

Longreach Energy Investments LLC

August 2018 Report

Market and Portfolio Commentary

1.1 Macro Industry Commentary

General Market Commentary

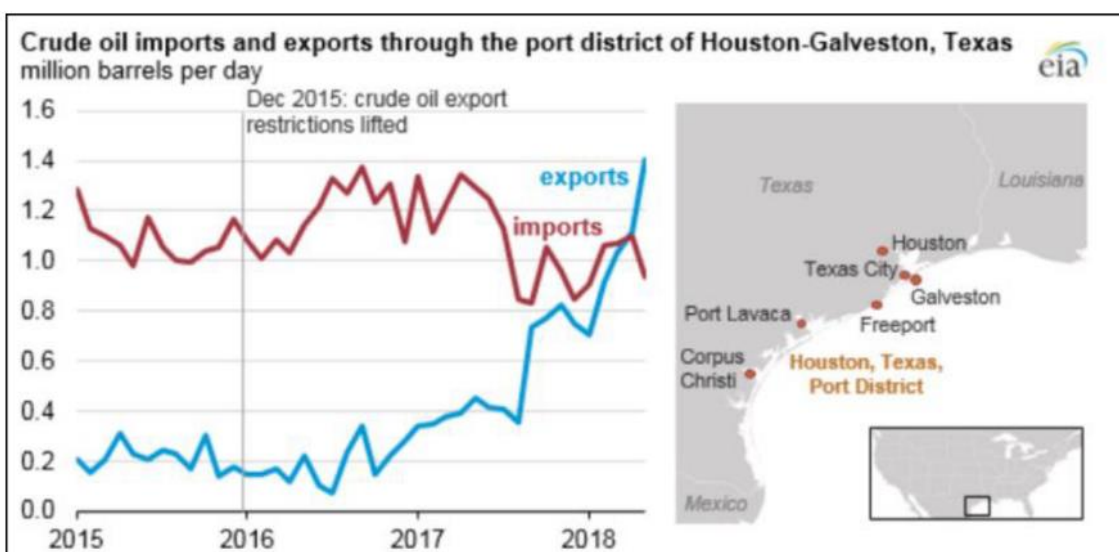
US sanctions on Iran’s oil industry are due to take effect from November but Iran’s oil exports are already declining rapidly. Shipments are expected to drop to ~1.5 million bpd in Sept, down from ~2.3 million bpd in June.

In the US, data from the US Energy Information Agency (EIA) released in August showed US crude production rising 2% to a record 10.67 million bpd in June. Texas recorded the biggest increase of any state, lifting production by 3.9% to 4.4 million bpd. Production increases from the Permian basin in Texas are running ahead of transport capacity and the basis differential from Midland (where Permian Basin oil is sold) to Cushing (delivery location for WTI contract settlement) continues to widen. As evidenced by the forward spreads, transport capacity is due to increase substantially from 2019 which will remove this discount.

US crude export volumes continue to break new records, the US exported 2 million bpd in May.

In May, for the first time, the port district of Houston-Galveston exported more crude than it imported.

