“Seek and ye shall find.”

At EPG we are seeking out the best energy stocks and we bring those companies to the attention of our members.

INSIDE THIS ISSUE

4 Sweet 16 Growth Portfolio
7 Small-Cap Growth Portfolio
9 High Yield Growth Portfolio

Dan Steffens is the President of Energy Prospectus Group (EPG), a networking organization based in Houston, Texas. He is a 1976 graduate of Tulsa University with an undergraduate degree in Accounting and a Masters in Taxation.

Mr. Steffens began his career in public accounting, becoming licensed as a CPA in 1978. After four years in public accounting, he transitioned to the oil & gas industry with the bulk of his time (18 years) spent with Amerada Hess Corporation (HES). He served as the Hess United States E&P Division Controller from 1994 to 2001.

Shown above is a map of Central Oklahoma, which is home to the SCOOP and STACK tight oil plays where several of our model portfolio companies are reporting outstanding well results. The Woodford Shale is the source rock for most of the oil & gas found in this region. SCOOP and STACK are in the Anadarko Basin. To the east is the Arkoma Basin, which is primarily a gas producing area. Under the Sweet 16 heading below, are highlights from the first quarter in this area.

We have been saved by horizontal drilling technology. At the turn of the century, oil production in the United States was on steady decline. As demand for hydrocarbon based fuels continued to increase, the U.S. was becoming more and more dependent on imports. Approximately ten years ago horizontal drilling technology combined with multi-stage hydraulic fracturing techniques made oil production from source rocks like shale and other tight formations possible and extremely profitable.
In October, 2005 crude oil production in the U.S. dipped below 4.0 million barrels per day. During that same month, U.S. based refineries were processing over 13.5 million barrels of crude oil per day. Imports filled the gap.

In addition to being a significant drain on the U.S. balance of trade, relying on imports for so much of our oil was a serious national security risk. Despite having several hundred million barrels stored in the Strategic Petroleum Reserve ("SPR"), if the U.S. was ever cut off from Middle East oil supplies there would have been catastrophic impacts on the U.S. economy and our standard of living. This is why we have a U.S. aircraft carrier task force based in the Persian Gulf.

The U.S. is still heavily dependent on oil imports and some of it still comes from countries that would not be listed as our best friends. However, if we were cut off from oil coming through the Persian Gulf today we would survive. U.S. oil production is now 9.3 million barrels per day (down from the peak of 9.6 MMBbls per day in June, 2015) and it is rising. The nation’s oil production is forecast to reach approximately 9.7 MMBbls per day by year-end. We have more oil in the SPR and we have a more diversified group of countries sending us oil. About 65% of our oil imports today come from countries outside of the OPEC cartel, primarily Canada, Mexico and Colombia.

Also, if gasoline and diesel supplies were to become in short supply, I think we could move quickly to vehicles powered by natural gas or electricity. We are a nation that can adapt quickly if we need to.

The price of oil is half of what it was in 2014, but the industry has adapted. As investors in the oil & gas industry it has been a rough ride. However, the good news is that upstream companies have adjusted to a lower price environment. Completed well costs have come down at the same time that well results have improved. In the Tier One areas of the Eagle Ford, DJ Basin, Permian Basin and Central Oklahoma rates of return on new horizontal wells exceed 50% with some companies reporting ROR’s up to 100%. This is why 563 of the 853 onshore rigs drilling working in the U.S. today are operating in Oklahoma and Texas. Probable (P2)
reserves in these two states now exceed the estimated recoverable reserves in Saudi Arabia.

Oil, Gas, & NGL Prices

Crude oil and gold are the two most actively traded commodities in the world. Crude oil prices are actually set by speculators that trade oil on the NYMEX futures market. The oil price you see quoted in the business news each day is the front month contract for West Texas Intermediate ("WTI") or Brent if you live in Europe.

Traders are eagerly waiting on news from the May 25th OPEC meeting. That is the day on which the cartel will decide to extend their production sharing agreement beyond June 30th. In my opinion, the cartel doesn’t have much choice. If they do not extend the agreement, the price of oil will drop to around $40/bbl and their economies will suffer. Since Saudi Arabia decided to flood the market with oil in mid-2014, the Saudi Arabian International Reserves have declined by over $200US Billion. That has got to hurt and it definitely has their attention at royal family get-togethers.

