MAY 2024

Broadbill exists to create 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 Inc. to provide market insight and company updates.

PRODUCER PROFIT SHARE

$18,181,831.37

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What's New in the Zoo

We had a lovely few weeks of spring weather, followed by a pile of snow to end the month. Besides the power outages in parts of Calgary, it's just what we need given that we are in a drought and wildfire season is well underway in Alberta. Hopefully you or your operations aren't impacted. Fire restrictions for forest protection areas were introduced on April 24th.

Doesn't look like it when looking out the window, but we are fast approaching summer and Stampede. Keep an eye out for your invitation to our annual Broadbill's Stampede party over the next few weeks.

Pricing View - May 6, 2024

	March - 2024 Index Diff	April - 2024 Index Diff	May- 2024 Index Diff	June Index - May 3 Settle
WCS	-$19.13	-$15.76	-$13.04	-$11.85
LIGHT SWEET (MSW)	-$8.26	-$4.17	-$3.78	-$2.94
CONDENSATE (C5)	-$5.09	-$2.39	-$4.19	-$3.74
LIGHT SOUR BLEND (LSB)	-$10.27	-$6.06	-$3.71	-$3.20
MIDALE (MSM)	-$11.41	-$6.54	-$4.31	-$3.78

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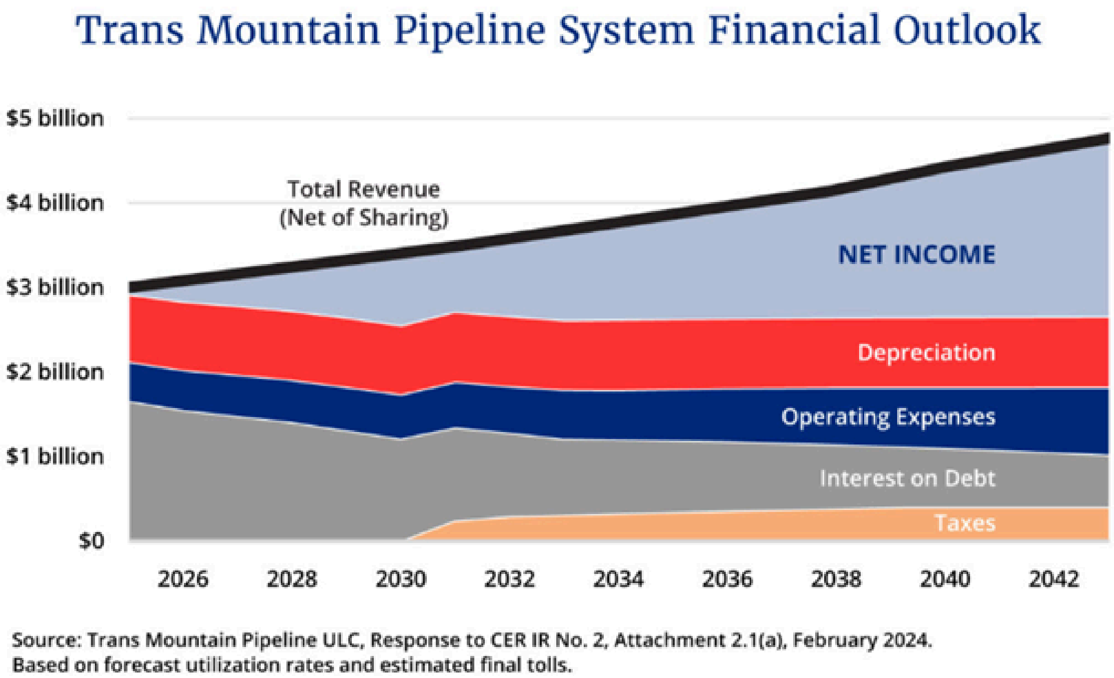
Market Summary

TMX Update
Looks like TMX continued to struggle until the end. Trans Mountain announced the commencement date for commercial operation of TMX for May 1st and it will provide service for all contracted volumes in May. Soon after the announcement, shippers filed a letter with Canada Energy Regulator (CER) expressing concerns that the pipeline will not be fully operational by the projected May 1st start date, although its new rate schedule will start May 1st and shippers will have to pay the increased tolls. Suncor, Marathon, and BP questioned the odds of TMX delivering the contracted volumes.

