

Longreach Energy Investments LLC

April 2019 Report

Market and Portfolio Commentary

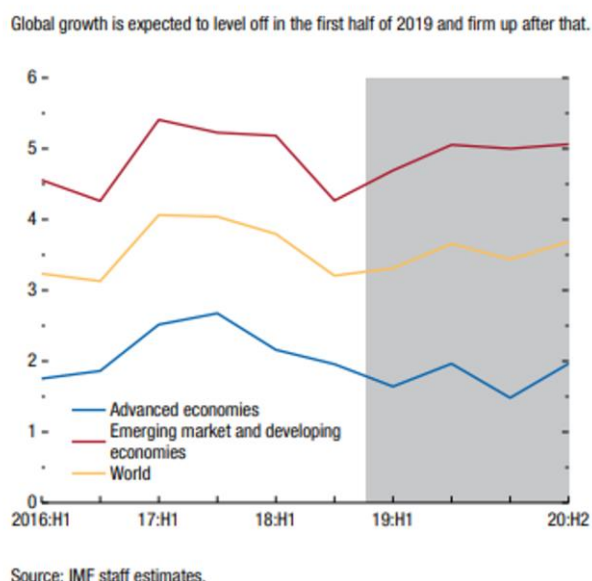
1.1 Macro Industry Commentary

General Market Commentary

The International Monetary Fund (IMF) released its World Economic Outlook in April. Key observations are:

- After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of 2018.
- Conditions have eased in 2019 as the US Federal Reserve signalled a more accommodative monetary policy stance and markets become more optimistic about a US-China trade deal (*but back to pessimistic in the last few days – Ed*), but they remain slightly more restrictive than in late 2018
- Global growth is now projected to slow from 3.6% in 2018 to 3.3% in 2019, returning to 3.6% in 2020.
- Beyond 2020, global growth is set to plateau at about 3.6% over the medium term, sustained by the increase in the relative size of economies, such as those of China and India, which are projected to have robust growth.
- The IMF cautions that the balance of risks to the outlook remain on the downside, particularly from further escalation of trade tensions.

