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The View from HOUSTON

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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.

Winter Storm Elliott is a reminder that humans have no control over the Earth's weather system and that we need a steady supply of reliable energy from fossil fuels to survive extreme weather events.

Elliot was one of the coldest Christmas storms on record that left at least 56 people dead across the U.S. and wreaked havoc on Christmas travel plans. Authorities in New York reported 27 deaths in the Buffalo area alone, which has been the worst affected area. Several people were found dead in their cars after becoming stranded in whiteout conditions. NEVER take on Mother Nature even if you do have a four-wheel drive.

Storms like this are also a reminder that the Earth's weather system is not part of some perfectly balanced paradise that man is screwing up by pumping more CO2 into the atmosphere. The Climate Change Zealots will continue to blame weather events like this (hot or cold) on the fossil fuels industry. They do it because they are using FEAR to justify throwing more and more money at unreliable wind, solar and other green energy projects. It is obviously all about the money, because the science is clear that nothing can scale up to replace the energy we get from fossil fuels.

In my last newsletter I started off by stating that I am Super Bullish on U.S. natural gas prices. Despite the recent pullback in the price of Henry Hub natural gas, I am still bullish on our "gassers". We are still at the very beginning of this La Nina winter and warm-ups after a major depression moves up into Canada are common. "This too shall pass". In a week, the jet stream dip bringing lots of snow to the West will move east again and so will low temperatures.

Global demand for natural gas is growing 3X faster than demand for oil. Using more clean burning natural gas for power generation is the only near-term means of significantly reducing carbon emissions. Wind and solar should be part of our energy mix, but it is a lie to keep telling people that they can scale up to replace fossil fuels.

We still have a global energy crisis and there is no quick fix. A week or two of mild weather is not going to change the fact that our inventories of space heating fuels are too low. Nor will we be able to fix our aging power grid before the next winter storm arrives. This world's energy crisis is the result of years of under-investment in finding new supplies of oil & gas. The War on Fossil Fuels will have many more casualties.

Oil Price

The price of **West Texas Intermediate (WTI)** has increased about 2% since my last newsletter, closing at $78.44/bbl on December 29th. U.S. and OECD petroleum inventories remain well below normal levels for this time of year. U.S. commercial crude oil inventories are still below the 5-year range despite President Biden draining 180 million barrels from the Strategic Petroleum Reserve.

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.

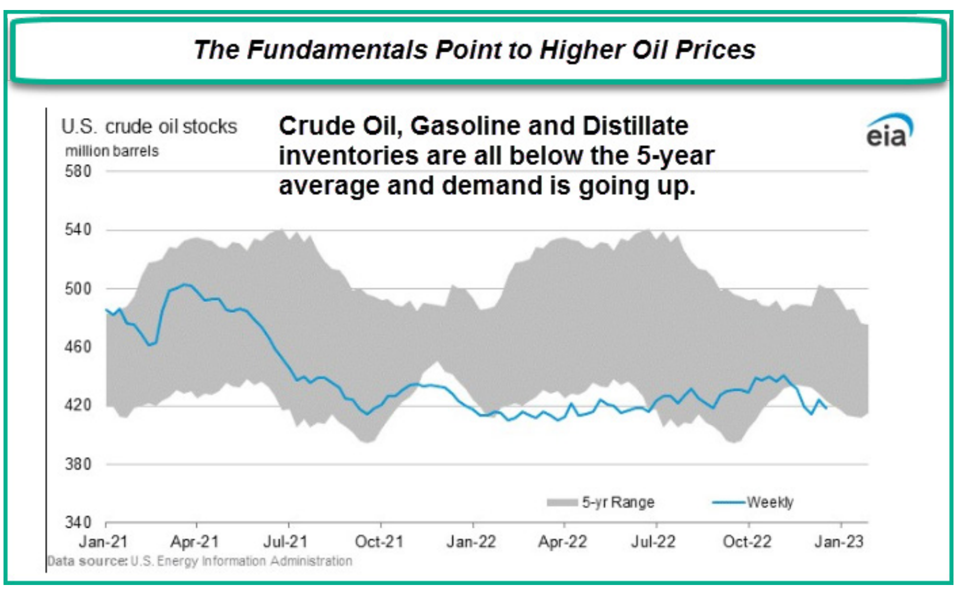
January 6: Dan Steffens' weekly Oil & Gas Update will be a live webinar at 10AM CT for all EPG members. After Dan's presentation he will take questions on the energy markets and any of our model portfolio companies. For details and to register, go to the EPG website home page.

We are planning to move our monthly Houston luncheon back to the site of the old Hess Club, 5430 Westheimer Road. It has been acquired and renamed The Ballroom at Tanglewood.

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.

What's keeping WTI from going to $100/bbl?

- FEAR of a RECESSION: The "Talking Heads" in the media keep telling us that a recession is just ahead. However, the facts do not support the level of FEAR.
  a. U.S. real gross domestic product (GDP) increased at an annual rate of 3.2 percent in the third quarter of 2022, in contrast to a decrease of 0.6 percent in the second quarter.
  b. The unemployment rate in the US was unchanged at 3.7 percent in November 2022, matching market expectations and remaining close to September's 29-month low of 3.5 percent.
- NOISE keeps coming out of China that they are lifting Covid restrictions one day and the next day we see reports that Covid cases are increasing rapidly. China is the world's top crude importer, so it is a realistic concern for oil traders. In my opinion, the leadership team in China knows that they cannot control their large



population with FEAR and lockdowns much longer.