Turns out the shippers were wrong. After 11 years and $34 billion, TMX is shipping oil! According to recent financial fillings, roughly $11/bbl in tolls could cover $9 billion in costs and the cost overruns of the pipeline were covered by debt. The interest on the debt is far lower than the projected future revenues.

Trans Mountain expects revenues to soon reach $3 billion and expenses to be around $500 million whereas, the interest on the project will be around $1.6 billion. This leaves lots of room to start debt repayment. Trans Mountain expects interest costs to decrease and profits to rise over the years.



Macro Update

Volatility remains the theme. Ukraine drone strikes on Russian refineries continued and India committed to more Russian imports. China is also building stocks using Russian imports. On the other side of the world, Mexico's NOC Pamex announced plans to halt crude exports to Europe, U.S., and Asia. It cancelled contracts to refiners around the world to produce more domestic gasoline and diesel, ahead of the Dos Bocas refinery launch and presidential election.

An Israeli airstrike on the Iranian embassy in Damascus killed two Iranian generals. Iran swore revenge on Israel, although it didn't lead to anything too consequential. Iran launched over 300 drones and missiles at Israeli targets. Not much damage resulted from this and Iran told UN the matter is "concluded." Israel and Iran tensions calmed down soon after. Then Israeli military announced that it hit dozens of targets in in Southern Lebanon. Lebanese armed group Hezbollah claimed it fired dozens of rockets at an Israeli border village escalating the conflict. The U.S. announced additional sanctions on Iran, which likely won't be enforced too heavily.

Talks of ceasefire resurfaced this month. Israel withdrew more soldiers from Gaza and committed to fresh talks on a political ceasefire. The latest is that Hamas is considering a proposal made by Egypt to release up to 33 hostages in exchange for a pause to the conflict in Gaza and release of Palestinian prisoners in the first phase of the proposal. Second phase of the proposal would involve releasing the remaining hostages, captive Israeli soldiers and bodies of hostages, which would be exchanged for Palestinian prisoners.

OPEC
OPEC monthly report revised U.S. and Russia's economic growth for 2024. According to the report, liquids supply is expected to grow from the U.S., Canada, Brazil, and Norway. In other OPEC news, Iraq is repairing the 350,000 b/d Kirkuk-Ceyhan pipeline destroyed by ISIS in 2014.

Venezuela was warned by the U.S. it would not renew a temporary sanctions waiver if Maduro doesn't show progress on fair elections. U.S. kept its promise and let the sanctions expire this month.

OPEC+
OPEC+ announced that it will stick to supply cuts for the first half of the year. Kazakhstan admitted to exceeding OPEC+ oil production quota by 131,000 b/d, blaming it on bad weather and heating season. The country pledged to compensate over Q3, alongside Iraq.

The group is working on getting Namibia to replace Angola (after its departure from the group). Namibia hasn't produced any crude yet, but is set to rise to 700,000 b/d by 2030. OPEC pledged to help Namibia become a significant crude producer and the Namibian government indicated it would consider joining OPEC if its oil discoveries become significant.

North America
Lots of news in Canada last week pertaining to the federal budget. Here's a link to the most pertinent items coming from Ottawa from KPMG:

Federal Budget Highlights - KPMG

According to the 2024 Canadian federal budget, 600,000 small firms would be eligible for carbon tax rebates. Here's a better idea, they could just stop collecting carbon tax in the first place. The federal government will collect an additional $4/carton of 200 cigarettes on top of the $1.49 added as part of an automatic inflation adjustment and vaping duty rates will increase as well. At least, there's a choice in smoking, the same can't be said for heating homes in the winter.