Figure 1: Half-Yearly Growth Rates



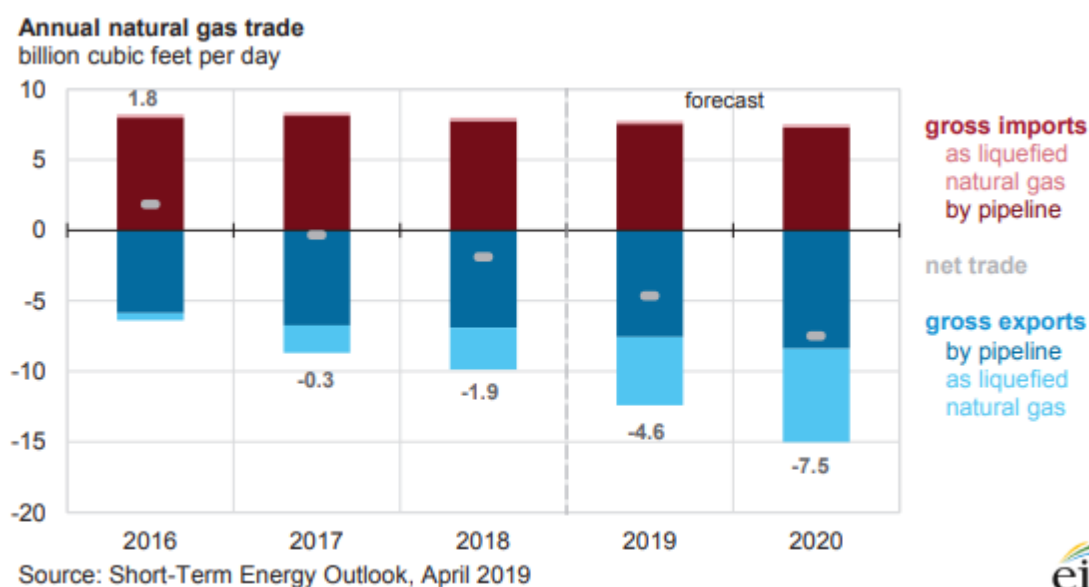
Gas Market

Gas prices at the Waha Hub in West Texas, the benchmark for Permian Basin gas, averaged \$0.73/mmbtu in March, \$2.22/mmbtu lower than the average Henry Hub spot price during the same period. Multiple force majeure have constrained export pipeline capacity and reduced flows out of the Permian, which has put downward pressure on prices. The US Energy Information Agency (EIA) expects additional natural gas pipeline capacity out of the Permian Basin to come online later in 2019, which should help to stabilise prices at the Waha Hub. LEI will continue to be very cautious with gas price forecasts when evaluating transactions in the Permian Basin until new transport has definitively removed this basis differential. We currently have no material exposure to gas sold at the Waha hub.

Over the course of the month near dated gas prices fell slightly while longer dates strengthened. Oil increased across the curve.

The EIA April Short-Term Energy Outlook provided a forecast of US annual natural gas trade. The forecast (see Figure 2) shows the rapid growth of exports driven by LNG.

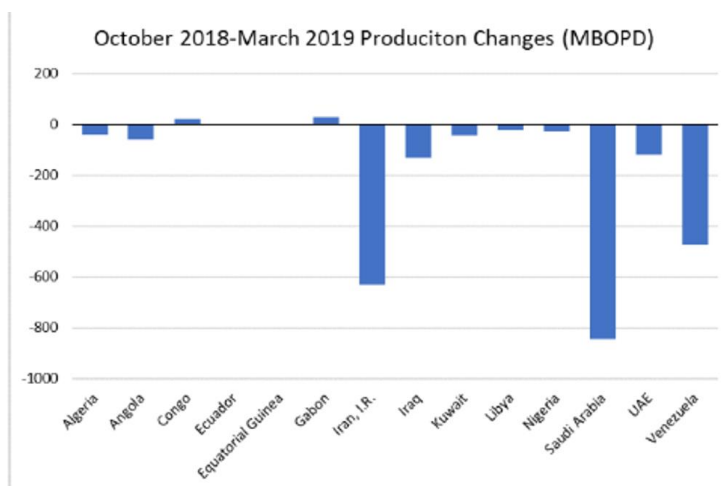
Figure 2: Annual US Natural Gas Trade



Oil Market

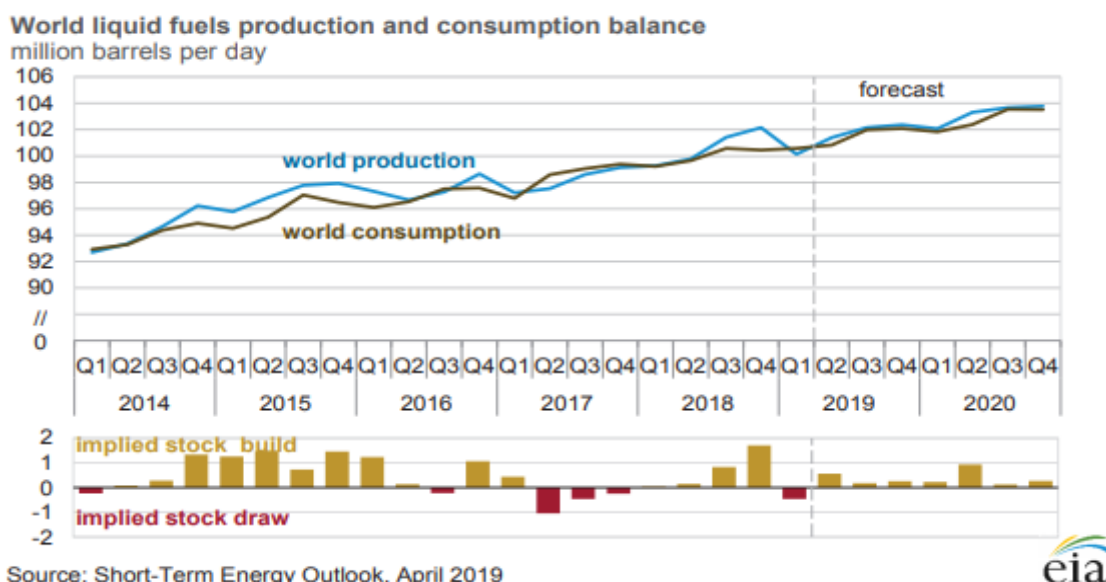
Platts reported that OPEC decreased production from Feb to March by 534 mbbbl/d, as the de facto leader of the group continues to lead by example to support prices. The cumulative fall in OPEC production since October is almost 2mbbl/d. Iraq (sanctions) and Venezuela (societal disintegration) have also been large contributors to the fall.

