The View from HOUSTON

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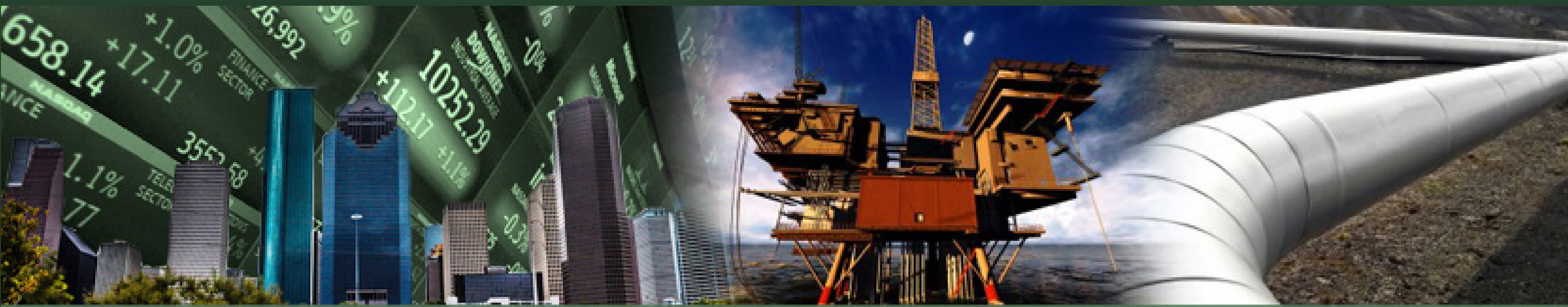


Energy Prospectus Newsletter: "The View from Houston" April 3, 2023 **Issue: 203**

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.

Today's horizontal well completions are more complex and expensive than vertical wells.

Anyone that has been paying attention knew a month ago that **Fear of Recession** has been hanging over the market and oil prices for close to a year. Whatever the "Recession of 2023" ends up being, it has been the most advertised recession in the history of the world.

The oil price selloff that started on Monday, March 13th was triggered by the March 10th announcement after the markets closed that the **Silicon Valley Bank (SVB)** was insolvent. Let's be clear that this West Coast bank's failure had nothing to do with the oil & gas industry and it was nothing like the problems that caused the 2008 Global Financial Crisis. However, one good "Black Swan" event can trigger a lot of fear, even in totally unrelated sectors.

"The current banking crisis – if we can call it a crisis – looks nothing like what the 2008 bank failures were. Instead of balance sheets riddled with subprime mortgages, derivatives, and near-worthless mortgage-backed securities (MBS) portfolios (when marked-to-market), ***Silicon Valley Bank's (SVB)*** *problems were rooted in taking in too many*

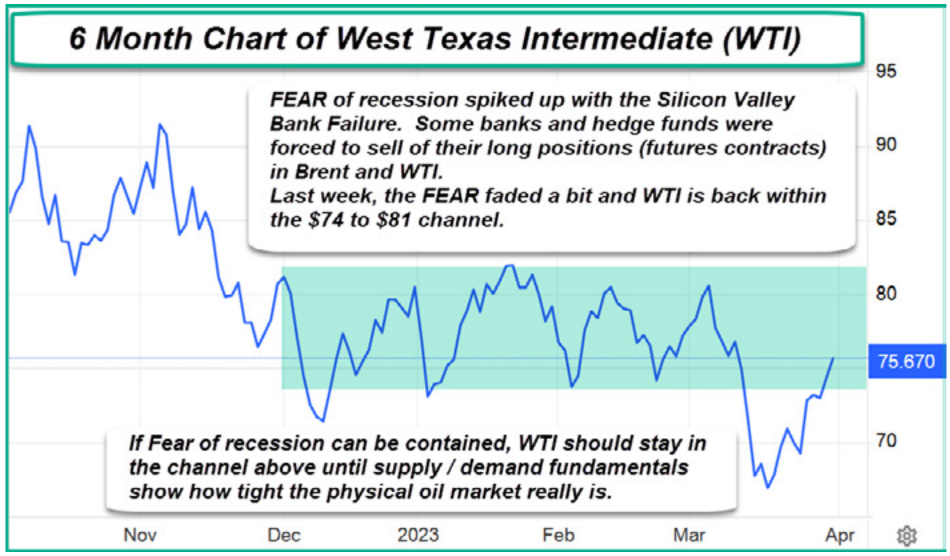
uninsured deposits and investing them in arguably the most boring, safe securities available: U.S. Treasuries and federally-backed mortgage securities." – Mitch Zacks 3-31-2023

