LONGREACH ENERGY

Monthly Report

Longreach Energy Holdings LLC

June 2020

FIRM INFORMATION

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1. Market and Macro Industry Commentary

General Market Commentary

At the end of June Bloomberg published a series of oil related demand indicators and while we recognise the likely negative impact of re-introduction of activity constraints across the south and west of the United States, the data show a broadly encouraging start to recovery in demand:

Air Travel
- US internal -77% y/y; +94% m/m
- Commercial flights worldwide +39% m/m
- China internal -39% y/y; +40% m/m

Road Congestion
- New York -71% y/y; +94% m/m
- London -56% y/y; +29% m/m
- China -49% y/y; +13% m/m
- Berlin -38% y/y; -19% m/m
- Paris -30% y/y; +49% m/m
- Sao Paulo -81% y/y; +5% m/m

While recovering, demand for both gas and oil remains lower than this time last year and, at least for oil, is likely to stay lower than 2019 for several years. Critically for sector investors, production too is falling (see Figures 1 and 2), and these declines cannot be readily corrected absent aggressive drilling programmes which won't happen without significantly higher prices (over $50/bbl for oil and $2.75/mcf for gas).

Figure 1: US Natural Gas Production by Basin (source EIA)

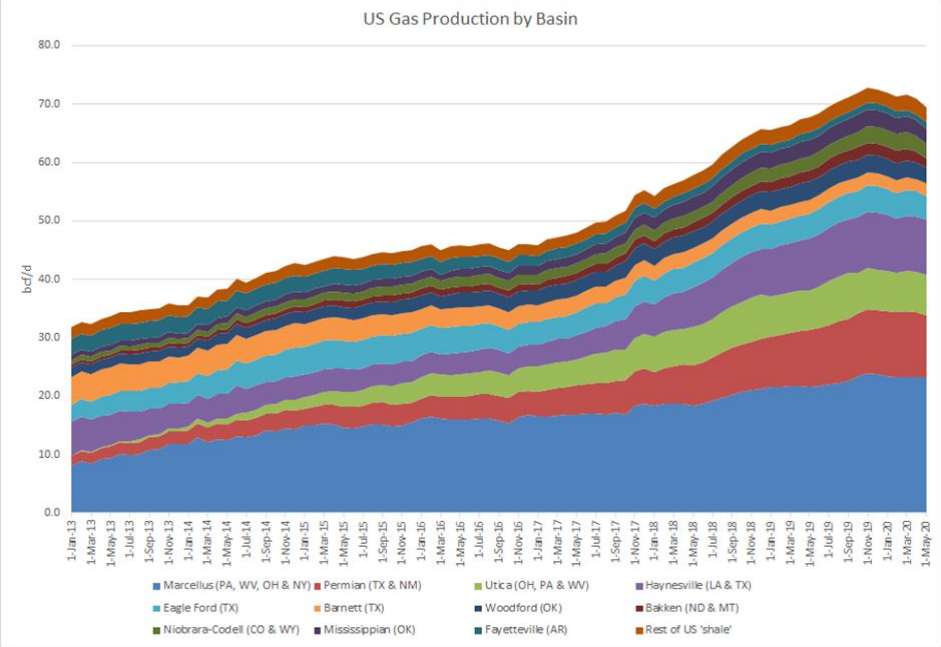


Figure 2: US Oil Production (source EIA, via The FT)

Longreach Energy remains confident that falling supply and increasing demand will deliver meaningful increase in prices for natural gas, as we enter the northern hemisphere winter, and for oil when inventory draws start to accelerate in the second quarter of 2021. This view is widely held within the industry, however, there remain relatively few companies with the financial capacity to take advantage of the near-term industry distress that is the consequence of Covid-19 induced collapse in demand.

While the response to Covid-19 is the dominant market driver through 2020 and likely 2021, the macro fundamental for demand growth remains very-low per capita energy consumption outside the OECD. As shown in Figure 3, the world average energy consumption of 3,000kWh/y remains well below the OECD average of 7,900kWh/y and only 25% of the US consumption of 12,000kWh/y. We expect that OECD electricity consumption will continue flat to declining with increased efficiency, but over the medium term increases for most of the world's population are expected as their living standards improve. Natural gas, and to a lesser extent oil, will provide the energy to generate much of this additional electricity.

Figure 3: Per Capita Electricity Consumption in Selected Countries (2000-2017) (source EIA)