Figure 3: OPEC Production Changes (source Platts)



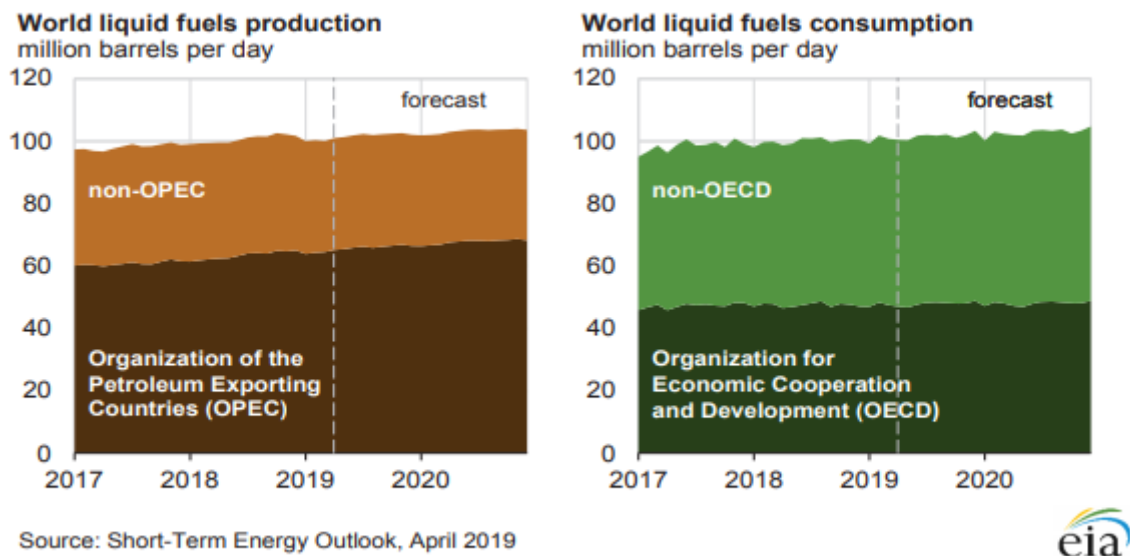
The EIA forecast of world liquid fuels production and consumption balance shows continued growth with only modest excess of production.