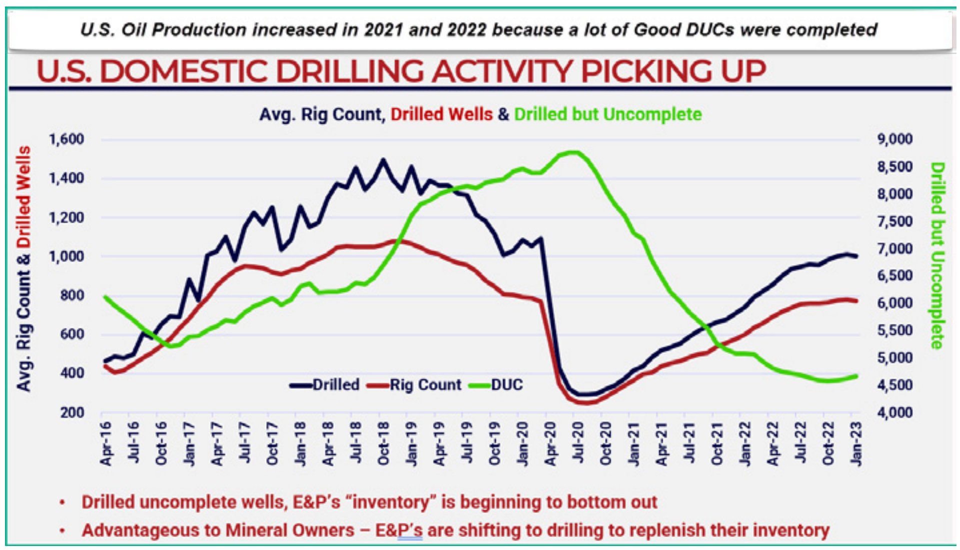
The risk of default on U.S. Treasuries and federally-backed mortgage securities is essentially 0%, which hardly qualifies SVB as taking on too much risk. But the bank did appear to fail in another aspect of basic risk management: accounting for interest rate risk. As interest rates rise, the fair market value of fixed-rate securities falls, which means a bank may be forced to accept losses on these assets if they need to sell them to cover liabilities (deposits). That is, of course, what happened to SVB.

Mismanaging interest rate risk is not new ground for banking problems in the U.S., historically speaking. The savings and loan crisis of the 1980s was driven by a mismatch between long-term loans and short-term deposits, which crushed banks when interest rates rose sharply in the late 1970s in the Fed's effort to fight inflation (sound familiar?).

In SVB's case, supervisors at the Federal Reserve Bank of San Francisco had issued the bank six citations in the previous year, warning the bank that it was vulnerable to trouble and had "matters requiring immediate attention." By July of last year, the SF Fed had put SVB in full supervisory review and rated the bank as deficient in governance and controls. In the fall, regulators met with the bank to discuss their exposure to losses as interest rates rose. SVB did essentially nothing in response.

I get a lot of emails from EPG members and others complaining about upstream oil & gas companies that hedge a lot of production each year. I understand that many of our upstream companies lost a great opportunity when oil & gas prices moved way above the ceiling on their collars and swaps. Just remember that this is an extremely capital intense industry and companies that take on debt to fund





EIA's 914 Report shows that U.S. oil production declined in November & December

	U.S. Total		
Report month	Production	% change from last month	% change from last year
Dec-21	11,634	-1.3%	4.2%
Jan-22	11,369	-2.3%	2.2%
Feb-22	11,316	-0.5%	14.0%
Mar-22	11,701	3.4%	3.3%
Apr-22	11,668	-0.3%	3.2%
May-22	11,629	-0.3%	2.4%
Jun-22	11,797	1.4%	3.9%
Jul-22	11,844	0.4%	4.4%
Aug-22	12,002	1.3%	6.4%
Sep-22	12,337	2.8%	13.0%
Oct-22	12,417	0.6%	7.3%
Nov-22	12,377	-0.3%	5.0%
Dec-22	12,101	-2.2%	4.0%

aggressive drilling programs or acquisitions, do have significant commodity price risk. Most banks that loan money to upstream companies require hedging. I want the companies that I invest in to have an appropriate level of hedging that locks in a revenue stream needed to service their debt. If you don't like hedging programs, you need to pay very close attention to the leverage ratios in each company you invest in.

The good news is that the companies in the three model portfolios below have done a great job of using free cash flow generated in 2021 and 2022 to strengthen their balance sheets.

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.

April 12: Surge Energy will be hosting a luncheon for EPG members and their invited guests in Houston at The Ballroom at Tanglewood, 5430 Westheimer Road just west of the Galleria.

April 18: ROK Resources will be hosting a luncheon for EPG members and their invited guests in Houston at The Ballroom at Tanglewood, 5430 Westheimer Road just west of the Galleria.

April 19: InPlay Oil will be hosting a luncheon for EPG members and their invited guests in Houston at The Ballroom at Tanglewood, 5430 Westheimer Road just west of the Galleria.

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

West Texas Intermediate (WTI) crude oil closed at $75.67/bbl on Friday, March 31, rebounding from the Fear-Based Selloff tied to the SVB bank failure. Fear-based selloffs in the oil markets normally don't last long especially when they are unrelated to the underlying supply/demand fundamentals.

The NYMEX futures market is now in better balance and I believe the price risk in the oil markets is to the upside. One of the Wall Street Gangs "Alpha Dogs", Goldman Sachs, seems to agree.

From Bloomberg on 3-31-2023: Goldman Sachs Group Inc, is confident in crude's upward trajectory even after the banking turmoil that caused the bank to tamp down their oil price forecast a bit (from $100/bbl to $93/bbl in Q4 2023). According to Jeff Currie, Goldman Sachs global head of commodities, "We would argue that you should be buying the dip (in oil prices) at this point. I have never seen a market sell off that sharply but retain a bullish structure."

