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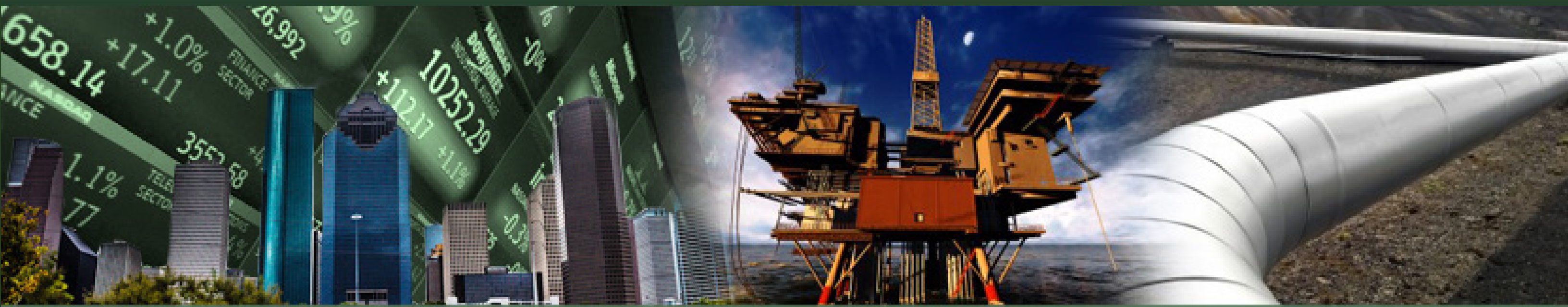
The View from HOUSTON



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Energy Prospectus Newsletter: "The View from Houston" May 30, 2023 Issue: 205

By: Dan Steffens, President

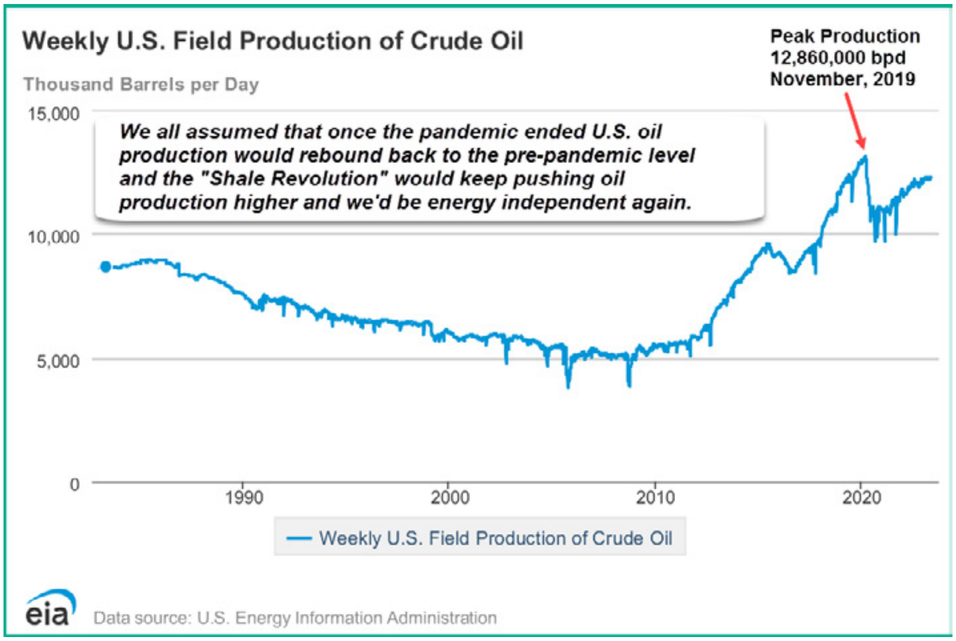
Dan Steffens is the President of Energy Prospectus Group (EPG), a networking organization based in Houston, Texas. He is a 1976 graduate of Tulsa University with an undergraduate degree in Accounting and a Masters in Taxation.

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.



Most Energy Sector analysts are forecasting that demand for oil-based products will exceed supply by the end of this summer.

Most of us learned that when demand exceeds supply for any commodity, the price must increase to lower demand. What I have also learned from living through seven significant oil price cycles is that demand for oil-based transportation fuels is not elastic. It takes a big increase in price to lower demand for gasoline, diesel and jet fuel.