Something that does not get much attention but should is the fact that Venezuela is a failed state. Unless the oil price goes over $200/Bbl (heaven forbid), Venezuela cannot continue to pay its bills.

"Venezuela’s descent into chaos continues to quicken with the country pulling out of the Organization of American States (OAS) this week citing alleged interference in its internal affairs. The move comes against a backdrop of proliferating anti-government protests, with at least 28 people killed since the beginning of the month. Street violence looks set to escalate with regime supporters vowing to commence pro-government demonstrations on May 1. Meanwhile, all economic indicators continue to point decidedly in one direction – down. The Venezuelan economy shrank by
19% and inflation approached 700% in 2016. Food shortages have become so pronounced that the average adult in Venezuela lost 19 pounds last year. Oil production continues its downward drift due to service provider cuts, power shortages, inability to obtain imports and irregular salary payments. The big question is whether current conditions could set the stage for the type of industrial action that cut exports by nearly 80% in the early 2000s.” – Helima Croft, Head of Commodity Strategy for RBC Capital Markets 4-27-2017.

I believe one reason that U.S. crude oil inventories have not declined more is because U.S. refiners are taking every drop of heavy crude oil from Venezuela while they still can. Remember, a lot of Gulf Coast refiners are designed to process heavy crudes.

Natural gas and NGL prices are much higher than they were a year ago. In fact, natural gas is up more than 50% and most natural gas liquids have doubled in price since dipping under $10/bbl in the first quarter of 2016. Unlike oil prices, which are determined on a global market, natural gas and NGLs trade on regional markets. The U.S. natural gas market is much tighter than it was a year ago and demand will exceed supply by the 4th quarter.

As investors in upstream oil & gas companies, it is extremely important to know the production mix of the companies you own. This is why I break it out at the bottom of each forecast model housed on our website.

Sweet 16 Growth Portfolio

The Sweet 16 is our “Flagship Portfolio”. It is made up of upstream companies that have strong production and proven reserve growth locked in and the financial strength to fund aggressive growth.

When I sat down to write this newsletter, eleven of the companies had reported first quarter results. All of them met or exceeded my forecasts and they are all on-track to reach their production guidance. In fact, several of them have raised their production guidance.

Common themes:

• There has been a significant decline in completed well costs

Callon Petroleum (CPE) reported first quarter results that were double my forecast. Results in the WildHorse area in Howard County (Midland Basin) were the highlight of the report. Callon has raised their type curve to 1.3 MMBOE (85% oil) for over the last two years. Some of the drilling & completion costs will go up with increased activity and because there is no way the oilfield services companies can survive if they do not increase rates. However, over half of the savings are because of advancements made in drilling techniques and completion designs. My guess is that completed well cost will go up 15% to 25% later this year.

• Horizontal well results in the tight oil plays keep getting better. Estimated Ultimate Recoveries (“EUR”) are now way over a million BOE in the Tier One leasehold and decline rates are not as steep as they used to be. Horizontal well production still declines 30% to 40% in the first year, so as we become more dependent on the tight oil plays for our oil & gas supply, the more wells we will need to drill each year just to hold production flat. The long-term outlook for the top quality drilling companies sure looks good to me.

• Frac sand demand is going way up. The number of horizontal wells being completed in 2017 will double year-over-year and the amount of sand used to complete each well will be 50% to 100% more YOY. Frac sand shortages are likely to slow completion activity in some regions. “Our work shows that the industry will need to add 40 metric tons per day of low-cost regional sand in West Texas to meaningfully hurt the low-cost Northern White producers.” – Credit Suisse May 3, 2017 update on Hi-Crush Partners LP (HCLP). For more on the topic of frac sand supply & demand you should read the transcript of the U.S. Silica Holdings (SLCA) first quarter results conference call.
5,000’ laterals in the Wolfcamp A zone. Pre-drill estimates were 0.7 to 1.0 MMBOE EURs per well. I am expecting Callon’s production to increase by 2,000 to 2,500 BOE per day in Q2 and Q3, and then accelerate into year-end.

