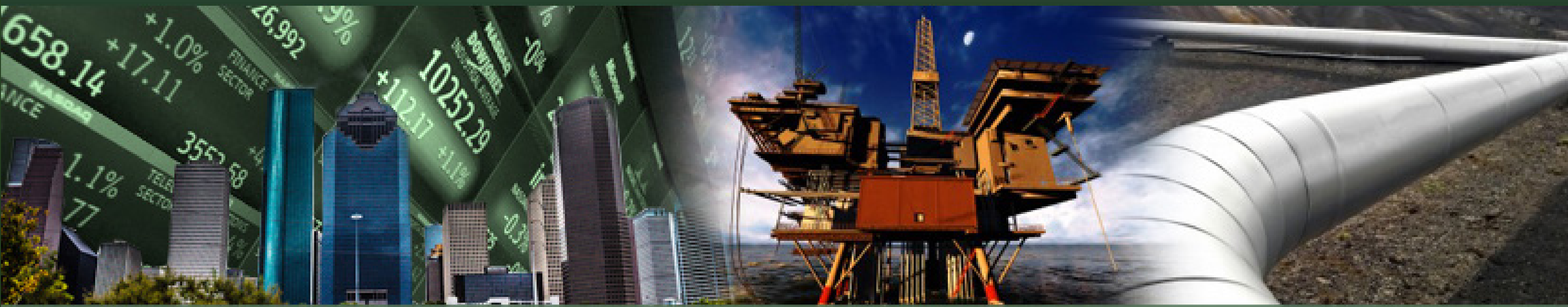
Energy Prospectus Group
A Division of DMS Publishing, LLC

The View from HOUSTON



Energy Prospectus Newsletter: "The View from Houston" November 28, 2022 Issue: 199

By: Dan Steffens, President

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.

INSIDE THIS ISSUE

"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.


Freeport LNG Export Facility

I am bullish on global oil prices and I am Super Bullish on U.S. natural gas prices.

We are in the early innings of a global energy crisis, but there is so much FEAR of Recession that has been created by the media that there is masking of how tight the oil market really is. Oil prices may be capped for a bit longer by all of this NOISE, but supply/demand fundamentals point to much higher prices for all petroleum-based products early in 2023.

Natural gas prices are set by regional fundamentals and America is heading into a "La Nina Winter" with natural gas in storage below the 5-year average. We are one "Polar Vortex" away from double-digit natural gas prices.

Freeport LNG said it aims to restart some production next month, six months after a June explosion forced the Houston company to close its liquefied natural gas facility on Quintana Island (pictured above).

The company said in a statement that its three liquefaction units will be "ramped up safely, in a slow and deliberate manner." Production is expected to reach 2 billion cubic feet per day in January, with full operations of its export facility resuming in March. Freeport LNG had initially hoped to restart its facility in October. The temporary shutdown has cut U.S. LNG exports at a critical time, as Europe and other overseas regions seek to stock up for winter.

Most of the reconstruction work is complete, and remedial plans have been submitted to regulatory authorities for review, Freeport LNG announced last week. It aims to complete reconstruction by the end of November and to partially restart its facility "in mid-December."

"Our teams have worked diligently over the last several months alongside regulators to ensure the safe restart of our facility," said Freeport CEO Michael Smith. *"We are committed to moving forward with an uncompromising safety focus and enhanced operational processes that will enable us to chart a safe, sustainable path forward to serve our customers and the broader LNG market as a whole."*

Last week EIA announced an 80 Bcf draw from U.S. natural gas storage that pushed storage 39 billion cubic feet below the 5-year average for mid-November. A La Nina Winter is expected to cause a much colder than normal winter in the eastern half of the U.S.

EPG Coming Events

Our live webinars and luncheons in Houston give EPG members and their guests an opportunity to meet the top management of some of the most promising small and mid-cap energy companies that we track.

November 28: Hemisphere Energy (HMENF) will be hosting a Houston luncheon for us. Check the EPG website home page for details and to register

December 1: Kolibri Global Energy Inc. (KEI) will be hosting a live webinar for us. For details and to register, go to the EPG website home page.

We urge you to register and participate in our luncheon and webinar series. The higher the participation rate, the easier it will be for us to sell the concept to other public companies. During each event you will be able to ask questions directly to the CEO of each company.

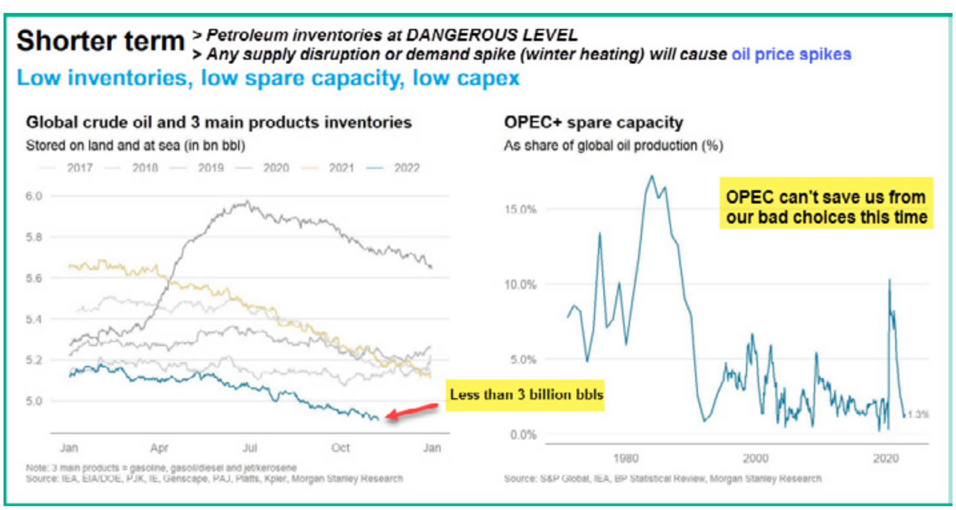
Oil Price

On thin trading volume the day after Thanksgiving, West Texas Intermediate (WTI) lost $1.80 to close at $76.28/bbl, ending the week more that 4% lower. The price of oil is back to where it was at the beginning of 2022.