In their most recent "**Oil Market Report**", the **International Energy Agency (IEA)** forecast that global oil demand will increase 2.2 million barrels per day (bpd) year-over-year in 2023, with most of the increase coming after Memorial Day. What is even more concerning is that U.S. and OECD petroleum inventories have been depleted since they went way above normal in 2020 thanks to the pandemic. In addition to lower-than-normal commercial inventories of fuels that our economy runs on, we have drained our Strategic Petroleum Reserve by 50%. A diesel shortage can turn into an **Energy Crisis** if we don't have enough black oil feedstock to make the most critical fuel for our economy to run on.

Outside of the OPEC cartel, there are no other countries with additional supplies of oil that can quickly be brought online.

Why don't we just Drill Baby Drill? The chance of U.S. oil production getting back to the pre-pandemic level of 12.9 million barrels per day (bpd) this year has gone from "slim" to "none". In the EIA's most recent "Petroleum & Other Liquids" report dated May 24th they said that U.S. crude oil production for the week ending May 19th was approximately 12.3 million barrels per day. The EIA's weekly estimates of oil production have been flopping around in the 12.2 to 12.3 million bpd range since December 2022.

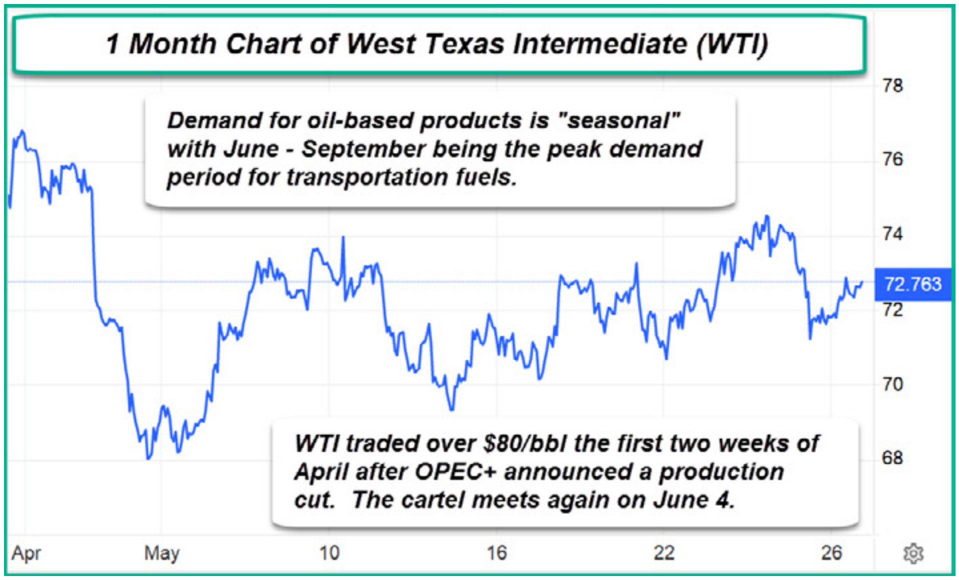
The EIA's most recent 914 report (which lags the EIA's weekly guestimates by three months) shows actual production of crude oil & lease condensate from state reports for February 2023 was 12,483.000 bpd. Assuming that lease condensate is the difference, it shows almost flat U.S. oil production since September 2022.

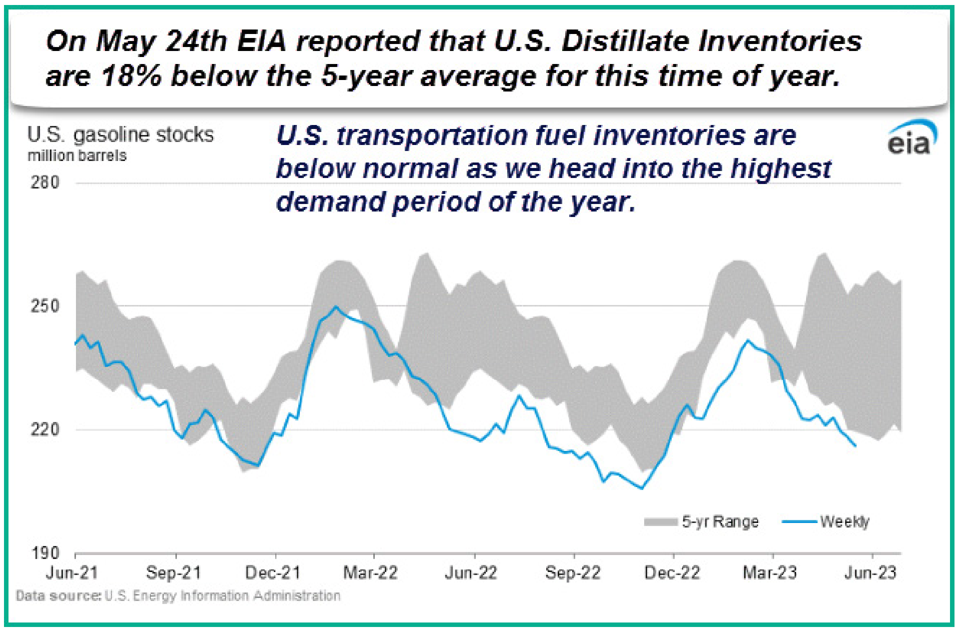
There are several reasons why U.S. oil production growth has stalled.