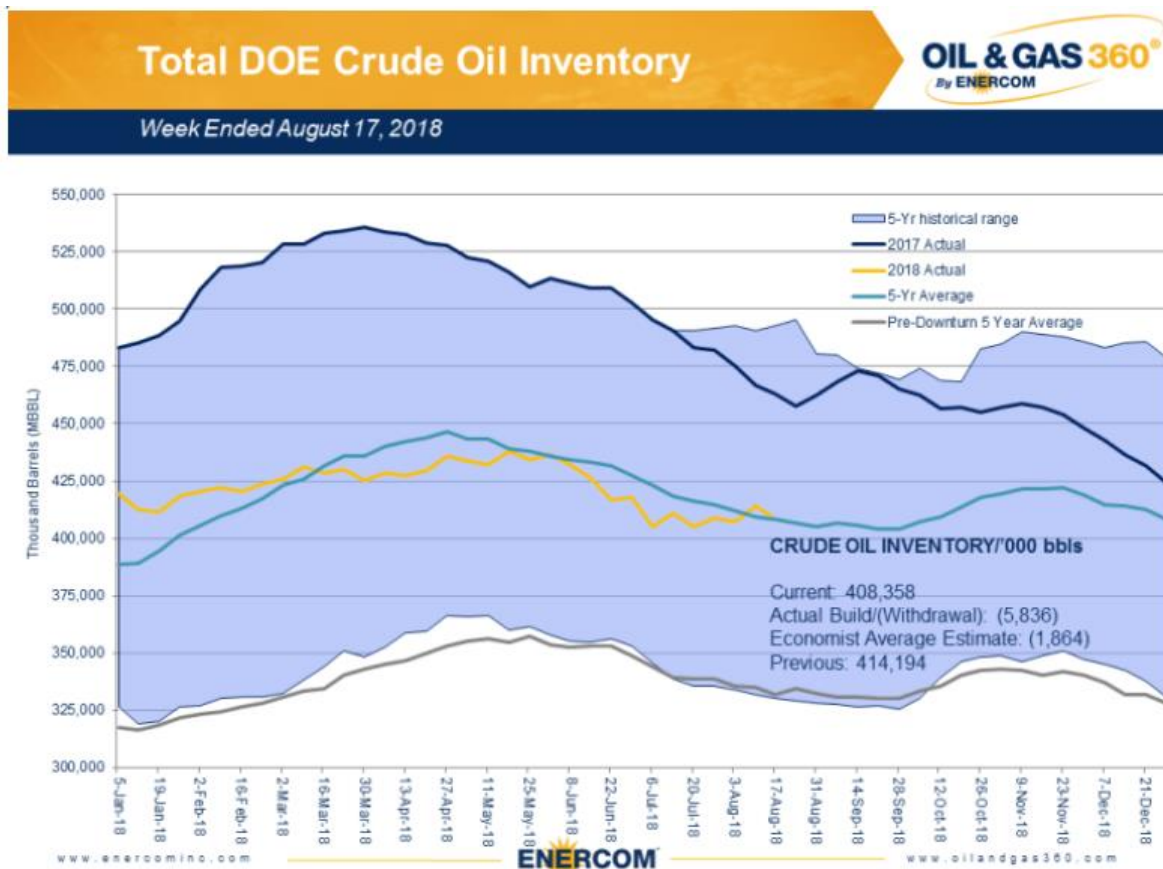
Figure 1: Houston-Galveston Port Trade



Crude storage volumes entering the last week of August were 12% below this time last year, although are even with the five-year average (see Figure 2).