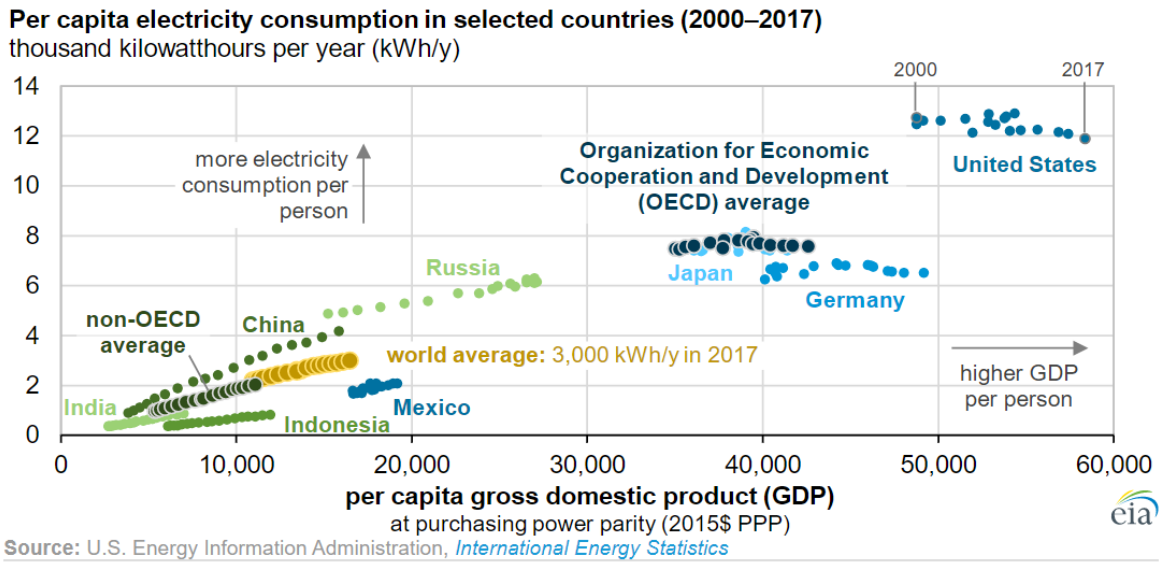
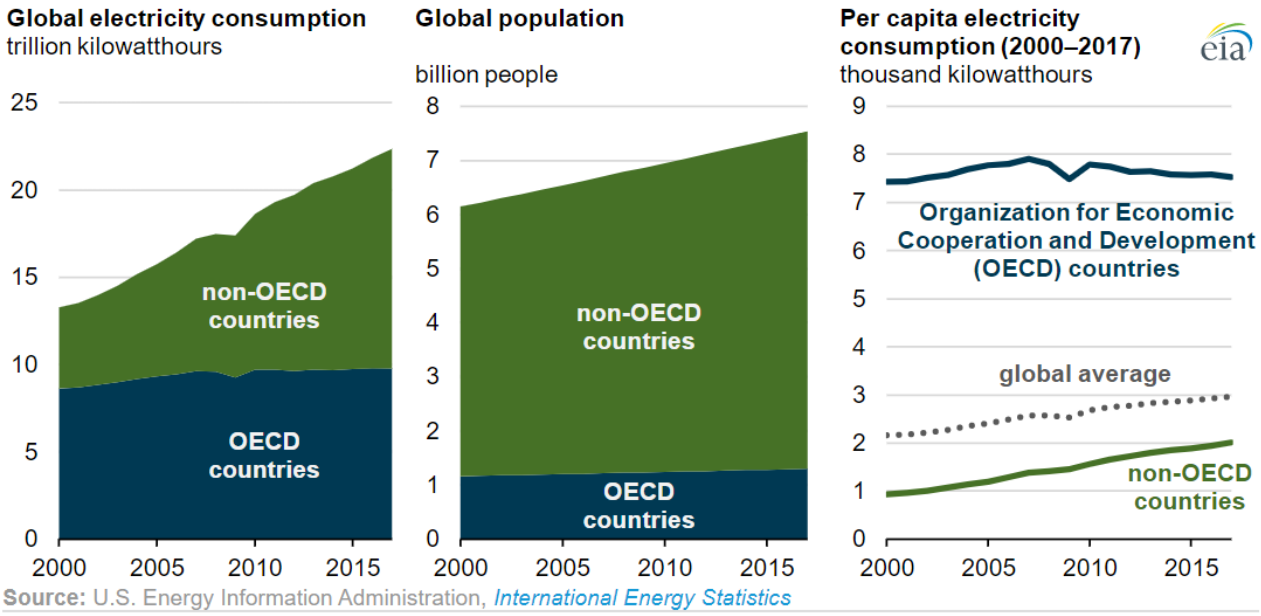


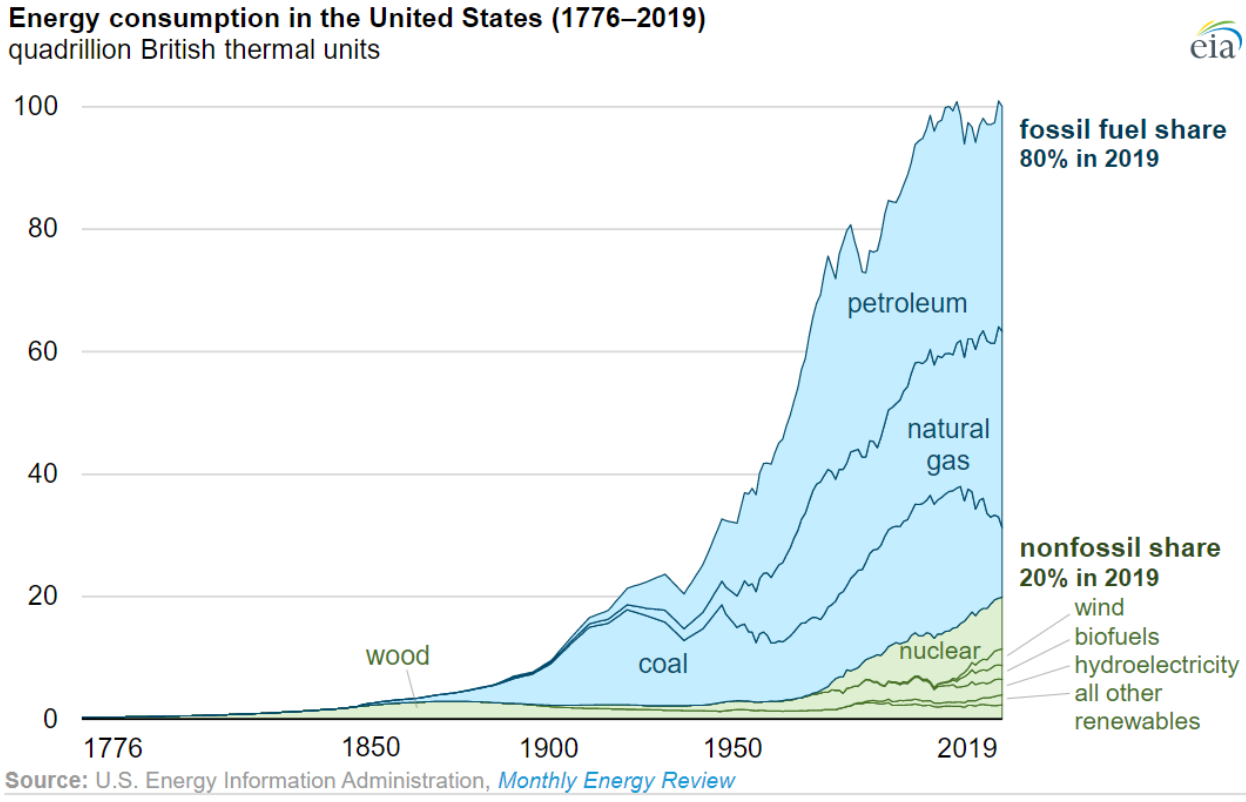
Figure 4 presents the same data as Figure 3, this time split between OECD and non-OECD.