Global crude oil and the major oil-based refined products inventories stored on land and at sea are at a 14-year low of less than 3 billion barrels, less than a month's supply. OPEC+ spare capacity is at a multi-decade low. What this means is that any supply disruption should cause oil prices to move a lot higher.

What's keeping a lid on WTI's price?

- The only fundamental reason is that we are at the end of a seasonal low demand period (September to mid-November). Demand for home heating oil has just begun and transportation fuel demand was high during the Thanksgiving holiday and will be even higher for Christmas and New Year.
- China continues to grapple with surging Covid cases, stoking fears that authorities will adopt wider movement restrictions that could hurt energy demand in the world's top crude importer.
- Lots of oil traders are on the side-lines trying to evaluate the impact of the G7's proposed price cap on Russian oil in the range of $65-70 per barrel which is higher than current prices for Russian oil, allaying fears that Russia would retaliate by cutting supply. Still, investors remain cautious ahead of the European Union ban on Russian crude on December 5, as well as an OPEC+ meeting on December 4.
- The U.S. is still drawing oil from the Strategic Petroleum Reserves and so are several other OECD countries. Draws from the SPR should end within a few weeks, but you never can tell what this administration will do next.



On November 23rd EIA reported that distillate fuel inventories (primarily diesel and home heating oil) are 13% below the five-year average. Commercial crude oil and gasoline inventories are 5% and 4% below the five-year average. In the U.S. the "Northeast Home Heating Oil Reserve" has been drawn down to less than one million barrels, about ten days of supply. Some areas of the country are rationing diesel.

"If you think the world's energy crisis is bad right now, next winter will be worse." – Fortune 11-22-2022

"In Europe, if it is a cold winter this year, it will be "complicated", but we are more concerned about next year," says Alvaro Santos Pereira, chief economist for the Organization of Economic Cooperations and Development (OECD). *"Especially in the gas markets. Replacing the Russian oil and gas is going to be a challenge."*

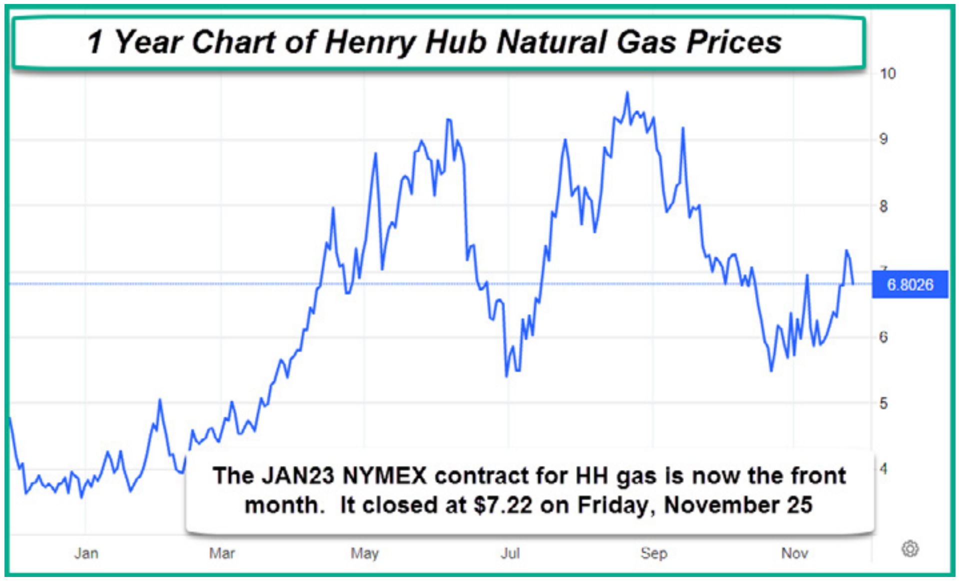
Natural Gas Price

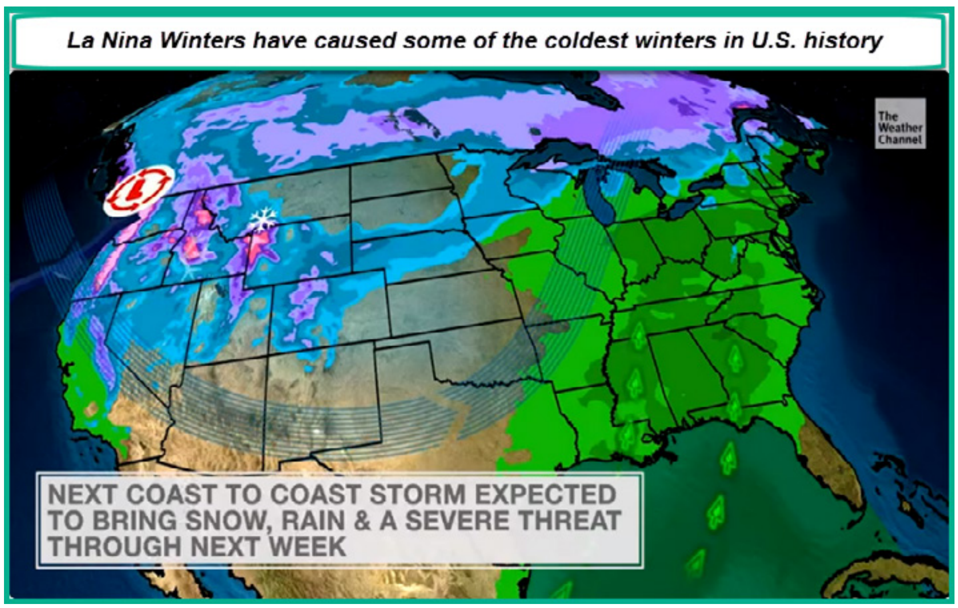
In December 2021 the U.S. price of natural gas averaged less than $3.50/MMBtu. This winter U.S. natural gas prices are going to be much higher and I believe the "**Structural Change**" in the North American gas market will set a much higher floor for natural gas and NGL prices for the rest of this decade.