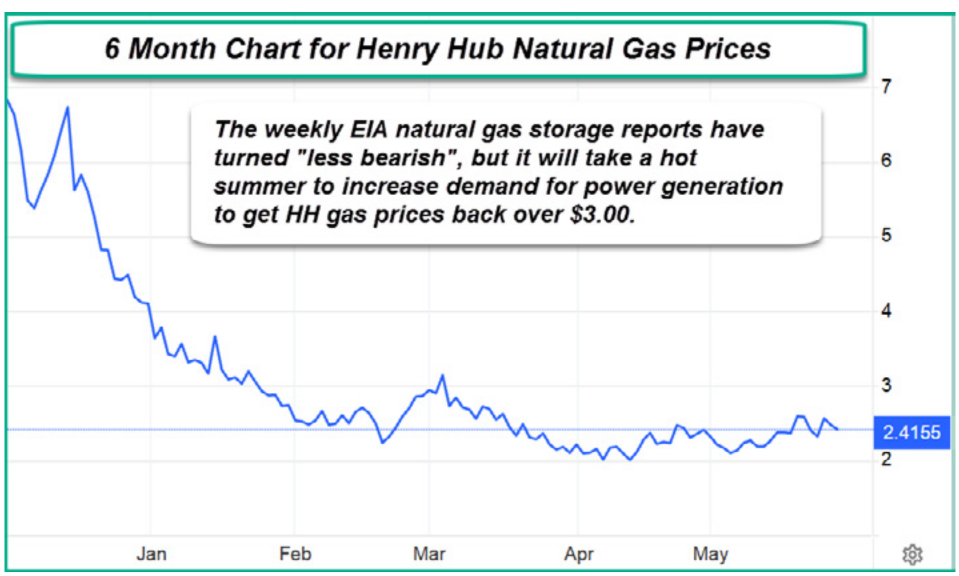
We are not completing enough new wells to offset natural declines of older wells.

On May 26th Baker Hughes reported that the total number of active drilling rigs in the United States fell by 9 last week, after falling by 11 the previous week and 17 the week before that. At 711 active rigs, the U.S. has 16 less active drilling rigs than at this time a year ago and 364 fewer rigs than the rig count at the beginning of 2019, that year's drilling activity peak prior to the pandemic. The number of rigs drilling for oil fell by 5 to 570. Gas rigs fell by 4 to 137. Miscellaneous rigs stayed the same at 4.

Most of the "Good DUCs" we had in







inventory at the beginning of 2022 are gone.

In 2022 U.S. upstream companies completed more than 2,500 more horizontal oil wells than they drilled last year. That was possible because we started last year with thousands of very good drilled but uncompleted wells ("DUCs") in inventory. Oil prices were low in 2020 and most of 2021, so upstream companies elected not to complete many of their high decline rate horizontal wells during months they would have been getting low oil prices.

During 2022, U.S. oil production increased by almost a million bpd year-over-year.

Once we get through winter, upstream companies normally increase drilling & completion activity. Not this year.

Primary Vision's Frac Spread Count, an estimate of the number of crews completing unfinished wells—a more frugal use of finances than drilling new wells, fell by 10 for the second week in a row in the week ending May 19, to 262—the lowest number of completion crews in operation since January. Fracking crews have diminished in number for three weeks in a row, losing a total of 32. Year-over-year, it is 26 fewer than a year ago.

Upstream Public Companies remain under pressure to pay dividends and fund stock buybacks.

Lower natural gas prices and to a lesser extent lower oil prices have public companies cutting back on drilling programs so they can keep paying base dividends. Many of the companies mentioned in this report are also paying down debt and funding stock buybacks rather than spending money on aggressive drilling programs.

Private Companies are not completing enough good wells.

This is hard to confirm, but I have heard that the private companies that raised a lot of money when oil & gas prices were much higher in late 2021 and early 2022 are running out of Tier One drilling locations. It makes sense since most private upstream companies cannot afford to carry large inventories of undrilled leasehold. This is also a big part of the drop in the active drilling rig count discussed above.

