

Longreach Energy Investments LLC

October 2018 Report

Market and Portfolio Commentary

1.1 Macro Industry Commentary

Gas Market

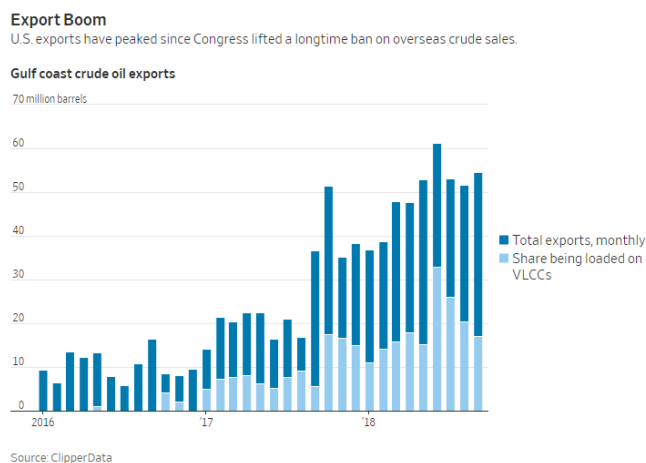
US Energy Information Agency (EIA) data released on 19 October showed gas in storage at 3,037bcf. This is 18% below both the 3,701bcf that was in storage at this point last year and the five-year average of 3,719bcf. Low storage and forecasts for cold weather through November and December have caused a significant spike in gas prices. The gas price for balance of 2018 as at market open 1 November was \$3.30/mcf (see price data below), however the December 2018 Henry Hub contract settled on 7 November at \$3.56/mcf. We expect winter pricing to be strong which should in turn deliver healthy revenues from LEI's 82% gas weighted portfolio.

With respect to storage, increasing pipeline capacity does mean that more gas can be delivered straight to consumers, particularly in the US North East, during seasonal periods of high demand. This means there could be some structural shift in the market with lower gas storage volumes being required for a stable market. We are watching this trend although do not expect the impact to have any material change to prices at the wellhead.

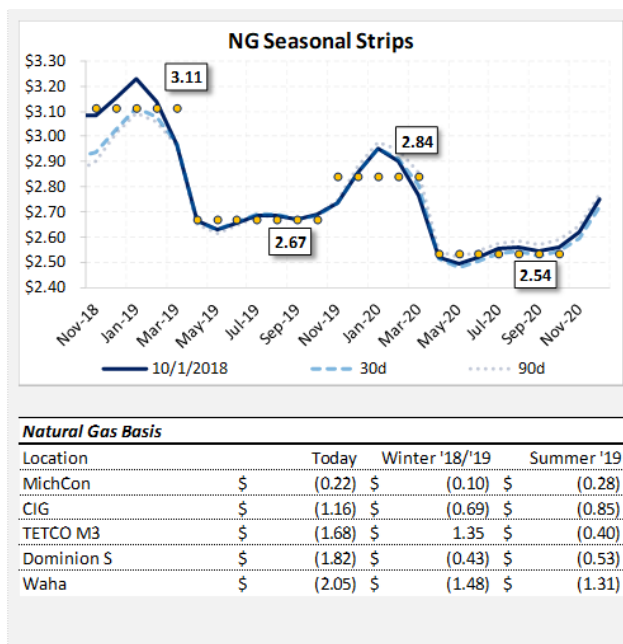
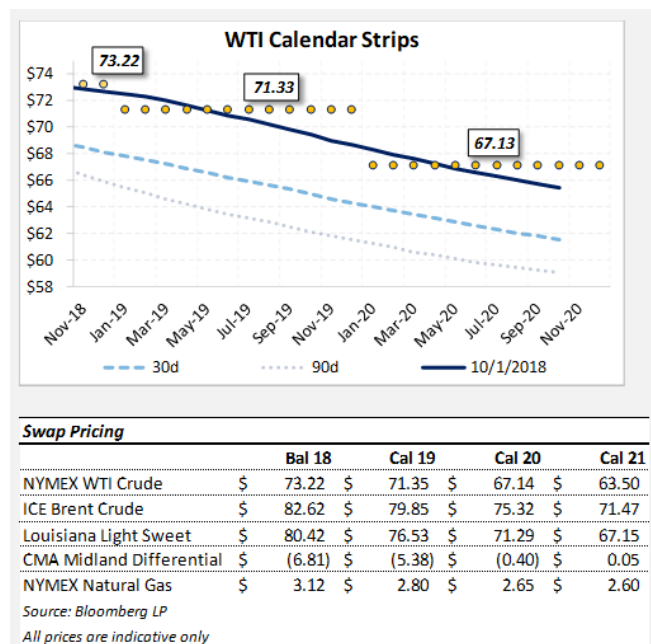
Oil Market