Oil traders are now more focused on Chinese oil demand and declining oil supplies coming out of Russia. We were also reminded last week that there is still geopolitical risk to oil supply on planet Earth.

"WTI crude futures traded over $75 per barrel on Friday and finished higher for the second straight weekly advance, underpinned by supply concerns and an improving demand outlook. ***A dispute involving Kurdish authorities which halted exports of around 400,000 barrels a day from the Ceyhan port in Turkey tightened the market this week and seemed unlikely to be resolved anytime soon.*** *OPEC's de-facto leader Saudi Arabia also said the oil cartel should keep supplies steady for 2023 as it navigates a fragile recovery in global oil demand, recently clouded by the banking turmoil. On the demand side, investors remain optimistic about China's recovery, with PetroChina and Cnooc Ltd. saying a rebounding domestic economy can help cushion the impact of slower global growth. Meanwhile, markets continued to assess the likely direction of central bank monetary policy in light of the recent banking crisis."* – Trading Economics 3-31-2023

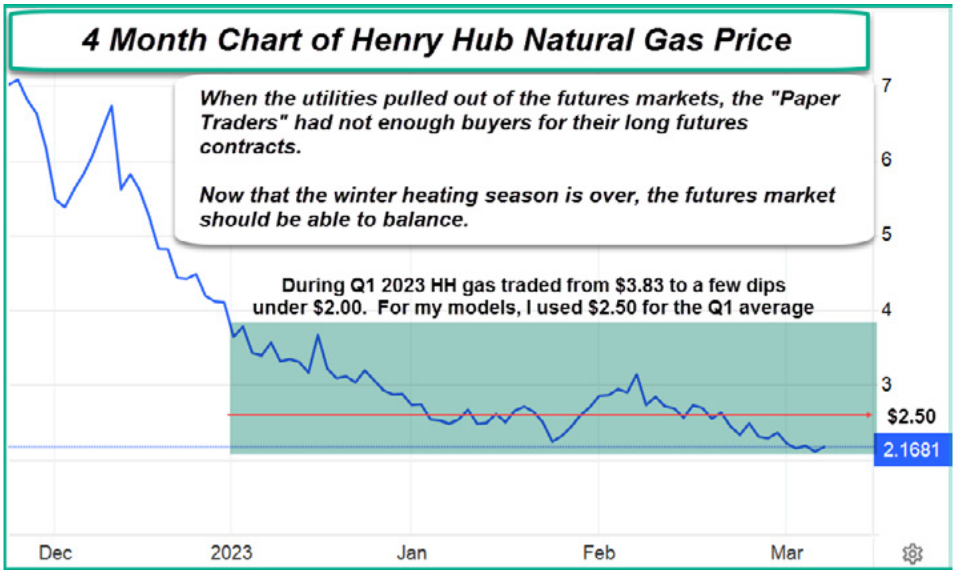
Take a hard look at the third chart on the previous page and you can see that U.S. oil production actually declined by more than 300,000 barrels per day from October to December. Under-investment in finding and developing new oil supplies has been and will continue to push us closer to a real energy crisis.

Conclusion: The next "Oil Market Report" from the International Energy Agency on April 4th, should confirm the agency's previous forecast that global oil markets will be under-supplied within a few months.

Natural Gas Price

I realize that this may sound counter intuitive, but now that we are out of the winter heating season the price of natural gas at the front of the NYMEX strip should be able to drift higher. Why?

1. There is no "glut" of natural gas in the physical market. The small storage surplus over the 5-year



average is well within the 5-year range and there is plenty of storage capacity.

2. What caused the recent price decline was a “glut of longs in the futures markets”. Banks and hedge funds went heavy into long futures contracts during a cold December and the warm weather in January & February in the eastern half of the U.S. allowed the utilities that supply natural gas to pull out of the futures market. So, more Sellers than Buyers of JAN to APR futures contracts put the few buyers in control of the price.
3. Natural gas under $2.50 is an unsustainable price for the natural gas producers. They will reduce their drilling programs, put off well completions and choke back wells if they have to. Why sell natural gas now when they can leave it in the ground for a few months and get a much higher price?
4. The Freeport LNG export facility has ramped back up to 2 Bcfpd. Had the Freeport facility not been offline from June 2022 to February 2023, we would be looking at a 300 to 400 Bcf natural gas storage deficit today.
5. Hot summer weather will ramp up demand for electricity and those utilities will do a lot of coal-to-gas fuel switching at today’s natural gas prices. They will also be in the futures market to lock in low gas prices if they can.

Sweet 16 Growth Portfolio

The Sweet 16 is our “Flagship Portfolio”. It is made up of upstream oil & gas producing 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, generate lots of operating cash flow and hold plenty of low-risk drilling inventory (“running room”). Eleven of them pay dividends and several have stock buybacks underway.

Updated profiles and forecast/valuation models for all 16 companies are now available on the EPG website under the Sweet 16 tab.