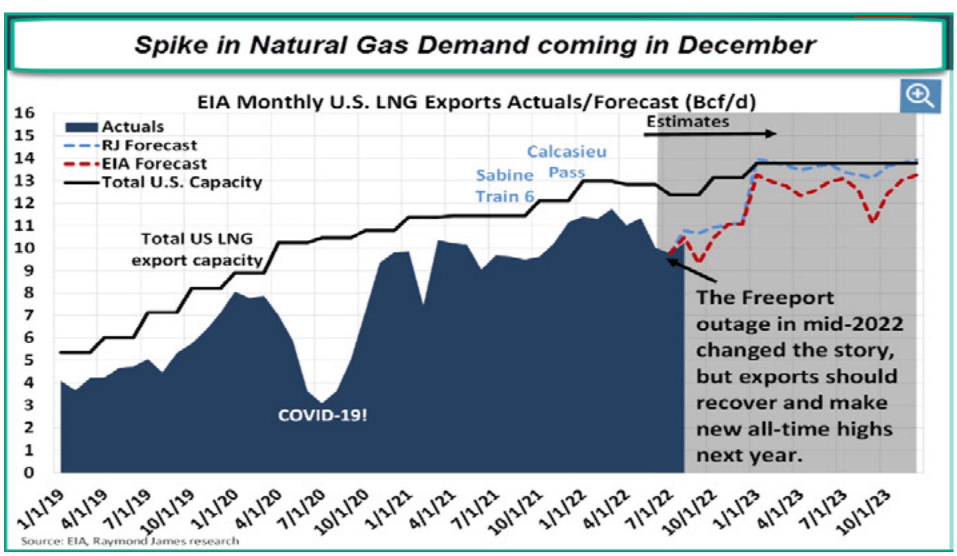
Natural Gas Prices are set by regional supply/demand fundamentals

After 14 years of gas supply exceeding demand in the U.S., the region's gas market is now under-supplied when you add in demand for U.S. liquified natural gas (LNG) which should remain at maximum capacity (14 Bcf per day) in 2023 thanks to the situation in Europe.

- EIA reported that natural gas in U.S. underground storage was 39 billion cubic feet (BCF) below the 5-year average as of November 18, 2022. Only an extremely mild winter will push U.S. natural gas







Updated 10/15/2022	Oil & Gas Prices used in Forecast Models					
	2022					2023
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Actuals	Actual	Forecast	Forecast	Forecast
WTI Oil	$ 94.85	$ 108.41	$ 91.97	$ 95.00	$ 97.56	$100.00
HH Gas	$ 4.48	$ 7.17	$ 7.80	$ 7.50	$ 6.74	$ 6.50

prices lower.

- The weather forecast sets up the potential for several triple digit draws from U.S. storage in December.
- Freeport LNG update 11-22-2022: The company said that its three liquefaction units will be "ramped up safely, in a slow and deliberate manner." Production is expected to reach 2 billion cubic feet per day in January, with full operations of its export facility resuming in March.

Conclusion

We are in the early stages of a multi-year global energy shortage.

- Demand for diesel and space heating fuels already exceeds supply in several countries, including the U.S.
- OPEC+ has very little spare production capacity. OPEC's next meeting is on December 4th to confirm production quotas. They are not expected to raise their production output.
- There is still lots of confusion about how the Covid related lockdowns in China and G7 price caps (if any) will impact the global oil market.
- My Q4 2022 forecasts are based on higher oil and gas prices than we have today. Lowering the WTI price to $80/bbl and natural gas price to $6.50/Mmbtu for Q4 will only lower my stock valuations by 3% to 5%. Many of the companies have a significant amount of their production hedged.

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 for many years and the financial strength to fund their business plans. They all have strong balance sheets, lots of running room and current free cash flow. Eleven of them pay dividends and/or have stock buybacks underway.

All 16 companies reported solid results for Q3 2022. **Laredo Petroleum (LPI) and SM Energy (SM)** were the only two that reported Q3 production slightly below my forecast, but their financial results were strong.

We have updated the profiles on all 16 companies. You can view the profile and my updated forecast/valuation model for each company from the EPG website. All of the forecast models are Excel spreadsheets that are "macro driven", so you can download them to Excel on your computer and change the oil, gas and NGL price assumptions for future periods to see how they impact revenues, net income, cash flow and the stock

New Profiles

The following reports were posted to the website since our last newsletter:

- Updated Net Income and Cash Flow Forecasts for several of the Sweet 16 companies and those in our other model portfolios
- A table of our Fair Value estimates for each Sweet 16 company compared to First Call's 12-month price targets

Company Profiles:

- Antero Resources (AR), including Antero Midstream (AM)
- Callon Petroleum (CPE)
- Comstock Resources (CRK)
- Earthstone Energy (ESTE)
- EQT Corp. (EQT)
- EOG Resources (EOG)
- Laredo Petroleum (LPI)
- Magnolia Oil & Gas (MGY)
- Matador Resources (MTDR)
- Northern Oil & Gas (NOG)
- Ovintiv (OVV)
- PDC Energy (PDCE)
- Ranger Oil (ROCC)
- Range Resources (RRC)
- SilverBow Resources (SBOW)
- SM Energy (SM)