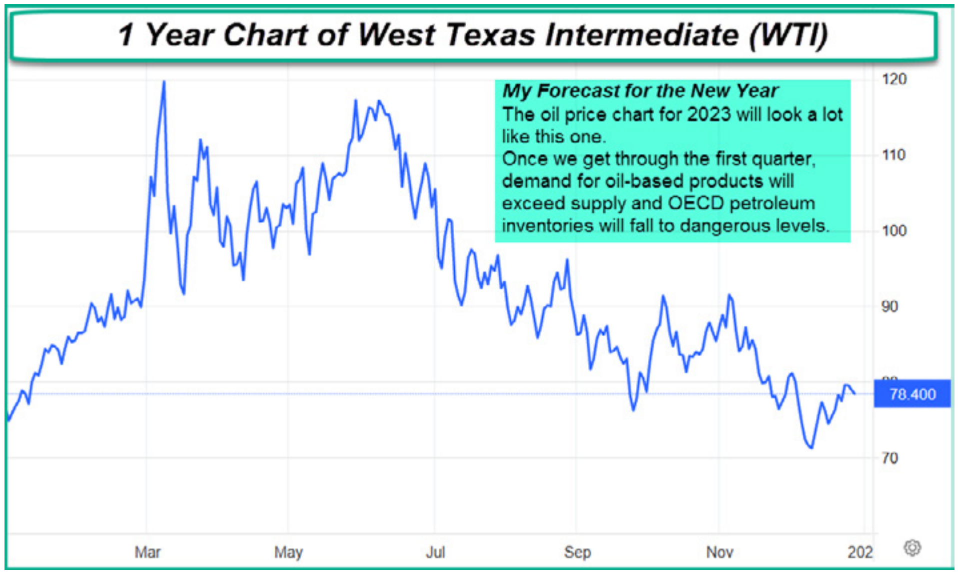
- Early in December the EU and G7 put a $60/bbl price cap on Russian oil that has created a lot of uncertainty in the global oil market. It seems too high to take much oil off the market, but on December 27th Russia announced that they will not sell crude oil or oil-based refined products to any country that accepts the price cap. Time will tell, but this situation looks bullish for oil prices to me.
- The U.S. has finally stopped drawing oil from the Strategic Petroleum Reserves. President Biden recently announced that he will start buying crude oil to refill the SPR, but it is too soon to know if he will follow through. Read more on this topic in my Final Thoughts below.

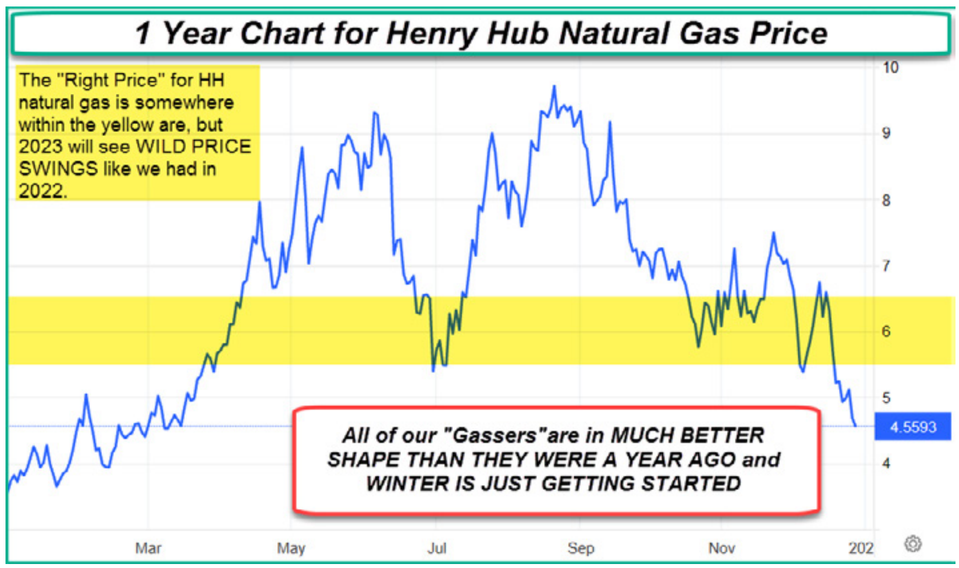
Conclusion: FEAR and confusion can only keep a lid on oil prices for so long. Fundamentals will eventually determine the price of oil. As I said in my December 24th podcast, price volatility in the oil market is likely to continue and the 2023 trading range is likely to be similar to where it was in 2022 ($70 to $120). In my opinion, barring a Major Recession, the upper half of that range seems to be the "Right Price" for oil to me. I am assuming that WTI will average $85/bbl in 2023 for all of my forecast/valuation models.