Conclusions:

- My take is that we will soon see much higher oil prices. The "noise" of the debt ceiling crisis, fear of a recession, fear of what the Fed will do next, fear of climate change, etc. will fade and the reality that this world runs on oil and that we don't have enough to keep the wheels turning will be a major **Paradigm Shift**.
- The **False Paradigm** that wind, solar and EVs will lower oil demand has been exposed.
- Oil price cycles that are the result of supply shortages push fuel prices higher for longer.
- The U.S. natural gas market is much different than the global oil market. The gassers need some **Global Warming**, which I call "**Summer**", to ramp up demand for power generation.

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.

May 30: LithiumBank Resources (LBNK.V and LBNKF) will be hosting a webinar for EPG members at 10AM CT.

June 14: Earthstone Resources (ESTE) will be hosting a Houston luncheon for EPG at Tanglewood, 5430 Westheimer Rd. (about a mile 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

On May 26th the front month NYMEX contract for West Texas Intermediate (WTI) rebounded to close at $72.76 a barrel, following a 3.3% slump the day before. During the first week of May, WTI dipped to $67.78, but has been trending higher as the Memorial Day holiday approached. Memorial Day is the beginning of the summer vacation season, the highest demand period of the year for transportation fuels. Summer blend gasolines also require more crude oil, increasing demand for "black oil" like WTI and Brent.

Oil Traders continue to monitor the ongoing debt ceiling negotiations in Washington while weighing the supply outlook ahead of the OPEC+ meeting on June 4th. Russian Deputy Prime Minister Alexander Novak pushed back against expectations of further OPEC+ production cuts, in contrasting remarks from Saudi Arabian Energy Minister Prince Abdulaziz bin Salman who warned short sellers to "watch out" for potential consequences. In their May "Oil Market Report" the IEA raised their oil demand forecast for 2023, but the demand growth outlook in China remains fragile,

Oil & Natural Gas Prices used in my valuation models

Updated	Oil & Gas Prices used in Forecast Models					
5/1/2023	2023					2024
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast
WTI Oil	$ 76.11	$ 75.00	$ 80.00	$ 90.00	$ 80.28	$ 90.00
HH Gas	$ 2.72	$ 2.25	$ 2.50	$ 2.75	$ 2.56	$ 3.50

Natural Gas Price

Now that the JUN23 NYMEX futures contract is in the rear-view mirror, the gas traders will focus on weather forecasts. Some Global Warming is needed to increase natural gas demand for power generation. The JUL23 contract, which is now the front month closed at $2.41/MMBtu on May 26th.

Keeping a lid on gas prices are increased production and revised weather forecasts indicating lower demand in the coming weeks. The average gas output in the U.S. Lower 48 states rose to 101.5 billion cubic feet per day (Bcfpd) so far in May, surpassing April's record. Despite a smaller-than-expected storage build, prices declined due to rising Canadian exports to the U.S. and milder weather conditions. Meteorologists projected near-normal weather conditions through June 9, and U.S. gas demand, including exports, is expected to ease in the coming week.

Gas exports from Canada started to rise as energy firms ramped up production with easing fire conditions. Meanwhile, the amount of U.S. power generated by wind dropped, leading to increased gas usage by power generators. Gas flows to major U.S. LNG export plants have decreased due to maintenance work, but despite the recent decline in gas prices in Asia and Europe, the profit margins for LNG are high enough to keep demand for U.S. LNG at maximum capacity.

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, generate lots of operating cash flow and hold plenty of low-risk drilling inventory ("running room"). Eleven of them pay dividends and/or have stock buybacks underway.

All 16 companies in the portfolio reported first quarter net income and operating cash flow per share that met or beat my forecasts. As of the date of this report, oil and natural

New Profiles

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

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

Company Profiles:

- Antero Resources (AR and AM)
- Callon Petroleum (CPE)
- Crescent Point Energy (CPG)
- Comstock Resources (CRK)
- Earthstone Energy (ESTE)
- EOG Resources (EOG)
- EQT Corp. (EQT)
- Matador Resources (MTDR)
- Northern Oil & Gas (NOG)
- Permian Resources (PR)
- Riley Exploration Permian (REPX)
- SilverBow Resources (SBOW)
- SM Energy (SM)
- Vital Energy (VTLE)

gas prices for the 2nd quarter have averaged very close to what I have used in my forecast models; $75/bbl for WTI crude oil and $2.25/MMBtu for natural gas. If commodity prices for the quarter hold near those prices, all 16 companies should report profits again for the 2nd quarter.