Figure 4: Global Electricity Consumption and Population (source EIA)



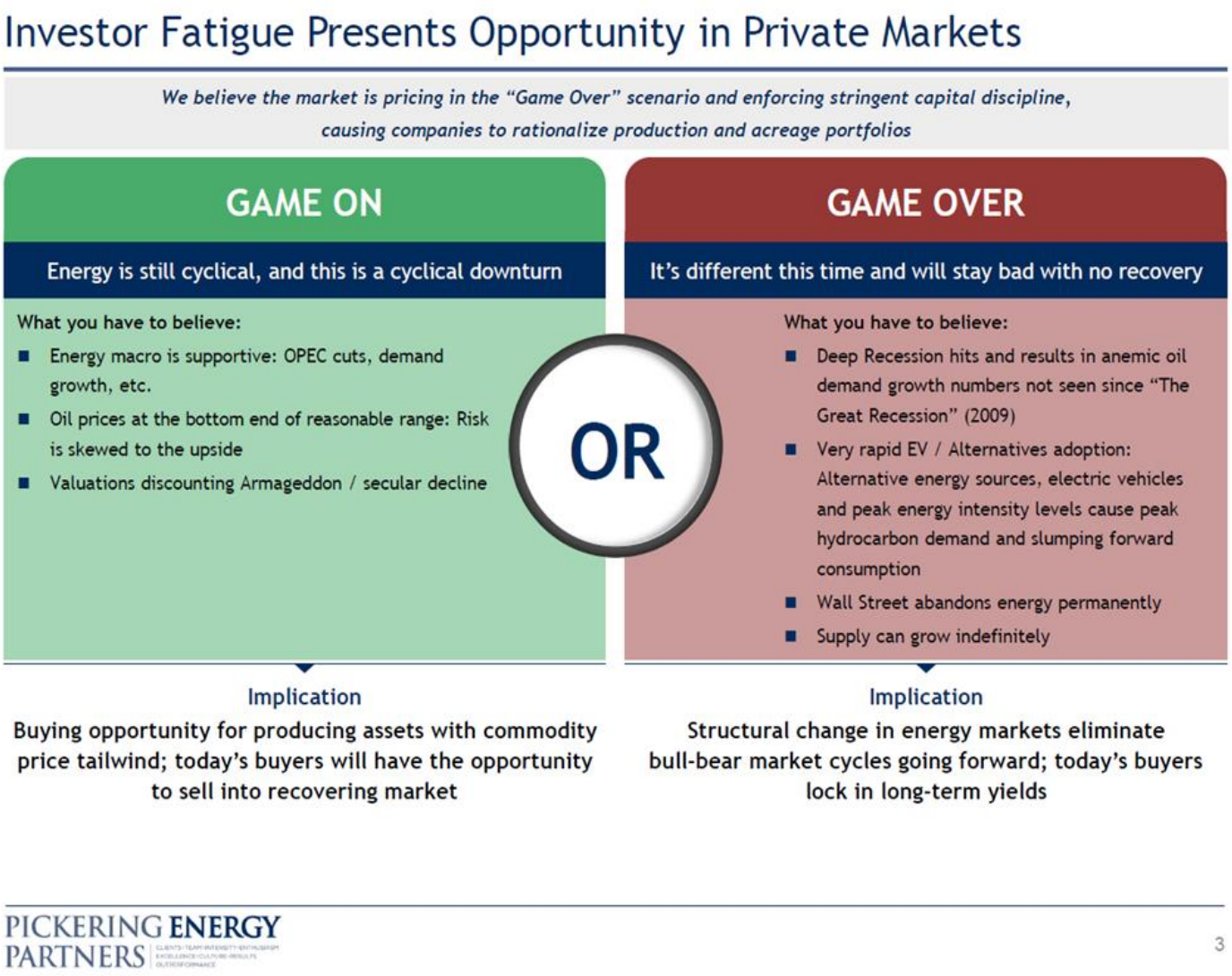
The growth of natural gas consumption and enduring reliance on petroleum within the energy mix are displayed in Figure 5. Renewables are growing quickly but off a low base. Renewables growth gives impressive % gains but much less impressive when expressed in absolute values.

Figure 5: Energy Consumption in the United States (source EIA)



Our investment conclusions from review of the data displayed in the Figures above are neatly summarised in Figure 6, a slide borrowed from the US energy advisor, Pickering Energy Partners. Objective analysis suggests that we are very much in "Game On".

Figure 6: Game On or Game Over (source Pickering Energy Partners)