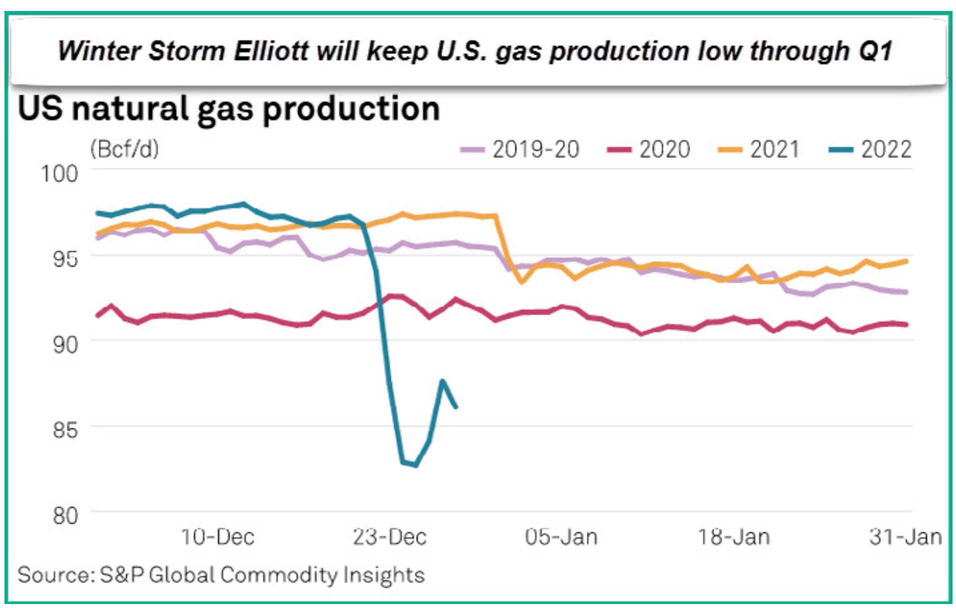
Natural Gas Price

If you think the volatility of the WTI oil price is high, go look at a price chart for Henry Hub natural gas during 2000 to 2010. During the first decade of this century the price of gas went from $2.10/MMBtu to $14.00 in September 2005. It then dropped back to $3.00 in mid-2019 before spiking to $5.50 in December 2019. That decade was prior to horizontal drilling and fracking opening up huge recoverable gas reserves in Appalachia's shale plays.

Natural Gas Prices are set by regional supply/demand fundamentals







From 2010 to 2021 the U.S. natural gas market was over-supplied and the price of Henry Hub gas averaged about $3.20, with only two brief spikes to $5.00 during January 2014 and November 2018. For 12 years American consumers enjoyed the clean and cheap energy from abundant natural gas. We still have an abundant amount of proved natural gas reserves in the ground, but our own government's **"War on Fossil Fuels" (more precisely the War on Pipelines)** makes cheap gas unavailable to most of the households in New England and several other blue states.

Structural Change: U.S. natural gas producers now have access to higher priced gas markets in Asia and Europe. More LNG exports will be coming online in a few years and I believe the U.S. gas price will move toward the energy equivalent price of oil (1/6th). **However, there will be extreme price volatility along the way.** Weather will continue to have a big impact on domestic demand and the price.

Coal prices will also have an impact on gas prices. The price of coal is up more than 130% year-over-year at over $400/ton. Back when U.S. coal was abundant and less than $150/ton, if natural gas went over $3.50/MMBtu a lot of gas fired power plants would switch over to coal for electricity generation. Now it takes a natural gas price over $9.00/MMBtu before gas-to-coal fuel switching makes sense. Using coal to generate electricity also produces more carbon emissions and we all know that is a no-no.

"Heading into year-end, volatility is the name of the game for U.S. natural gas markets." – Raymond James Industry Brief 12-19-2022

Winter Storm Elliott is expected to have a lingering impact on U.S. natural gas production: *"In both 2021 and 2022 a sharp drop in domestic output in early January was fueled largely by freeze-offs. In the weeks following those extreme weather events output was slow to rebound with the new year decline persisting into the late-summer months—well beyond the time required to recover from the freeze."* – S&P Global Commodity Insights 12-28-2022

Conclusion

There has been a "Structural Change" in the U.S. natural gas market. A mild weather forecast will not keep the HH gas price under $5.00 for long. The Freeport LNG export facility will soon add 2 Bcf per day of demand. Supply growth is limited by pipeline access and Elliott is now expected to keep production below expectations at least through the first quarter of 2023. In my opinion, the "Right Price" for HH natural gas is somewhere between $6.00 and $9.00 per MMBtu. I am using $6.00 in all of my 2023 forecast/valuation models.

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.

For the lowest risk, stick with the **"Elite Eight" (AR, CRK, EQT, EOG, MTDR, OVV, PDCE, RRC);** large companies that have strong balance sheets and steady production growth locked in.

