EPG
Energy Prospectus Group
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The View from HOUSTON

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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.

One of our members sent me the picture above and it just reminded me that solving problems in life is a lot easier if we work together. America's energy policy is a misguided mess because our government seems to be doing everything they can to make our energy supply unreliable and more expensive. If two "Alpha Predators" like a bear and a wolf can work together, why can't Democrats and Republicans? Could it be that bears and wolves are just smarter than the people we've elected? It is beginning to look that way to me.

As Energy Sector investors we've had to deal with a lot of "noise" over the last three years, but after surviving Covid-19 we've had a nice two year run. During the two years ending December 31, 2022 our Sweet 16 Growth Portfolio gained 272% and it still trades at a very low multiple of operating cash flow. **The 2022 version of the Sweet 16 closed the year trading at just 2.7X operating cash flow per share.**

We are still dealing with fear of recession, the Fed's interest rate increases, a war in Ukraine, OPEC+ production cuts, Climate Change Wacko ideas, what to do about refilling the Strategic Petroleum Reserve and a colder than normal December followed by a warmer than normal January. After we saw **West Texas Intermediate (WTI)** spike to $120/bbl in February we watched it pull back to under $72/bbl early in December. At least for now, the "Right Price" for oil seems like it should settle somewhere in the $80 to $90 per barrel range. Stay calm and remember that at current oil, gas and NGL prices all of our portfolio companies are profitable.

"Despite the commodity price volatility, the E&P index is still up a solid ~60% in the last 12 months and despite the move, valuations remain near historical lows. As we do each earnings season, we'll take a look at several themes that are likely to be topical and how they pertain to our coverage. These include: 1) shareholder return plans, 2) cost inflation, and 3) valuations following meaningful price changes in both commodities and E&P equities." – Raymond James E&P Industry Comment 1-26-2023

In my opinion, a big positive during 2022 for the upstream sub-sector was the financial discipline. Rather than "*Drill Baby Drill*", public companies focused on lowering debt levels, raising dividends and buying back common stock. In addition to being the best preforming sector in the public markets, these shareholder friendly moves by the upstream companies are bringing more general investors back to the sector. Our High Yield Income Portfolio is already up more than 10% YTD.

Recently the focus has shifted away from the fear of recession to a positive outlook for the Chinese economy. On January 26th I saw reports that Covid related deaths and serious cases were 70% lower than the spike during the first week of January. If China can move past Covid it will be very bullish for oil prices.

I was surprised to see M&A activity pick up in the 4th quarter. Several of our companies announced large deals in the South Texas Eagle Ford / Austin Chalk play and in the Permian Basin. My friends at Raymond James tell me that they believe *"M&A will continue and perhaps even accelerate given the lower price environment perhaps making valuations easier to swallow for both the big boys and the sellers who were raking in cash at elevated oil prices. We are currently in a consolidation phase where big players are happy to gobble up extra inventory from either privates or small publics in an effort to add to their runway and increase their appeal to long-term, capital returns focused investors."*

When our portfolio companies announce Q4 results and 2023 guidance, a hot topic on their conference calls will be the cost inflation in the oilfield. The large-cap oilfield services companies are running full speed and they have regained pricing power. In 2023, upstream companies are looking at drilling & completion costs 10% to 15% higher on average. Tubular and some supply shortages could be a headwind for production growth. Something that might help is that private operators are starting to pump the brakes on activity due both to the lower commodity price environment and the desire to maintain drilling inventory. Most private companies do not have access to Tier One leasehold.

Except for M&A transactions, we won't see most upstream companies report significant production growth. I don't expect much of an increase in drilling activity by our upstream companies. All of the good drilling rigs and completion crews are already working.

A very important lesson was learned in 2022 (thanks to Europe's insane energy policies): This world will continue to run on fossil fuels for many more decades. The "**Energy Transition**" that they expect us to believe is possible is just too expensive and too unreliable to replace oil, gas and coal anytime soon. That is the "Big Paradigm Shift" that I believe will generate the multiple expansion that will drive the share prices of traditional (and profitable) energy companies higher this year.

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.

February 2: 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.

Oil Price

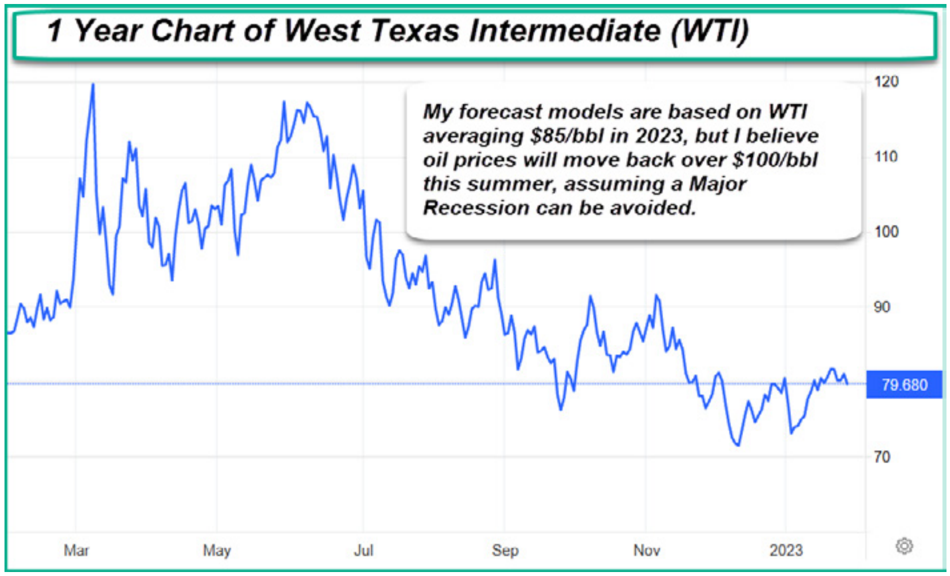
Over the past two months, the price of **West Texas Intermediate (WTI)** has increased about $9/bbl since briefly dipping below $71/bbl on December 9, 2022.