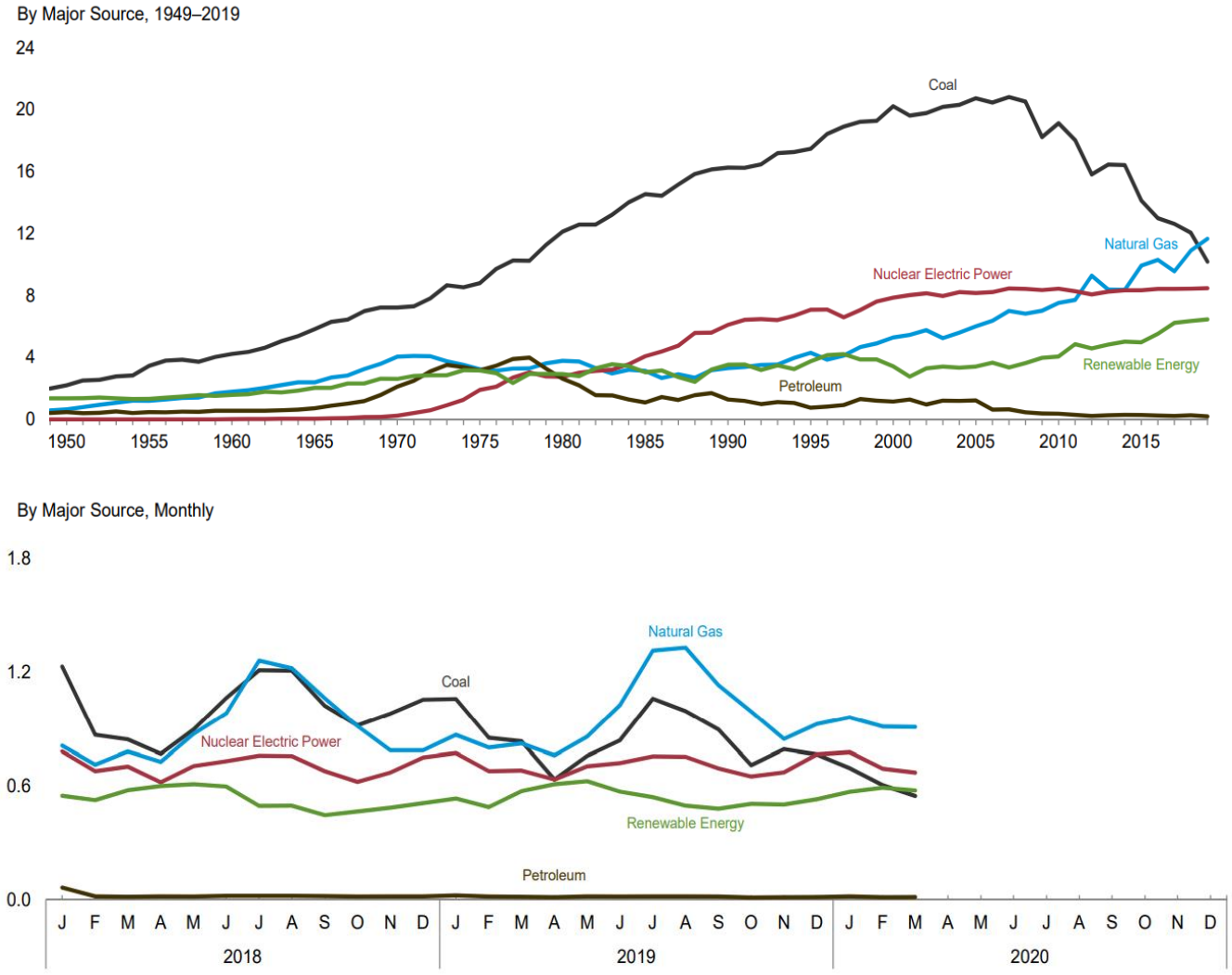


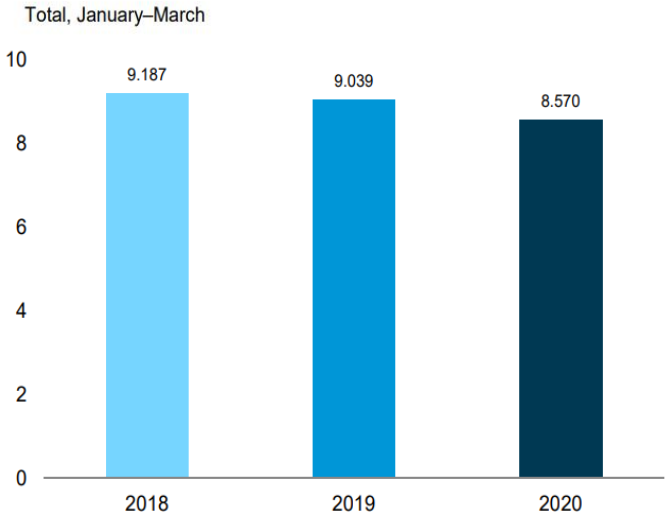
The US Department of Energy and Energy Information Administration's June 2020 Monthly Energy Review highlights the longer-term supply and demand trends driving the energy industry.

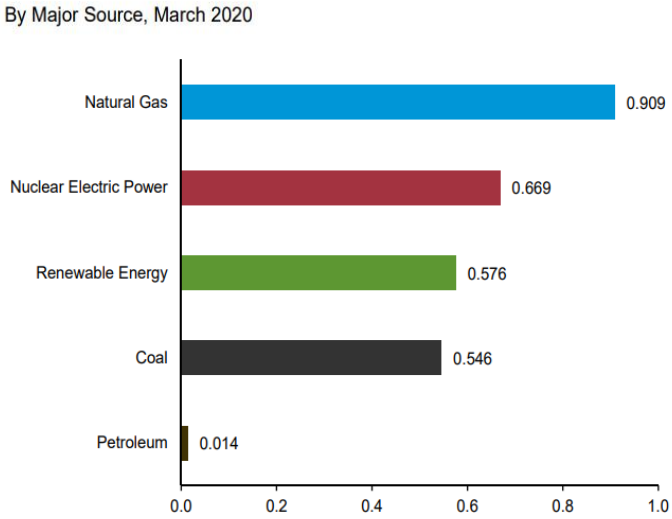
Figure 7 shows rapid decline of coal consumption for electrical power as it is replaced by natural gas and, to a lesser extent, renewable energy. The reduction in electricity consumption in 1Q20 due to Covid-19 is also quantified. Note this is a much lower reduction than we see for petroleum powered transportation.

Figure 7: US Electric Power Consumption (source DOE / EIA)

Figure 2.6 Electric Power Sector Energy Consumption
(Quadrillion Btu)