The budget promises to build 3.87 million homes by 2031, make more federal land available for homebuilding, accelerate flows of workers in the construction industry, let first-time homebuyers purchase new builds and extend their mortgage amortizations to 30 years, and raise the limit for withdrawals via RRSP Home Buyers' Plan. They plan on paying for some of this by raising capital gains tax. All this is aimed at millennials and Gen Z's, so they too can become like the boomers they resent for advocating for policies that are at the expense of the next generation. The Liberals also announced exploring halal mortgages, which involves mortgages without interest. Another woke policy that helps one segment of the population, likely at the expense of others. Either the banks would have to charge added fees to the people getting the halal mortgages, or the banks would have to charge additional fees to all their customers to make this work. To sum it up, more spending and direct and indirect (inflation) taxes to create a big government.

South of the border, California announced it will soon end a two-year investigation into Exxon and the fossil fuel industry's role in global plastic pollution. The state will decide if it will be filing a lawsuit against Exxon. It's like filing a lawsuit against Anheuser-Busch InBev (owner of Budweiser, Stella Artois, etc.) for its role in alcoholism.

U.S. crude inventories decreased 6.4 million barrels to 453.6 million barrels as of April 19th. This is consistent with the end of refinery maintenance season and BP's Whiting refinery coming back to full operation. Unfortunately, this trend reversed into the end of April where we saw large crude and product builds which was decisively bearish for WTI. US crude production remains a shade over 13MM barrels per day. A relatively astonishing figure given rig counts continue to decline across the US proving shale resiliency and ongoing efficiency improvements in drilling and completions. Most firms believe this number will remain flat as large producers continue to exercise capital discipline and focus on shareholder returns instead of growing production and exploiting reserves. This should prove helpful to keep WTI bid and light differentials strong.

Inflation

The U.S. Purchasing Manager's Index (PMI) and March nonfarm payrolls report came in better than expected. U.S. unemployment came in slightly lower than last month, reflecting a "strong labor" market. I wouldn't give too much weight to the unemployment number though, as it doesn't include those who are not actively looking or discouraged workers (haven't looked for a job in the last four weeks). It's natural for some people to get discouraged and I would argue that is what is contributing to the slight decrease in the unemployment rate. However, the market does not agree and pricing in 2 or less rate cuts this year.

It also doesn't help that higher-than-expected U.S. Consumer Price Index (CPI) numbers and U.S. retail sales came out. Powell and other U.S. federal officials made comments suggesting higher rates for longer but seemed to brush off the potential for any increases at this time. Perhaps weak U.S. Gross Domestic Product (GDP) is enough to counter the jobs and wages data. Meanwhile, Germany's production increased and copper prices rallied, decreasing likelihood that European Central Bank (ECB) will cut rates in June, suggesting higher for longer may be a global trend.

Much like the weekly crude inventory data, this economic data spectacle must be a traders dream as we rotate between data point announcements. Keep an eye on bond rates both north and south of the border as a bell weather. Last week we saw a stiff trend reversal on bond rates on the fresh jobs numbers and wages out of April came in the opposite of March. Rates fell hard and the broader equity markets finally got some wind in the sail.

Price inflation will likely persist. Particularly, this will be seen in commodities. Through the higher costs of inputs (such as energy, agricultural products, and metals) increase the costs of other products. Our outlook is that government intervention and shortages due to various reasons, as seen by examples below will exacerbate the inflating costs.

