The Broadcast - January 2024

PRODUCER PROFIT SHARE **$15,521,911**

About Broadbill Energy Inc.

Broadbill Energy exists to develop value differently. From our strong foundations we create unsurpassed value to boldly redefine the midstream industry as the partner of choice. We fearlessly pursue innovation and strategic opportunities. We are producer centric and we work with the right people.

The Broadcast is a monthly marketing newsletter from Broadbill Energy to provide market insight and company updates.

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What's New in the Zoo

It truly is the most wonderful time of the year! We hope everyone had a nice Christmas break. It was great seeing those that were able to make it to the Broadbill Christmas event back in early December. The Bear and Kilt was bursting at the seams! The past year has brought several challenges and with it came several opportunities.

As we head into the New Year, we look forward to bringing online new facilities and working with existing and new customers. We thank you for your support this past year and look forward to more in '24!

Pricing View - December 29, 2023

	November 2023 Index Diff	December 2023 Index Diff	January 2024 Index Diff
WCS	-$20.85	-$26.58	-$20.05
LIGHT SWEET (MSW)	-$3.88	-$8.70	-$8.38
CONDENSATE (C5)	-$0.35	-$3.99	-$2.75
LIGHT SOUR BLEND (LSB)	-$4.57	-$12.15	-$10.89
MIDALE (MSM)	-$7.67	-$16.00	-$13.41

MARKET SUMMARY

TMX troubles continue for another month. Trans Mountain sought Canada Energy Regulator (CER) approval for construction changes back in November due to harsh drilling conditions between Hope and Chilliwack B.C., which was ultimately rejected. Trans Mountain then pressed into the CER to consider reversing its decision citing a possible “catastrophic” two-year delay and billions of dollars in additional cost overruns. Reasons provided for denying the TMX were size variance request, citing safety concerns. The CER also has concerns on the quality of materials procured for the variance construction. Producers such as CNRL and MEG are urging CER to approve the latest request, stating timely completion is crucial. TMX also submitted evidence in December to support its claims that oil companies must pay more in tolls. While the “catastrophic” case does truly feel like a worst-case scenario (knock on wood), one can’t underestimate the drag on effects of delays. Line 3R comes to mind where an extra year was tacked onto the project giving the market all kinds of pain and suffering. So close to the finish line, yet seemingly so far away. TMX will certainly be a story for 2024.

While some are enjoying the abnormally warm winter, there are potential consequences on top of low natural gas prices. The Canadian federal government classified 72% of the country as abnormally dry or under moderate to exceptional drought conditions. As a result, the Alberta Energy Regulator (AER) has warned fossil fuel companies that their access to water may be restricted next year. Some license holders have been asked to stop taking water due to low river levels. This will be a theme to watch heading into spring

The WTI selloff continued through the Santa month as the aggressive run up caused by OPEC orchestrated supply tightening.

The wars in both the middle east and Ukraine have seemingly drifted into lower risk from a crude supply perspective as western countries grapple with placing sanctions onto suppliers of energy (Russia and Iran), while continuing to battle the inflation narrative. Through 2023, only one month produced a lower calendar month average being May 2023, where the average was $71.62. We see December closing barely above this level at $72.12. The high-water mark for the year was achieved in Sept 2023 at $89.43, which does not feel that long ago. A $70 price tag seems to be resilient for the time being. It will be interesting to see what motivates price action this upcoming year and hopefully WTI will find a way to “leap” upward in 2024.

U.S. crude production through 2023 showed signs of resilience, though the Energy Information Administration (EIA) did change their counting methodology through the year to include NGLs as part of the crude totals. When removed for year over year comparison we see U.S. growth coming in at 600-700KBD, which is still impressive given the rig counts that were also on the decline for most of 2023. Despite these gains in production, the bigger story in supply growth appears to be in natural gas production as the U.S. is hammering out over 104Bcf/d and the WCSB is also plugging along over 14.5Bcf/d to NGTL injections. These are up year over year with seemingly no end in sight as producers continue to prove out reserves in anticipation of incremental LNG egress in both Canada and the U.S., respectively.