You can download updated profiles and forecast models for each company in the Sweet 16 directly from the EPG website. Just log on and click on the Sweet 16 tab to find them under the logo of each company.

It is somewhat surprising that **Range Resources (RRC)** leads the pack (up 17.5% YTD) because it is a "gasser". Since HH natural gas prices spiked to over $7.00/MMBtu in November, 2022 the commodity's price seems to be under constant pressure. Since I have been following RRC closely for over 15 years, I have a high level of confidence in my forecast model. I also know that this company has a very good marketing team that knows how to move their gas to regions that gets the Company higher than HH gas prices that you see quoted in the news each day. Range's realized natural gas price in the first quarter was $3.58/mcf, which compares to the average HH gas price for Q1 of $2.72/Mmbtu.

Here are several reasons that more investors are taking a look at RRC:

- Range has a large and extremely valuable leasehold position in Appalachia, where horizontal wells produce natural gas and NGLs from the Marcellus and Utica shales at high rates. Most of their Tier One leasehold is held-by-production.

- Based on their December 31, 2022 3rd party reserve report, Range has more than 18 Tcfe of proven reserves with a PV10 Net Asset Value of $48.26 per share.

- Thanks to some very good hedges, Range is on pace to generate more than $550 million of free cash flow from operations this year.

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			5/26/23		
ANTERO RESOURCES	GAS	AR	$21.67	$35.00	61.51%
CALLON PETROLEUM	OIL	CPE	$32.01	$77.00	140.55%
COMSTOCK RESOURCES	GAS	CRK	$9.70	$18.75	93.30%
CRESCENT POINT ENERGY	OIL	CPG	$6.53	$13.00	99.08%
EARTHSTONE ENERGY	OIL	ESTE	$12.77	$32.00	150.59%
EOG RESOURCES	OIL	EOG	$110.12	$157.00	42.57%
EQT CORP	GAS	EQT	$36.09	$47.50	31.62%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$43.27	$114.00	163.46%
MAGNOLIA OIL & GAS	OIL	MGY	$19.90	$30.00	50.75%
MATADOR RESOURCES	OIL	MTDR	$46.27	$82.00	77.22%
NORTHERN OIL & GAS	OIL	NOG	$30.99	$58.00	87.16%
OVINTIV INC (was ENCANA)	OIL	OVV	$34.44	$64.00	85.83%
PERMIAN RESOURCES	OIL	PR	$9.66	$16.50	70.81%
RANGE RESOURCES	GAS	RRC	$29.01	$31.00	6.86%
SILVERBOW RESOURCES	GAS	SBOW	$23.57	$78.00	230.93%
SM ENERGY	OIL	SM	$27.52	$52.00	88.95%

- If a Major decided they want to acquire more U.S. natural gas reserves, RRC would be on a short list of potential Takeover Targets.

EQT Corp. (EQT), the largest natural gas producer in the U.S., is also up YTD because it has a very good hedge book. Based on my forecast, EQT is likely to generate more operating cash flow this year than they did last year. It is taking the Company longer than expected to close the Tug Hill and XcL Acquisitions, but it should close them both in Q4. It sure would be nice for EQT shareholders if natural gas was over $3.50/MMBtu on the closing date. The DEC23 NYMEX futures contract for HH gas closed at $3.53 on May 26th.

EOG Resources (EOG) is the largest company in the Sweet 16 with a market-cap over $64 Billion. If you think size matters in this business, which it does, then EOG should be one of your core holdings. It pays a decent base dividend (~3% annualized yield) and it will soon have production over a million Boe per day. I started following EOG when it was smaller than some of the companies that are in our Small-Cap Growth Portfolio today. I keep it in the portfolio to remind us that well-funded upstream companies with high-quality & determined management teams can grow to very large and successful companies in this capital intensive business.

The company with the smallest market-cap ($533 million) in the

Sweet 16 is **SilverBow Resources (SBOW)**. It is currently trading below its book value of $884 million despite being the 3rd most profitable Sweet 16 company on a per share basis in 2022. Based on my forecast, it is likely to be in the top five most profitable companies in this year's Sweet 16. Lack of Wall Street coverage is the only thing I can find that justifies the current share price. Only three energy sector analysts cover SBOW and their EPS estimates for 2023 submitted to First Call average $8.93 EPS. This Company needs to get out more and tell their story because no company that is this profitable should be trading below book value.