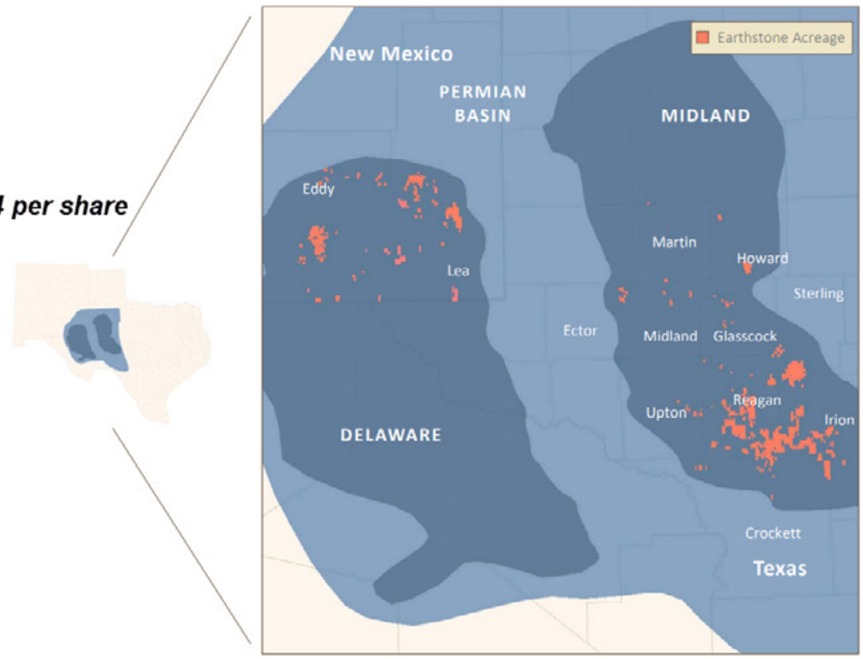
A Much Larger Earthstone: Corporate Snapshot

Select Operational Data

~256,000 Permian Net Acres	100,000 Boe/d 4Q22 Production Guidance Midpoint
354 MMBoe Est. Proved Reserves[1]	$4.8 Billion ← ***$34 per share*** PV-10 at Strip[1]
$17.04/Boe 3Q22 All-In Cash Costs[2]	890 Gross Operated Drilling Locations

Select Financial Data

	9/30/22
Stock Price (11/1/22)	$16.43
Market Cap	$2.3 B
Net Debt	$1.2 B
Enterprise Value	$3.5 B
Shares Outstanding[3]	140 MM
Undrawn Revolver	$558 MM



price valuation. Just log on and then click on the Sweet 16 tab.

For this newsletter I want to highlight the four companies that are trading at less than half of my current valuations.

Earthstone Energy (ESTE) is now my Top Pick in the Sweet 16, primarily because most of the Wall Street Gang has yet to grasp the significance of the three large acquisitions that the Company has closed this year.

Based on Earthstone's updated guidance, the Company is on-track to report approximately 210% year-over-year production growth in 2022 and head into 2023 with over 105,000 Boepd of production (43% crude oil, 31% natural gas and 26% NGLs). My current valuation is just 4.5 X annualized operating cash flow per share for 2022 + 2023, which is a low multiple for a company with this much running room (890 HZ development drilling locations).

Callon Petroleum (CPE) is the only Sweet 16 company whose share price is down year-to-date. Their Q3 results and updated guidance point to a much higher share price in a few months.

- CPE was the top performing stock (up 259%) in 2021 and there was some profit taking early in 2022 as investors wisely rebalanced their portfolios.
- Then Callon reported two quarters in a row of declining production, which lead to more selling. Most of the decline was weather related.
- Callon is one of the most profitable companies in the Sweet 16. Thanks to rising commodity prices, the Company's revenues (net of cash settlements on their hedges) have increased $735.7 million during the first nine months of 2022, compared to the same period in 2021.
- Free cash flow has reduced the Company's debt by $330 million YTD and the balance sheet is in good shape. Based on my forecast, Callon's free cash flow should continue to exceed $100 million per quarter through at least 2023.
- Callon reported Q3 2022 production of 107,316 Boepd, a 6.6% quarter-over-quarter increase and they increased their 2022 production guidance on November 2nd.
- They recently added a 6th operated drilling rig and they plan to bring on a 2nd full-time completion crew early in 2023. The result should be steady production growth in 2023.
- **Financial results are strong:** Despite some operational difficulties in 1H 2022, Callon is on-track to report over $18.00 earnings per share and over $25.00 operating cash flow per share this year. < There is nothing to justify this stock trading at less than 2X operating CFPS.
- I expect the Company's 12-31-2022 3rd party reserve report to show a PV10 Net Asset Value of just their proved reserves (P1) well above the current share price.

Conclusion: Callon's balance sheet is in good shape and they have lots of low-risk / high return "running room". The annual portfolio balancing that caused CPE to sell-off in early 2022 should cause it to get off to a great start in 2023.

Comstock Resources (CRK) is the top performing stock in the Sweet 16, up 133% YTD. It is the closest thing to a "Pure Gasser" in the portfolio and one of the leading operating companies in the Haynesville / Bossier Shale plays in Louisiana and East Texas.

- I believe there has been a "Structural Change" in the U.S. natural gas market that will set a much higher floor price on U.S. natural gas and eventually push

U.S gas prices toward 1/6th the price of WTI crude oil prices.

- Comstock's realized natural gas prices (net of cash settlements on their hedges) have increased significantly from an average of $2.79/mcf in 2021 to $5.36/mcf in Q3 2022.
- The Company's remaining "Bad Hedges" are Swaps that expire at the end of 2022. For 2023 they are hedging with Collars that have very high ceilings ($9.56 in Q1 and $10.17 in Q2).
- Callon has a lot of undedicated gas, so they may be able to take advantage of some price spikes in the spot markets this winter. The first significant winter storm to hit New England will send natural gas prices in the region over $10/MMBtu.
- Callon is on pace to generate over $7.50 of operating cash flow per share in 2022 and they should generate over $11.00 CFPS in 2023. < 4X operating cash flow per share is a conservative price target.
- They have over 1,600 high-return net development drilling locations within their current leasehold. The average Haynesville horizontal well pays out in less than six months at $5.00/mcf gas prices.
- Comstock has started paying dividends, which are expected to increase in 2023.