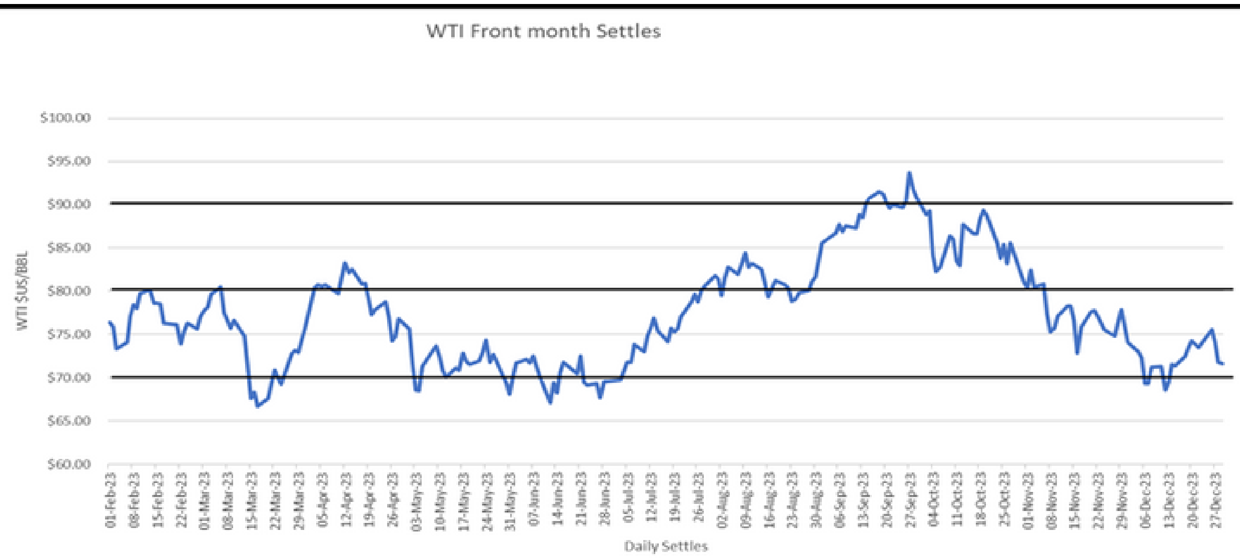
OPEC+ reached a deal that would see the group’s oil production cuts go onto next year with an additional 1 million bdp starting in 2024. This is not the only headline involving OPEC this last month. OPEC called out IEA for vilifying the oil and gas industry, playing down energy security and affordability, and calling for a “dangerous” phasedown in energy investment. There’s validity to this claim, EIA’s reports and website are full of reference to rapid change and often signals that change in consumer behavior is attributed to desire to transition out of fossil fuels. EIA’s world energy outlook suggests that demand from fossil fuels is shifting since sales of vehicles with internal combustion engines are well below pre-pandemic levels. Perhaps 20-year highs on interest rates are creating greater affordability issues because of policies made during the pandemic and even going back to the 2008 great recession. Higher prices due to supply disruptions during the pandemic and internal combustion engine vehicles are not subsidized, unlike EVs through the so called “Inflation Reduction Act” in the U.S.

In other OPEC news, Angola announced that it is leaving OPEC for more autonomy. More autonomy is probably likely achievable, but more production from Angola is probably unlikely in the short term. Iraq, Nigeria, and the Republic of Congo confirmed their commitment to OPEC following Angola’s exit.

Speaking of OPEC+ members, Russia is the largest uranium enricher in the world and three-quarters of U.S. nuclear fuel is imported uranium fuel. U.S. House of Representatives are considering banning imports of Russian-origin enriched uranium, which accounts for 25% of the U.S. market. If the bill is passed, the cost of nuclear fuel is expected to increase by 13% for reactors across the U.S. Like previous sanctions imposed on Russia by the U.S., this will likely hurt U.S. citizens more than Russia.

Yemen Houthi is at it again days after claiming responsibility for attacks on an Israeli and a Norwegian tanker. A tanker carrying jet fuel from India was attacked while travelling the Red Sea. Then another commercial ship was attacked that was coming from Saudia Arabia and going to Pakistan. The U.S. has announced that it has put together a coalition of 19 countries to protect traffic in the region and BP announced it would pause all tanker traffic through the Red Sea. U.S. hit several Hezbollah targets in Iraq after drone attacks on military personals. News of Iran tripling production of enriching uranium, which is close to near weapons grade, gave WTI a nice bump near the end of the month though it was short lived as trading and liquidity thinned out heading into the holiday season.

On the interest rate/monetary policy front the U.S. Fed suggested a pivot to monetary policy tightening last month. U.S. unemployment is trending up, worker confidence is trending down, hiring declining, and job openings continue to decline. Since central bankers are Phillips curve worshipers, rate cuts are likely not far behind as indicated in Chairman Powell's decisively dovish speech last month. U.S. treasury yields almost came to a 5-month low. This has led to U.S. dollar weakness as investors speculate about substantial rate cuts in 2024. This was a key theme of 2023 and will continue to be bantered about as we kick off 2024. The DXY has been on a free fall since the Fed speech came earlier in December.