Since my February newsletter I have returned **EOG Resources (EOG)** to the Sweet 16, replacing **Ranger Oil (ROCC)** that will be merging into **Baytex Energy (BTE)**. I will be taking a hard look at Baytex in a few weeks.

For this newsletter I am just going to focus on the five companies that closed on March 31st at less than half of my updated valuations. Note in the box above that my Q1 oil & gas price assumptions are probably a bit too low.

SilverBow Resources (SBOW) is the smallest company in the Sweet 16 based on its market-cap of $514 million. It closed on March 31st at just 65% of book value, based on the Company’s audited December 31, 2022 balance sheet. None of these companies should be trading below book value unless their auditors missed something really big.

SilverBow is a pure play on the South Texas Eagle Ford / Austin Chalk plays. It is an “Aggressive

Oil & Natural Gas prices used in my valuation models

Updated	Oil & Gas Prices used in Forecast Models					
3/30/2023	2023					2024
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
WTI Oil	$ 75.00	$ 75.00	$ 80.00	$ 90.00	$ 80.00	$ 90.00
HH Gas	$ 2.50	$ 2.25	$ 2.50	$ 2.75	$ 2.50	$ 3.50

Growth" company, which is somewhat out of favor with the Wall Street Gang these days, but not with me. Actual production growth was 17.2% in 2021, 26.0% in 2022 and based on their guidance should be ~24% in 2023. Q4 2022 production was 52,524 Boepd (66% natural gas, 21% crude oil and 13% NGLs). It is a bit "gassy", but it was very profitable in 2022 ($15.51 EPS and $15.82 operating cash flow per share).

What I like most about SilverBow is their flexibility to shift their drilling program this year to increase their oil production. 2023 crude oil production is expected to grow from 11,000 bopd in Q1 to a year-end exit rate over 20,000 bopd. This year's D&C program should be fully funded by operating cash flow. Based on my forecast, SilverBow's 2023 revenues should be ~67% from the sales of liquids. I was showing it as a "gasser", but the Company's production mix is actually balanced and crude oil sales will be the primary source of revenue in 2023 and 2024.

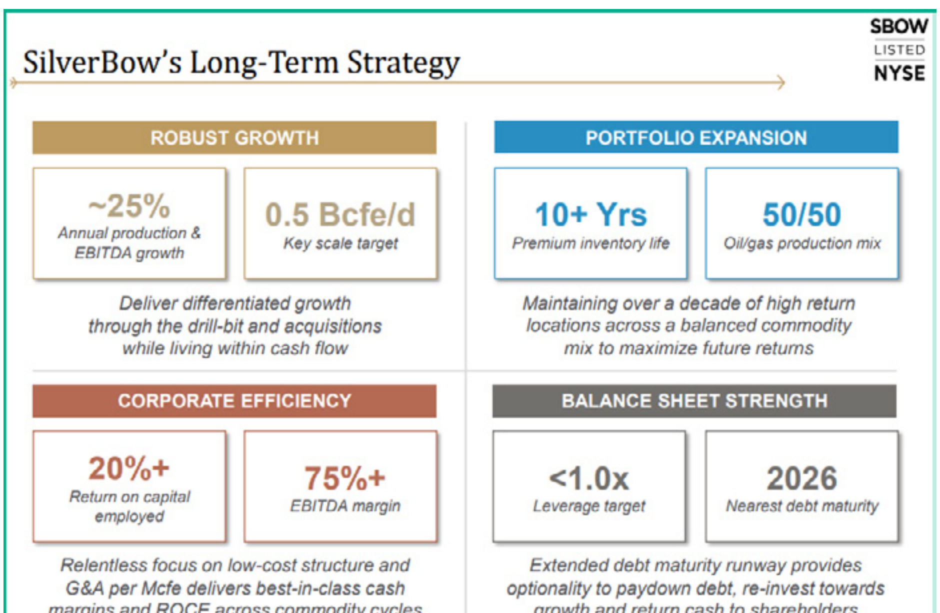
As of the date of this report, four analysts have submitted forecasts and price targets to Reuters / First Call. All four rate the stock a BUY with 2023 estimates of $794 million revenues, $13.11 net income per share and $22.10 operating cash flow per share. **First Call's price target is $51.25.**

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			3/31/23		
ANTERO RESOURCES	GAS	AR	$23.09	$36.00	55.91%
CALLON PETROLEUM	OIL	CPE	$33.44	$80.00	139.23%
COMSTOCK RESOURCES	GAS	CRK	$10.79	$22.00	103.89%
CRESCENT POINT ENERGY	OIL	CPG	$7.06	$12.75	80.59%
EARTHSTONE ENERGY	OIL	ESTE	$13.01	$32.00	145.96%
EOG RESOURCES	OIL	EOG	$114.63	$155.00	35.22%
EQT CORP	GAS	EQT	$31.91	$45.00	41.02%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$45.54	$108.00	137.15%
MAGNOLIA OIL & GAS	OIL	MGY	$21.88	$28.50	30.26%
MATADOR RESOURCES	OIL	MTDR	$47.65	$82.00	72.09%
NORTHERN OIL & GAS	OIL	NOG	$30.35	$52.50	72.98%
OVINTIV INC (was ENCANA)	OIL	OVV	$36.08	$58.00	60.75%
PERMIAN RESOURCES	OIL	PR	$10.50	$15.50	47.62%
RANGE RESOURCES	GAS	RRC	$26.47	$29.00	9.56%
SILVERBOW RESOURCES	GAS	SBOW	$22.86	$78.00	241.21%
SM ENERGY	OIL	SM	$28.16	$49.00	74.01%

Back in December **Earthstone Energy (ESTE)** was my Top Pick for 2023 and my bullish opinion has not changed. I have been following this Company's management team for over a decade. They know how to build a profitable upstream company and I believe Earthstone is going to have strong financial results in 2023 and 2024.