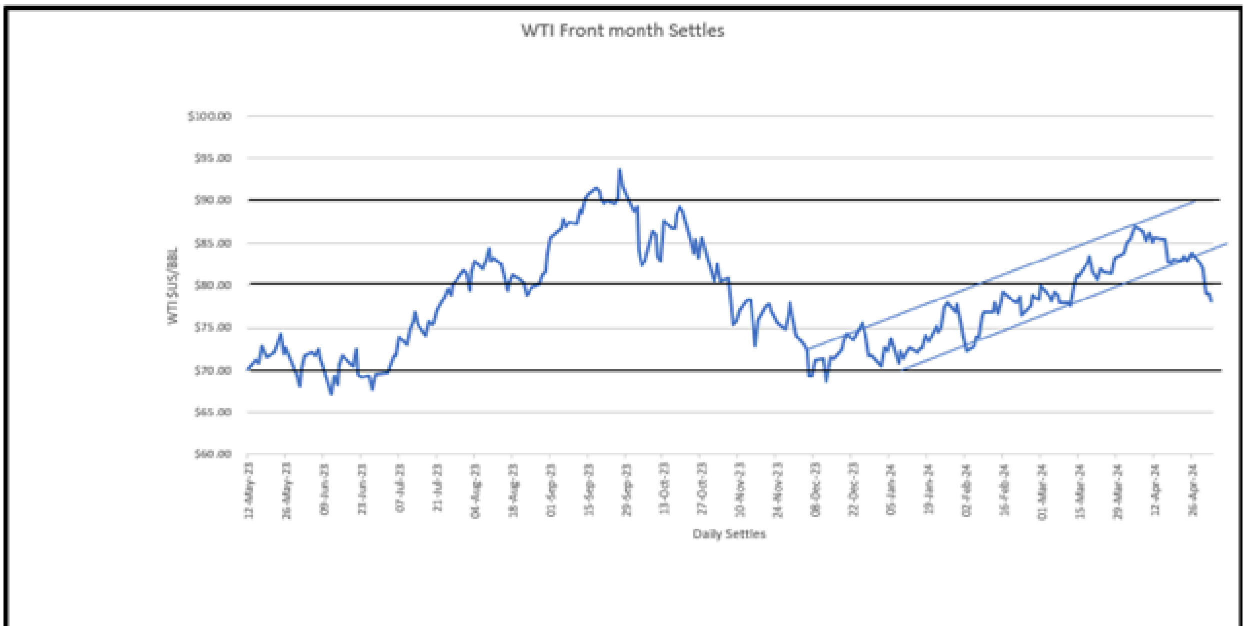
For instance, Guinea's state owned power utility is increasing loadshedding due to a water deficit affecting hydropower dams, fuel-depot explosion, and breakdowns at thermal power stations. This means two to five power outages per day to ensure electricity supply till rainy season. Residential homes have already been on rotational service receiving power between 8pm to 7am daily. This announcement came after protests were held against power outages.

India is another country faced with challenges meeting electricity demand, and a upcoming summer with temperatures expected to be higher than average.

The country has mandated coalfired plants to guarantee maximum electricity output until October 15th. This is expected to increase coal import costs.

Though metal price inflation is being hit by several factors, copper prices climbed as Chinese production got cut. Moreover, U.S. and UK have banned metal trading exchanges from accepting new aluminum, copper, and nickel produced in Russia. At the same time, the countries have banned imports of those metals into the two countries because imposing trade restrictions on Russian products have gone so well for these countries so far . . .

At least Trafigura and Glencore are making the most out of it by withdrawing around $400 million worth of Russian metals from London Metal Exchange (LME) warehouses and they are rumored to be re-registering it at a different date under a new, less desirable category. The UK has allowed existing stocks of Russian metals to continue to trade on the LME and will be treated differently if it was already stored in LME warehouses. By withdrawing and re-registering the metal under a different category, the pool of potential owners reduces ad allows it to remain sitting in the same LME warehouse for an extended period, while generating profits for the traders through “rent sharing.” Rent sharing are agreements that allow LME warehouses to share their fees or rental income with companies that deliver metal to them. Just another example of government intervention having unintended consequences. LME announced after that it would step in to halt lucrative storage deals.



Source: Broadbill Energy Inc.