Source: Broadbill Energy Inc.

WCSB PRICING SUMMARY

The January trading cycle brought some interesting stocking stuffers. On the heels of December differentials finding year lows on all differentials (apart from Jan-2023 WCS, which printed slightly wider than December 2023), the WCS contract rallied significantly to ring in the New Year. Though still supporting a “20 handle,” the move higher is a welcomed sight especially on the heels of the TMX news as discussed above.

Light oil differentials also made a move higher though still looking weak relatively speaking. The New Year is a great time to look back over the year to reflect. From a differential point of view looking at light differentials that are printing lows we have not seen since the pandemic Q12020. Trying to pinpoint reasons why suggests several hypotheses:

- Enbridge apportionment is alive and well suggesting perhaps a little bit of air barreling, but also legitimate supply is in play likely on the expectations of a TMX start up. The TMX finish line apparently can’t come quick enough.
- Light apportionment continues to trend higher month over month (37% for January 2024) as with line 3 grade flexibility and downstream demand for heavier volumes this promotes a disproportionate light oil apportionment challenge relative to heavy (27% for Jan-24), which is down month over month.
- The abnormally warm winter is supportive of supply in general, but oilsands supply specifically. We recall last December hearing field stories of propane freeze offs due to ambient temps dipping below -50C. Outperforming its typical winter struggles (things usually don’t work as well when its -30C in Fort Mac) we are expecting to see high supplies from the oilsands upgraders given the warmer than normal winter.
- Downstream fuel crack spreads have been under pressure as we’ve discussed recently in the letter. At the time of writing, we are seeing gasoline cracks under $17US/bbl. Diesel cracks are still supportive, but are also off their fall highs. Inventories on both fuels are on the lower end of the curves so any lift in demand should be supportive of both WTI and the differential story, as we come out of the winter demand season.
- We’ve also heard some rumors of some aggressively placed differential shorts on lights, which may also be lending pressure against the physical light differentials. If you would like to discuss this please reach out and we would be happy to share some views on this.

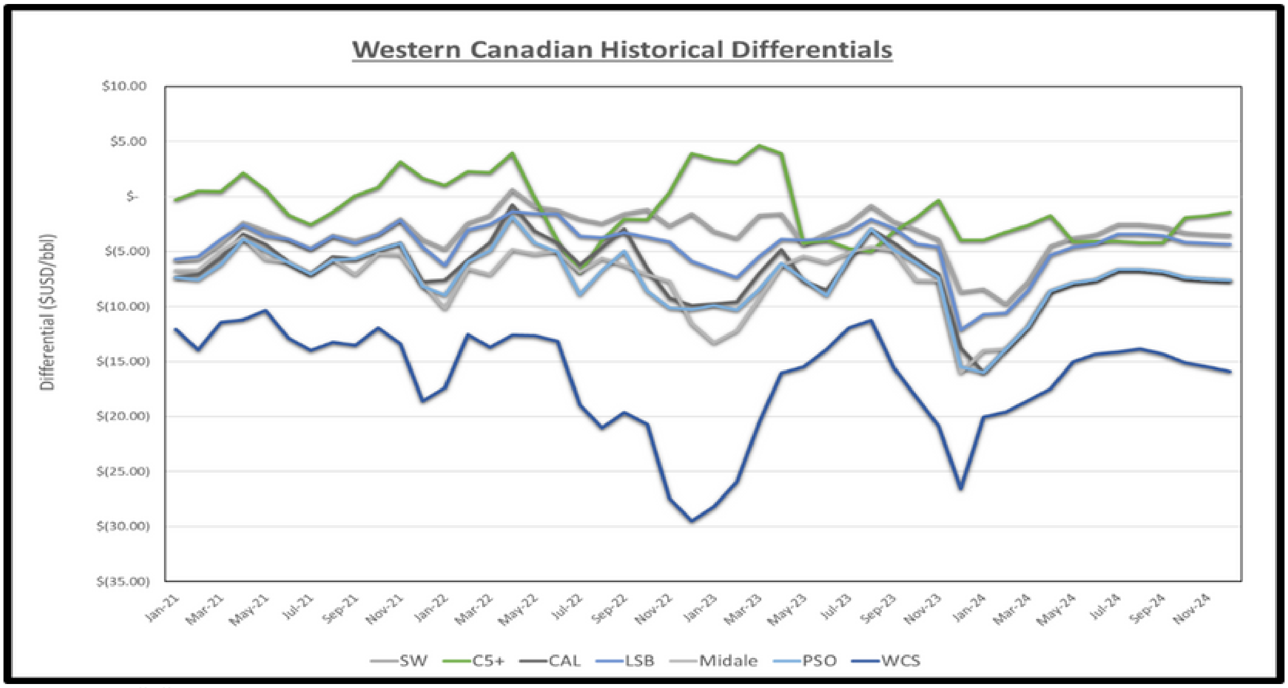
Looking ahead, the forward curve on differentials still paints the picture quite clearly. Incremental egress = tightening differentials. While this will be a welcomed storyline as we move through 2024 and beyond, we continue to maintain a cautious outlook on differential support on TMX alone.