**Concho Resources (CXO)** is one of the large-caps in the Sweet 16. Concho’s first quarter production of 181,400 Boepd topped my forecast of 174,500 Boepd. In several areas, the company is moving to “manufacturing mode” where they will develop their leasehold with multi-well pads. This will significantly reduce well costs and lease operating expenses.

Due to its size and hedging program, Concho has lower risk than the average for the Sweet 16, but its annual production growth will slow down in the future. YOY production growth is expected to be near 25% in 2017, which is still quite impressive. However, I’ve lowered my valuation a bit because I think the more “Aggressive Growth” companies deserve to trade at a higher multiple.

**Continental Resources (CLR)** is one of the Big Four in the Oklahoma SCOOP/STACK play. First quarter operating cash flow per share of $470.2 million beat my forecast of $435.0 million. First quarter production also beat my forecast and I have raised my full-year production estimate. The company is reporting outstanding well results in SCOOP (where they hold approximately 75% of the Tier One leasehold) and in STACK. In the over-pressured part of STACK the EURs are now over 2.0 MMBoe per well and CLR as several thousand horizontal well locations in the over-pressured STACK.

CLR trades at a much lower multiple of operating cash flow per share than the top Permian Basin companies despite having better well results and more running room. Four possible reason for this are (a) none of their oil is hedged, (b) Wall Street is in love with the Permian Basin, (c) investors do not give much value to the large position that the company has in the North Dakota Bakken play and (d) Harold Hamm holds a controlling interest in the company, so a takeover is unlikely without his consent. If WTI pushes over $55/Bbl, this company’s breakup / takeover value is much higher than my $79/share valuation.

**Devon Energy (DVN)** is more of a “value” stock than a “growth” stock. The company sold over $3 Billion of assets in 2016 and spun off some midstream assets into an MLP (EnLink Midstream Partners LP (ENLK)). Devon is “in transition” and is now focused primarily on STACK. They are partners with CLR on several areas in Oklahoma including some of the best leasehold in STACK. Devon’s annual production growth rate is about 8% and it has a lot of exposure to natural gas prices. Devon’s production mix in 2017 should be approximately 23% U.S. light oil, 23% Canadian heavy oil, 17% NGLs and 37% natural gas. Most of their growth going forward will be in STACK and the Delaware Basin, so U.S. light oil production will increase going forward. Cash flow from operations should exceed the company’s capital program this year, continuing to improve the balance sheet ratios.

**Diamondback Energy (FANG)** is definitely an “Aggressive Growth” company. In 2016, when most upstream companies were hanging on by their finger nails, Diamondback increased production by 30% and their proven reserves from 156.9 to 205.5 million BOE. First quarter production beat my forecast by 4,000 BOE per day and the company is easily on-track to increase production by 70% YOY. Their $2.55 Billion acquisition of Brigham Resources adds 189,000 acres and thousands of horizontal drilling locations in the Permian Basin.

“Diamondback’s strong first quarter performance reflects our continued dedication to best-in-class execution and low cost operations, a theme we...
believe will be prevalent in 2017 as our industry returns to growth. After successfully closing our acquisition of Brigham in the first quarter, we have an asset base and organization capable of delivering multi-year industry leading growth while maintaining a fortress balance sheet.” - Travis Stice, Chief Executive Officer of Diamondback.

Each time that I think FANG is getting a bit too “pricy” they beat my forecast, announce better well results or make another strategic acquisition and I am forced to raise my valuation. As an example of how fast FANG is growing, First Call’s operating cash flow per share forecast (based on conservative commodity prices) is $8.83 CFPS in 2017, ramping to $25.51 CFPS in 2020. Guess what Tesla’s share price would be if it had that forecast.

Newfield Exploration (NFX) is evolving into a pure play on STACK. First quarter results beat my forecast and they have raised their production guidance for 2017 by 5,000 BOE per day to 155,100 BOE per day. Approximately 6,000 BOE per day of Newfield’s production comes from offshore China. My hope is that they sell those assets this year as it will help clarify this under-valued growth company.

Newfield’s capital program is $1.1 Billion this year. They recently added $100 million to test prospective horizons on its existing acreage in the STACK play. This program has been named “SCORE” (Sycamore, Caney, Osage, Resource Expansion). Newfield is encouraged by initial early SCORE results and plans to share more information later this year as drilling results from a larger number of wells are known.