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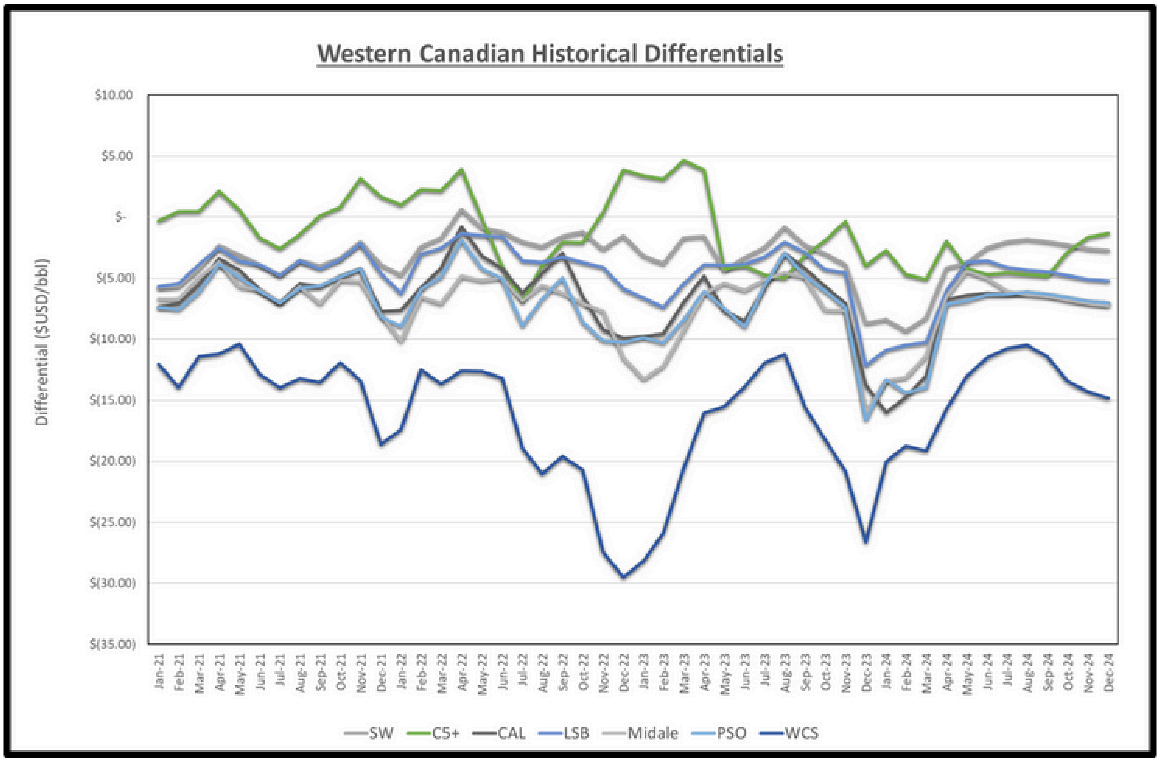
WCSB Pricing Summary

RWTI has been in retreat the last two weeks after making a nice move up over the month of April. We saw $88US/bbl briefly inter day on escalating violence in the Middle East as the Ukraine narrative started ramping up again with the Ukraine side sending in drones to key Russian refineries. As little escalation ensued, pricing could not be sustained. While the seasonal demand shift is nearing, refineries seem a little slow and this is resulting in weekly unseasonal crude builds as mentioned above.

Last week we saw over 9MM barrel builds in both crude and products, respectively, which pushed crude from $82 to $78US/bbl.

Given Canadian dollar weakness, we are still seeing netbacks hovering around $100CAD/bbl for light grades and $90CAD/bbl for heavies, so very strong cashflow is expected across the basin given the differential strength. WCS narrowing continued in anticipation of TMX. It will be interesting to see how this plays out in the U.S. if this trend continues, though its debatable how long this will continue as supply increases.