Figure 4: World Liquid Fuels Production and Consumption



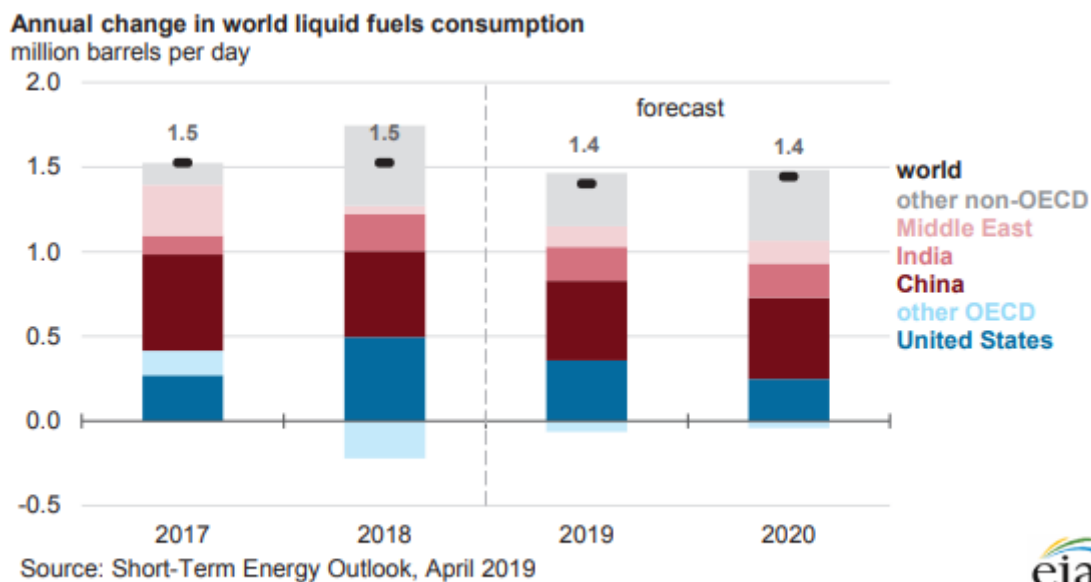
Production growth is roughly equivalent between OPEC and non-OPEC countries, while consumption growth is almost entirely non-OECD.

Figure 5: World Liquid Fuels Production and Consumption

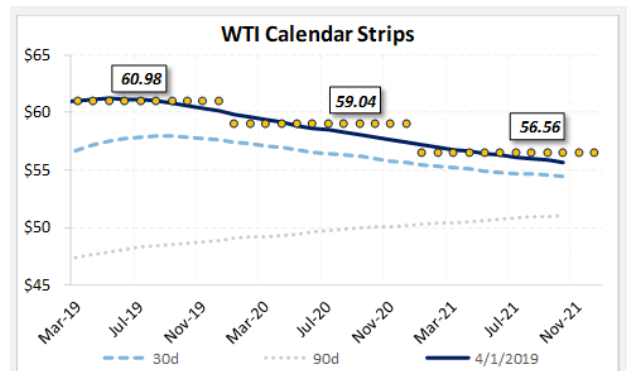


Within the OECD US consumption is forecast to increase while other OECD consumption is falling. China and India are two biggest consumption drivers outside the OECD.

Figure 6: Annual Change in World Liquid Fuels Consumption



Gas and Oil Prices 1 April 2019

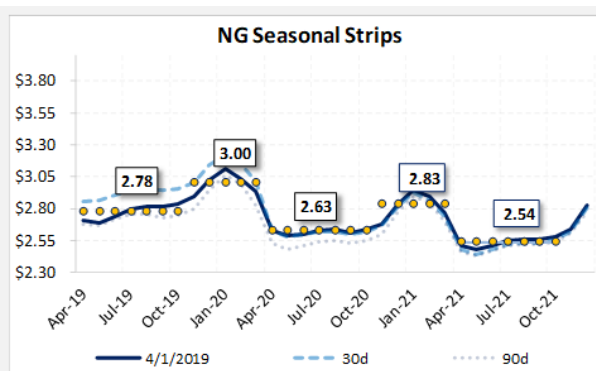


Swap Pricing

		Bal 19	Cal 20	Cal 21	Cal 22
NYMEX WTI Crude	\$	60.98	\$ 59.04	\$ 56.56	\$ 54.81
ICE Brent Crude	\$	67.41	\$ 65.36	\$ 63.20	\$ 61.61
Louisiana Light Sweet	\$	65.66	\$ 62.30	\$ 59.41	\$ 57.66
TM Midland Differential	\$	(0.29)	\$ 0.37	\$ 0.55	
NYMEX Natural Gas	\$	2.83	\$ 2.75	\$ 2.66	\$ 2.67

Source: Bloomberg LP

Note: Midland diff changed to TM computation Oct 1. All prices indicative only.