All five of the companies that get most of their revenues from natural gas and NGL sales ("Gassers") have pulled back due to the recent decline in natural gas prices. However, all five of them are going to report solid

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:

- Black Stone Minerals LP (BSM)
- Brigham Minerals (MNRL)
- Coterra Energy (CTRA)
- Devon Energy (DVN)
- Diamondback Energy (FANG)
- Hemisphere Energy (HMENF)
- InPlay Oil (IPOOF)
- ONEOK Inc. (OKE)
- Permian Resources (PR)
- Pioneer Natural Resources (PXD)
- Plains All American Pipeline (PAA)
- Riley Exploration Permian (REPX)
- ROK Resources (ROK.V)
- Sitio Royalties (STR)
- Viper Energy Partners (VNOM)

Updated	Oil & Gas Prices used in Forecast Models					
11/16/2022	2022					2023
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Actuals	Actual	Forecast	Forecast	Forecast
WTI Oil	$ 94.85	$ 108.41	$ 91.97	$ 82.00	$ 94.31	$ 85.00
HH Gas	$ 4.48	$ 7.17	$ 7.80	$ 6.50	$ 6.49	$ 6.00

Q4 2022 results and they are in much better shape heading into 2023 than they were heading into 2022. Henry Hub natural gas prices average $4.48/MMBtu in Q1 2022 and all five of our gassers did quite well.

Antero Resources (AR) is going to report operating cash flow for 2022 that will be more than double their operating cash flow per share of $4.92 during 2021. Thanks to all of their "Bad Hedges" expiring at the end of December 2022, the Company is going to report record profits in Q1 2023. Antero will remain free cash flow positive next year even if HH gas prices were to pull back to $3.00/MMBtu.

Comstock Resources (CRK), EQT Corp. (EQT) and Range Resources (RRC) will all report strong Q4 and Q1 results thanks to production of a lot more unhedged gas. **SilverBow Resources' (SBOW)** has a more balanced production mix (~27% liquids) and their hedging program actually reduces their exposure to wild swings in the natural gas price.

Just remember that the U.S. natural gas market is much stronger than it was for the entire decade before 2022 and we still have a lot of winter space heating demand ahead of us. Plus, Europe is going to need every drop of liquified natural gas (LNG) that the U.S. can ship to them to refill their storage before the next winter rolls around. Demand for U.S. natural gas is high today and it will remain high for many more years.

In my November newsletter I highlighted why **Callon Petroleum (CPE)** deserves a lot more attention from investors. Since the Company announced Q3 results, five energy sector analysts have updated their price targets for CPE to $52.00 to $71.00. Considering that Callon is on pace to report 2022 Net Income of over $1.1 billion (over $18.00/share) and Operating Cash Flow over $25.00 per share, those price targets seem extremely conservative to me.

There is simply no justification for an upstream company that is profitable, generating lots of free cash flow and with production growth locked in to trade for less than 2X operating cash flow per share.

Earthstone Energy (ESTE) remains my Top Pick again this month

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			12/29/22		
ANTERO RESOURCES	GAS	AR	$31.08	$68.00	118.79%
CALLON PETROLEUM	OIL	CPE	$35.65	$104.00	191.73%
COMSTOCK RESOURCES	GAS	CRK	$13.59	$40.00	194.33%
EARTHSTONE ENERGY	OIL	ESTE	$13.91	$36.00	158.81%
EQT CORP	GAS	EQT	$33.89	$62.00	82.94%
EOG RESOURCES	OIL	EOG	$128.59	$167.00	29.87%
LAREDO PETROLEUM	OIL	LPI	$50.68	$117.00	130.86%
MAGNOLIA OIL & GAS	OIL	MGY	$23.32	$32.00	37.22%
MATADOR RESOURCES	OIL	MTDR	$57.14	$87.00	52.26%
NORTHERN OIL & GAS	OIL	NOG	$30.74	$63.50	106.57%
OVINTIV INC (was ENCANA)	OIL	OVV	$50.45	$75.00	48.66%
PDC ENERGY	OIL	PDCE	$62.73	$103.00	64.20%
RANGER OIL	OIL	ROCC	$39.47	$74.00	87.48%
RANGE RESOURCES	GAS	RRC	$25.03	$45.00	79.78%
SILVERBOW RESOURCES	GAS	SBOW	$28.14	$89.00	216.28%
SM ENERGY	OIL	SM	$34.45	$60.00	74.17%

because they are going to report a significant increase in production in Q4. 2022's year-over-year production growth will be over 200%. Based on the Company's guidance and my guess of where SEC pricing guidelines for December 31, 2022 proved reserve reports will be, Earthstone's PV10 Net Asset Value using just proved reserves (P1) will be over $33.00/share. Production over 100,000 Boepd should draw a lot of attention to ESTE. It is the fastest growing company in the Sweet 16.

EOG Resources (EOG) with a market-cap over $75 billion trades at an operating cash flow per share multiple of more than 6.1X, which compares to the Sweet 16 portfolio average multiple of just 2.8X. EOG's production will come close to 1,000,000 Boepd late in 2023. It has the most "running room" in the Sweet 16 and it now pays a nice "Fixed + Special" dividend. Based on EOG's most recent dividend of $2.325/share, annualized dividend yield is over 7%.

Laredo Petroleum (LPI) will be changing its name to Vital Energy next week. It will end up being the most profitable company in the Sweet 16 for 2022 with reported net income over $34/share.

Magnolia Oil & Gas (MGY) has the lowest amount of total debt in the Sweet 16 and it has elected not to hedge any of its production. Magnolia's annual production growth percentage is in the mid-teens. The Company's production mix is approximately 44% crude oil, 30% natural gas and 26% NGLs. It is using free cash flow to pay dividends and buyback common stock.