Earthstone's incredible production growth (62.2% in 2021 and 214.5% in 2022) was primarily the result of closing six strategic and financially accretive asset acquisitions in the Permian Basin. The mid-point of the Company's 2023 production growth (~28% year-over-year) is based on their development drilling program, which is being fully funded by operating cash flow. I do expect them to announce another significant



Source: SilverBow's March, 2023 Update

acquisition within a few months, which should push this year's production even higher.

Based on my forecast model, Earthstone's strong results in 2022 ($3.24 net income per share and $7.39 operating cash flow per share) should be topped by 2023 results. The current 2023 consensus (per TipRanks) is $4.24 EPS and $7.85 operating CFPS. RBC Capital's 5-Star analyst Scott Hanold's current price target is $21.00 as of 3-22-2023.

On a per share basis, **Vital Energy (VTLE)** should end up being the most profitable company in the Sweet 16 for the second consecutive year. They reported $37.67 earnings per share and $47.75 operating CFPS in 2022. My 2023 forecast now shows $1,261 million of revenues, $16.56 adjusted net income per share and $38.74 operating cash flow per share. This year's D&C program (estimated at $650 million) should be fully funded by operating cash flow of over $700 million.

The only issue that concerns me is that Vital does not have a lot of running room in the Midland Basin. They are taking steps to add more high-quality development drilling inventory. The Driftwood Acquisition, announced in February, is expected to close in April, adding 5,400 Boepd (~63% oil) and approximately 30 gross / 23 net low-risk drilling locations in Upton and Reagan Counties, Texas.

Callon Petroleum (CPE) appears to be on-track to be the second most profitable company in the Sweet 16 in 2023 with revenues of $2,136 million, adjusted net income of $11.32 and operating CFPS of $22.58.

Callon is a larger company than Vital Energy and it does have plenty of high-quality "running room". They hold ~1,500 drilling locations in the Permian Basin and the South Texas Eagle Ford / Austin Chalk plays that the Company estimates to be profitable at a $60/bbl oil price. I like the Company's "Life of Field Development" strategy that is designed to maximize productivity per well. If your investment time horizon is over six months, loading up on CPE under $50 per share should generate a nice "Christmas Bonus" for your portfolio.

My valuation of $22/share for **Comstock Resources (CRK)** is based on my annualized operating cash flow for 2022 thru 2024, with double weighting given to 2023. All of my forecasts now assume that HH natural gas prices will average $2.50/ MMBtu in 2023. Comstock's hedging program does reduce their commodity price risk in 1H 2023.

The Company is almost a pure play on natural gas since ~99% of their production is natural gas and NGLs from the Haynesville and Bossier shales in East Texas & Louisiana. Obviously, 2023 is going to be a "challenging year" for all of the upstream companies that get the majority of their revenues from selling natural gas. Looking beyond this year, I am very bullish on U.S. natural gas and Comstock because of their strong balance sheet, outstanding low-risk development drilling inventory, access to LNG export facilities along the Gulf Coast and flexibility to adjust their drilling program.

As I have posted to the EPG Forum many times during March, the recent decline in the price of Henry Hub natural gas was caused by a "glut" of long NYMEX futures contracts, which the banks and hedge funds accumulated after a colder than normal December. In the "real world" there is a minor surplus of natural gas in storage that will be easily absorbed by the more than 37 Tcf of demand for U.S. natural gas this year. Demand for U.S. natural gas is going to increase significantly

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:

- Callon Petroleum (CPE)
- Coterra Energy (CTRA)
- Crescent Point Energy (CPG)
- Earthstone Energy (ESTE)
- EOG Resources (EOG)
- EQT Corp. (EQT)
- Magnolia Oil & Gas (MGY)
- Matador Resources (MTDR)
- Northern Oil & Gas (NOG)
- Ovintiv Inc. (OVV)
- PDC Energy (PDCE)
- Permian Resources (PR)
- Pioneer Natural Resources (PXD)
- Range Resources (RRC)
- Riley Exploration Permian (REPX)
- Ring Energy (REI)
- SilverBow Resources (SBOW)
- Sitio Royalties (STR)
- SM Energy (SM)

over the next few years (to over 40 Tcf per year) as access to the international market for the "clean fossil fuel" increases,

The real world natural gas market will adjust: The large "gassers" (AR, CRK, EQT and RRC) will delay well completions, the Freeport LNG export facility (~2 Bcfpd) is back on-line and "low gas prices, cure low prices" because we will see coal-to-gas fuel switching for power generation this summer.