For those of you invested in frac sand companies, Newfield is now completing their super extended reach (“SXL”) STACK wells with an average of 10 million pounds of sand per well. Try to visualize how many trucks it takes to deliver that much sand to the wellsite. This is not the oil patch that I grew up in.

Parsley Energy (PE) is another one of our “Super Aggressive Growth” companies. The recent pullback in the share price, thanks to investors’ fear of what OPEC will do later this month, creates a great entry point if you do not own this one. Parsley is a pure play on the Permian Basin and it is on a path to over 80% production growth this year. My valuation is close to First Call’s price target ($44.24) on this one, but there is definitely more upside if they continue to exceed production guidance and/or oil prices increase.

Subsequent to the end of 1Q17, Parsley closed the previously announced acquisition of approximately 71,000 net acres in the core of the Midland Basin from Double Eagle Energy Permian, increasing Parsley’s total leasehold to approximately 230,000 net acres in the Permian Basin.

The Company has a strong balance sheet and more than enough liquidity & cash flow from operations to fund their growth plans. On April 28, Parsley amended its revolving credit agreement, thereby increasing its borrowing base by 60% to $1.4 billion, with a Company-elected commitment amount of $1.0 billion.

As of the end of 1Q17, pro-forma for the closing of the Double Eagle Acquisition and for the newly elected commitment amount, liquidity stands at $1.6 billion, consisting of $616 million of cash on hand and $997 million of undrawn borrowing capacity on the revolving credit facility.

PDC Energy (PDEC) is one of the most under-valued companies in the Sweet 16 and the only reason that I can see for the current share price is that they get most of their current production from the DJ Basin’s Wattenberg Field. Just like Diamondback Energy, PDEC ramped up production in 2016 when others were in “hunker down mode”. PDC’s production increased 44% YOY in 2016 and they are on-track to match that percentage of growth in 2017. They recently acquired a significant position in the Delaware Basin, which will be a big part of their future growth. I urge you all to go to the PDC website and go through their April 20th “2020 Vision” presentation. I am very impressed by what this management team has accomplished during a very rough period in the oil cycle.

Pioneer Natural Resources (PXD) is one of the large-caps in the Sweet 16. It is a combination of lower risk and steady growth. They are currently running 18 rigs in the
Permian Basin where they hold over 20,000 low-risk horizontal development drilling locations that should generate ROR over 50% at current commodity prices.

**Range Resources (RRC)** is one of the three “gassers” in the Sweet 16. There is not a lot of interest in natural gas during this time of the year, but that will change in the 3rd quarter because the U.S. gas market is going to get a lot tighter as summer heat increases demand from gas fired power plants and LNG exports increase. If you’ve been paying attention to my weekly podcasts you know that gas prices have firmed up lately and NGL prices have also increased.

Range’s production mix is approximately 66% natural gas, 30% NGLs and 4% crude oil. Since they have 60% of their oil hedged at $55.81 per barrel for 2017 the daily moves in the price of oil have almost no impact on this company’s cash flows. Range’s first quarter results crushed the First Call EPS forecast and I am expecting that trend to continue. We will be publishing an updated profile on RRC next week and I am going to feature it in an article that I’m writing for OilPrice.com.

Last but not least, **RSP Permian (RSPP)** is another “Super Aggressive Growth” pure play on the Permian Basin. First quarter earnings and cash flow from operations were in-line with my forecast. Production was a bit less, but expenses per boe of production were also lower. The company’s production should ramp up this summer and I am expecting YOY production growth to be over 90% in 2017, which is growth at the top of the Sweet 16. Cash on hand and cash flow from operations should be more than enough to fund RSP’s capital program. Their acquisition of Silver Hills Energy Partners I & II gives RSP a lot of running room.

I have updated my forecast models for all of the Sweet 16 companies discussed above. I know that most of you are not accountants and those Excel spreadsheets look like a bunch of numbers, but here is your homework. Go to one of the forecasts, which you can view on the EPG website or download to Excel and find the RED BOX. GAAP accounting rules for upstream oil & gas companies are confusing to most CPAs, but we can all grasp cash flow from operations. Repeat this phrase several times, “Cash pays the bills, not earnings”.