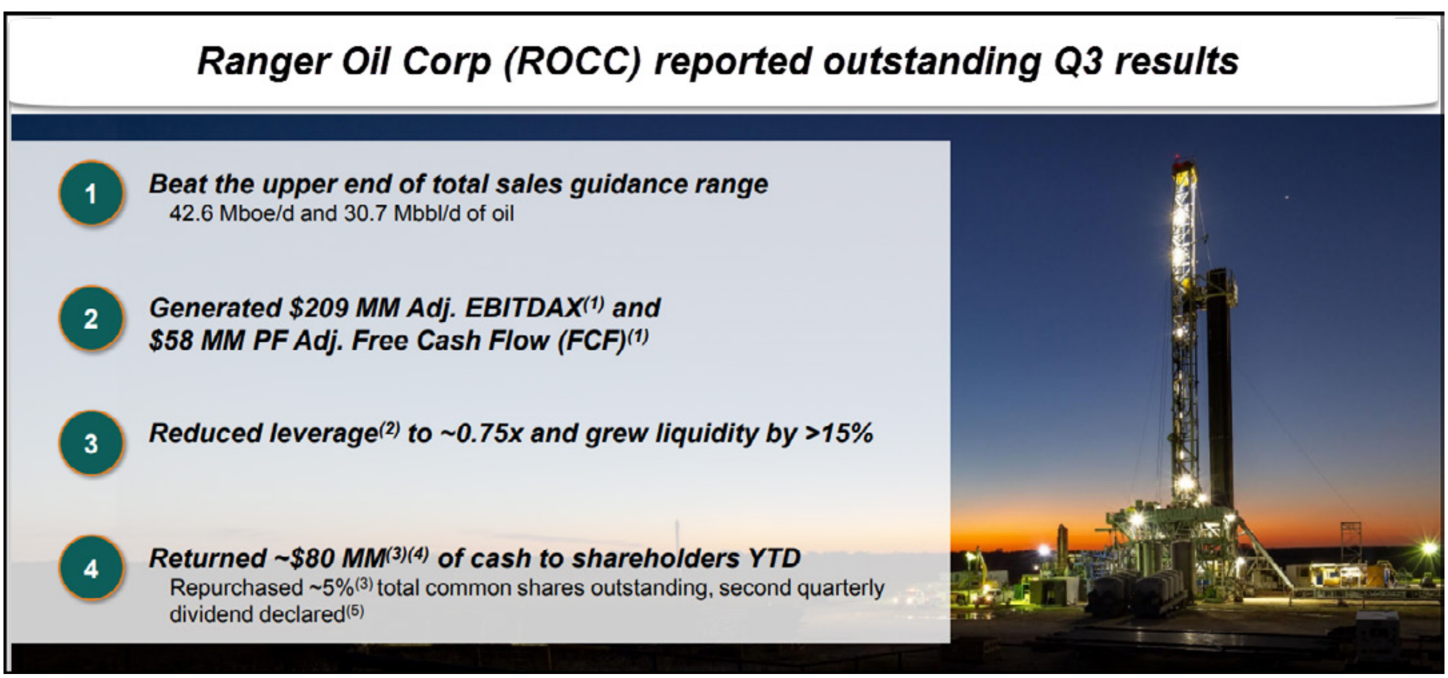
Matador Resources (MTDR) is an Aggressive Growth company that consistently tops its own production guidance, which moved over 100,000 Boepd early in 2022. The Wall Street Gang loves companies that "under-promise and over-deliver". One of the reasons that I'm so bullish on ESTE is because its production is now ahead of where Matador's production was a year ago and ESTE trades for ~25% of Matador's share price.

On December 16th **Northern Oil & Gas (NOG)** announced the closing of another asset acquisition in the Northern Delaware Basin (a sub-basin of the Permian Basin) that adds 2,500 Boepd. They expect to close an even larger acquisition in early 2023 (the "Mascot Project Acquisition") which is expected to add 6,450 Boepd of production. NOG's Q3 2022 production was 79,123 Boepd and proforma for the newest acquisitions is 94,000 Boepd for 2023. All of NOG's assets are outside operated; many of them are operated by other Sweet 16 companies.

Ovintiv (OVV) and PDC Energy (PDCE) are two of the "Elite Eight" companies that have recently started paying higher dividends and funding aggressive stock buybacks. On December 8th PDC Energy announced that the Colorado Oil and Gas Conservation Commission ("COGCC") unanimously approved the Company's Guanella Comprehensive Area Plan (CAP), which encompasses approximately 33,000 consolidated net acres, 22 pad locations and approximately 450 horizontal wells in Weld County, Colorado, which is the core of the DJ Basin.

Ovintiv is a larger company with ~524,000 Boepd of current production, but PDC Energy now has more near-term growth potential.

Ranger Oil (ROCC) is the most recent addition to the Sweet 16. It was promoted from the Small-Cap Growth Portfolio on 10-18-2022, replacing Continental Resources that is going private. Ranger Oil was formed by the merger of Lonestar Resources into Penn Virginia which closed 10-5-2021. It is a pure play on



the Eagle Ford / Austin Chalk play in South Texas. The Company is ramping up production into year-end. TipRanks' consensus forecast for 2023 (very close to my forecast model) is earnings per share of $12.81 on revenues of $1.2 billion and operating cash flow per share of $20.98. Those numbers, combined with a recently funded common stock repurchase program, point to a much higher share price.