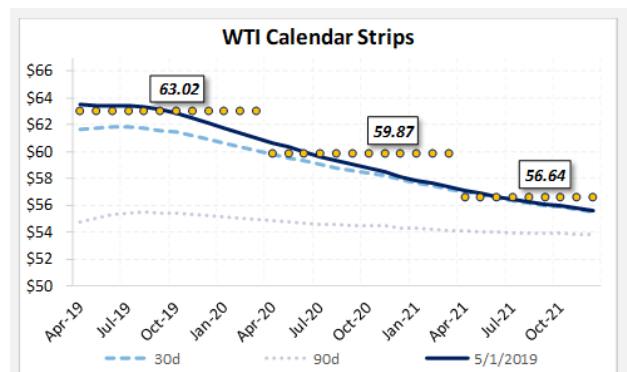


Natural Gas Basis

Location	Spot	Winter '18/'19	Summer '19	Winter '19/'20
Henry Hub Fixed	\$ 2.73	\$ 2.86	\$ 2.76	\$ 2.98
TETCO M3	\$ (0.14)	\$ 0.07	\$ (0.30)	\$ 1.25
MichCon	\$ (0.15)	\$ (0.01)	\$ (0.20)	\$ (0.16)
Dominion S	\$ (0.28)	\$ (0.23)	\$ (0.39)	\$ (0.32)
TETCO M2	\$ (0.29)	\$ (0.26)	\$ (0.43)	\$ (0.34)
NGPL-Midcon	\$ (0.32)	\$ (0.56)	\$ (0.55)	\$ (0.43)
CIG	\$ (0.48)	\$ (0.37)	\$ (0.61)	\$ (0.62)
Waha	\$ (3.07)	\$ (1.65)	\$ (1.90)	\$ (0.83)

All prices as of close yesterday

Gas and Oil Prices 1 May 2019

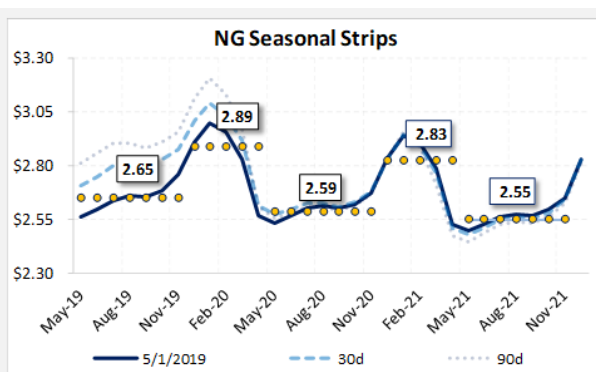


Swap Pricing

		Bal 19	Cal 20	Cal 21	Cal 22
NYMEX WTI Crude	\$	63.02	\$ 59.87	\$ 56.64	\$ 54.73
ICE Brent Crude	\$	69.93	\$ 66.39	\$ 63.33	\$ 61.53
Louisiana Light Sweet	\$	68.22	\$ 63.63	\$ 59.52	\$ 57.61
TM Midland Differential	\$	(1.64)	\$ 0.33	\$ 0.60	
NYMEX Natural Gas	\$	2.70	\$ 2.70	\$ 2.66	\$ 2.66

Source: Bloomberg LP

Note: Midland diff changed to TM computation Oct 1. All prices indicative only.



Natural Gas Basis

Location	Spot	Summer '19	Winter '19/'20	Summer '20
Henry Hub Fixed	\$ 2.59	\$ 2.63	\$ 2.88	\$ 2.59
MichCon	\$ (0.20)	\$ (0.25)	\$ (0.17)	\$ (0.20)
TETCO M3	\$ (0.22)	\$ (0.39)	\$ 1.22	\$ (0.40)
Dominion S	\$ (0.38)	\$ (0.52)	\$ (0.40)	\$ (0.51)
TETCO M2	\$ (0.40)	\$ (0.54)	\$ (0.40)	\$ (0.55)
NGPL-Midcon	\$ (0.59)	\$ (0.59)	\$ (0.38)	\$ (0.44)
CIG	\$ (0.67)	\$ (0.59)	\$ (0.48)	\$ (0.59)
Waha	\$ (2.47)	\$ (1.80)	\$ (0.78)	\$ (1.17)

All prices as of close yesterday

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