"The front month (FEB23) WTI crude futures contract opened at $81.22/bbl on Friday, January 27th, extending recent gains amid hopes of continued demand recovery in top crude importer China and as better-than-expected fourth quarter US GDP numbers raised hopes of a soft landing in the world's largest economy. China's economic reopening from Covid curbs sparked optimism about a rebound in crude oil consumption this year, with authorities saying that the number of Covid-related deaths and severe cases in China is now 70% lower than peak levels in early January. On the supply side, OPEC is expected to maintain current oil production levels when they meet on February 1st, keeping supply tight. Traders are also tracking Russian flows as more Western sanctions and price caps on Russian petroleum products are set to take effect February 5th." –Trading Economics 1-27-2023

The price of WTI did close lower on Friday afternoon at $79.68/bbl, but all signs point to a tighter global oil market and much higher prices this summer.

On January 11th Morgan Stanley published their global oil market and price forecast for 2023. Here are the basic reasons why they believe Brent will trade up from $85/bbl in Q1 to $110/bbl by Q4 2023 and average $110/bbl in 2024. WTI's discount to Brent ($6.73/bbl at the close on January 27) is expected to shrink to $2.50/bbl late this year.

- FEAR of a global recession and other "uncertainties" will be worked out, turning from headwinds to tailwinds within a few months. *"Our economists now have above consensus GDP forecasts, but further Fed interest rate hikes lie ahead and key PMIs have continued to trend down."*
- Global petroleum inventories will have modest builds in Q1, but demand will exceed supply by the middle of Q2. *"Even with modest demand growth assumptions, we see the oil market coming into balance in 2Q and turning tight in 3Q and 4Q, supporting higher prices later this year."*
- **Medium Term** issues that point to higher oil demand include China's re-opening, further recovery in aviation, downside risks to Russian supply, the slowdown in US shale production growth and the end to SPR releases.
- **Long Term** the big issue remains under-investment in exploration for new oil supplies. Exploration capex showed another inflation adjusted decline, exploration wells drilled reached a 10+ year low and discoveries were once again close to historical lows. Spending on field development rebounded, but much of this was to absorb cost inflation, which accelerated strongly. New projects sanctioned contained ~12.7 billion bbl of oil resources, the second-lowest level in 20 years.



"Putting it all together – Oil Prices are range-bound for now, but price recovery is expected as the year unfolds: We expect Brent prices to remain range-bound for the remainder of 1Q around the current level of ~$80-85/bbl. However, inventories are low and spare capacity is thin. When demand

Exhibit 1:
Price forecasts

($/bbl)	1Q23	2Q23	3Q23	4Q23	2024
Brent					
New	85.0	90.0	100.0	110.0	110.0
Previous	95.0	100.0	110.0	110.0	110.0
Change	*- 10.0*	*- 10.0*	*- 10.0*	-	-
WTI					
New	82.5	87.5	97.5	107.5	107.5
Previous	92.5	97.5	107.5	107.5	107.5
Change	*- 10.0*	*- 10.0*	*- 10.0*	-	-

Source: Morgan Stanley Research ***as of January 11, 2023*** *growth returns, the oil market will likely find that the supply ceiling is still not far away. Our expectation is that this will support Brent in the $100-110/bbl range by 2H 2023."* – Martijn Rats, Morgan Stanley Equity Analyst and Commodities Strategist 1-11-2023

Natural Gas Price

Weather forecasts will be the primary driver of U.S. natural gas prices through March. The heating season started off bullish for prices with Winter Storm Elliott causing the last two weekly draws from storage (213 Bcf and 221 Bcf) to be more than double the 5-year average. Then the warmest first week of January EVER resulted in an 11 Bcf build. I've been in this business for over 40 years and don't recall ever seeing a storage build in January.

For the three weeks ending January 20th the draws from storage totalled 162 Bcf, which compares to the 5-year average draws of 505 Bcf. This "weather anomaly" pushed Henry Hub natural gas prices under $3.00/MMBtu. At the same time spot market gas prices on the West Coast have remained over $10/MMBtu since mid-December. The U.S. does not have enough pipeline access to the markets in California, so the gassers in our three model portfolios cannot take advantage of this opportunity.

Prior to writing this I looked at the Weather Channels 10-day forecast, which you can find at this **LINK**.

Winter did not end in January: The dip in the Jet Stream that caused the cold, rain and snow out west is moving east and very cold air is heading to Chicago and the other big cities around the Great Lakes that burn a lot of gas for space heating. Just looking at the forecast, my guess is that natural gas in storage will be back near the 5-year average by February 17.