SM Energy (SM) has focused most of their 2022 free cash flow of more than $900 million on debt repayment. The Company's balance sheet is now in good shape. Steady production growth in 2023 should fund higher dividends and a stock buyback program.

Step One of your due diligence: For more details on any of the companies in the Sweet 16, download our most recent profile and my forecast/valuation models from the EPG website. Just log on and click on the Sweet 16 tab.

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			12/29/22		
CRESCENT POINT ENERGY	OIL	CPG	$7.02	$11.50	63.82%
HEMISPHERE ENERGY	OIL	HMENF	$0.96	$3.00	212.50%
INPLAY OIL	OIL	IPOOF	$2.20	$6.75	206.82%
PERMIAN RESOURCES	OIL	PR	$9.26	$13.00	40.39%
PHX MINERALS	OIL	PHX	$3.92	$5.70	45.41%
RILEY EXPLORATION PERMIAN	OIL	REPX	$29.89	$46.00	53.90%
RING ENERGY	OIL	REI	$2.41	$7.10	194.61%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$9.93	$14.50	46.02%
SURGE ENERGY	OIL	ZPTAF	$6.44	$11.43	77.48%
TALOS ENERGY	OIL	TALO	$18.90	$27.00	42.86%

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Elite Eight, but they also have more potential. Last week I updated my forecast/valuation models for all ten companies in the portfolio, primarily to adjust the commodity prices used in future periods. All of the companies are in much better financial shape than they were a year ago, with strong balance sheets and plenty of high-quality development drilling inventory. They are all generating free cash flow from operations TODAY and year-end reserve reports are expected to show PV10 Net Asset Values per share at or above my valuations.

Talos Energy (TALO) is the only offshore company in our three model portfolios. On December 27th the Company announced that the closing of the EnVen Energy Acquisition has been pushed back to early February. The actual Closing Date does not impact my valuation since the "Effective Date" determines the amount of cash that will be paid at closing. Operating cash flow from the Effective Date to the Closing Date just becomes a purchase price adjustment.

Talos also announced that the borrowing base on their credit line will be increased from $1.1 billion to $1.5 billion upon closing of the EnVen acquisition. Further, the maturity date of the facility will be extended to March of 2027 from the current November of 2024. The Company will have more favorable interest rate margins, an increased Letters of Credit sublimit, increased flexibility to grow its **Carbon Capture and Sequestration ("CCS")** business and more favorable administrative terms. **At closing of the EnVen acquisition, Talos's liquidity is expected to be approximately $1.0 billion and the Company will have no debt maturities until 2026.**

The EnVen Acquisition is a "Transformative" transaction (adding current production of ~24,000 Boepd) that should cause several energy sector analysts to increase their price targets for TALO. It will make Talos a larger company with a more diverse asset base, lots of development drilling inventory and significant exploration upside.

Solaris Oilfield Infrastructure (SOI) is the only oilfield services company in our three model portfolios. The Company's revenues are going up in lockstep with the increasing number of horizontal wells being completed by upstream companies. Based on my forecast, Solaris should be able to increase dividends in 2023.

On December 19th **Surge Energy (SGY)** closed a significant acquisition of producing assets from **Enerplus Corp. (ERF)** that adds 3,850 Boepd (99 percent liquids) of predominantly light and medium gravity crude oil. The Acquisition is 15 percent accretive to Surge's 2023 free cash flow per share. Furthermore, Surge management has identified a development drilling inventory of over 45 net unbooked low-risk drilling locations, which can hold production flat for an estimated seven years.

With the completion of the Acquisition, Surge anticipates declaring an increase to the Company's annual base cash dividend by 14 percent, from $0.42 to $0.48 per share per annum ($0.04 per share per month), payable on February 15, 2023.

Surge is reconfirming its upwardly revised 2022 production exit rate of more than 25,000 Boepd (approximately 83% crude oil).

On December 13th **PHX Minerals (PHX)** announced results for the quarter and fiscal year ending 9-30-2022 that were close to my forecast. This small-cap royalties company is free cash flow positive, using it to grow their minerals asset base. I am now forecasting year-over-year production growth of ~17% in 2023.

PHX is transiting from a non-operated working interest company to a pure minerals company. Cash proceeds from the sale of legacy working interests will be reinvested in minerals within their core areas located in Oklahoma, Texas, Louisiana, North Dakota and Arkansas. Their top two areas of interest are the SCOOP play in Central Oklahoma and the Haynesville dry gas play in Louisiana.

On December 27th PHX announced that it has entered into two agreements with separate buyers to sell 257 non-operated legacy working interest wellbores in the Arkoma Basin in Oklahoma and the South Texas Eagle Ford Play for total cash consideration of approximately $10.7 million. On a pro forma basis, PHX will have 564 remaining legacy working interest wellbores after the sale.

On December 9th **Crescent Point Energy (CPG)** announced it has entered into an agreement to acquire additional Kaybob Duvernay assets and is increasing its base dividend. The Company's current production is approximately 137,000 Boepd and they have increased the midpoint of their 2023 production guidance to 140,000 Boepd. **CPG is a strong candidate for promotion to our Sweet 16.**

Riley Exploration Permian (REPX) completed the change of their fiscal year from September 30th to December 31st. From Q3 2021 to Q3 2022, Riley's production increased from 9,581 Boepd to 12,717 Boepd. Production should be up ~20% from calendar year 2022 to 2023.