Callon Petroleum (CPE) expects to close two strategic transactions in July that should draw some "love" from the Wall Street Gang. They are selling their **Eagle Ford** assets for $655 million in cash and buying Percussion **Petroleum Operating II, LLC** a private Permian Basin company with current production of 14,100 Boepd (~70% oil) for $265 million in cash + 6.46 million shares of CPE. The cash + stock deal is valued at $475 million. Closing both deals should net Callon close to $390 million in cash that will significantly improve the Company's balance sheet.

In addition to the current production, the company being acquired has lots of leasehold in the core of the Delaware Basin, which Callon believes has 70+ premium horizontal drilling locations.

Callon's Q1 2023 production was 99,768 Boepd. After the two deals close in July, Callon will be a pure play on the Permian Basin with ~105,000 Boepd (~61% oil) of production and 1,500 high-quality HZ drilling locations. It will also have a much stronger balance sheet.

Earthstone Energy (ESTE), which is hosting our next Houston luncheon on June 14th and Vital Energy (VTLE) continue to trade at less than half of my current valuations. Earthstone has the highest year-over-year production growth rate in the Sweet 16 and Vital is likely to be the most profitable company on a per share basis in the portfolio for the second year in a row.

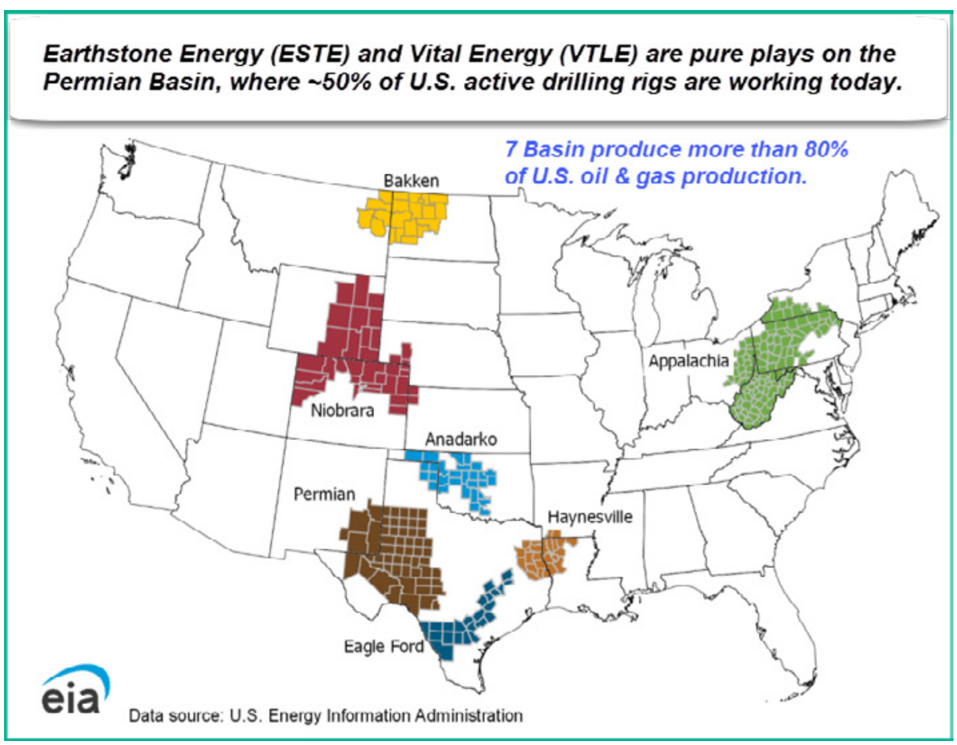
All of the other companies in the portfolio are off to a good start this year. These are upstream companies with strong management teams and lots of running room.

Before you invest in any of the companies in the Sweet 16, or those mentioned below, read our profiles and take 30 minutes to study my forecast/valuation models. If you have any questions, post them to the EPG Forum and I will do my best to answer them.

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Elite Eight, but they also have more potential. I am bullish on this group because for their growth strategies and financial strength. They all reported solid financial result for 2022, using last year's free cash flow to shore up their balance sheets. Strong Q1 2023 results and updated production guidance have all ten companies on-track for another profitable year. Their 2023 drilling programs should increase proved reserve and increase shareholder value.

On May 25th **Talos Energy (TALO)** announced that a wholly owned subsidiary of **Grupo Carso ("Carso")**, has agreed to acquire a 49.9% interest in **Talos's Mexican subsidiary ("Talos Mexico")**, which holds the



Company's 17.4% stake in the **Zama Prospect**, which is estimated to hold several hundred million barrels of recoverable oil.