In the U.S. Natural Gas Storage levels impact the price

	Week Ending	Actual	5Yr Ave	Delta		
2022	Nov 18	(80)	(49)	(31)		
2022	Nov 25	(81)	(34)	(47)		
2022	Dec 2	(21)	(57)	36		
2022	Dec 9	(50)	(93)	43		
2022	Dec 16	(87)	(138)	51		
2022	Dec 23	(213)	(94)	(119)		
2022	Dec 30	(221)	(104)	(117)		
2023	Jan 6	11	(167)	178		
2023	Jan 13	(82)	(172)	90		
2023	Jan 20	(91)	(166)	75		
2023	Jan 27	(150)	(187)	37		
2023	Feb 3	(200)	(141)	(59)		
2023	Feb 10	(200)	(190)	(10)		
2023	Feb 17	(150)	(180)	30		
2023	Feb 24	(130)	(115)	(15)		
2023	Mar 3	(100)	(96)	(4)		
2023	Mar 10	(75)	(48)	(27)		
2023	Mar 17	(50)	(47)	(3)		
2023	Mar 24	(20)	(4)	(16)		
2023	Mar 31	(10)	4	(14)	(1085)	(1004)
2023	Apr 7	50	44	6		
Working storage @ 1/20		2729	2601	128	< Compares to 5-year average	
				(81)	< next 10 weeks Jan 21 to Mar 31	
				47		
			1540	< 5-year average at the end of winter heating season (Mar 31)		

The "Winter Heating Season" begins mid-Nov each year and runs through March.

The last two weeks of December were very cold and natural gas demand spiked, pushing storage ~200 Bcf below the 5-year average.

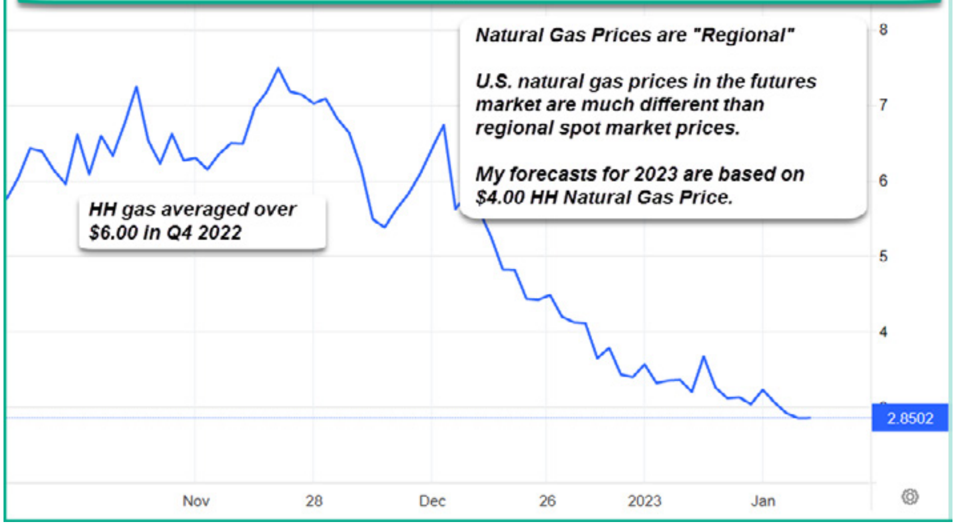
First 3 weeks of January were very mild, pushing storage over the 5-year average and the utilities now know they have enough gas in storage to make it through this heating season. So, utilities are out of the futures market bidding process.

The weather pattern has changed and above average draws from storage are likely in February.

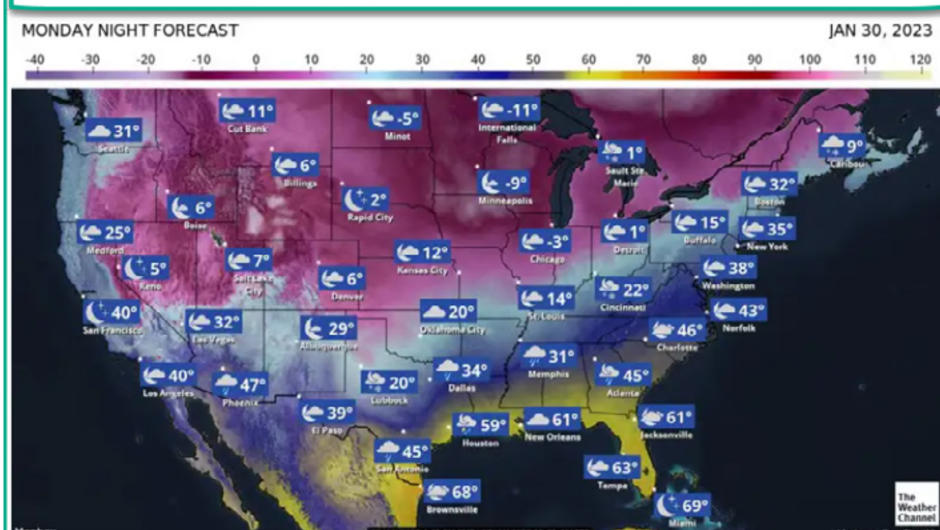
I expect draws to be slightly higher than 5yr ave thru March

U.S. Natural Gas Storage is now expected to be ~1,700 Bcf on March 31, 2023

4 Month Chart of Henry Hub Natural Gas Prices



A lot of natural gas and propane will be burned for space heating this night



Updated 1/14/2022	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	$ 83.00	$ 94.56	$ 85.00
HH Gas	$ 4.48	$ 7.17	$ 7.80	$ 6.30	$ 6.44	$ 4.00

It looks like our government has now given their blessing to the Freeport LNG export facility to come back online. The process will take several weeks to ramp up, but if nothing goes wrong Freeport should be exporting 2.1 Bcf per day by the end of March.