We will be sending out updated profiles on all of the Sweet 16 later this month. Also, check my comments on the EPG Forum each day. If you have any questions, the Forum is the best place to ask them.

Disclosure: I have long positions in CPE, DNR, DVN, EOG, GPOR, HCLP, LONE, MPLX, PE, RRC, and SN. I do not intend on buying or selling any securities mentioned in this newsletter within 72 hours of the publication date on page one. I am not receiving compensation from any of the companies mentioned in this newsletter. See the DISCLAIMER on the last page of this newsletter for more details.

---

**Sweet 16 Growth Portfolio**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Primary Product</th>
<th>Stock Symbol</th>
<th>Share Price</th>
<th>EPG Fair Value Estimate</th>
<th>Percent Undervalued</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANTERO RESOURCES</td>
<td>GAS</td>
<td>AR</td>
<td>$21.25</td>
<td>$54.00</td>
<td>154.12%</td>
</tr>
<tr>
<td>CALLON PETROLEUM</td>
<td>OIL</td>
<td>CPE</td>
<td>$12.08</td>
<td>$22.00</td>
<td>82.12%</td>
</tr>
<tr>
<td>CARRIZO OIL &amp; GAS</td>
<td>OIL</td>
<td>CRZO</td>
<td>$25.18</td>
<td>$54.00</td>
<td>114.46%</td>
</tr>
<tr>
<td>CIMAREX ENERGY</td>
<td>OIL</td>
<td>XEC</td>
<td>$120.30</td>
<td>$172.00</td>
<td>42.98%</td>
</tr>
<tr>
<td>CONCHO RESOURCES</td>
<td>OIL</td>
<td>CXO</td>
<td>$129.57</td>
<td>$194.00</td>
<td>49.73%</td>
</tr>
<tr>
<td>CONTINENTAL RESOURCES</td>
<td>OIL</td>
<td>CLR</td>
<td>$41.34</td>
<td>$79.00</td>
<td>91.10%</td>
</tr>
<tr>
<td>DEVON ENERGY</td>
<td>OIL</td>
<td>DVN</td>
<td>$38.02</td>
<td>$64.00</td>
<td>68.33%</td>
</tr>
<tr>
<td>EOG RESOURCES</td>
<td>OIL</td>
<td>EOG</td>
<td>$90.86</td>
<td>$117.00</td>
<td>28.74%</td>
</tr>
<tr>
<td>DIAMONDBACK ENERGY</td>
<td>OIL</td>
<td>FANG</td>
<td>$99.65</td>
<td>$137.00</td>
<td>37.48%</td>
</tr>
<tr>
<td>GULFPORT ENERGY CORP</td>
<td>GAS</td>
<td>GPOR</td>
<td>$15.69</td>
<td>$40.00</td>
<td>154.94%</td>
</tr>
<tr>
<td>NEWFIELD EXPLORATION</td>
<td>OIL</td>
<td>NFX</td>
<td>$34.59</td>
<td>$72.00</td>
<td>108.15%</td>
</tr>
<tr>
<td>PARSLEY ENERGY</td>
<td>OIL</td>
<td>PE</td>
<td>$31.29</td>
<td>$47.00</td>
<td>50.21%</td>
</tr>
<tr>
<td>PDC ENERGY</td>
<td>OIL</td>
<td>PDCE</td>
<td>$52.71</td>
<td>$114.00</td>
<td>116.28%</td>
</tr>
<tr>
<td>PIONEER NATURAL RESOURCES</td>
<td>OIL</td>
<td>PXD</td>
<td>$169.61</td>
<td>$230.00</td>
<td>35.61%</td>
</tr>
<tr>
<td>RANGE RESOURCES</td>
<td>GAS</td>
<td>RRC</td>
<td>$26.22</td>
<td>$53.50</td>
<td>104.04%</td>
</tr>
<tr>
<td>RSP PERMIAN</td>
<td>OIL</td>
<td>RSPP</td>
<td>$39.73</td>
<td>$60.00</td>
<td>51.02%</td>
</tr>
</tbody>
</table>

---

**Small-Cap Portfolio**

Small-caps have more risk than the larger companies in our Sweet 16, but they also have more potential. As Wall Street gains more confidence in oil & gas prices, these are the companies that will draw the next wave of attention.