Conclusion: We are at the beginning of a "La Nina winter" that is likely to cause larger than average draws from U.S. storage locations. Freeport LNG is expected to come back online in December, adding even more demand for U.S. natural gas. Comstock is sure to report outstanding results for Q4 and Q1 that should draw a lot of Wall Street's attention.

SilverBow Resources (SBOW) is the smallest company in the Sweet 16, but it has strong production growth locked in by three acquisitions that closed this year. It is one of five "gassers" in the portfolio with ~80% of current production being natural gas and NGLs.

- SilverBow's production increased by 25.6% from Q2 to Q3 2022 and based on their guidance, production should increase another 7% in Q4 2022.
- SilverBow only has 22.3 million shares of common stock outstanding as of 9-30-2022, so their per share results are "eye-popping"; on pace for more than $10.00 earnings per share and $16.00 operating cash flow per share in 2022.
- Based on the Company's preliminary guidance for 2023, TipRanks currently shows estimates of $17.58 earnings per share and $28.11 operating cash flow per share next year. My estimates are within that range.
- The Company is a pure play on the South Texas Austin Chalk / Eagle Ford were they have lots of "running room" and their aggressive drilling program is being funded entirely by operating cash flow per share.
- Thanks to adequate pipeline access, South Texas oil & gas sells at a premium to Permian Basin commodity prices. SilverBow has direct access to several Gulf Coast LNG export facilities.

Conclusion: If natural gas prices stay in the $6.00 to $8.00 range this winter, a lot of investors will be searching for undiscovered small-caps like SBOW.

For more details on all of the Sweet 16 companies, go to the EPG website and download our recently updated profiles and forecast models. **The safest bets are the "Elite Eight", AR, CRK, EQT, EOG, MTDR, OVV, PDC and RRC.**

Sweet 16 Growth Portfolio

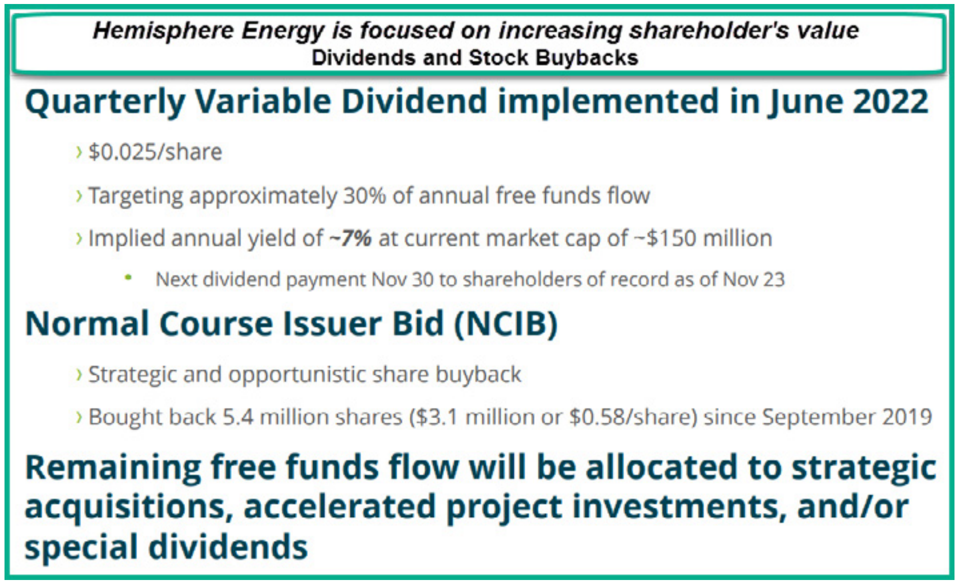
Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			11/25/22		
ANTERO RESOURCES	GAS	AR	$37.27	$74.00	98.55%
CALLON PETROLEUM	OIL	CPE	$42.39	$110.00	159.50%
COMSTOCK RESOURCES	GAS	CRK	$18.90	$44.00	132.80%
EARTHSTONE ENERGY	OIL	ESTE	$15.64	$38.00	142.97%
EQT CORP	GAS	EQT	$43.03	$67.00	55.71%
EOG RESOURCES	OIL	EOG	$142.64	$177.00	24.09%
LAREDO PETROLEUM	OIL	LPI	$63.54	$117.00	84.14%
MAGNOLIA OIL & GAS	OIL	MGY	$25.89	$34.50	33.26%
MATADOR RESOURCES	OIL	MTDR	$66.54	$93.00	39.77%
NORTHERN OIL & GAS	OIL	NOG	$36.05	$67.00	85.85%
OVINTIV INC (was ENCANA)	OIL	OVV	$55.14	$93.00	68.66%
PDC ENERGY	OIL	PDCE	$75.41	$124.00	64.43%
RANGER OIL	OIL	ROCC	$43.37	$86.00	98.29%
RANGE RESOURCES	GAS	RRC	$29.62	$51.00	72.18%
SILVERBOW RESOURCES	GAS	SBOW	$35.69	$92.00	157.78%
SM ENERGY	OIL	SM	$43.70	$72.00	64.76%

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Elite Eight, but they also have more potential. I believe there is a lot of upside for us in small-caps that are free cash flow positive and somewhat "undiscovered" by the Wall Street Gang. All ten companies have strong balance sheets and high-quality management teams. They are all generating free cash flow from operations TODAY and they have lots of low-risk / high-return drilling inventory ("running room"). I recommend investing in a "basket" of them to spread the risk.