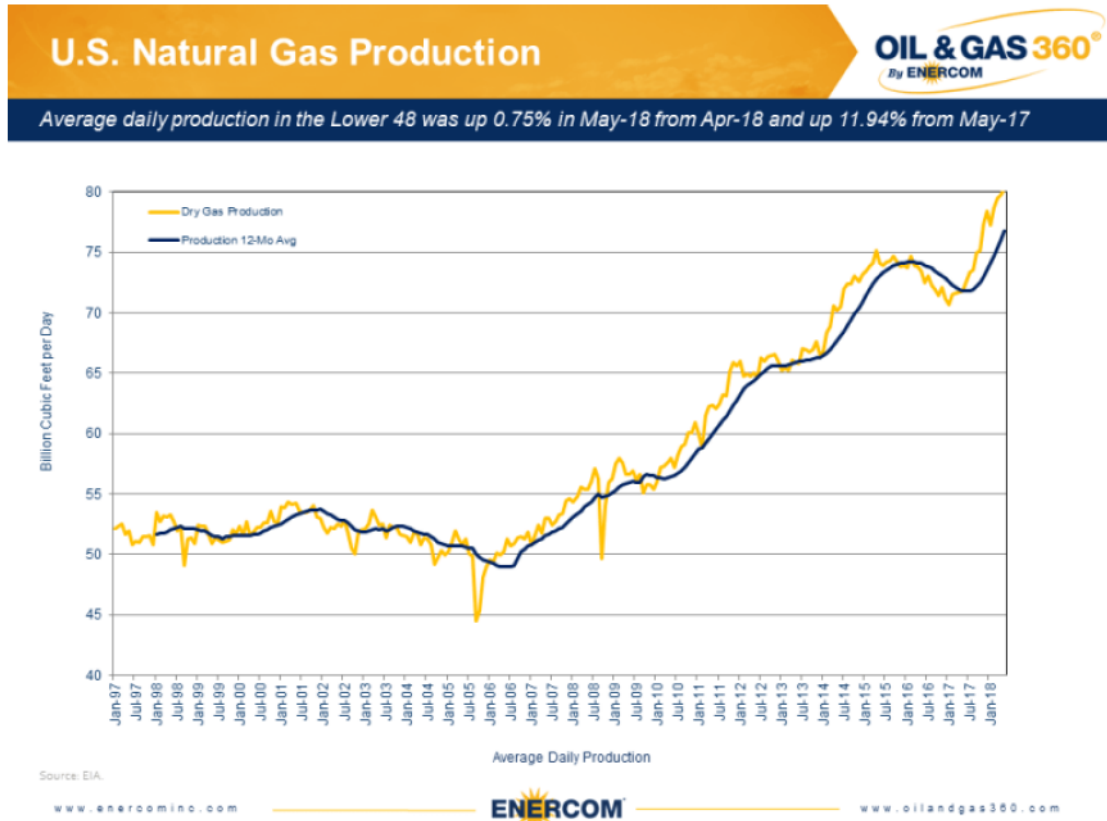
From Jan to end of Aug 2018 the average WTI price was \$66.42/bbl. This is up from 2017 average of \$50.85/bbl and 2016 average of \$43.47/bbl.

Figure 2: Crude Inventory



EIA data also showed gas production in the US lower 48 area at a record 90.8 bcf/d in June, up from previous record of 89.9 bcf/d in May. Texas is also the largest gas producing state delivering 23.9 bcf/d.

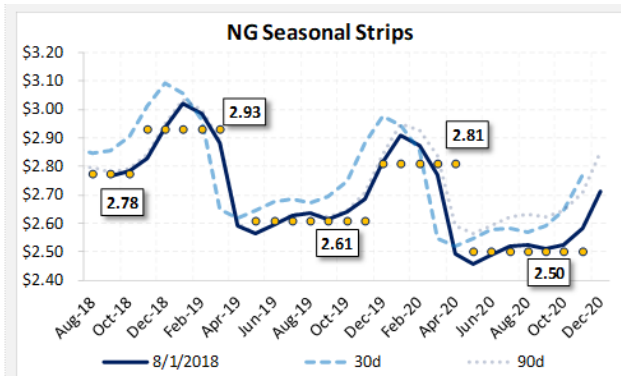
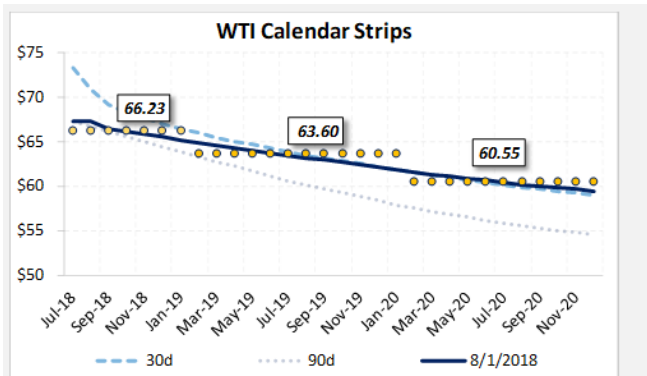
Figure 3: Natural Gas Production



The EIA’s gas market data are:

	Production	Consumption	Exports
2017 actual	73.6 bcfd	74.2 bcf	Nil
2018 forecast	81.1 bcfd	79.6 bcfd	2.0 bcfd
2019 forecast	84.1 bcfd	79.5 bcfd	5.4 bcfd