The best way to play this sub-sector is to buy a basket of high quality small-caps. In the rebound phase of the last oil price cycle (2008 to 2010) several of our small-caps increased in price by more than 500%. I’ve done my best to find companies that are well positioned for production
Increasing production combined with increasing oil & gas prices is the recipe for exceptional gains.

**Earthstone Energy (ESTE)** is expected to close the merger with Bold Energy III LLC by May 12th. The merger will give this small-cap over 1,000 low-risk high-rate horizontal drilling locations in the Midland Basin.

**Jones Energy (JONE)** announced average daily net production for the first quarter of 2017 of 18,900 BOE per day (below my forecast of 53,500 BOE per day), completing 13 horizontal development wells with an average completed lateral length of approximately 9,900 feet. Flowback on a majority of the first quarter completions occurred in a compressed period, as the nine wells comprising the JL McMaster-Bodine package began production at approximately the same time. Production from these wells was concentrated in the last month of the first quarter and is expected to have a positive impact on second-quarter production.

**Laredo Petroleum (LPI)** produced 52,405 BOE per day (below my forecast of 53,500 BOE per day), completing 13 horizontal development wells with an average completed lateral length of approximately 9,900 feet. Flowback on a majority of the first quarter completions occurred in a compressed period, as the nine wells comprising the JL McMaster-Bodine package began production at approximately the same time. Production from these wells was concentrated in the last month of the first quarter and is expected to have a positive impact on second-quarter production.

**Matador Resources (MTDR)** first quarter results beat my forecast. The company’s adjusted net income increased 142% sequentially from my forecast. Their production guidance for the second quarter is above my forecast. Jones is a company “in transition,” so it will take a few quarters to figure out what they really have going in the Merge area (between SCOOP and STACK). So far, they are on-track to end the year with production of approximately 27,000 Boepd.

**SM Energy** (SM) is an extremely disciplined company that stays focused on full cycle returns. Their “production corridors” are super-efficient resulting in the lowest lease operating expenses in the Midland Basin ($3.60/BOE).

**Small-Cap Growth Portfolio**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Primary Product</th>
<th>Stock Symbol</th>
<th>Share Price</th>
<th>EPG Fair Value Estimate</th>
<th>Percent Undervalued</th>
</tr>
</thead>
<tbody>
<tr>
<td>EARTHSTONE ENERGY</td>
<td>OIL</td>
<td>ESTE</td>
<td>$13.52</td>
<td>$18.00</td>
<td>33.14%</td>
</tr>
<tr>
<td>EVOLUTION PETROLEUM</td>
<td>OIL</td>
<td>EPM</td>
<td>$7.25</td>
<td>$12.50</td>
<td>72.41%</td>
</tr>
<tr>
<td>JONES ENERGY</td>
<td>OIL</td>
<td>JONE</td>
<td>$2.00</td>
<td>$8.50</td>
<td>325.00%</td>
</tr>
<tr>
<td>LAREDO PETROLEUM</td>
<td>OIL</td>
<td>LPI</td>
<td>$12.02</td>
<td>$19.50</td>
<td>62.23%</td>
</tr>
<tr>
<td>LONESTAR RESOURCES</td>
<td>OIL</td>
<td>LONE</td>
<td>$4.00</td>
<td>$12.00</td>
<td>200.00%</td>
</tr>
<tr>
<td>MATADOR RESOURCES</td>
<td>OIL</td>
<td>MTDR</td>
<td>$23.41</td>
<td>$33.00</td>
<td>40.97%</td>
</tr>
<tr>
<td>MITCHAM INDUSTRIES</td>
<td>SERVICES</td>
<td>MIND</td>
<td>$4.78</td>
<td>$9.50</td>
<td>98.74%</td>
</tr>
<tr>
<td>RING ENERGY</td>
<td>OIL</td>
<td>REI</td>
<td>$12.21</td>
<td>$16.50</td>
<td>35.14%</td>
</tr>
<tr>
<td>SANchez ENERGY</td>
<td>OIL</td>
<td>SN</td>
<td>$7.93</td>
<td>$25.00</td>
<td>215.26%</td>
</tr>
<tr>
<td>SM ENERGY</td>
<td>OIL</td>
<td>SM</td>
<td>$21.17</td>
<td>$42.00</td>
<td>98.39%</td>
</tr>
<tr>
<td>SRC ENERGY</td>
<td>OIL</td>
<td>SRCI</td>
<td>$7.24</td>
<td>$11.00</td>
<td>51.93%</td>
</tr>
</tbody>
</table>