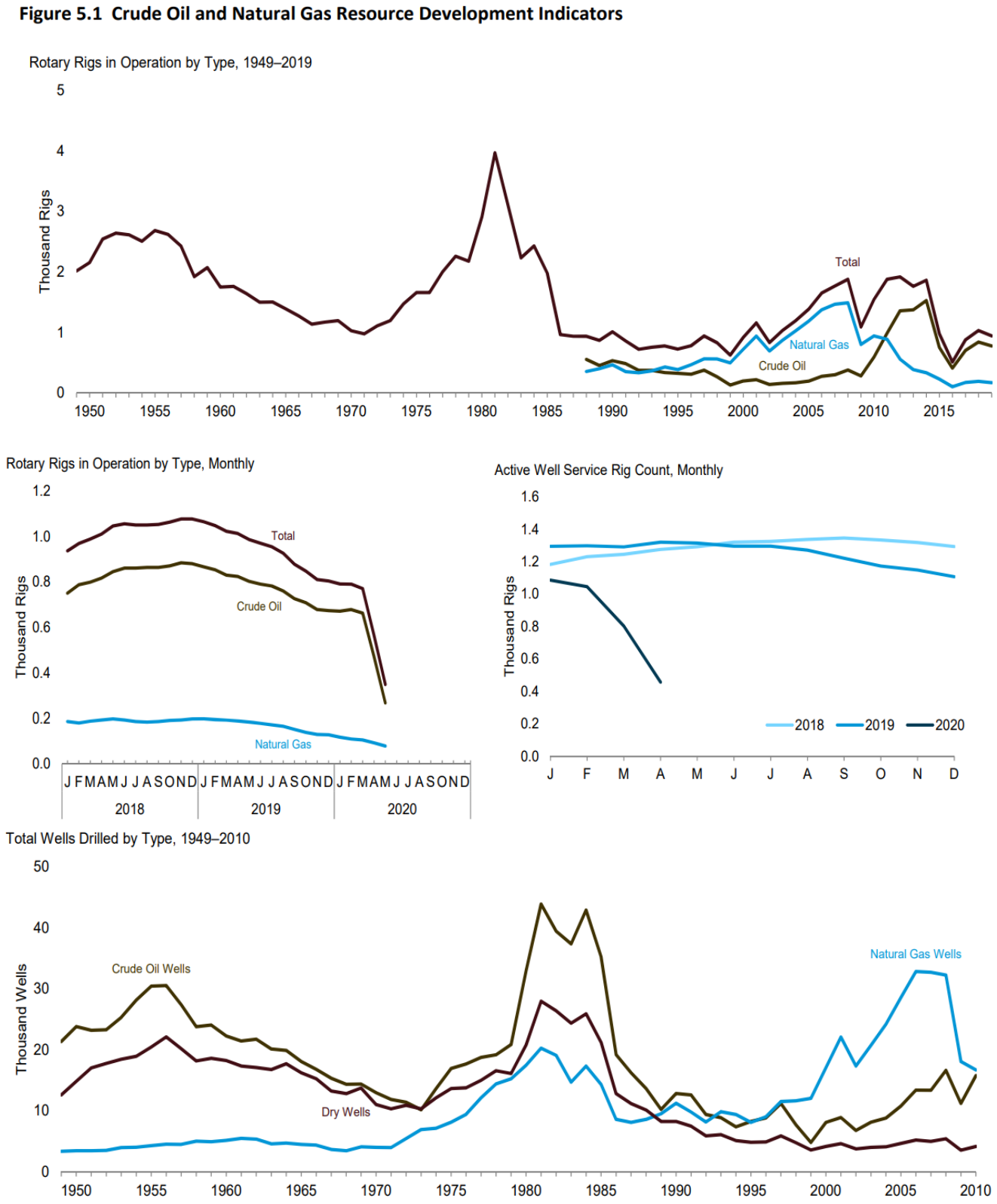






The supply response to demand, and price, collapse as measured by rig counts is provided in Figure 8. The impact of lower rig counts will be ongoing falls in production of both natural gas and oil. As demand stabilises it will be insufficient supply that will drive sentiment. This will increase prices. Game On.

Figure 8: Crude Oil and Natural Gas Resource Development Indicators (source DOE / EIA)

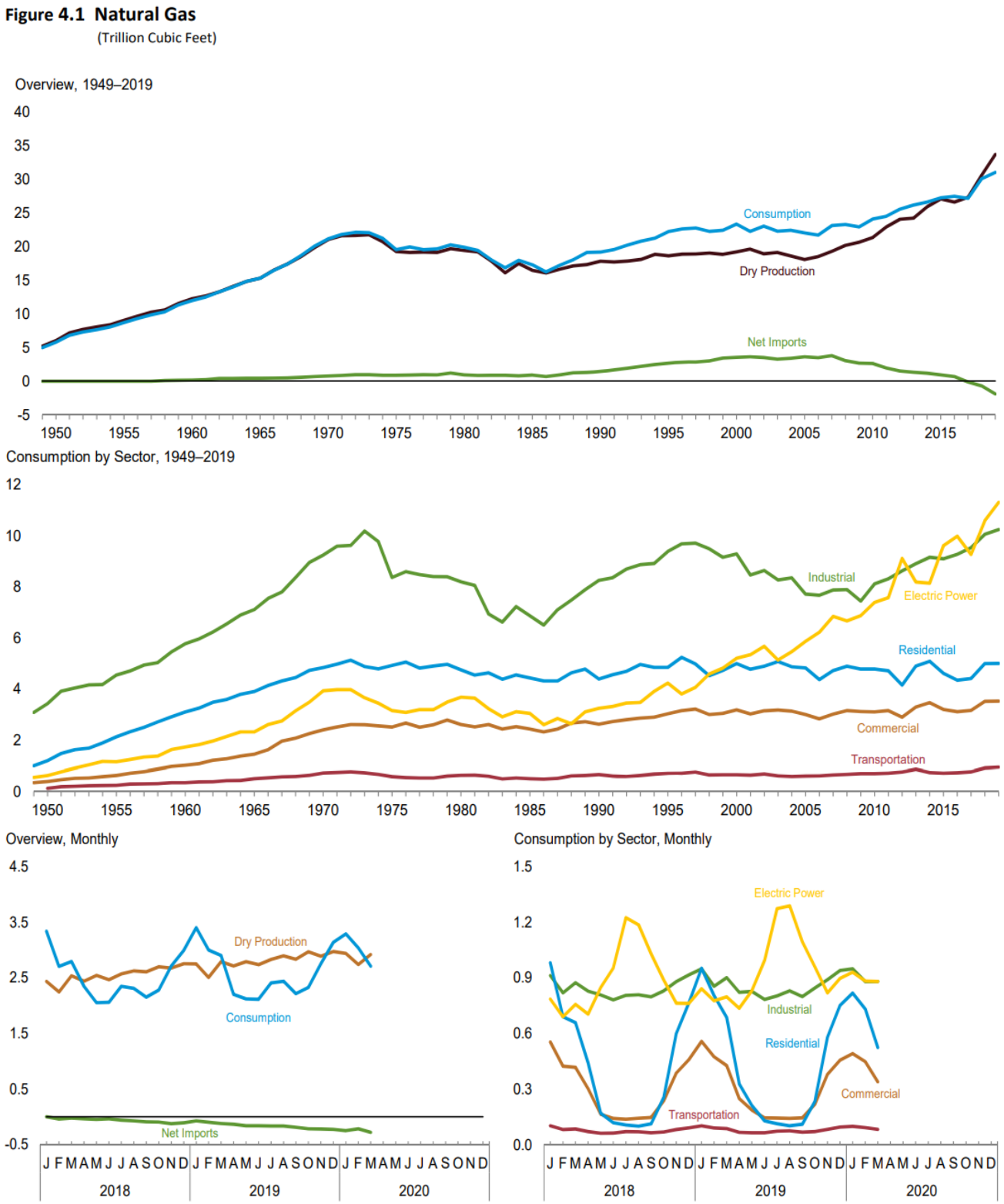


Gas Market

Near dated natural gas prices remained low during June. At time of writing the June Henry Hub contract is trading at $1.50/mcf, longer dates have been stable with steep contango delivering monthly increases to Dec 2020, currently trading $2.87/mcf.