Conclusion: There has been a "Structural Change" in the U.S. natural gas market. Mild weather in January will not keep the HH gas price under $4.00 for long. Supply growth is limited by pipeline access and the "gassers" will adjust their drilling programs so as not to over-supply the market. America's growing export capacity will absorb the relatively small supply/demand imbalance quickly and the bidding war between the utilities and LNG exporters will return this summer. In my opinion, the "Right Price" for HH natural gas is somewhere above $6.00 per MMBtu. I am now using $4.00 for Henry Hub gas prices in all of my 2023 forecast/valuation models.

PS: All of our "gassers" are in much better financial shape than they were a year ago. The balance sheets are in good shape and they should all remain free cash flow even if HH gas averages $3.00. They are all going to report strong Q4 2022 results.

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.

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.

For 2023 I have moved **EOG Resources (EOG) and PDC Energy (PDCE)** to our High Yield Income Portfolio, which is off to a great start

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			1/27/23		
ANTERO RESOURCES	GAS	AR	$29.28	$58.00	98.09%
CALLON PETROLEUM	OIL	CPE	$43.27	$87.00	101.06%
COMSTOCK RESOURCES	GAS	CRK	$12.35	$24.00	94.33%
CRESCENT POINT ENERGY	OIL	CPG	$7.48	$11.50	53.74%
EARTHSTONE ENERGY	OIL	ESTE	$14.39	$34.00	136.28%
EQT CORP	GAS	EQT	$32.93	$52.00	57.91%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$57.00	$117.00	105.26%
MAGNOLIA OIL & GAS	OIL	MGY	$23.57	$30.00	27.28%
MATADOR RESOURCES	OIL	MTDR	$67.28	$92.00	36.74%
NORTHERN OIL & GAS	OIL	NOG	$34.62	$62.00	79.09%
OVINTIV INC (was ENCANA)	OIL	OVV	$51.32	$70.00	36.40%
PERMIAN RESOURCES	OIL	PR	$10.81	$12.50	15.63%
RANGER OIL	OIL	ROCC	$43.93	$73.50	67.31%
RANGE RESOURCES	GAS	RRC	$25.29	$41.00	62.12%
SILVERBOW RESOURCES	GAS	SBOW	$26.68	$81.00	203.60%
SM ENERGY	OIL	SM	$33.15	$58.00	74.96%

this year. EOG and PDCE both pay fixed + variable dividends that should be in the 6% to 8% range this year. They also both have steady production growth locked in for many years.

Crescent Point Energy (CPG) and Permian Resources (PR) were officially added to the Sweet 16 on January 1, 2023. Both companies have significant production growth locked in and they both pay dividends, which I forecast them to increase this year.

I seldom make mid-year changes to the Sweet 16 unless there is a significant change in the fundamentals for a company.

Crescent Point is a Canadian mid-cap with production over 136,000 Boepd heading into 2023 that will increase to over 140,000 Boepd with the closing of the Kaybob Duvernay asset package they are buying from Paramount Resources Ltd. for cash consideration of $375 million. The new assets are adjacent to Crescent Point's existing land base and further enhance the Company's scale, high-return drilling inventory and development opportunities within the basin. This acquisition will be funded through existing credit facilities and is expected to close in a few weeks.

- The Assets include approximately 130 net drilling locations across nearly 65,000 net acres of crown land (90% average working interest) with no expiries.

- The acquired Assets currently produce over 4,000 Boepd (50% liquids) and include a gas plant, associated pipelines, water infrastructure and seismic data.

- Crescent Point plans to grow its total Kaybob Duvernay production from approximately 35,000 Boepd in 2022 to over 55,000 boe/d within its five-year plan.

"We continue to generate strong full cycle returns from our Kaybob Duvernay assets, which are top quartile within our overall portfolio. Through this acquisition, we are increasing our drilling inventory in the play to over 20 years, based on current production. In addition, our land position will increase to approximately 400,000 net acres. We are also adding base production with an estimated net present value of approximately $200 million at current strip commodity prices. The acquisition includes an attractive ESG profile, consistent with our existing Kaybob Duvernay assets, including low emissions intensity and minimal asset retirement obligations." - Craig Bryksa, President and CEO of Crescent Point

Permian Resource, Inc. (PR) was created on September 1, 2022 by the merger of Colgate Energy Partners III (a private company) into **Centennial Resource Development, Inc. (CDEV)** that was announced May 19, 2022. The $7 billion merger creates one of the premium upstream companies operating in the Delaware Basis, a sub-basin of the Permian basis. The 4th quarter of 2022 will be the first full quarter of results since the merger and if actual results are close to my forecast, this Company should draw a lot more attention from the Wall Street Gang.

- The Company recently confirmed that Q4 2022 production will be approximately 145,000 Boepd (52% crude oil, 19% NGLs and 29% natural gas).

- The mid-point of their production guidance for 2023 is 157,500 Boepd.

- On January 17th Permian Resources announced a series of portfolio management transactions, comprised of a bolt-on acquisition, a divestiture of non-operated production and acreage and a divestiture of a portion of its water infrastructure assets in Reeves County, Texas.

"At Permian Resources, we believe our focus on portfolio management will continue to drive value for our shareholders. The combined transactions high-grade our portfolio, adding 45 top-quartile locations, 4,000 net acres with significant development potential and 3,100 net royalty acres while generating approximately $100 million in net cash proceeds." - James Walter, Co-CEO of Permian Resources.