All ten companies in the portfolio reported strong Q3 2022 results.

Crescent Point Energy Corp. (CPG) is a recent addition to our Small-Cap Growth Portfolio and a strong candidate for promotion to the Sweet 16 in 2023. It reported Q3 2022 results that were in line with my forecast and their guidance is for production to increase by over 3,500 Boepd in Q4 to ~136,750 Boepd. With production now expected to be ~138,000 Boepd in 2023, the Company's operating cash flow should be close to $2.2 billion next year.



CPG is a "Growth + Dividend" company that should be attractive to portfolio managers. The Company's dividend that was paid on November 14th was $0.115/share, included a base dividend of $0.08 and a "Special Dividend" of $0.035. They are also aggressively buying back their common stock.

Hemisphere Energy (HMENF) hosted a Houston luncheon for us on November 28th. We will be publishing an updated profile on the Company next week. They've paid off all of their interest bearing debt and free cash flow plus steady production growth continues to build equity value for us. Hemisphere is on pace for 58% year-over-year production growth in 2022.

InPlay Oil (IPOOF) keeps reporting solid production growth quarter-after-quarter, putting them on a pace to beat last year's production record of 44.6% YOY growth. Based on the Company's updated guidance, InPlay should be producing over 10,000 Boepd by year-end. We will be publishing an updated profile on InPlay in early December and I will probably increase my valuation.

- InPlay should have zero net debt by mid-2023
- It has started paying dividends and those dividends should increase in 2023.
- InPlay's year-end 3rd party reserve report should show a PV10 Net Asset Value of just their proved reserves (P1) of more than $8.00Cdn per share.
- There is nothing in my valuation for the Duverney Shale Play, which IMO has SIGNIFICANT UPSIDE. (see slide 20 of their Oct slide presentation)

Permian Resources (PR) was created by the merger of Centennial

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			11/25/22		
CRESCENT POINT ENERGY	OIL	CPG	$7.84	$14.00	78.57%
HEMISPHERE ENERGY	OIL	HMENF	$1.05	$3.00	185.71%
INPLAY OIL	OIL	IPOOF	$2.38	$6.30	164.71%
PERMIAN RESOURCES	OIL	PR	$10.51	$14.00	33.21%
PHX MINERALS	OIL	PHX	$3.70	$6.30	70.27%
RILEY EXPLORATION PERMIAN	OIL	REPX	$33.19	$53.00	59.69%
RING ENERGY	OIL	REI	$2.80	$7.75	176.79%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$10.93	$16.00	46.39%
SURGE ENERGY	OIL	ZPTAF	$7.32	$11.50	57.10%
TALOS ENERGY	OIL	TALO	$20.35	$29.00	42.51%

Resource Development (CDEV) & Colgate Energy Partners III (a private company) that closed on September 1, 2022. The Company's 3rd quarter results matched up well with my forecast model and I expect this company to draw a lot of attention when it announces Q4 results, which will be the first full quarter of post-merger results. My valuation of \$14.00/share is just 4.5 x 2022+2023 annualized operating cash flow. If my 2023 forecast assumptions are confirmed by their guidance, a valuation of more than \$20.00/share should be more appropriate. The Company's Q4 production guidance is ~145,000 Boepd and Q4 operating cash flow should be close to \$550 million, \$0.97/share.

PHX Minerals (PHX) will release results for their fiscal 2022 year ended Sept. 30, 2022, on Tuesday, Dec. 13, 2022, following the close of trading on the New York Stock Exchange. I will post my comments to the EPG Forum.

Riley Exploration Permian (REPX) reported Q3 results that beat my forecast and they increased their quarterly dividend. The Company is on pace for full year net income of approximately \$125 million (\$6.19 per share) and \$175 million of operating cash flow (\$8.70 per share). It is still too early to know if the CO2 flood pilot project is working. There is nothing in my valuation of \$53.00 for the significant potential upside of the CO2 flood, which could double the Company's recoverable reserves.

Ring Energy (REI) reported Q3 results that beat my forecast. The Stronghold Energy Acquisition that closed on 8-31-2022 is a truly "transformational" deal for Ring Energy. Q4 will be the first full quarter of combined results. If actual results confirm my forecast model assumptions, REI should deserve a higher valuation.

Ring now has a lot of new "Running Room. Based on my 2023 forecast, Ring should generate close to \$368 million of operating cash flow next year, which compares to the Company's preliminary 2023 capex budget of \$150 to \$175 million. Ring Energy is in much better shape than it was a year ago.

Solaris Oilfield Infrastructure (SOI) is an oilfield services company that is the leader in frac sand management at the wellsite. Their equipment and services lower well completion costs and they continue to gain market share. They are on-track to generate \$0.75 EPS and \$2.50 operating cash flow per share in 2022. This year's dividends will total \$0.42/share and they should enough free cash flow to increase dividends in 2023.

Surge Energy (SGY.TO and ZPTAF) is a Canadian mid-cap that was added to the portfolio last month. The Company's production is on-track to 16.6% year-over-year growth in 2022, and recent well results are very promising. Q3 2022 production was 21,380 Boepd (85.5% oil and high value NGLs).

On November 2, 2022 Surge announced that it has entered into an agreement with Enerplus Corporation (ERF) pursuant to which Surge has agreed to acquire from Enerplus (the "Acquisition") long life, operated, high operating netback, waterflooded producing oil assets focused entirely within Surge's Sparky and SE Saskatchewan core areas (the "Assets").

Surge has agreed to purchase the Assets for gross proceeds of \$245 million with an effective date of May 1, 2022, payable to Enerplus by way of an estimated \$165 million of cash, \$45 million in estimated interim period adjustments, and \$35 million of equity in the form of common shares of SGY ("Common Shares") issued from treasury to Enerplus. The Acquisition is currently expected to close on or about December 19, 2022 (the "Closing"), with an estimated net purchase price after interim period adjustments of \$200 million (the "Net Purchase Price"). Surge is issuing equity (7,568,000 shares) to fund the Acquisition.