In the first quarter of 2017, Laredo Petroleum (LPI) produced 52,405 BOE per day (below my forecast of 53,500 BOE per day), completing 13 horizontal development wells with an average completed lateral length of approximately 9,900 feet. Flowback on a majority of the first quarter completions occurred in a compressed period, as the nine wells comprising the JL McMaster-Bodine package began production at approximately the same time. Production from these wells was concentrated in the last month of the first quarter and is expected to have a positive impact on second-quarter production.

Laredo completes wells in bunches to lower well costs, but it does cause their production to be somewhat “lumpy.” I still expect their production growth to be approximately 16% YOY in 2017. Laredo is an extremely disciplined company that stays focused on full cycle returns. Their “production corridors” are super-efficient resulting in the lowest lease operating expenses in the Midland Basin ($3.60/BOE).

Matador Resources (MTDR) first quarter results beat my forecast. The company’s adjusted net income increased 142% sequentially from...
Matador began this year operating four drilling rigs in the Delaware Basin and continued to do so throughout the first quarter. In late April 2017, Matador added a fifth drilling rig in the Delaware Basin and expects to operate five rigs in the Delaware Basin throughout the remainder of 2017. The company’s drilling program is focusing on the exploration, delineation and development of its leasehold in Loving County, Texas and Lea and Eddy Counties, New Mexico. Matador is also going to drill and complete five new Eagle Ford wells this summer. The first three wells have already been drilled and they will be completed in the second quarter.

SM Energy’s first quarter results beat my forecast and their Midland Basin drilling program appears to be meeting or exceeding expectations. Net cash provided by operating activities was $135.0 million, which compares to my forecast of $88.5 million. Net income for the first quarter was $74.4 million, or $0.67 per diluted common share, compared with a net loss of $347.2 million, or ($5.10) per diluted common share, in the first quarter of 2016. Net income in the first quarter of 2017 reflects a near four-fold increase in the Company’s pre-hedge cash operating margin from the prior year period, which increased from $40.1 million to $169.9 million. The 2017 period also includes a significant reduction in DD&A expense per Boe from $15.96 to $11.39 and a non-cash derivative gain of $114.8 million.

I will be spending more time on SM Energy’s forecast model this week, but I’m sure that my valuation will exceed the current First Call target price of $36.65.

SRC Energy’s first quarter production and cash flow from operations exceeded my forecast. I need to spend more time reviewing my valuation model for SRCI, but it definitely appears to be on the right track.

Check the EPG Forum next week for my comments on all of the companies in our Small-Cap Growth Portfolio.

## High Yield Income Portfolio

The companies in this portfolio have the potential for capital appreciation, but my primary focus is on their ability to sustain their current dividend payout rates. Callon Petroleum (CPE) and Mitcham Industries (MIND) have strong balance sheets. The midstream MLPs are doing fine because they did not have much direct exposure to commodity prices and demand for their services holds up well as long as demand for refined products remains strong, which it has.

We recently published profiles on all of the MLPs in this portfolio. You can download them from the EPG.
website and you can also download the forecast models for each company.

**Antero Midstream Partners LP (AM) and Magellan Midstream Partners LP (MM)** have increased the quarterly cash distributions to unit holders since our last newsletter.

I have decided to remove **Sanchez Production Partner LP (SPP)** from the portfolio. It is a hybrid MLP and the accounting is rather confusing. At this point I do not see how the MLP is going to keep up with the rapid growth of **Sanchez Energy (SN)**.

First quarter results are pouring in during the first half of May. My first priority is always the Sweet 16, which is our Flagship Portfolio. Over the next two weeks I will take a hard look at each company in the Small-Cap Growth Portfolio and the High Yield Income Portfolio. My thoughts on each company will be posted to the EPG Forum.