Here is where the NYMEX strip prices closed on March 31st: The NYMEX strip is clearly telling us that the contracts at the front of the strip are an anomaly.

- MAY23 > $2.166
- JUN 23 > $2.416
- Q3 2023 > $2.71
- Q4 2023 > $3.23
- Q1 2024 > $3.72

Fun Fact to consider: Demand for U.S. natural gas is "seasonal", increasing significantly for space heating in December through March. Over the last 25 years there have been ten natural gas price spikes in the U.S. market over $6.00/MMBtu and eight of the ten price spikes occurred outside of the winter months. All four of the price spikes over $6.00 during 2021 and 2022 were outside of the winter months. **Trying to time the U.S. natural gas market is difficult if not impossible.**

Each quarter our team's top priority is updating the forecast models and profiles for the companies in the Sweet 16 Growth Portfolio. Updated forecast/valuation models for each company are posted to the EPG website soon after they announce each quarter's results and we publish updated profiles on all of the Sweet 16 each quarter. All 16 forecasts were reviewed and updated last week using my lower oil & gas price decks.

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			3/31/23		
HEMISPHERE ENERGY	OIL	HMENF	$0.95	$3.00	215.79%
INPLAY OIL	OIL	IPOOF	$1.99	$5.75	188.94%
KOLIBRI GLOBAL ENERGY	OIL	KGEIF	$4.22	$8.15	93.13%
PHX MINERALS	OIL	PHX	$2.62	$4.75	81.30%
RILEY EXPLORATION PERMIAN	OIL	REPX	$38.06	$50.00	31.37%
RING ENERGY	OIL	REI	$1.90	$4.90	157.89%
ROK RESOURCES	OIL	PTRDF	$0.31	$0.60	93.55%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$8.54	$15.00	75.64%
SURGE ENERGY	OIL	ZPTAF	$6.52	$11.20	71.78%
TALOS ENERGY	OIL	TALO	$14.84	$29.00	95.42%

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Elite Eight, but they also have more potential. I am very bullish on this group because they all reported solid results for 2022 and they all have a lot of running room within their existing inventory of high-potential development drilling locations.

Surge Energy (ZPTAF) will be hosting our next Houston luncheon on Wednesday, April 12. **Please register this week if you plan to attend.** All EPG members are encouraged to invite a guest to this and the other two lunches we have scheduled for April because we are working hard to rebuild our luncheon program that was shut down by the pandemic. Our luncheons have been moved back to the location of the old Hess Club, 5430 Westheimer Rd.

We will be publishing an updated profile on Surge Energy this week.

Hemisphere Energy (HMENF) is the only small-cap that has not reported Q4 financial results, but they have provided an operations update and details of their year-end 3rd party reserve report. This company is a pure play on crude oil that has steady production growth locked in that is being fully funded by operating cash flow. I expect them to announce Q4 2022 financial results on April 17th.

InPlay Oil (IPOOF) announced outstanding Q4 results and 57.9% year-over-year production growth in 2022. My stock valuation declined due to much lower natural gas prices in Alberta. InPlay's production should be over 10,000 Boepd within a few months and their guidance points to 10,500 Boepd (~60% liquids) by year-end 2023. Doug Bartole, InPlay's CEO will be speaking at our Houston luncheon on April 19th. **InPlay now pays monthly dividends.**

ROK Resources (ROK) is our most recent addition to the portfolio and our 4th small-cap based in Canada. ROK will be hosting a Houston luncheon on April 18th.

On March 23rd ROK announced that they are going to sell certain non-core assets in Saskatchewan for total combined proceeds of approximately $47.25Cdn million. Most of the cash proceeds will be accretive to existing shareholders of the Company by **immediately eliminating 90% of ROK's outstanding senior term debt** which will result in interest savings of ~$5.8 million. By June 2023, the Company's senior term debt is expected to be paid off entirely, providing the Company with incremental cashflow of ~$2.5 million per month, which can be deployed into organic drilling in its core Southeast Saskatchewan and Kaybob assets.

We will be publishing a detailed profile and updated forecast/ valuation model for ROK after the April 18th luncheon.

Kolibri Global Energy (KGEIF) reported full-year 2022 production of 1,638 Boepd (+68% year-over-year) and they now have a clear path to 5,000 Boepd within six months. They have lots of high-quality horizontal drilling inventory in the Oklahoma SCOOP play, but they are committed to funding their growth entirely with operating cash flow. Wolf Regener, the CEO has agreed to host a Houston luncheon for us on May 16th. By that date they should have preliminary results of three new horizontal wells that will be completed to sales in April. One of those wells will be testing the deeper "T-Zone", which if successful could significantly increase the Company's recoverable reserves.

On February 28th **Riley Exploration (REPX)** announced an agreement to acquire oil and gas assets from Pecos Oil & Gas, LLC ("Pecos"), an affiliate of Cibolo Energy Partners LLC ("Cibolo"), for cash consideration of $330 million. The acquisition will be funded through a combination of borrowings under the Company's revolving credit facility and the proceeds from the issuance of new senior unsecured notes.