Carso is one of the world's largest conglomerates and is headquartered in Mexico City, Mexico. Talos will remain the controlling shareholder of Talos Mexico. The transaction is expected to close within the third quarter of 2023, as it is subject to approval by Mexico's Federal Economic Competition Commission ("COFECE").

Mexican billionaire Carlos Slim is the controlling shareholder of Grupo Carso. He also has considerable influence with Pemex, the national oil company of Mexico.

The purchase price of $124.75 million for the 49.9% stake in Talos Mexico, implying a minimum valuation of approximately $250 million for the full 17.4% stake in Zama, potentially increasing to $262.5 million if certain milestones are reached. $74.85 million will be paid at closing, with the remaining $49.90 million due at first production.

"The transaction could add ~$2.30/share to our NAV estimate of $34.65/share for TALO, which excludes Zama. We view this news positively as we believe most investors ascribed no value to the discovery (consistent with our NAV estimate) due to its history of delays over disputed interests." – Stephens Inc. 5-26-2023, which rates TALO as "Overweight" with a price target of $21.

My current $24/share valuation of TALO has nothing in it for Zama or their Carbon Capture & Sequestration (CCS) business.

Also on May 25th, **Hemisphere Energy (HMENF)** announced Q1 2023 results that beat my forecasts for production and top line revenues. The Company generated $6.8Cdn million of free cash flow from operations during the quarter, which was more than enough to cover their quarterly dividend of $2.5Cdn million ($0.025/share) and pay off most of their debt. They exited the first quarter with a positive working capital position of $3.0 million, compared to $8.7 million net debt at the end of March 2022.

Hemisphere's realized oil price was only $65.12Cdn/bbl in Q1 due to higher than normal differentials for their heavy oil. The price differentials on the Company's heavy oil are now expected to improve by over $9.00/bbl in the second quarter, increasing their operating cash flow by approximately $1.1 million to $9.4 million, despite an expected seasonal decline in production of ~200 Boepd from Q1 to Q2. This year's drilling program ramps up in June, so the Company's production growth is expected to accelerate in 2H 2023. Hemisphere's production was not impacted by the recent wildfires in Western Canada and they expect to ramp up production from 3,171 BOPD in Q1 to a 2023 exit rate over 3,600 BOPD.

InPlay Oil (IPOOF) reported Q1 2023 production of 9,021 Boepd and financial results that beat my forecast causing me to increase my stock valuation by $0.25 to $6.00US per share; net of a $0.10/share offset for the impact of the wildfires.

- Q2 production is now forecast to be down ~700 Boepd due primarily to wildfire related shut-ins, but production should rebound quickly in June and move a lot higher in 2H 2023 to an exit rate over 11,500 Boepd.
- My 2023 forecast is based on the midpoint of their updated full year production guidance of ~10,000 Boepd (~44% crude oil and ~16% NGLs).
- InPlay is free cash flow positive and pays a monthly dividend.
- It has hundreds of low-risk / high-return development drilling locations ("running room").
- InPlay's balance sheet is strong and the Company should be virtually debt free by the end of Q3 2023.

Kolibri Global Energy (KGEIF) is a recent addition to the portfolio and I am quickly gaining more confidence in my forecast/valuation model. Wolf Regener, CEO spoke at our Houston luncheon on May 16th. This Company has a lot of near-term upside in the **Central Oklahoma Scoop Play**.

They have over 17,000 acres of leasehold that is held-by-production

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			5/26/23		
HEMISPHERE ENERGY	OIL	HMENF	$0.93	$2.25	141.94%
INPLAY OIL	OIL	IPOOF	$1.88	$6.10	224.47%
KOLIBRI GLOBAL ENERGY	OIL	KGEIF	$3.49	$8.50	143.55%
PHX MINERALS	OIL	PHX	$2.91	$5.25	80.41%
RILEY EXPLORATION PERMIAN	OIL	REPX	$33.35	$51.00	52.92%
RING ENERGY	OIL	REI	$1.80	$4.45	147.22%
ROK RESOURCES	OIL	PTRDF	$0.31	$0.75	141.94%
SOLARIS OILFIELD INFRA-STRUCTURE	SERVICES	SOI	$7.93	$15.75	98.61%
SURGE ENERGY	OIL	ZPTAF	$5.80	$12.25	111.21%
TALOS ENERGY	OIL	TALO	$12.72	$24.00	88.68%

in their **Tishomingo Field**. On production of 1,638 Boepd (75.6% crude oil) in 2022, Kolibri reported $16.6 million ($0.47/share) of net income and $23.7 million ($0.66/share) of operating cash flow. The Company has low amount of debt, ample liquidity and a strong commitment to fund future production growth with operating cash flow.