We wish you all a very happy New Year in 2024. We are excited about the year ahead and are looking forward to continued growth alongside our valued customers!

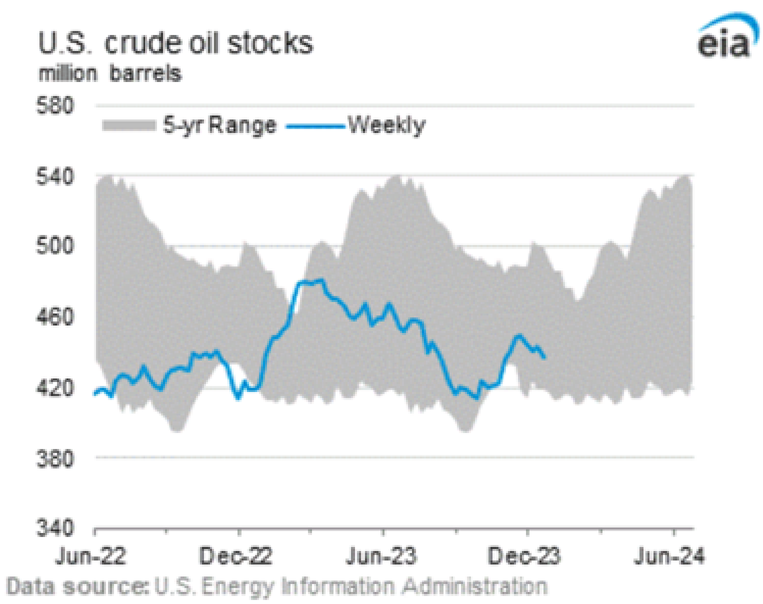
The Broadbill Energy Team

Broadbill Energy - 2800, 525 8th Avenue SW, Calgary, AB, T2P 1G1, Canada

APPENDIX



Source: Broadbill Energy Inc.



	Stocks	Change from last	
	12/22/23	Week	Year
Crude oil	436.6	-7.1 ↓	17.6 ↑
Gasoline	226.1	-0.7 ↓	3.0 ↑
Distillate	115.8	0.7 ↑	-4.4 ↓
Propane	84.684	-9.046 ↓	0.257 ↑