**Final Thoughts**

Making money in the stock market is easy if you have an accurate view of the future and you invest in the companies that will do well if your outlook is accurate. I believe we live in a world that will continue to get most of its energy from oil & gas, so eventually those of us that are invested in upstream companies will be rewarded for doing our homework and investing in high quality growth companies.

The **International Energy Agency (IEA)** says that demand for hydrocarbon based liquid fuels and feedstock, most of which are refined from crude oil will go up 1.3 million barrels per day in 2017. Since demand has been going up by about that same rate for the last 50 years, with just a few dips along the way, my guess is that they are right.

The problem is that “eventually” can drag out for quite a long time and it seems that the markets have a very
short-term outlook. Plus, despite clear signs that the global oil market is tightening, the traders who control the price of oil are not confident in what OPEC will do. You may recall that shortly after OPEC announced their agreement to curb production on November 30, 2016 the naysayers quickly came out with opinion pieces that OPEC members “always” cheat on their agreements. The fact is that, thanks to Saudi Arabia’s leadership, the cartel has move quickly to full compliance. Yes, not every single country is in full compliance, but as a group they are.

The U.S. is a net importer of crude oil and it will be for the foreseeable future. Even we assume the most optimistic predictions of how fast U.S. tight oil production can ramp up, we are decades away from reaching the 17 million barrels per day that our refineries currently process. Keep in mind that every oilfield ever discovered has eventually rolled over, even the big shale plays. For example, the Barnett Shale gas play is now on steady decline and it would take hundreds of rigs drilling day and night to stop the decline.

If OPEC extends their agreement to curb production through December, we will see a sharp decline in U.S. and total OECD crude oil inventories. U.S. oil production is definitely increasing, but there is no chance the U.S. can meet global demand for oil on its own. Outside of the U.S., non-OPEC production is flat.

Our goal is not to tell you what to invest in, but to give you a lot of good choices. Not all of the stocks we discuss in this newsletter or on the website are going to go up, but the majority of them have since 2001 when I launched EPG. If you stay focused on owning companies that have strong fundamentals and growth locked in, I believe you will have an edge in the market.

Thank you for your support.

Keep an eye on the macro-environment, but look closely at the details before you invest in anything and good luck!

Dan Steffens, President
Energy Prospectus Group
EPG Disclaimer

The analysis and information in this newsletter and the reports & financial models on our website are for informational purposes only. No part of the material presented in this NEWSLETTER and/or reports on our websites is intended as an investment recommendation or investment advice. Neither the information nor any opinion expressed herein constitutes a solicitation to purchase or sell securities or any investment program. The opinions and forecasts expressed are those of the PUBLISHER (Energy Prospectus Group, a division of DMS Publishing, LLC) and may not actually come to pass. The opinions and viewpoints regarding the future of the markets should not be construed as recommendations of any specific security nor specific investment advice. Investors should always consult an investment professional before making any investment.

Investments in equities carry an inherent element of risk including the potential for significant loss of principal. Past performance is not an indication of future results. Any investment decisions must in all cases be made by the reader or by his or her investment adviser. Do NOT ever purchase any security without doing sufficient research. There is no guarantee that the investment objectives outlined will actually come to pass. All opinions expressed herein are subject to change without notice. Neither the PUBLISHER, editor, employees, nor any of their affiliates shall have any liability for any loss sustained by anyone who has relied on the information provided.

The analysis provided is based on both technical and fundamental research and is provided “as is” without warranty of any kind, either expressed or implied. Although the information contained is derived from sources which are believed to be reliable, they cannot be guaranteed.

The information contained in the NEWSLETTERS is provided by Energy Prospectus Group, a division of DMS Publishing, LLC. Employees and affiliates of Energy Prospectus Group may at times have positions in the securities referred to and may make purchases or sales of these securities while publications are in circulation. PUBLISHER will indicate whether he has a position in stocks or other securities mentioned in any publication. The disclosures will be accurate as of the time of publication and may change thereafter without notice.

Index returns are price only and do not include the reinvestment of dividends. The S&P 500 is a stock market index containing the stocks of 500 large-cap corporations, most of which are US companies. The index is the most notable of the many indices owned and maintained by Standard & Poor’s, a division of McGraw-Hill.