mainline	-$0.383	-$0.445	-$0.269	-$0.267	-$0.249
Panhandle East	-$0.423	-$0.463	$0.135	-$0.402	$0.086
NGPL MidCon	-$0.181	-$0.257	$0.068	-$0.325	$0.028
SoCal	$1.702	$1.275	$2.295	$0.710	$1.593
AECO	-$0.890	-$0.850	-$1.066	-$1.179	-$1.155
Chicago City-Gates	-$0.289	-$0.316	$0.360	-$0.222	$0.350

Gas and Oil Prices 1 June 2023









Swap Pricing	Bal 23	Cal 24	Cal 25	Cal 26
NYMEX WTI	$67.89	$65.51	$63.10	$61.17
ICE Brent	$72.04	$69.88	$68.03	$66.54
LLS	$70.09	$67.87	$65.62	$63.82
Mars	$66.48	$63.58	$60.70	$58.97
West TX Sour (WTS)	$67.38	$64.80	$62.10	$60.07

Swap Pricing	Month 1	Summer 23	Winter 23/24	Summer 24	Winter 24/25
Henry Hub Fixed	$2.216	$2.321	$3.321	$3.138	$4.086
Eastern Gas South	-$0.872	-$1.108	-$0.834	-$0.903	-$0.869
Waha	-$0.874	-$0.929	-$0.660	-$0.957	-$0.637
TETCO M3	-$0.740	-$1.074	$1.793	-$0.773	$1.348
Houston Ship Channel	-$0.156	-$0.244	-$0.123	-$0.308	-$0.067
Columbia Gulf Mainline	-$0.278	-$0.405	-$0.289	-$0.275	-$0.240
Panhandle East	-$0.341	-$0.450	$0.139	-$0.417	$0.092
NGPL MidCon	-$0.294	-$0.381	$0.076	-$0.368	$0.007
SoCal	$1.346	$1.533	$2.069	$0.698	$1.584
AECO	-$1.120	-$1.044	-$1.175	-$1.274	-$1.267
Chicago City-Gates	-$0.162	-$0.267	$0.398	-$0.231	$0.363

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