Demand and supply of natural gas since 1949, together with sector consumption data, are shown in Figure 9.

Figure 9: Natural Gas US Supply and Demand (source DOE / EIA)

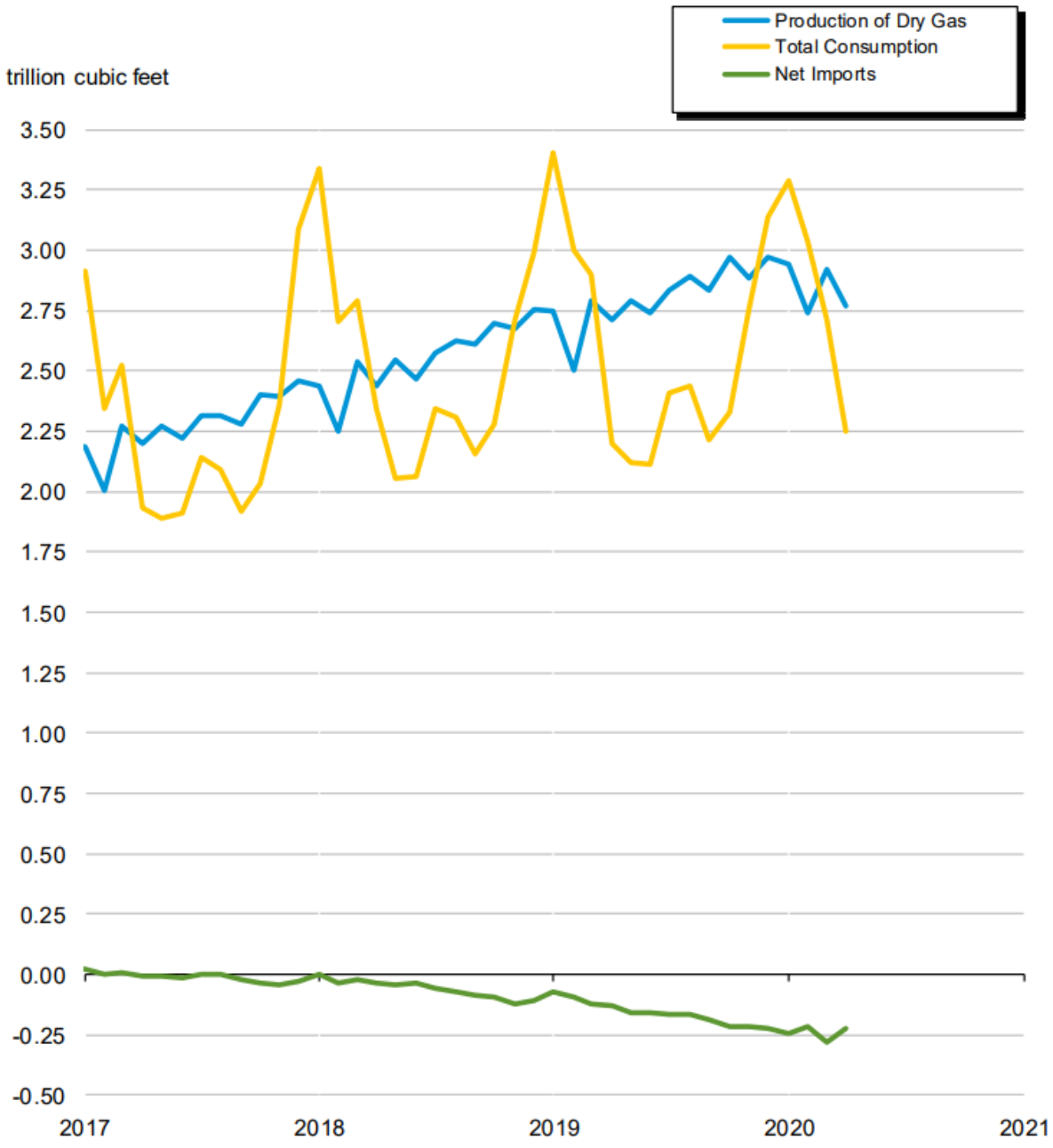


These data show many of the macro sector trends that have driven the gas market. In recent years we observe the rapid increase in production driven by high-delivery shale wells, predominantly in the Marcellus, Utica and Haynesville formations and very strong growth in electric power demand (with season cyclicality), steady growth in industrial demand and broadly flat consumption from other sectors. It is the impact on production, from reduction in capital deployment and consequential lower rig-counts, that will be the critical factor driving the natural gas market over the next 12 to 24 months.

The recent decline in production shown in Figure 1 is also observed against consumption in Figure 10.

Figure 10: Natural Gas US Supply and Demand 2017-2020 (source EIA)

Figure 1. Production, consumption, and net imports of natural gas in the United States, 2017-2020