Some of you may recall that Cibolo is the same private equity firm that funded Hemisphere Energy's development at Atlee Buffalo, which helped the share price increase over 500%.

My current valuation of REPX is based on the assumption that the Pecos Acquisition will close at the end of April, but the actual closing date is insignificant to my valuation. By the end of Q2 2023, Riley's production should be over 20,000 Boepd, up from 13,300 Boepd in Q4 2022.

Talos Energy (TALO) has "made peace" with the Mexican state owned oil company, Petroleos Mexicanos, which took over operations of the Zama oil field that Talos discovered three years ago. Talos and the other working interest partners have submitted a development plan to Mexico's oil regulators for approval on March 23rd, which envisions the creation of an integrated project team in which all four stakeholders — Pemex, Talos and its partners Wintershall DEA and Harbour Energy — help shape the development of the 800-million-barrel find, according to press statements from the companies. Zama is still a significant asset for Talos that is not included in my current valuation.

Bloomberg: The development plan will allow Talos to co-lead with Pemex on operating and drilling decisions, its Chief Executive Officer Tim Duncan said in an interview. "We will have a hand in the design and execution of everything related to that development plan," he said. Even so, the integrated project team will report to a unit operating committee, which Pemex controls.

We have recently published updated profiles on **PHX Minerals (PHX) and Ring Energy (REI).** I will personally update the profile on **Solaris Oilfield Infrastructure (SOI)** next week.

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.

The portfolio is divided in to three groups.

Minerals Companies (often referred to as Royalties Companies) are lower risk investments because they own mineral interests that do not expire. Their revenues are primary from the royalties and over-riding royalties that they get paid to them by the upstream companies that are completing wells on acreage where they hold the minerals. Minerals companies have very low cash expenses, no drilling risk and they pay out a high percentage of their operating cash flow in the form of quarterly dividends.

Black Stone Minerals LP (BSM) is the only Master Limited Partnership (MLP) in the portfolio. It is the most heavily weighted to natural gas, but they do hedge a high percentage of their production each year. I do expect them to hold their quarterly cash distributions at $0.475/unit for annualized yield of 12.2% based on the unit price as of the date of this newsletter. This is a very conservative management team. The Company has a Super Strong balance sheet. It is a safe bet for any of you that believe natural gas prices will rebound later this year. Plus, you get paid some very nice dividends while you wait.

Kimbell Royalty Partners (KRP) has elected to be taxed as a C-Corp. It is smallest of this group and it is "gassy", so their variable dividends will be coming down a bit this year. I expect the dividends to total $1.28/share for the year 2023. If natural gas rebounds to $3.50/mcf in 2024, KRP's dividends could go over $2.00/share next year.

My Top Pick in this group is Sitio Royalties Corp. (STR). They closed the merger with Brigham Minerals late in December, so Q1 will be the first full quarter of combined results. If actual results match my forecast, I expect it to get a lot more "love" from the Wall Street Gang. Current production is ~34,500 Boepd (~50% crude oil + 16% NGLs) and it has a lot of "running room". In my opinion, the current share price is $10 below "Fair Value".

Viper Energy Partners LP (VNOM) has also elected to be taxed as a C-Corp. I consider it the "Safe Bet" in this group

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			3/31/23				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$15.69	12.1%	$1.90	Qtr	$19.50
KIMBELL ROYALTY PARTNERS	GAS	KRP	$15.23	8.4%	$1.28	Qtr	$19.00
SITIO ROYALTIES CORP	OIL	STR	$22.60	8.8%	$2.00	Qtr	$32.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$28.00	7.2%	$2.02	Qtr	$34.00
Upstream Companies							
COTERRA ENERGY	GAS	CTRA	$24.54	5.5%	$1.36	Qtr	$27.50
DEVON ENERGY	OIL	DVN	$50.61	8.4%	$4.24	Qtr	$68.00
DIAMONDBACK ENERGY	OIL	FANG	$135.17	7.2%	$9.69	Qtr	$178.00
PDC ENERGY	OIL	PDCE	$64.18	6.7%	$4.30	Qtr	$102.00
PIONEER NATURAL RESOURCES	OIL	PXD	$204.24	10.3%	$21.10	Qtr	$252.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$10.49	8.6%	$0.90	Qtr	$13.00
ONEOK, INC.	Midstream	OKE	$63.54	6.3%	$4.00	Qtr	$75.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$13.12	8.2%	$1.07	Qtr	$18.00

for investors wanting exposure to oil prices because it has steady production growth locked in by the relationship it has with **Diamondback Energy (FANG)**. Diamondback has one of the most aggressive drilling programs in the Permian Basin and lots of their leasehold is "Tier One" where Viper holds the minerals. Viper is virtually unhedged, so I view their commodity price risk to be to the upside.

We will be publishing an updated profile that covers Diamondback Energy and Viper within a few days.

The five **Upstream Oil & Gas Companies** in the portfolio are all mature large-caps that "graduated" from our Sweet 16 Growth Portfolio. They hold large blocks of valuable leasehold in America's most productive oil & gas basins, much of which is now held by production (HBP). They all have super strong balance sheets and they are committed to generate a lot of free cash flow that is being paid out to shareholders as "Fixed + Variable" quarterly dividends and aggressive stock buybacks.