As we have arrived at the TMX starting line, the trend so far has been a well bid market for all WCSB crude grades into the trading cycle. There has been some trade cycle volatility, but the more obvious trend has been a very sluggish delivery month spot differential. Seemingly once pipeline space has been allotted and volumes have been purchased, there is very little in month delivery demand (result – lower spot differentials) for spot volumes resulting in weak prompt differentials.
Last weeks WTI sell off hurt late April spot differentials against index. While its very early in the ball game (we have not even tossed out the ceremonial first pitch for TMX let alone getting the players onto the field) it will be an interesting trend to watch as we move into this phase of new pipeline egress.



Source: Broadbill Energy Inc.

The Broadbill Energy Team

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www.broadbillenergy.com

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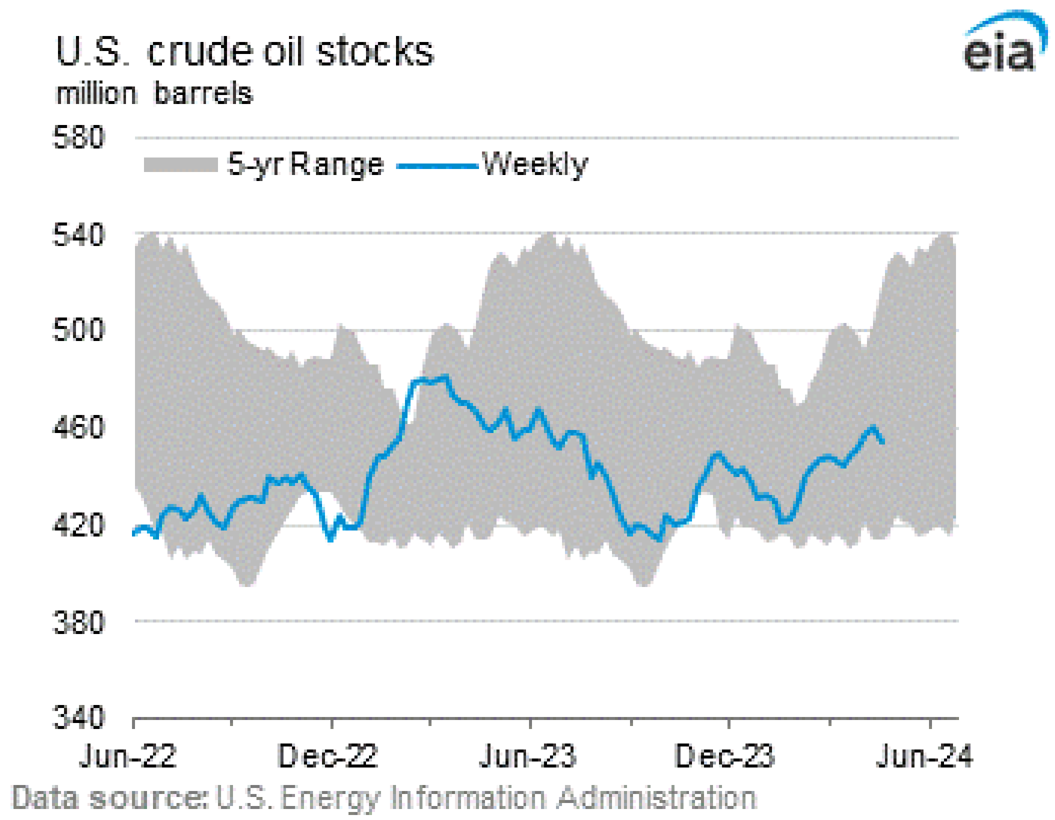
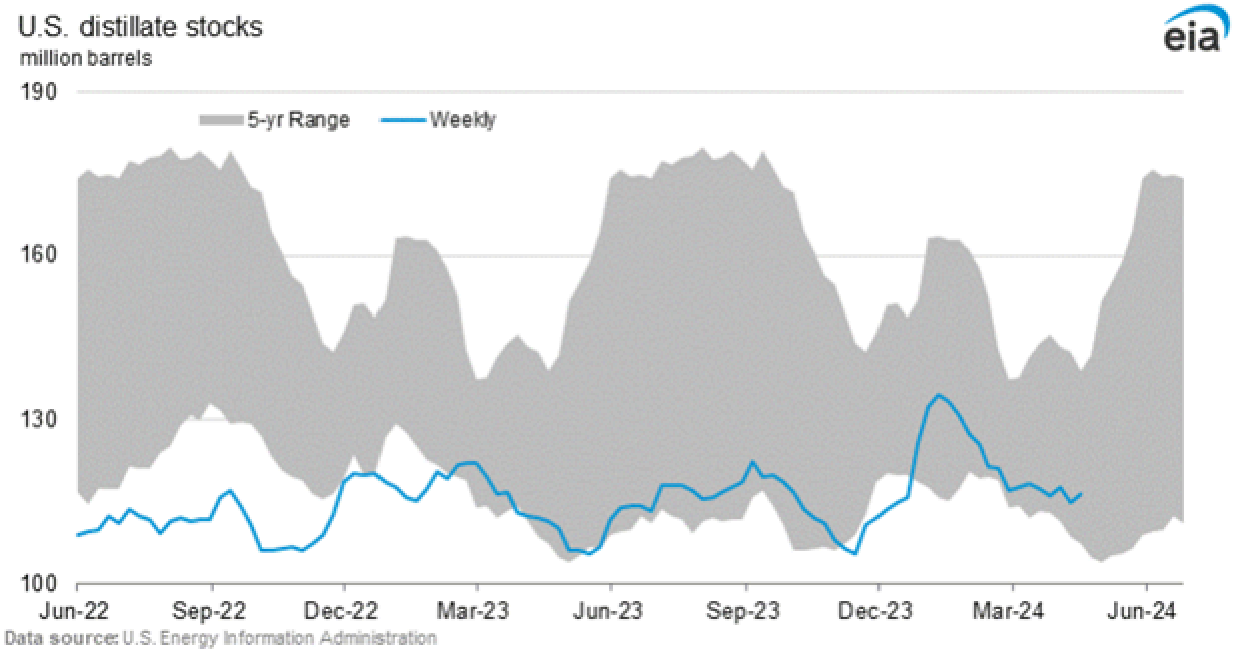
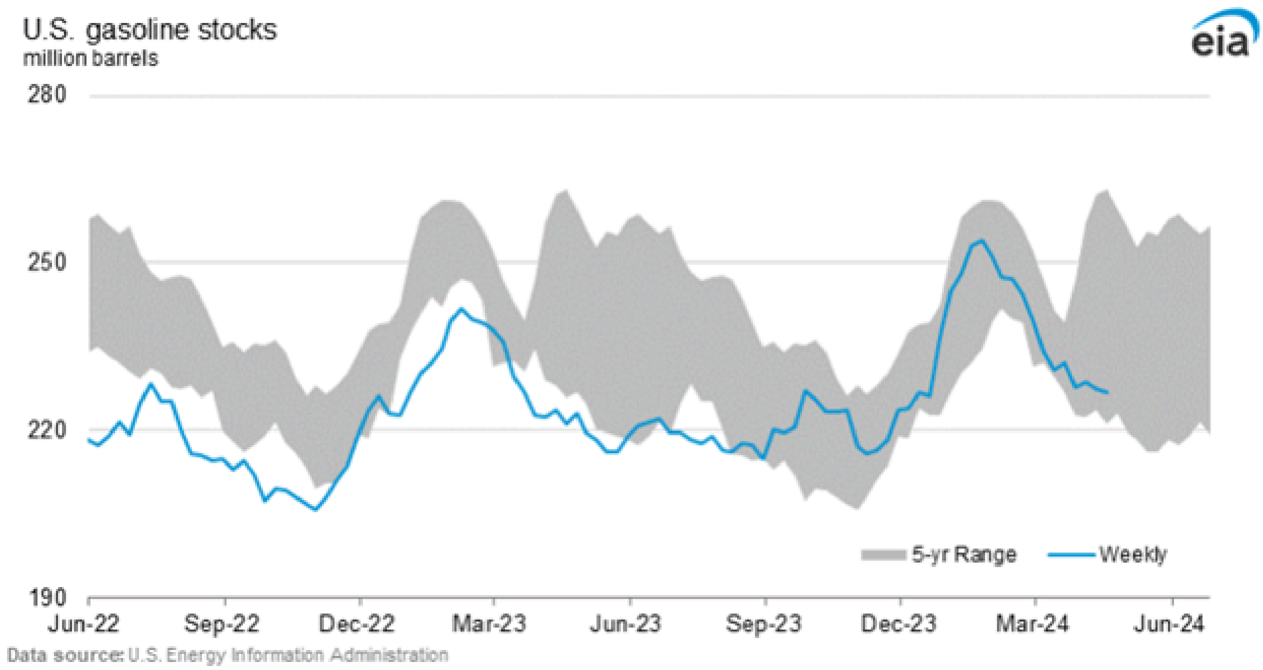
Appendix