The Assets are currently producing more than 3,850 Boepd (99 percent liquids) of predominantly light and medium gravity crude oil, with synergistic operations entirely focused in Surge's existing Sparky and SE Saskatchewan core areas. With an operating netback of more than \$48 per boe in 2023 (at flat US\$80 WTI per bbl pricing), the Assets are forecast to deliver \$68 million of cash flow from operating activities and more than \$50 million of free cash flow ("FCF") after expenditures on property, plant, and equipment and abandonment expenditures required to maintain current production levels from the Assets.

After giving effect to the Enerplus Acquisition, Surge is now forecasting upwardly revised exit 2022 production of more than 25,000 Boepd, consisting of approximately 87 percent liquids, which is made up of predominantly light and medium gravity crude oil.

In conjunction with the Closing, Surge anticipates increasing the Company's annual cash dividend by 14 percent, from \$0.42 per share to \$0.48 per share (paid monthly). < ~5% annual yield based on SGY's November 25th closing price.

Talos Energy (TALO) is the only offshore company in our three model portfolios. Q3 2022 production came in below my forecast thanks to some extended platform maintenance issues, but production should ramp back up by year-end. The Company expects to close the EnVen Energy Acquisition in December. This is a SIGNIFICANT acquisition that should push Talos' production over 85,000 Boepd, up from Q2 production of 65,433 Boepd. It also will add a lot more running room and exploration upside. If the EnVen closing and transition go as planned AND Talos' guidance for 2023 matches my forecast model assumptions, my stock valuation is likely to go over \$40/share. Despite the annual hurricane risk in the Gulf of Mexico, Talos has significant exploration upside.

It should also be noted that my valuation has nothing in it for Talos' Carbon Capture & Sequestration

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			11/25/22				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$18.45	9.8%	$1.80	Qtr	$20.00
BRIGHAM MINERALS INC	OIL	MNRL	$35.29	8.3%	$2.92	Qtr	$37.00
KIMBELL ROYALTY PARTNERS	GAS	KRP	$17.10	11.5%	$1.96	Qtr	$24.00
SITIO ROYALTIES CORP	OIL	STR	$31.10	8.9%	$2.78	Qtr	$34.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$32.78	7.5%	$2.47	Qtr	$38.00
Upstream Companies							
COTERRA ENERGY	GAS	CTRA	$27.61	10.2%	$2.83	Qtr	$45.00
DEVON ENERGY	OIL	DVN	$68.35	8.3%	$5.64	Qtr	$94.00
DIAMONDBACK ENERGY	OIL	FANG	$149.32	7.1%	$10.56	Qtr	$205.00
PIONEER NATURAL RESOURCES	OIL	PXD	$254.14	10.0%	$25.44	Qtr	$325.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$11.06	8.1%	$0.90	Qtr	$12.00
ONEOK, INC.	Midstream	OKE	$65.42	5.7%	$3.74	Qtr	$67.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$12.94	8.3%	$1.07	Qtr	$19.00

(CCS) business, which could be a significant line of business for the Company.

Just remember that size does matter in this business. There is more risk with Small-Caps that rely heavily on commodity prices which they cannot control. For lower risk, stick to the Sweet 16. For even lower risk, stick with the large-caps in our "Elite Eight", a subset of the Sweet 16.

We will be publishing updated profiles on all of the companies in the Small-Cap Growth Portfolio in December.

High Yield Income Portfolio

My primary goal for this portfolio is to find companies that have strong balance sheets and sustainable dividends. In addition to attractive yields, these are "Growth Companies" that have share price upside potential for us.

I spent most of last week taking a hard look at each company in the portfolio. All twelve companies are generating strong financial results and several are on pace for company record results. The balance sheets are in good shape and they have plenty of "running room" that should increase their distributable cash flow (DCF).

The five Minerals Companies, sometimes referred to as "Royalty Companies", pay out a high percentage of their operating cash flow. The annualized dividends shown in the table are based on my forecasts for 2022.

Black Stone Minerals LP (BSM) is the only Master Limited Partnership (MLP) in the group. It owns mineral interests, nonparticipating royalty interests and overriding royalty interests in over 20 million gross acres in 41 states in the U.S. They increased their quarterly cash distribution to $0.45/unit in Q3 (up from $0.25 in Q3 2021) and I expect them to keep increasing dividends since a lot of their "Bad Hedges" expire at the end of this year.

BSM's mineral and royalty production for the third quarter of 2022 equalled 37.3 MBoe/d, an increase of 23% over the prior quarter; total production, including working interest volumes, was 40.0 MBoe/d for the quarter. There has been a significant increase in drilling activity on their acreage, setting up strong production growth in 2023.

Brigham Minerals (MNRL) will be merging into **Sitio Royalties (STR)**. The all-stock "Merger of Equals" bring together two of the largest public companies in the oil and gas mineral and royalty sector with complementary high-quality assets in the Permian Basin and other oil-focused regions, creating an industry leader with a proven track record of consolidating oil and gas mineral and royalty interests operated by a diverse set of high-quality upstream companies.

When the merger closes (expected to happen by January 31, 2023) Brigham shareholders will receive a fixed exchange ratio of 1.133 shares of common stock in the combined company for each share of Brigham common stock owned on the closing date, and Sitio's shareholders will receive one share of common stock in the combined company for each share of Sitio common stock owned on the closing date. Upon completion of the transaction, Sitio shareholders will own approximately 54% and Brigham shareholders will own approximately 46% of the combined entity on a fully diluted basis.

My updated forecast/valuation model for STR is based on proforma production of 37,000 Boepd for 2023 with a production mix of approximately 50% crude oil, 34% natural gas and 16% NGLs.