After several months of strong increases the bears assumed supremacy in October with oil prices dropping across the curve (see price data below). Balance 2018 (now only 1 month) dropped from \$73.22/bbl on 1 October to \$65.18/bbl on 1 November. This volatility is entirely consistent with the Manager's expectations and indeed LEI would be quite content if oil were to trade in a \$55/bbl to \$60/bbl for several months. This would reduce development costs and provide additional investment opportunities.

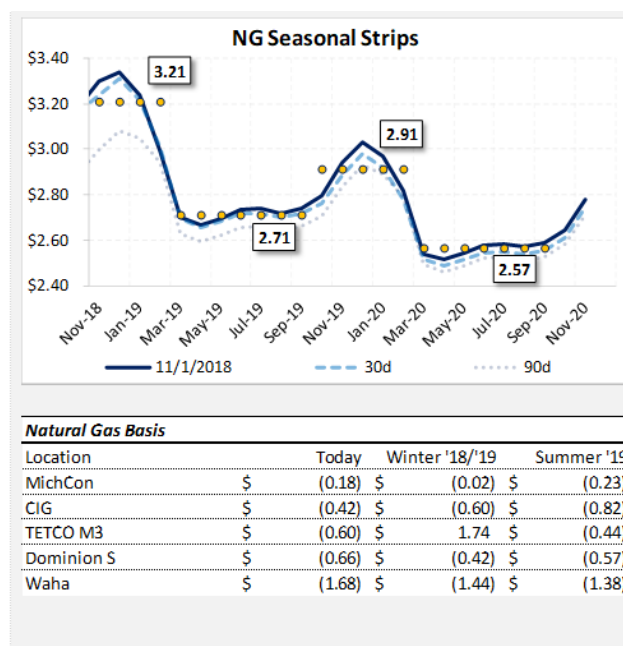
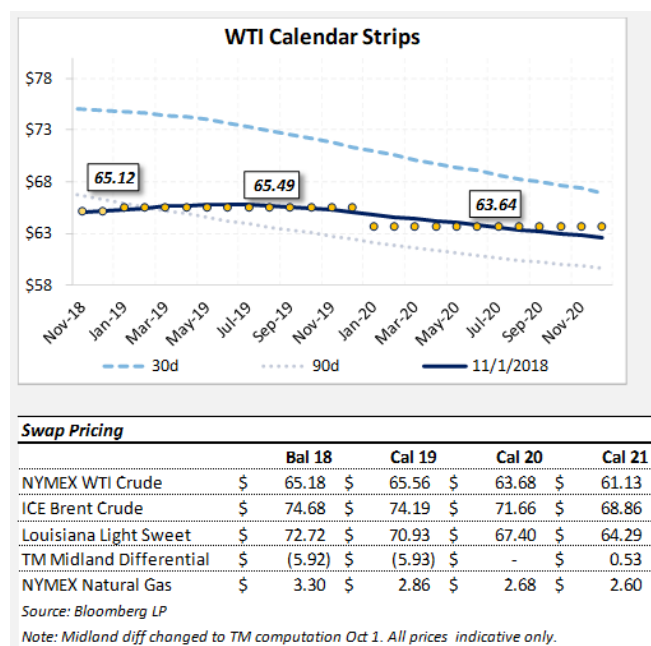
During October the Wall St Journal published data illustrating the marked increase in Gulf Coast crude exports since US Congress lifted a long-time ban on overseas crude sales in 2016. As is the case with natural gas, increasing the market for US produced oil will benefit the portfolio over the medium term.



Gas and Oil Prices 1 October 2018



Gas and Oil Prices 1 November 2018



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