Ring Energy (REI) hosted a luncheon for us in Houston on December 15th and my updated valuation is based on details gained from the presentation and the lively Q&A session we had with the CEO, Paul McKinney. I've known Paul for close to ten years. He is a straight shooter and he is excited about the future of Ring Energy. They will be reporting a significant increase in production from Q3 to Q4 2022 and the Company has a clear path to more than 45% year-over-year production growth in 2023.

On December 19th **Hemisphere Energy (HMENF)** announced that it has commenced a two-well drilling program in the Atlee Buffalo area of southeast Alberta. With service cost increases and labor shortages continuing to impact the industry, Hemisphere has taken advantage of an available rig at lower rates to accelerate its first quarter drilling program to December. While drilling operations are expected to be finished by year-end, the Atlee F pool wells are unlikely to be completed and brought online until January. Due to the accelerated drilling of these wells, the Company anticipates an increase of approximately $2 million of capital spending in 2022. Hemisphere has two separate polymer floods underway within Atlee Buffalo where production is expected to ramp up to 4,000 Bopd by mid-2024.

Hemisphere is now generating a lot of free cash flow and they are evaluating potential acquisitions.

Nothing new to report on **InPlay Oil (IPOOF) or Permian Resources (PR)**. I do expect each of them to report strong production growth from Q3 to Q4 2022. Both of these companies pay nice dividends.

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.

Coterra Resources (CTRA) is the only upstream company in this portfolio that I would label a "Gasser" since its production mix is approximately 73% natural gas, 13% NGLs and 14% crude oil. Winter storm Elliot has forced Coterra to shut-in some of their Marcellus Shale wells, but that is a short term problem. Even if the Company's realized gas price in 2023 were to average $4.50/MMBtu they should still generate over $3 billion of free cash flow from operations next year. They remain committed to returning over 50% of free cash flow via dividends, supplemented by share repurchases, and potential future debt reduction.

The other three upstream companies **(DVN, FANG and PXD)** are large-caps that did not have much exposure to last week's storm. They are all former Sweet 16 companies with "Fixed + Variable" dividend programs and they are all aggressively buying back common stock.

The three 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** that is better suited for a taxable account.

With several large capital expenditures now in the rearview mirror, PAA will be generating a lot more free cash flow going forward and they have announced a plan to increase returns of capital to equity

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			12/29/22				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$16.54	10.4%	$1.72	Qtr	$19.25
KIMBELL ROYALTY PARTNERS	GAS	KRP	$16.61	11.6%	$1.92	Qtr	$23.00
SITIO ROYALTIES CORP	OIL	STR	$30.15	9.2%	$2.76	Qtr	$36.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$31.90	7.7%	$2.45	Qtr	$38.00
Upstream Companies							
COTERRA ENERGY	GAS	CTRA	$24.52	11.3%	$2.77	Qtr	$35.00
DEVON ENERGY	OIL	DVN	$61.04	9.0%	$5.52	Qtr	$85.00
DIAMONDBACK ENERGY	OIL	FANG	$136.28	7.7%	$10.56	Qtr	$190.00
PIONEER NATURAL RESOURCES	OIL	PXD	$226.68	11.2%	$25.44	Qtr	$308.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$10.88	8.3%	$0.90	Qtr	$12.00
ONEOK, INC.	Midstream	OKE	$65.95	5.7%	$3.74	Qtr	$67.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$12.39	8.6%	$1.07	Qtr	$19.00

holders via both distribution growth and opportunistic equity repurchases.

From PAA's November 2, 2022 press release:

"Given the progress made on deleveraging, solid financial and operating performance, and confidence in the long-term outlook of the business, we are providing the following multi-year capital allocation and financial framework:

- *Management currently intends to recommend to the Board of Directors of PAA GP Holdings LLC ("the Plains Board") an annualized increase of $0.20 to PAA's and PAGP's fourth-quarter 2022 distribution payable in February 2023 (one quarter earlier than our standard beginning-of-the-year annual budgeting process), which would increase the annualized rate from $0.87 to $1.07 per common unit and Class A share.*
- *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, it will take several years for PAA to reach that goal. PAGP pays out identical quarterly dividends that will be treated as regular C-Corp. dividends. To get the "return of capital" tax benefit you need to own PAA.

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 2022. BSM has the most exposure to natural gas price, but their active hedging program does reduce the risk.

On December 15th Kimbell Royalty Partners (KRP) announced that it has closed the previously announced purchase of mineral and royalty interests (the "Acquired Assets") held by Austin-based Hatch Royalty LLC in a cash and unit transaction valued at approximately $270.7 million (the "Acquisition"). The purchase price for the Acquisition was comprised of $150.4 million in cash (approximately 56% of the total consideration) and approximately 7.3 million common units of Kimbell Royalty Operating, LLC, which are valued at $120.3 million (approximately 44% of the total consideration).