Four out of five of our "gassers" **(AR, CRK, EQT and SBOW)** have pulled back in January thanks to lower natural gas prices. **Range Resources (RRC)** is actually up 1% in January. All five of them are going to report strong Q4 2022 results. With record profits and operating cash flow for the last six quarters, they have paid off a lot of debt and their balance sheets are in good shape. As discussed above, I expect the natural gas market to tighten up in February and these five profitable companies are still expected to generate free cash flow in 2023.

We won't be getting any new information on most of the upstream companies until they release Q4 2022 results starting in mid-February. A few of them have provided operating updates, so I will focus on those.

Callon Petroleum (CPE) was the 3rd most profitable company in the Sweet 16 in 2022, with reported net income of $365.2 million in 2021 ($5.95/share) rising to my forecast of $1,129.6 million ($18.34/share) in 2022. So, it is counter-intuitive that the share price would decline by 21.5% last year. The Company is heavily weighted to oil, so I expect top line revenues to increase to over $2.3 billion this year. CPE is off to a good start this year (up 16.7% YTD) and I do expect it to be one of our top preforming stocks this year.

Since my December newsletter, **Laredo Petroleum (LPI)** changed its name to **Vital Energy (VTLE)**, which is trading at less than 1.3 X operating cash flow per share. It ended up being the most profitable company in the Sweet 16 in 2022 and I expect it to be in the top half of the portfolio based on earning per share again this year. Production will be down a bit in Q4 due to weather related issues, but I am expecting production to average 81,000 Boepd in 2023. Vital Energy's revenues will be heavily weighted to liquid sales this year.

On January 24th **Matador Resources (MTDR)** announced that it has agreed to acquire Advance Energy Partners Holdings, LLC ("Advance"), including certain oil and natural gas producing properties and undeveloped acreage located in Lea County, New Mexico and Ward County, Texas (the "Advance Transaction"). The consideration for the Advance Transaction will consist of an initial cash payment of $1.6 billion, subject to customary closing adjustments, plus additional cash consideration of $7.5 million for each month during 2023 in which the average oil price as defined in the securities purchase agreement exceeds $85 per barrel. Advance is a portfolio company of EnCap Investments L.P. ("EnCap").

The Advance Transaction is expected to close in April, 2023 adding 25,000 Boepd (74% oil), pushing Matador's total production over 130,000 Boepd. Based on my updated forecast, Matador's operating cash flow should be close to $1.9 billion for 2023 with free cash flow over $900 million.

Over the last two years, **Northern Oil & Gas (NOG)** has closed eight accretive acquisitions. I now expect the PV10 Net Asset Value as of December 31, 2022 to exceed the current share price.

Ovintiv Inc. (OVV) started paying "Base + Variable" dividends in 2022 and it has funded an aggressive stock repurchase program. I will probably move it to our High Yield Income Portfolio if one our Small-Caps deserves a promotion to the Sweet 16.

Ranger Oil (ROCC) is a pure play on the Eagle Ford / Austin Chalk play in South Texas. The Company's size (46,000 Boepd), production mix and high quality development drilling inventory make it a prime takeover target.

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			1/27/23		
HEMISPHERE ENERGY	OIL	HMENF	$1.00	$3.00	200.00%
INPLAY OIL	OIL	IPOOF	$2.13	$6.40	200.47%
KOLIBRI GLOBAL ENERGY	OIL	KGEIF	$5.24	$15.54	196.56%
PHX MINERALS	OIL	PHX	$3.81	$5.80	52.23%
RILEY EXPLORATION PERMIAN	OIL	REPX	$32.54	$45.00	38.29%
RING ENERGY	OIL	REI	$2.45	$7.10	189.80%
ROK RESOURCES	OIL	PTRDF	$0.34	$0.64	88.24%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$10.13	$14.50	43.14%
SURGE ENERGY	OIL	ZPTAF	$7.29	$11.25	54.32%
TALOS ENERGY	OIL	TALO	$20.44	$33.50	63.89%

Range Resources (RRC) was one of our original Sweet 16 companies back in 2002. It has an outstanding marketing group and I expect them to report realized gas prices that include some nice spot market premiums. Since most of Range's leasehold in Appalachia is now held-by-production their capital expenditures needed to maintain production are very low (less than 25% of 2022 operating cash flow). Free cash flow has been used to pay down debt and they are now funding an aggressive stock repurchase program.

I list **SilverBow Resources (SBOW)** as a "gasser", but I am forecasting that over 45% of their 2023 revenues will be from liquids sales. This year's development drilling program will be focused on increasing oil production.

Each quarter my top priority is updating the forecast models and profiles for the companies in the Sweet 16 Growth Portfolio. Year-end 3rd party reserve reports and each company's guidance will impact my stock valuations.

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Elite Eight, but they also have more potential. Since my December 30, 2022 newsletter this portfolio has gained 11.5%, primarily because it is more heavily weighted to oil than our Sweet 16.

Kolibri Global Energy (KEI.TSX and KGEIF) and ROK Resources (ROK.V and PTRDF) have been added to the portfolio to replace **Crescent Point Energy (CPG) and Permian Resources (PR)** that were promoted to the Sweet 16.