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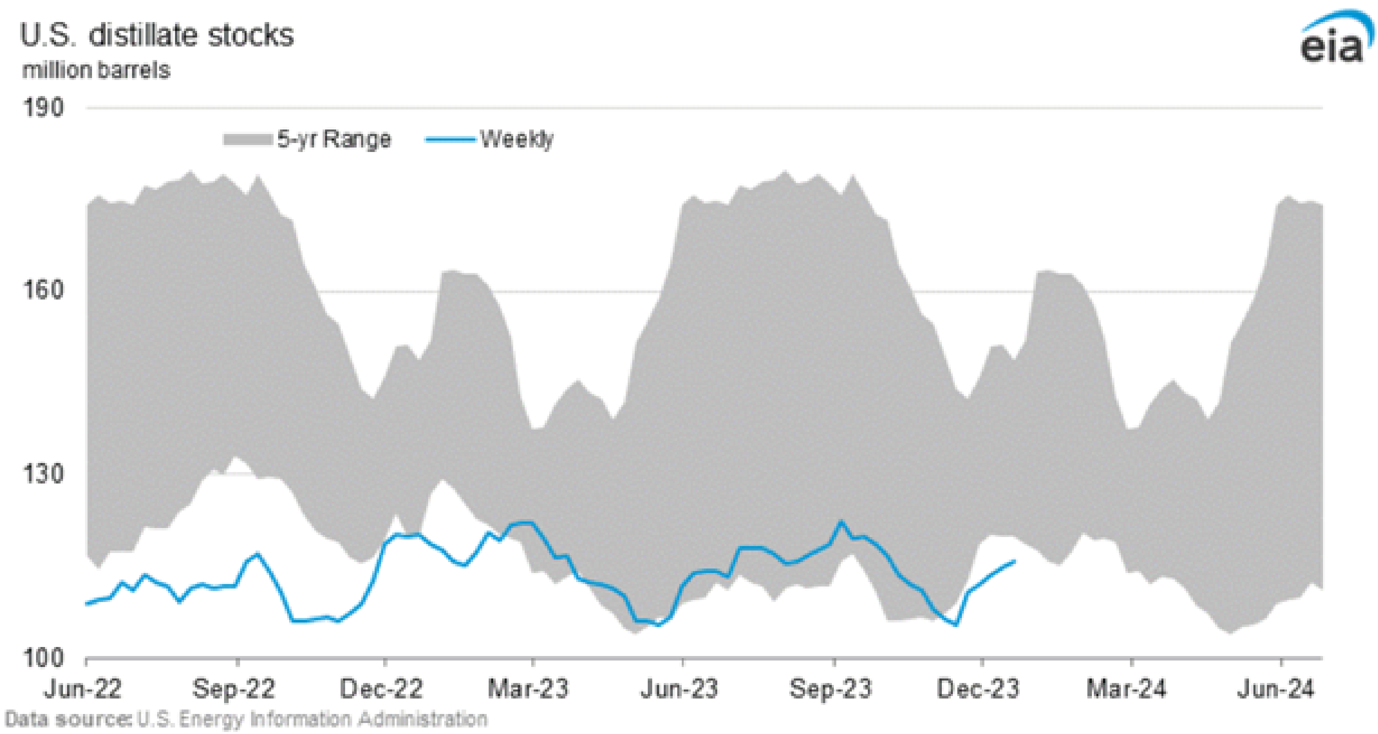
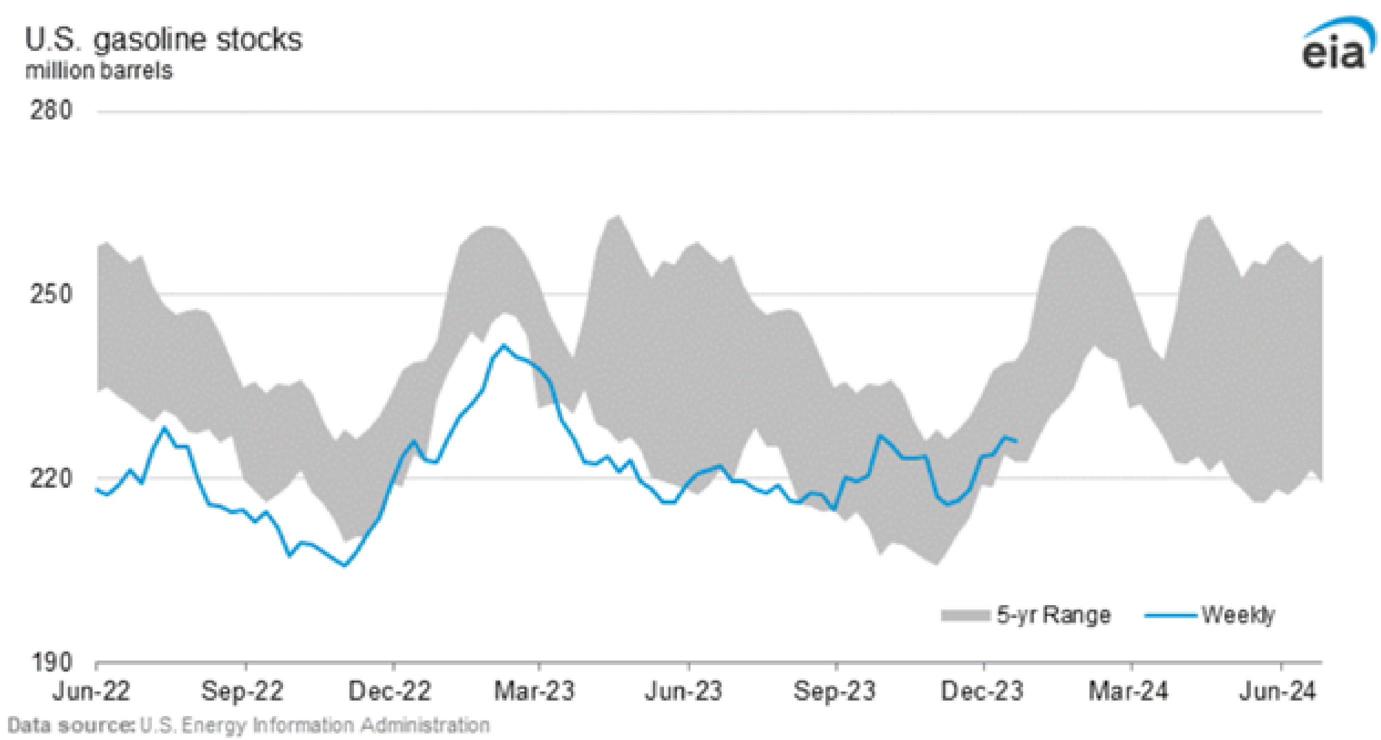