Gas and Oil Prices 31 July 2018



Swap Pricing

	Bal 18	Cal 19	Cal 20	Cal 21
NYMEX WTI Crude	\$ 66.23	\$ 63.55	\$ 60.50	\$ 58.10
ICE Brent Crude	\$ 72.86	\$ 71.45	\$ 68.52	\$ 65.96
Louisiana Light Sweet	\$ 70.43	\$ 67.88	\$ 64.50	\$ 62.10
CMA Midland Differential	\$ (15.75)	\$ (6.68)	\$ (1.17)	\$ 0.15
NYMEX Natural Gas	\$ 2.83	\$ 2.72	\$ 2.62	\$ 2.57

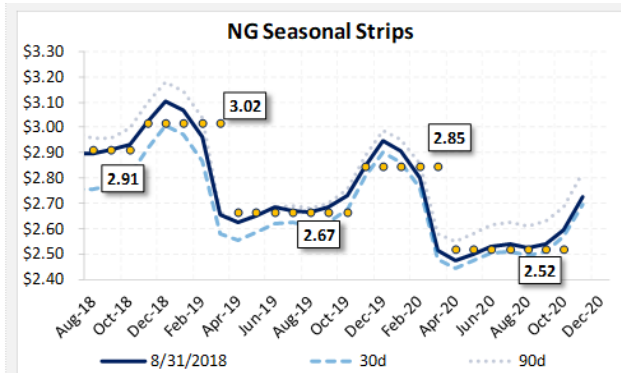
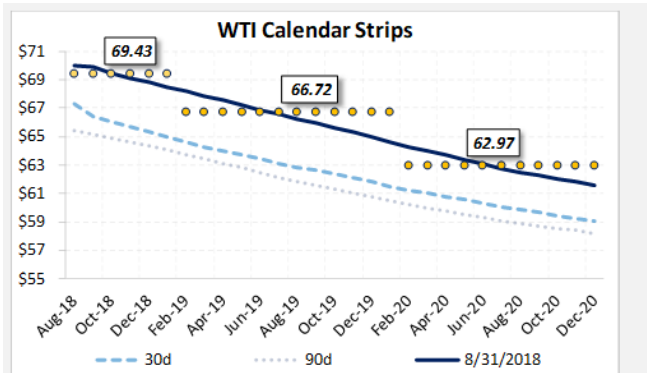
Source: Bloomberg LP

All prices are indicative only

Natural Gas Basis

Location	Today	Summer '18	Winter '18/'19
MichCon	\$ 0.02	\$ (0.03)	\$ (0.09)
TETCO M3	\$ (0.24)	\$ (0.34)	\$ 1.10
Dominion S	\$ (0.26)	\$ (0.45)	\$ (0.38)
CIG	\$ (0.39)	\$ (0.65)	\$ (0.62)
Waha	\$ (0.73)	\$ (1.07)	\$ (1.23)

Gas and Oil Prices 31 August 2018



Swap Pricing

	Bal 18	Cal 19	Cal 20	Cal 21
NYMEX WTI Crude	\$ 69.43	\$ 66.71	\$ 62.95	\$ 59.91
ICE Brent Crude	\$ 77.39	\$ 75.12	\$ 71.43	\$ 68.32
Louisiana Light Sweet	\$ 74.83	\$ 71.37	\$ 66.92	\$ 63.66
CMA Midland Differential	\$ (12.89)	\$ (6.34)	\$ (1.13)	\$ 0.10
NYMEX Natural Gas	\$ 2.96	\$ 2.78	\$ 2.63	\$ 2.57

Source: Bloomberg LP

All prices are indicative only

Natural Gas Basis

Location	Today	Summer '18	Winter '18/'19
MichCon	\$ (0.08)	\$ (0.14)	\$ (0.16)
TETCO M3	\$ (0.27)	\$ (0.31)	\$ 1.16
Dominion S	\$ (0.31)	\$ (0.42)	\$ (0.38)
CIG	\$ (0.71)	\$ (0.76)	\$ (0.62)
Waha	\$ (1.69)	\$ (1.65)	\$ (1.50)

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