Eagle News

Eagle Equity Holdings, LLC

Q4 – 2017

Energy Fund II

Looking Back

After hitting a June low of $42, WTI Crude prices rallied and closed above $60 by the last trading day of 2017, a 42% recovery from the low.

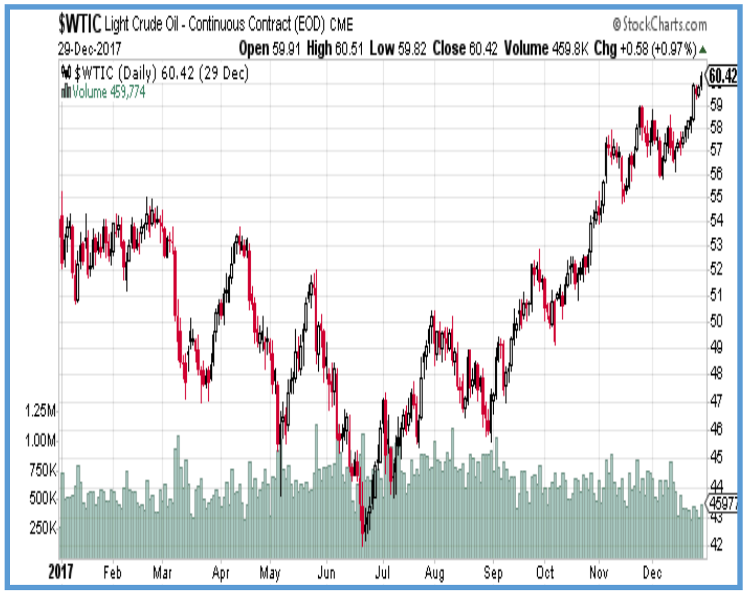
US oil production edged up to 9.7 mbpd in Dec compare to 8.7 mbpd in Jan, a 11% increase in 2017.

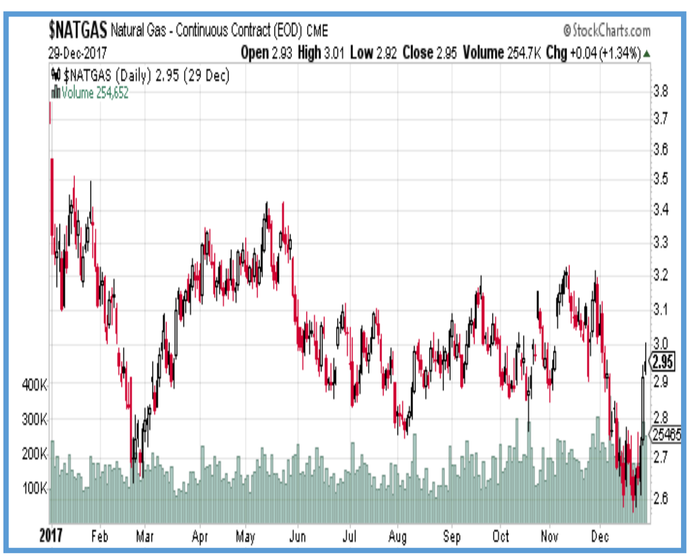
After reaching a record of 2 mbpd of crude oil export in Oct, the figures have scaled back to 1.4 mbpd by the end of Dec. However, comparing to 727 kbpd in Jan, it is still over 90% increase in 2017.

The weekly US rig count (oil and gas) reported by Baker Hughes peaked at 958 in late July and began to decline slowly, ending the year at 929 rigs. However, comparing to 664 rigs in Jan, it is a 40% increase.

OPEC extended the production cuts to end of 2018 in Nov continuous to show their commitment to support higher crude oil price. This, coupled with geopolitical uncertainties in Venezuela and Iran, has provided price support.

Natural gas ended the year at around $2.95 per mmbtu, which is 20% below last year $3.69 level. However, underground storage ended the year at 3.1 TCF, which is around 200 bcf less than last year level.





Eagle Focus

Looking Back:

- WTI prices rallied to end the year above $60 per barrel
- Natural gas is below $3 per mmbtu
- US oil rig counts peaked in July

Looking Forward:

- We believe oil prices have found the bottom
- A strong global demand, reduced production and inventory have provided support to oils recovery
- Lower natural gas end of season storage levels could add volatility to the price

Investment Opportunities:

- Market sentiment is beginning to turn bullish
- Equities and commodities are starting an uptrend
- US rig counts are beginning to drop
- Strong global economy will push oil demand above supply
- Many factors are supporting the oil markets moving forward
- Natural gas price continue to be volatile
- Lower end of season storage levels could lead to a spike in price towards the end of winter season

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Looking Forward

Oil prices ended 2017 above $60 per barrel with good positive momentum into 2018. The combination of OPEC extending the production cut, more and more US producers pleading capital discipline, and continuous strong global oil demand (with consumption estimate close to 100 mmbpd by end of 2018), and geopolitical uncertainty at Venezuela and Iran, all these factors should provide the right climate for the recovery to continue into 2018.

On the other hand, natural gas is harder to predict. Closing 2017 below $3 per mmbtu with storage level below 5 year average in the wake of winter. The battle between supply (including all the DUCs) and demand (seasonal weekly draws) will continue to fuel the volatility. A prolonged cold winter could push storage level to fall below 2 TCF.

Investment Opportunities

We see positive moment with oil and related equities. Both should continue to recover in 2018, could see some short term volatilities along the way, but overall, this could be the beginning of a longer term uptrend.

Aside from some seasonal or short term fluctuation, overall natural gas is going to trade within a narrow range in 2018. We see opportunities with individual low cost producers and also those that benefit on their associated wells.

We have focused our investment strategy to profit from recovering crude oil and related petroleum prices, and are positioned to benefit from the related impacts to underlying energy equities.

Dear Eagle—Q&A

Recap of 2017 and Outlook of 2018

After hitting a high of $105 in 2014 and a low of $26 in 2016, crude oil started 2017 around $53 and ended at $60. 2017 turned out to be a global supply battle between OPEC production cut and US shale oil production increase; OPEC and non-OPEC countries agreed to cut production by 1.8 mmbpd in Nov 2016 was countering by some degrees by the US increasing oil production from 8.7 mmbpd to 9.7 mmbpd.
For 2018, gray rhino events include upcoming Saudi Armaco IPO, Venezuela continuous deterioration, unrest in the middle east and large amount of US DUC.
Overall, with a strong global economy recovery and most gray rhinos are actually gray bulls, we believe oil price recovery should continue into 2018. Oil demand will outpace oil supply sometime in 2018 and the spread could accelerate towards the end of the year. Furthermore, the reduction in oil exploration capital for the last few years, could result in a long term supply deficit.