I was impressed by the presentation made by Kolibri's CEO, Wolf Regener on our 12-1-2022 webinar and even more impressed by the Company's recent well results in Central Oklahoma's SCOOP Play. Their Glenn 16-3H horizontal well (100% working interest) averaged about 990 Barrels of oil equivalent per day ("Boepd") with 805 barrels of oil per day for its first thirty production days. In fact all of the horizontal wells in the Company's 2022 drilling program have far exceeded their predrill type curves and they proved up a lot of offset drilling locations. What this means is that Kolibri is going to report a significant increase in their proved reserves.

"To put this excellent well result in perspective, the forecasted 30-day proved curve case (IP30) utilized by our third-party engineering firm for our December 31, 2021 reserve report was 388 Boepd ("Reserve Report IP30"), while the initial 30-day type curve used by the Company's management for wells in the corridor assumes a 472 Boepd IP30 rate ("Management IP30"). The Glenn 16-3H well's IP30 is about 2.5 times higher than the Reserve Report IP30, which is similar to the Brock 9-3H well's IP30 which we announced on January 9, 2023." – Wolf Regener 1-17-2023.

Kolibri's production has more than doubled year-over-year and it has a lot of "Running Room" with more than 60 "proved" Tier One horizontal development drilling locations in their Tishomingo Field.

ROK Resources is a Canadian Junior that closed a "transformational asset acquisition" on March 7, 2022. They acquired 333,346 net acres of land with production of roughly 3,000 Boepd, which they increased to 3,500 Boepd in Q3 2022. On December 19, 2022, ROK announced an **Asset Exchange Agreement** that is expected to add net production of approximately 1,050 Boepd and add ~65 net drilling locations in Southeast Saskatchewan. It is early, but this Company appears to have the potential to be another rapid growth company for us like **Hemisphere Energy (HMENF) and InPlay Oil (IPOOF).**

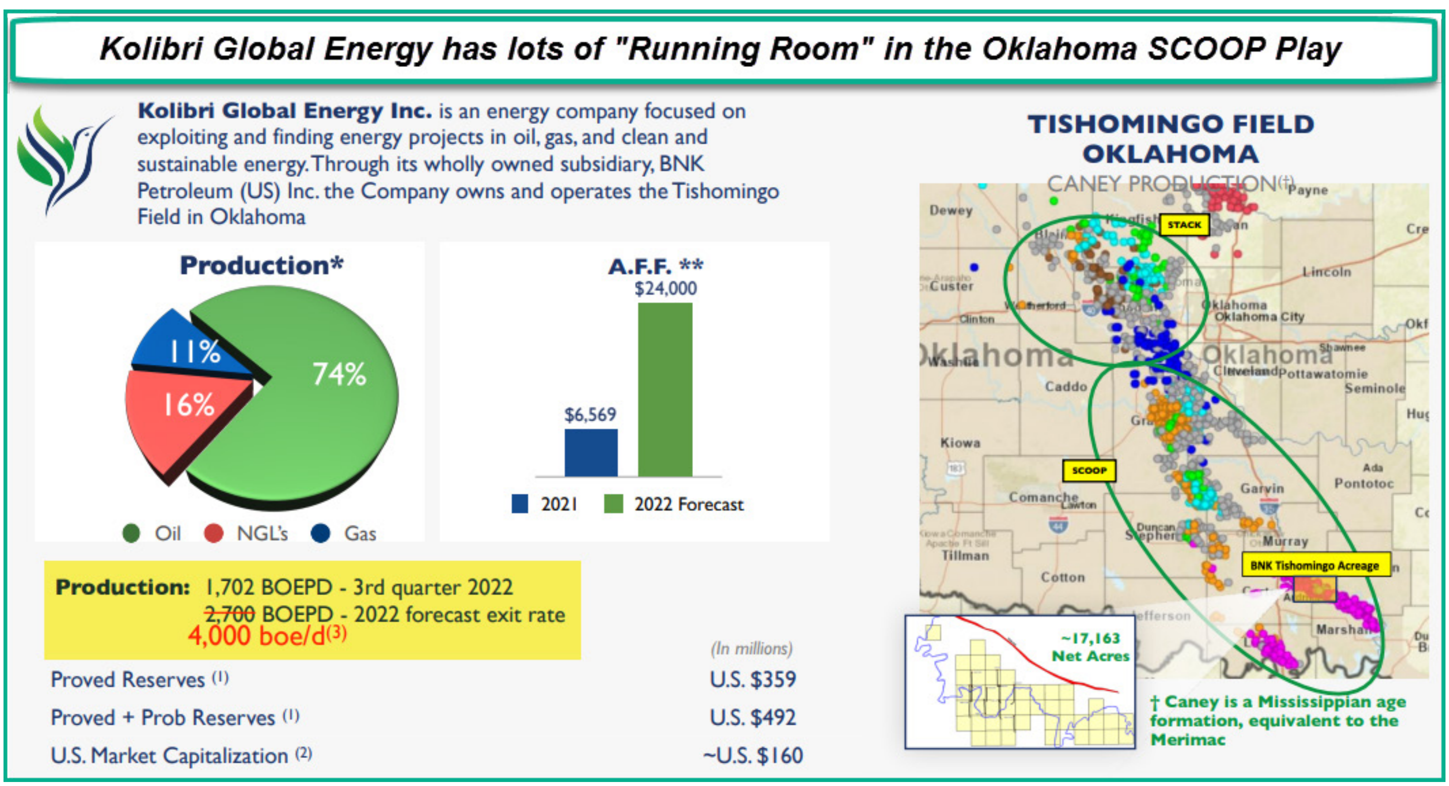
My current valuation of ROK is based on just 4X annualized operating cash flow and what now appears to be conservative production estimates for 2023 and 2024. I expect the Company's 2023 guidance to increase my valuation.