Kimbell Royalty Partners (KRP) is the smallest company in the group with a market-cap of $2.5 billion and current production of approximately 15,250 Boepd. It recently announced a significant acquisition in the Permian Basin that is expected to close in December and add ~2,500 Boepd. Over 70% of KRP's production should be natural gas and NGLs in 2023.

Viper Energy Partners (VNOM) was created by and is controlled by **Diamondback Energy (FANG)**. Viper's growth is tied directly to Diamondback's aggressive drilling program in the Permian Basin. The relationship is why I give VNOM an A+ safety rating.

All four of the upstream companies **(CTRA, DVN, FANG and PXD)** are large-cap upstream companies that I have followed closely for over a decade. They are all former Sweet 16 companies with "Fixed + Variable" dividend programs and they are all aggressively buying back common stock.

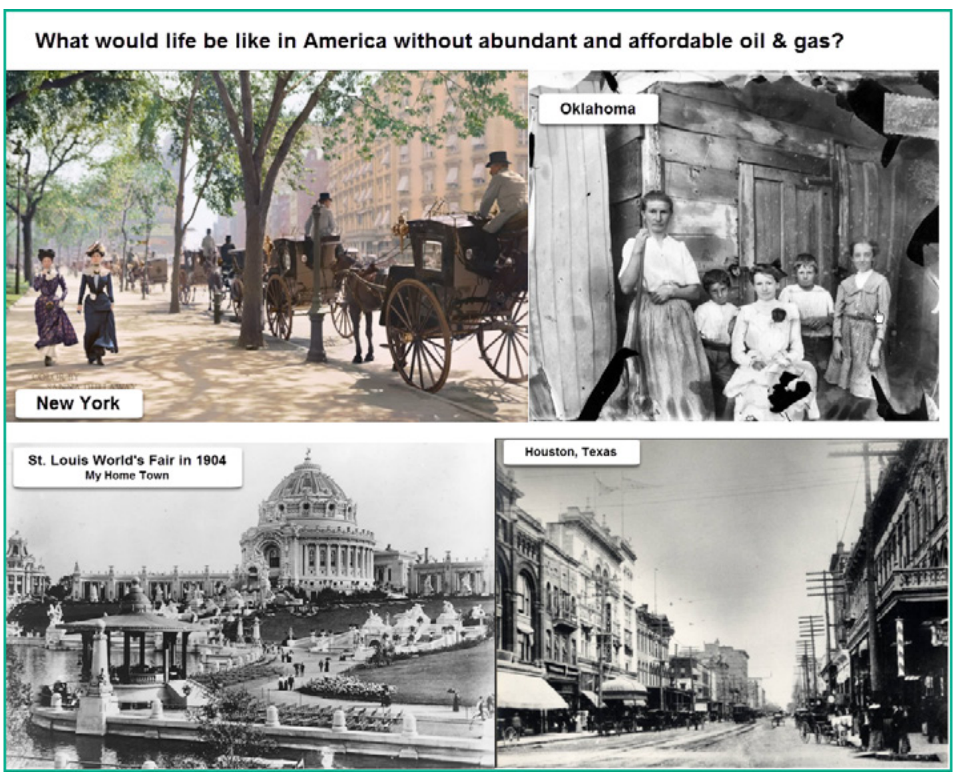
All three of the midstream companies **(AM, OKE and PAGP)** get the majority of their revenues from fixed fee contracts, so they don't have much direct exposure to commodity prices; they are "toll takers". My top pick in this sub-group is **Plains GP Holding, LP (PAGP)** which is a C-Corp. that pays a dividend that is equal to the quarterly cash distributions paid by **Plains All American Pipeline, LP (PAA)**. PAA is an MLP.

PAA recently announced that quarterly distributions for 2023 will be increased by $0.20 to $1.07 per unit. Beyond 2023, as part of its standard annual review process, management anticipates targeting annualized common distribution increases of approximately $0.15 per unit each year until reaching a targeted Common Unit Distribution Coverage Ratio of approximately 160%.

Based on my forecast, PAA's operating cash flow should increase by close to $1 billion in 2023 to $3.97 billion, $5.75 per share. If actual results match my forecast, PAGP could go to $25/share within a year.

Final Thoughts

Biden's "The War on Fossil Fuels" should be a concern to all Americans. The average family in this country enjoys the highest standard of living on Earth because of abundant and affordable fuels and products made from petroleum. Here are some pictures to remind us that in the early 1900's horses provided most transportation. The first Ford Model T was built in 1908. It is generally regarded as the first affordable automobile, which made car travel available to middle-class Americans. The relatively low price was partly the result of Ford's efficient fabrication, including assembly line production instead of individual handcrafting. It was mainly designed by an American and two Hungarian engineers.



If you could not afford a horse, you walked. Wealthy people, like those shown in the New York photo had it relatively better than most Americans, but even they did not live much passed 50. In 1900, the life expectancy for white men was 46.6 years. A black man's life expectancy was considerably less at 32.5 years. Petroleum-based medicines and widespread & affordable electricity (generated by coal and natural gas fired power plants) for heating & cooling our homes has almost double our life expectancy.

The "*Energy Transition*" to cleaner and sustainable primary sources like wind & solar sounds good until you realize that they are not affordable or reliable. Plus, they are likely to do more damage to the environment. The materials to build massive wind and solar projects will require a 10X to 20X more mining. Google "Open Pit Mines" to see what they do to the Earth's surface.

Very few families will be able to afford two electric cars and the power grid will crash on a regular basis if just 50% of the vehicles on the road are EVs. Modern economies cannot function without reliable energy.

This winter, thousands of Europeans will die from exposure thanks to irrational energy programs designed by "elites" that will not have to suffer through the cold. We better get more common sense in Washington or a lot of American families may be living like the picture of Oklahoma above.

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

PS: The home that I grew up in St. Louis was built in 1904.