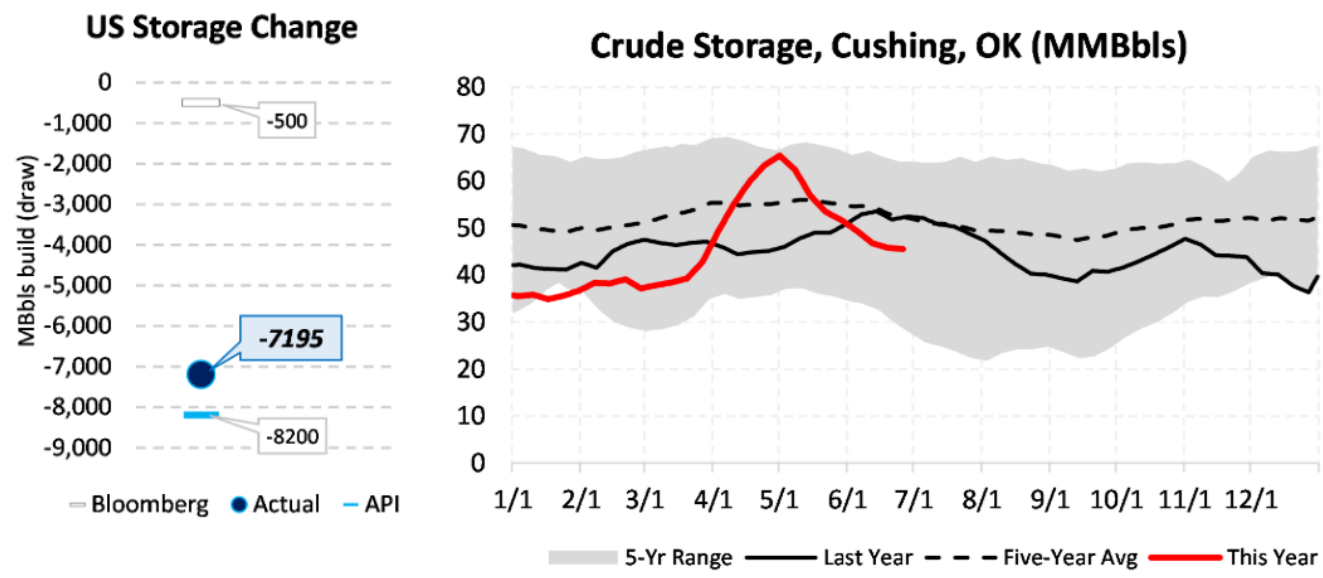


Sources: 2017-2018: U.S. Energy Information Administration (EIA), *Natural Gas Annual 2018*. January 2019 through current month: Form EIA-914, *Monthly Crude Oil and Lease Condensate, and Natural Gas Production Report*; Form EIA-857, *Monthly Report of Natural Gas Purchases and Deliveries to Consumers*; Form EIA-191, *Monthly Underground Gas Storage Report*; EIA computations and estimates; and Office of Fossil Energy, *Natural Gas Imports and Exports*.

Oil Market

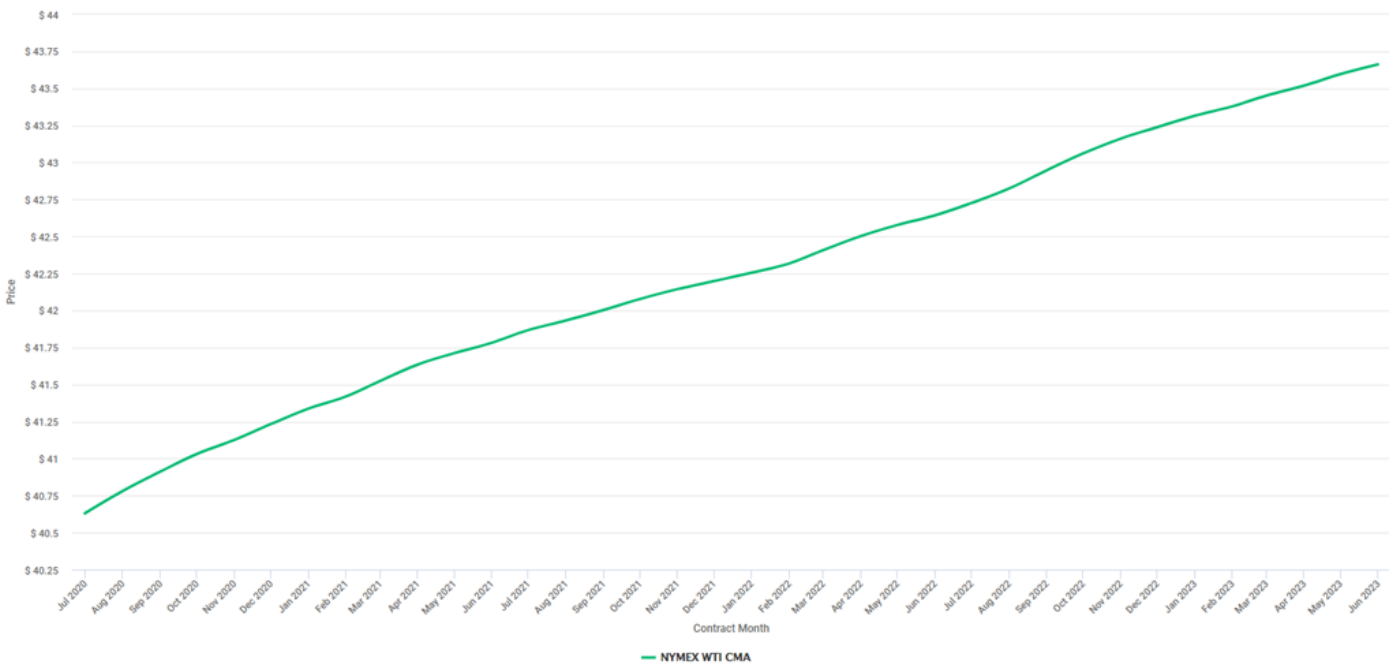
In early June OPEC+ agreed to extend its full output cuts for another month before commencing to taper. Global demand, particularly in China, has also continued its faster than expect recovery. Vitol has estimated that global fuel demand recovered at 1.4mmbbl/d week-on-week in June and they expect that global year-on-year demand will only be down approximately 5% in 4Q20. Storage inventories at Cushing, OK have now declined for seven consecutive weeks (Figure 11), all but removing the conditions that delivered negative WTI prices on 20 April. There are now 185 oil directed rigs operating onshore US. The industry has idled 530 rigs in the 17 weeks since early March when prices started falling.

Figure 11: Crude Storage (source AEGIS Energy)



There has been some price volatility in recent weeks, particularly driven by concerns over the rapid spread of Covid-19 infections across much of the south and west of the US, but prices have steadied from March and April and show steady contango from the spot June contract price of $40.63/bbl into future months (Figure 12).