	Stocks	Change from last	
	04/19/24	Week	Year
Crude oil	453.6	-6.4 ↓	-7.3 ↓
Gasoline	226.7	-0.6 ↓	5.6 ↑
Distillate	116.6	1.6 ↑	5.1 ↑
Propane	56.675	0.981 ↑	-2.214 ↓

Appendix


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
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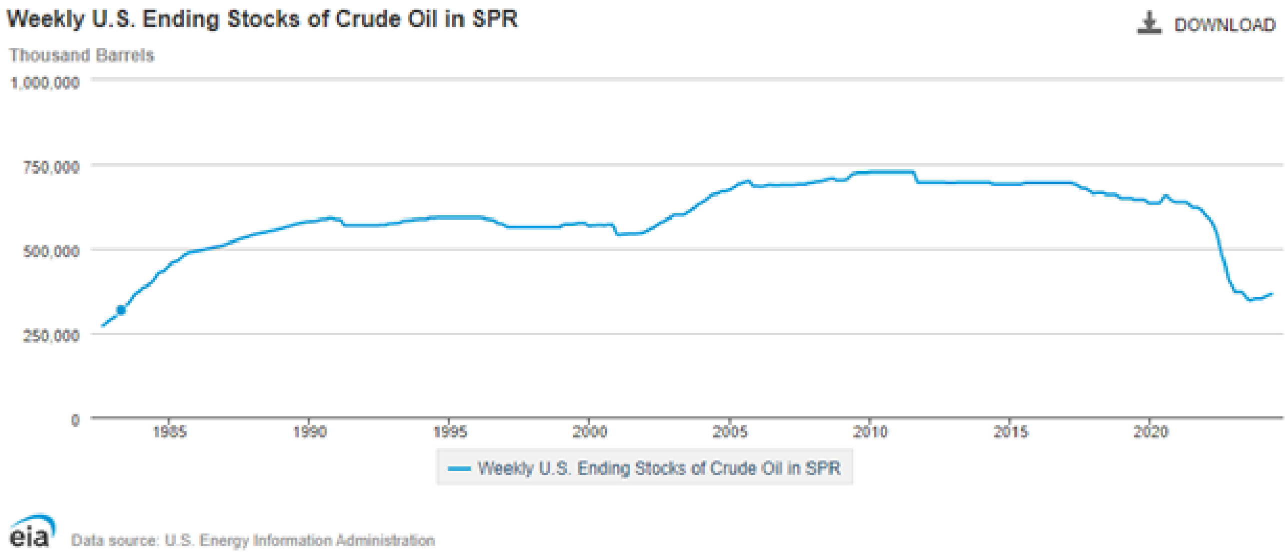

DXY chart›