Kimbell estimates that, as of October 1, 2022, the Acquired Assets produced approximately 2,072 Boe/d (1,198 Bbl/d of oil, 372 Bbl/d of NGLs, and 3,012 Mcf/d of natural gas) (6:1). **For the full year 2023, Kimbell estimates that the Acquired Assets will produce approximately 2,522 Boe/d (1,439 Bbl/d of oil, 461 Bbl/d of NGLs, and 3,730 Mcf/d of natural gas) (6:1).** The Acquired Assets are located in the Permian Basin, with high interest locations concentrated in the Texas Delaware Basin (82%), New Mexico Delaware Basin (8%) and Midland Basin (10%).

KPR is a partnership that has elected to be taxed as a C-Corp. 2023 production should be approximately 18,500 Boepd (59% natural gas, 29% crude oil and 12% NGLs). That should generate $2.25 to $2.50 of operating cash flow, 70% of which should be paid out as dividends.

Brigham Minerals (MNRL) merged into Sitio Royalties (STR) on December 29th. The all-stock “Merger of Equals” brings 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 closed Brigham shareholders received 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 received 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, former Sitio shareholders now own approximately 54% and Brigham shareholders 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.

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.

You can find more details on any of the companies mentioned above on the EPG website. We update profiles on all of our model portfolio companies each quarter.

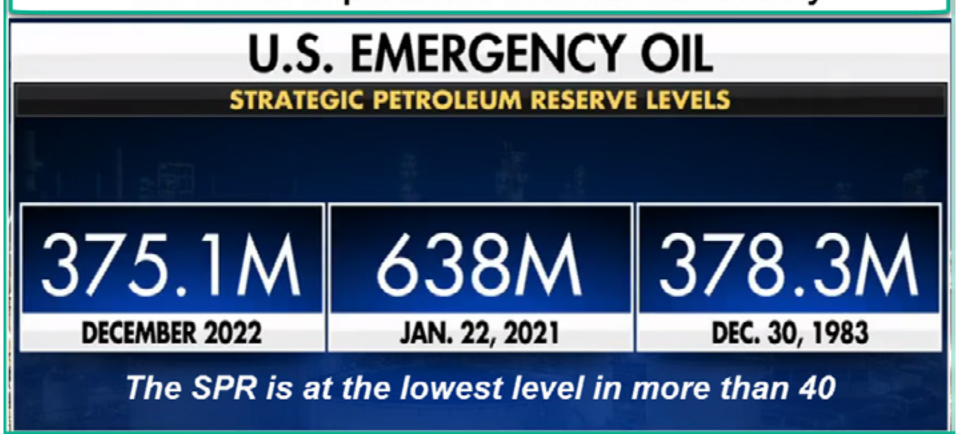
Final Thoughts

America’s **Strategic Petroleum Reserve (SPR)** fell to its lowest level since 1983 last week as U.S. gasoline prices and oil prices ticked up, according to federal data released December 28th. The level of the SPR — an emergency stockpile of crude oil managed by the Department of Energy (DOE) — declined to 375.1 million barrels last week, marking the first time it has fallen below 378 million barrels since December 1983, according to the Energy Information Administration. Meanwhile, the average pump price for gasoline nationwide ticked up for the second consecutive day Wednesday, hitting $3.13 per gallon, according to a AAA database.

The SPR is the world's largest supply of emergency crude oil. It was established primarily to reduce the impact of disruptions in supplies of petroleum products and to carry out obligations of the United States under the international energy program. The federally-owned oil inventories are stored in huge underground salt caverns at four sites along the coastline of the Gulf of Mexico. The sheer size of the SPR (authorized storage capacity of 714 million barrels) makes it a significant deterrent to oil import cutoffs and a key tool in foreign policy.

SPR oil is sold competitively when the President finds, pursuant to the conditions set forth in the Energy Policy and Conservation Act (EPCA), that a sale is required. Such conditions have only existed three times prior to 2022, most recently in June 2011 when President Obama directed a sale of 30 million barrels of crude oil to offset disruptions in

The SPR is important to our national security



supply due to unrest in Libya. During this severe energy supply interruption, the United States acted in coordination with its partners in the International Energy Agency (IEA). IEA countries released altogether a total of 60 million barrels of petroleum.

Additionally, the Secretary of Energy may authorize limited releases in the form of exchanges with entities that are not part of the Federal Government. This authority allows the SPR to negotiate exchanges where the SPR ultimately receives more oil than it released; thereby acquiring additional oil. With the exception of the 2000 Heating Oil Exchange, the SPR has entered into negotiated contracts at the request of private companies in order to address short-term, emergency supply disruptions to a refiner's normal operations on several occasions.

In March 2022 President Biden authorized the sale of a million barrels per day PER MONTH of SPR crude oil for six month (~180 million barrels). He said it was in response to Putin's invasion of Ukraine and an effort to lower gasoline prices. In my opinion, it was done to "buy votes" for Democrats in the upcoming mid-terms. It worked.

Now it is time to refill the SPR. On December 16th the Department of Energy announced that the U.S. will purchase 3 million barrels of oil in February. **Story Here.**

President Biden said it is a great deal for the American people because he sold the oil at more than $90/bbl and he will refill the SPR with oil at less than $80/bbl. It will be interesting to hear what he has to say when WTI moves over $100/bbl next summer.

Draining of the SPR and now having to refill it, will support higher oil prices for many years.

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