Coterra Energy (CTRA) is the only "gasser" in this group, so its dividends will be down the most this year. The other four should maintain their dividends close to what they paid out last year. Based on my forecasts, PXD should generate the highest dividend yield this year, over 10%.

Diamondback Energy (FANG) has the most aggressive drilling program with double digit annual production growth locked in. Diamondback and **Pioneer Natural Resources (PXD)** are pure plays on the Permian Basin.

PDC Energy (PDCE) currently trades at the largest discount to my stock price valuation, just because its primary core area in the DJ Basin does not get the "love" it deserves from the Wall Street Gang. PDC is an extremely profitable company trading today at less than 2.5 X operating cash flow per share. Colorado has recently approved its multi-year drilling program, so the Company has strong production growth locked. It has a second core area in the Permian Basin where they just have one operated drilling rig running today.

I have followed **Devon Energy (DVN)** for over 25 years. It has the most diverse asset base with five "Core Areas" in the Permian Basin, Eagle Ford in South Texas, Anadarko Basin in Oklahoma, Williston Basin in North Dakota and Powder River Basin in Wyoming. If you like owning companies with decades of "Running Room" you should read our recent profile on Devon.

The Midstream Companies have the least exposure to oil & gas price changes. They should all do quite well as long as the U.S. economy is growing since they gather, process and distribute the fossil fuels that this country's economy runs on. They are "price makers" because the upstream companies in their core areas cannot get their production to market without the midstream infrastructure.

Antero Midstream (AM) is controlled by **Antero Resources (AR)**, one of the "Elite Eight" in our Sweet 16 Growth Portfolio. It is much smaller than the other two, but the relationship with AR significantly reduces AM's risk.

ONEOK, Inc. (OKE) and Plains All American Pipeline (PAA and PAGP) have very large footprints in North America. They both generate a lot of free cash flow and they have both committed to increasing their quarterly dividends after 2023. You can find more details about these two on the updated profiles we published mid-March. PAA (an MLP) and PAGP pay identical quarterly dividends.

Final Thoughts

Susan & I went to high school and college during the early 1970s. We recently got to dress up like hippies for a 70s party that was a lot of fun. I still think the music from the 1970's is the best.

I can assure you that in our 20s we were about as far from hippies as you can get. We got married after our junior year (age 21) and both graduated from Tulsa University in May, 1976. I went to work in public accounting and Susan started her career in nursing. Our total net worth prior to getting married was probably less than $3,000 (two used cars and our clothing). We were tired of being poor students and our goal was to save enough money to afford a starter home. Home mortgage loan rates were

9% when we purchased our first home in Jenks, Oklahoma (south of Tulsa) in early 1978. We often laugh at the fact that Susan's father thought we were getting in way over our heads with a monthly house payment of $390.

The U.S. inflation rate is going up, but I don't expect that we will see 9% home mortgage rates. However, I am concerned that our government's spending habits are out of control. Spending more than your total revenues is not good fiscal policy for families, businesses or governments. This is why I like investing in companies that generate a lot of operating cash flow; enough to fund steady production and revenue growth. Using debt to build a company is OK if the money is being spent on assets that will generate enough future revenues to pay off the debt at some point in the future.

On March 28th I participated in a webinar hosted by U.S. Energy Development Corp. I hope all of you took the time to watch the replay. The goal was to educated attendees on where this world's energy supply is today and where the energy supply will come from in the future. Our own U.S. Department of Energy and the International Energy Agency now agree that wind & solar are not going to supply much more than 7% of this world's energy no matter how much money we throw at them. Even if you add hydro, nuclear, biomass and wood burning to the category of "renewables", they won't total more than 25% of the total energy mix by 2050.

Here are the points that I made at the beginning of my part of the webinar presentation.

- Peak Oil Demand is way off in the future and Peak Oil Supply may be coming soon. This is one of the reason that I am bullish on the long-term outlook for natural gas, since it can be used as a transportation fuel.

- Oil prices are likely to go a lot higher because oil demand growth is tied to human population growth, which this year is averaging more than 182,000 more people on planet Earth each day. Higher oil prices and much better government policies are needed to support the massive investment in new oil supplies this world will need in the near-term and for decades to come.

- "The Green New Deal" is just another very expensive political scheme that will have very little impact on the environment. Wind & Solar generate electricity, so they will have close to zero impact on oil demand. The most impactful thing we can do is

Barring a Major Recession, demand for oil will exceed supply within six months.

Inventory Declines And Supply Disruptions Push Brent Toward $80

accelerate the replacement of coal fired power plants with nuclear or natural gas fueled power plants.

- Current opportunities for investors in energy: The Permian Basin is the only U.S. oil basin that still has significant upside. There are still money making drilling opportunities in the Williston Basin in North Dakota, Eagle Ford in South Texas, DJ Basin in Colorado, Powder River Basin in Wyoming and SCOOP & STACK in Oklahoma. For natural gas, the Haynesville has the most upside because of its access to the LNG export facilities along the Gulf Coast.

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

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