Figure 12: WTI Closing 6 June 2020 (source AEGIS Energy)



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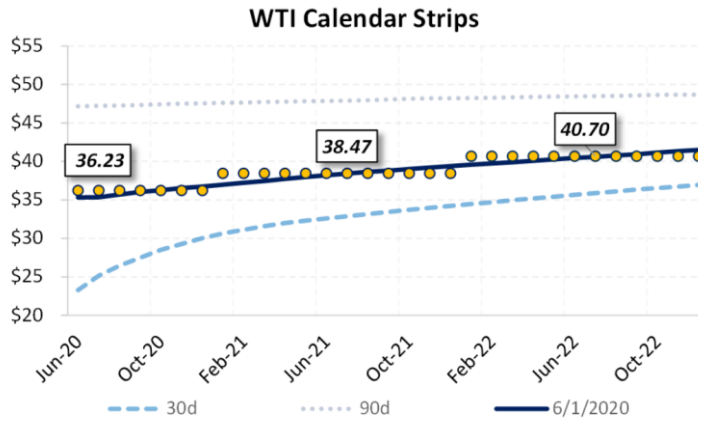
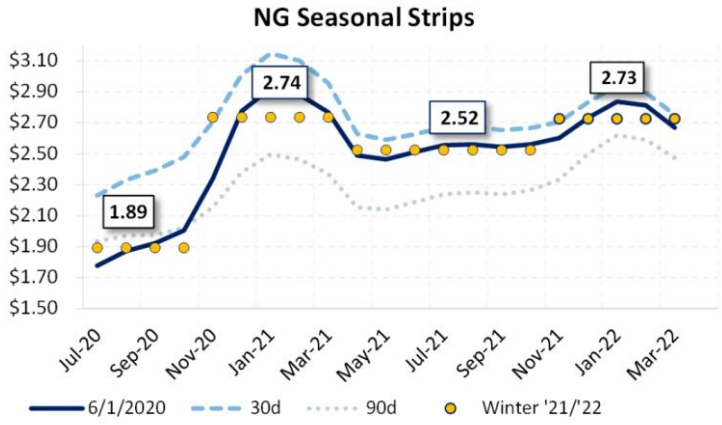
LONGREACH ENERGY

Monthly Report

Gas and Oil Prices 1 June 2020





Swap Pricing

	Bal 20	Cal 21	Cal 22	Cal 23
NYMEX WTI Crude	$ 36.23	$ 38.47	$ 40.70	$ 42.68
ICE Brent Crude	$ 38.98	$ 42.06	$ 44.86	$ 47.31
Light Louisiana Sweet	$ 37.82	$ 40.68	$ 43.02	$ 45.00
TM Midland Differential	$ 0.66	$ 0.45	$ 0.45	
NYMEX Natural Gas	$ 2.11	$ 2.63	$ 2.48	$ 2.43

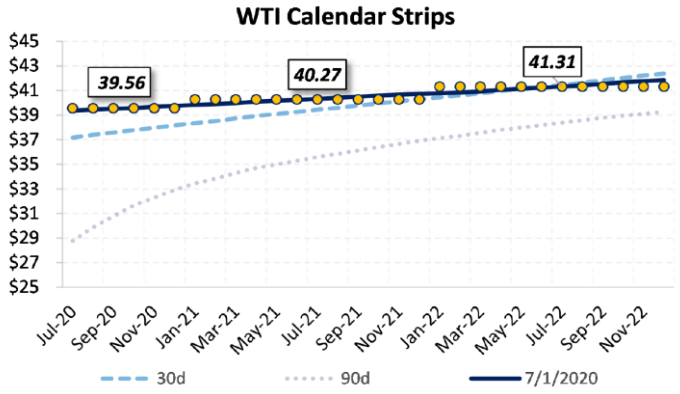
Source: Bloomberg LP

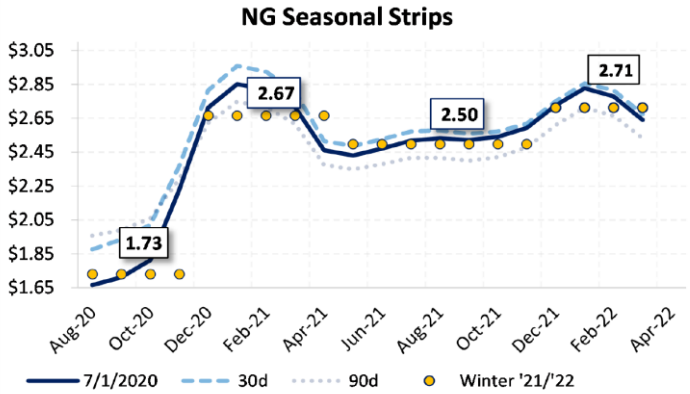
Note: Midland diff changed to TM computation Oct 1. All prices indicative only.

Natural Gas Basis

Location	Spot	Summer '20	Winter '20/'21	Summer '21
Henry Hub Fixed	$1.70	$1.96	$2.77	$2.54
MichCon	$ (0.10)	$ (0.23)	$ (0.14)	$ (0.20)
CIG	$ (0.10)	$ (0.32)	$ (0.22)	$ (0.48)
NGPL-Midcon	$ (0.21)	$ (0.29)	$ (0.27)	$ (0.36)
Waha	$ (0.21)	$ (0.37)	$ (0.45)	$ (0.47)
TETCO M3	$ (0.39)	$ (0.49)	$ 0.96	$ (0.42)
TETCO M2	$ (0.45)	$ (0.60)	$ (0.42)	$ (0.54)
Dominion S	$ (0.46)	$ (0.59)	$ (0.44)	$ (0.54)

Gas and Oil Prices 1 July 2020





Swap Pricing

	Bal 20	Cal 21	Cal 22	Cal 23
NYMEX WTI Crude	$ 39.56	$ 40.27	$ 41.31	$ 42.42
ICE Brent Crude	$ 41.65	$ 43.28	$ 45.21	$ 46.88
Light Louisiana Sweet	$ 40.90	$ 41.81	$ 42.62	$ 43.83
TM Midland Differential	$ 0.06	$ 0.18	$ 0.20	
NYMEX Natural Gas	$ 2.03	$ 2.60	$ 2.43	$ 2.37

Source: Bloomberg LP

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

Natural Gas Basis

Location	Spot	Summer '20	Winter '20/'21	Summer '21
Henry Hub Fixed	$1.64	$1.81	$2.70	$2.51
MichCon	$ 0.01	$ (0.16)	$ (0.16)	$ (0.23)
TETCO M3	$ (0.02)	$ (0.34)	$ 1.02	$ (0.39)
NGPL-Midcon	$ (0.08)	$ (0.23)	$ (0.28)	$ (0.39)
NWRox	$ (0.16)	$ (0.28)	$ (0.27)	$ (0.54)
Dominion S	$ (0.19)	$ (0.48)	$ (0.39)	$ (0.50)
TETCO M2	$ (0.20)	$ (0.49)	$ (0.38)	$ (0.51)
Waha	$ (0.25)	$ (0.46)	$ (0.58)	$ (0.62)

All prices as of close yesterday