U.S. distillate stocks
million barrels
190
160
130
100
5-yr Range
Weekly
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
Mar-24
Jun-24
Data source: U.S. Energy Information Administration
eia


U.S. gasoline stocks
million barrels
280
250
220
190
5-yr Range
Weekly
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
Mar-24
Jun-24
Data source: U.S. Energy Information Administration
eia

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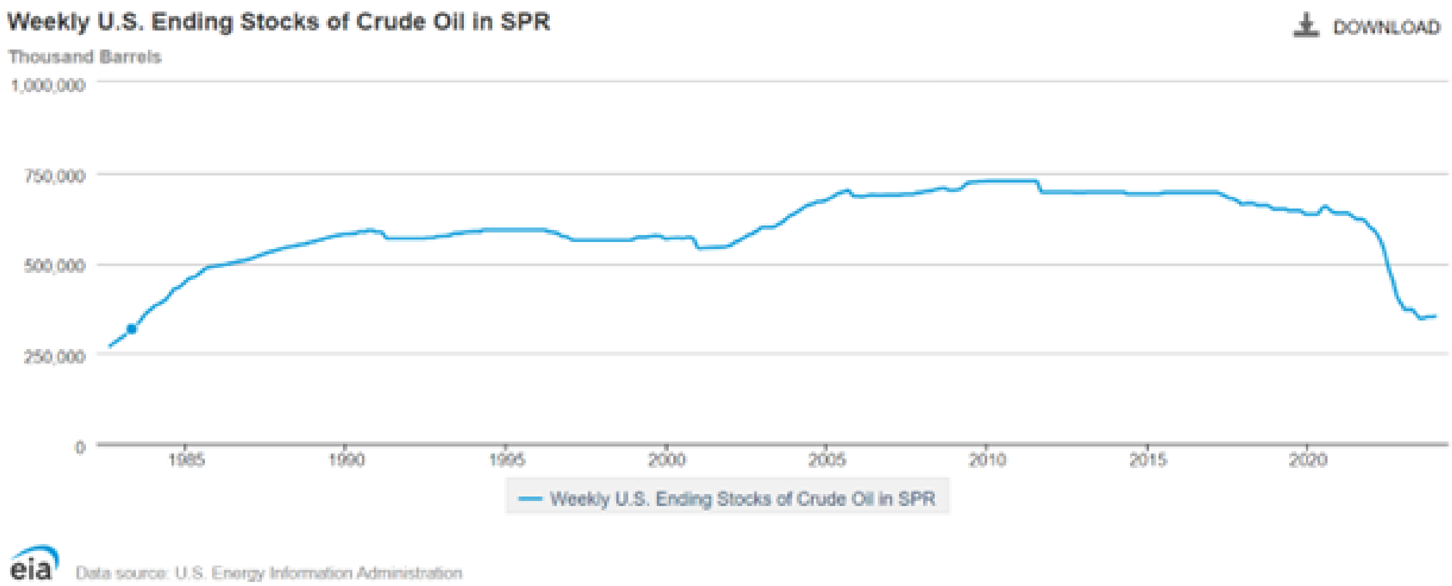
Weekly U.S. Ending Stocks of Crude Oil in SPR
DOWNLOAD
Thousand Barrels
1,000,000
750,000
500,000
250,000
0
1985
1990
1995
2000
2005
2010
2015
2020
Weekly U.S. Ending Stocks of Crude Oil in SPR
eia
Data source: U.S. Energy Information Administration


DXY
Indicators
Alert
Replay
U.S. Dollar Index · 1D · TVC
108.000
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TradingView
Mar
Apr
May
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2024