On January 24th **Hemisphere Energy (HMENF)** sent out an operations update that also included guidance for 2023. The Company's Q4 2022 production of 2,825 Boepd (99% Heavy Oil) came in below my forecast due to weather-related downtime. Production has bounced back, averaging ~3,200 Boepd during the first three weeks of January.

My valuation of HMENF is based on production averaging 3,300 Boepd in 2023 and 4,000 Boepd in 2024. Their two polymer floods in the Atlee Buffalo Field should reach peak production in 2H 2024 and then stay at or above 4,000 Boepd for many years. The polymer floods are designed to maintain pressure in their F & G pools and significantly increase the ultimate recovery of oil from the field. Hemisphere is going to generate a lot free cash flow at today's oil price. Now that all of Hemisphere's bank debt has been paid off, free cash flow will be used to pay dividends, buy back common stock and make accretive acquisitions.

InPlay Oil (IPOOF) is a larger Canadian company with production approaching 10,000 Boepd. Their 2023 capital program of $75 to $80Cdn million will be fully funded by operating cash flow ($123Cdn million per my forecast) and focused on increasing the Company's light oil production. InPlay has also started paying monthly dividends.

"InPlay's record-setting financial and operational performance in 2022 has the Company entering 2023 in a very strong financial position allowing for the continued execution of our core



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)
- Kolibri Global Energy (KGEIF)
- Surge Energy (ZPTAF)
- Talos Energy (TALO)

strategy of providing top-tier light-oil weighted production per share growth with significant free adjusted funds flow ("FAFF") generation, while delivering sustainable returns to shareholders through our base dividend and share buyback initiatives. The Company exited 2022 with its lowest ever level of net debt to earnings before interest, taxes and depletion ("EBITDA"), estimated at approximately 0.2x, with significant liquidity from our $110 million credit facility providing InPlay with the ability to opportunistically capitalize on strategic opportunities. Strong drilling results from the development of our top-tier drilling inventory and the positive outlook for crude oil and NGL prices has InPlay well positioned to deliver continued strong operational and financial results in 2023." – Doug Bartole, CEO 1-18-2023

Riley Exploration Permian (REPX) is up 8.9% since my December newsletter. Other than a small increase in their dividend, there is nothing new to report. The Company is heavily weighted to oil and it has more than 20% annual production growth locked in. All of their growth is fully-funded by operating cash flow. Positive results from their CO2 Flood Pilot Project should give the share price a boost.

Since **Ring Energy (REI)** hosted a Houston luncheon for us on December 15th and my follow-up discussions with Paul McKinney, I have increased confidence in my forecast that Ring is going to push production over 20,000 Boepd by mid-2023. Higher production should draw more attention from energy sector analysts.

Surge Energy (SGY.TSX and ZPTAF) is the 4th pure Canadian company in the portfolio. Other than a small increase in their monthly dividend to $0.04Cdn ($0.48Cdn per year) there is nothing new to report.

On December 19th Surge 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 locations, which can hold production flat for an estimated seven years. The Company confirmed their 2022 production exit rate of more than 25,000 Boepd (approximately 83 crude oil).

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 Acquisitions 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.

I updated my forecast/valuation model based on the EnVen Acquisition expected closing date of February 10th and the two new deep-water discoveries (Lime Rock and Venice) to be on production Q1 2024. My valuation increases by $6 to $33.50, primarily due to the significant impact of the EnVen Acquisition.

- EnVen Acquisition will push Talos' production over 80,000 Boepd
- Lime Rock and Venice wells will add another 10,000 to 12,000 Boepd, so Talos has a clear path to 100,000 Boepd within 18 months.
- Talos' deep-water drilling program offers investors significant exploration upside.
- The Company's Carbon Capture & Sequestration (CCS) business has the potential to generate significant income tax credits. Chevron has committed to invest $50 million in Talos' Bayou Bend CCS project.

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			1/27/23				
BLACK STONE MINERALS LP	GAS	BSM	$16.44	11.6%	$1.90	Qtr	$19.00
KIMBELL ROYALTY PARTNERS	GAS	KRP	$16.20	9.3%	$1.50	Qtr	$22.50
SITIO ROYALTIES CORP	OIL	STR	$27.60	9.4%	$2.60	Qtr	$32.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$32.62	7.7%	$2.50	Qtr	$36.00
Upstream Companies							
COTERRA ENERGY	GAS	CTRA	$25.33	7.7%	$1.96	Qtr	$33.00
DEVON ENERGY	OIL	DVN	$65.27	8.2%	$5.33	Qtr	$81.00
DIAMONDBACK ENERGY	OIL	FANG	$150.96	5.7%	$8.60	Qtr	$188.00
EOG RESOURCES	OIL	EOG	$134.66	6.7%	$9.00	Qtr	$161.00
PDC ENERGY	OIL	PDCE	$69.61	5.7%	$4.00	Qtr	$97.00
PIONEER NATURAL RESOURCES	OIL	PXD	$234.39	10.0%	$23.40	Qtr	$306.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$10.99	8.2%	$0.90	Qtr	$12.00
ONEOK, INC.	Midstream	OKE	$68.24	5.9%	$4.00	Qtr	$71.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$13.54	7.9%	$1.07	Qtr	$20.00

If you are not familiar with Talos Energy, I highly recommend that you take the time to read the profile on the company that we published on January 20th. It offers investors significant exploration upside potential.

I have updated my forecast/valuation models for all ten companies in the portfolio, primary just to adjusted the commodity prices used in future periods. They are all 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.

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.

As a group, the 13 companies in this portfolio are off to a better start in 2023 than our Sweet 16. That's probably because they offer safety and much higher dividend yields than investors can find in any other sector.

For those of you seeking the most safety of principle, I recommend the three midstream companies **(AM, OKE and PAGP)** because they get the majority of their revenues from fixed fee contracts. This should be a very good year for most midstream companies because they don't have much direct exposure to commodity prices; they are "toll takers". It would take a MAJOR RECESSION to reduce the demand for the services these three companies provide.

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.

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 holders via both distribution growth and opportunistic equity repurchases.

From PAA's January 9, 2023 press release:

"PAA announced a quarterly cash distribution of $0.2675 per common unit ($1.07 per unit on an annualized basis), which represents a $0.05 increase from the distribution paid in November 2022 ($0.20 per unit increase, or 23%, on an annualized basis). PAGP announced a corresponding quarterly cash distribution of $0.2675 per Class A share ($1.07 per Class A share on an annualized basis), which also reflects a $0.05 increase from the distribution paid in November 2022 ($0.20 per unit increase, or 23%, on an annualized basis)."

"Although equity holders should consult their own tax advisor regarding their particular circumstances, the PAGP cash distribution per Class A share is expected to be a non-taxable return of capital to the extent of a Class A Shareholder's tax basis in each PAGP Class A Share and a reduction in such tax basis. In addition, to the extent any cash distribution exceeds a Class A Shareholder's tax basis, it should be taxable as a capital gain."

In PAA's Q3 2022 press release they announce that starting in 2024, 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.

The four Minerals Companies (BSM, KRP, STR and VNOM) 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 2023. They do have commodity price risk, which they reduce by hedging some of their production and all four of them have steady production growth.

On December 29, 2022 **Sitio Royalties Corp. (NYSE: STR)** and Brigham Minerals, Inc. announced the successful completion of their merger, combining as Sitio Royalties Corp. The combination brings together two of the largest public companies in the 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 E&P companies.

Sitio's production in 2023 should be approximately 37,000 Boepd (50% crude oil, 16% high value NGLs and 34% natural gas). I do expect the Company to keep growing through accretive acquisitions.

Kimbell Royalty Partners (KRP) recently closed a Permian Basin acquisition that has the Company on pace for 20% year-over-year production growth in 2023. Approximately 58% of KRP's production on a BOE basins is natural gas, which has lowered by valuation a bit.

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). Despite the Company's exposure to lower natural gas prices (~78% of production on a BOE basin, I do expect them to generate more than enough free cash flow to maintain their quarterly cash distributions at $0.45/unit. Approximately 46% of their 2023 gas is hedged at an average price of $5.10/MMBtu.

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. Viper has the most exposure to rising oil prices.

Coterra Resources (CTRA) is the only upstream company in this portfolio that I would label a "Gasser" since it production mix is approximately 73% natural gas, 13% NGLs and 14% crude oil.

The other five three upstream companies **(DVN, FANG, EOG, PDCE and PXD)** are large-caps that get the majority of their production from oil sales.

EOG Resources (EOG) will soon be producing over 1 million Boepd of production and it still has enough running room to increase production annually by more than 8% through the end of this decade. All six companies are former Sweet 16 companies with "Fixed + Variable" dividend programs and they are all aggressively buying back common stock.

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 government is broken. We have two political parties that constantly fight each other. We do have good people with leadership skills in this country, but none of them seem to want to run for jobs in Washington, DC. I don't blame them. I think being President of the United States would be a terrible job. The media will destroy you and your family's life.

The Republicans, now in control of the House, are threatening that they won't raise the debt ceiling. The Democrat in the White House refuses to negotiate on spending issues with the new Speaker of the House. I wouldn't want Old Joe coming anywhere near my finances.

Investors may feel like it's Groundhog Day with headlines of **"Catastrophic Consequences"** if the U.S. government fails to pay its bills. Doesn't everyone know that they will raise debt ceiling and keep printing more money no matter what they "negotiate"? Their threats are worthless and they just sound like children fighting over toys since to them running up the Federal Debt another few $Trillion is just "Play Money" anyway.

"The debt limit was created in 1917 and ***has been raised over 100 times****, with numerous instances where a political standoff made its fate unclear. Some would say the current political environment makes a negative outcome more likely with both parties dug into their respective positions – a fair point. But even the most extreme form of brinkmanship would not likely result in the U.S. defaulting on debt, which has never happened in history. One widely under-reported reason is that a debt default is unconstitutional, as per the Supreme Court's 1935 interpretation of the 14th Amendment's Public Debt Clause. "The validity of the public debt of the United States…shall not be questioned," the Supreme Court wrote in a ruling, which has long been interpreted as meaning that default is simply not an option."* – Mitch Zacks 1-28-2023

In my opinion we have enough "noise" to worry about without a battle over the debt ceiling. Just approve another crazy spending bill and let's focus on real problems like closing the Southern Border or ending the war in Ukraine before Putin starts nuking Europe. How about a rational energy policy?

The Federal Government takes in over $4 Trillion of annual revenues and they can't balance the budget. What a joke! Maybe when the 78,000 new IRS agents get hired and trained they will fix it.

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