They reported Q1 2023 production of 3,194 Boepd (76.1% crude oil), $0.22 net income per share and $0.31 of operating cash flow per share.

Kolibri plans to complete 5 to 7 new high-rate horizontal wells in 2023. The first three HZ wells have been drilled with one-mile laterals: two in the Caney formation and one in the T-zone. All three wells will be completed with zipper fracs in June. I expect these three wells to push the Company's production over 4,000 Boepd in July. Two more horizontal wells to be completed in the Caney formation in early Q4 should push production over 4,800 Boepd. If the first five wells produce at or above the type curves, Kolibri should drill two more wells in mid-Q4.

The December 31, 2022, reserve report prepared by **Netherland Sewell & Associates (NS)** shows that Kolibri's 17,171 net acres in the Tishomingo Field holds-by-production 60 additional proved HZ drilling locations and 63 additional HZ probable drilling locations. Netherland Sewell's average Estimated Ultimate Recovery (EUR) for each of the proved locations is 572,000 Boe (~75% crude oil). All four of the horizontal wells that Kolibri completed in 2022 that utilized their new completion technique are producing at rates that exceed the NS type curve. This year's development wells with one-mile-long laterals are expected to cost an average of $7.2 million to drill & complete. At an average oil price of $75/bbl these new wells should pay out in less than a year after being completed to sales.

Thanks primarily to the Enerplus Asset Acquisition that **Surge Energy (ZPTAF)** closed on December 19, 2022, the Company reported Q1 2023 production of 25,138 Boepd (an increase of 3,071 Boepd) quarter-over-quarter. Surge was not forced to shut-in any production during the recent wildfires in Western Canada. Surge pays monthly dividends and it has a lot of running room.

On May 26th **ROK Resources (ROK)** announced Q1 2023 results in line with my forecast model. Production was 4,140 Boepd for the quarter and their balance sheet is now in great shape after they paid off the remaining balance of their $52.5Cdn million term loan in May. ROK was forced to shut-in some wells in the Kaybob area, but it only lowers my Q2 production forecast by 300 Boepd (80% natural gas). This Canadian Junior has a lot of upside for us, including a high-potential lithium recovery project in Saskatchewan through a 25% stake in **Hub City Lithium Corp**.

On April 4th **Riley Exploration Permian (REPX)** closed the Pecos Acquisition that increased the Company's production by ~7,200 Boepd (58% oil and 23% NGLs) to ~20,000 Boepd. After increasing their production by 33.1% in 2022, Riley is now on-track to increase production by over 63% in 2023. This year's drilling program and their quarterly dividends ($0.34/share) are covered by operating cash flow. Riley is an "Aggressive Growth" company that deserves to trade at a much higher multiple than 3X operating cash flow per share. Read the profile on REPX that we published on May 26th.

We will be publishing updated profiles on all of the remaining nine companies in this portfolio during June.

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. This model portfolio has outperformed the Sweet 16 and the Small-Cap Growth Portfolio this year because it offers investors safety during a period of uncertainty. A portfolio of stocks that pay high dividends is a nice place to park your money when commodity prices seem to lack direction.

The portfolio is divided into three groups.

Minerals Companies (often referred to as Royalties Companies) are safe bets because they own mineral interests that do not expire. Their revenues are primarily from the royalties that get paid to them by the upstream companies that have producing wells on acreage where they hold the minerals. From time-to-time they get paid some significant lease bonuses. These companies have very low cash expenses and they pay out a high percentage of their operating cash flow in the form of quarterly dividends.

Large-Cap Upstream Oil & Gas Companies that pay Fixed + Variable dividends. The five companies were selected because they have strong balance sheets, generate a lot of operating cash flow and they have large inventories of high-quality development drilling locations. Several of them are currently returning more cash to shareholders in the form of aggressive stock buybacks.

Midstream Companies that get the majority of their revenues from fee-based gathering, processing, transportation and storage contracts. They have low commodity price risk.

On May 20, 2023 **PDC Energy (PDCE)** announced that it had agreed to be acquired by **Chevron Corp. (NYSE: CVX)** in an all-stock merger valued at $6.3 billion, or $72 per share. Based on Chevron's closing price on May 19, 2023 and under the terms of the agreement, PDC shareholders will receive 0.4638 shares of Chevron for each PDC share. Stock-for-stock

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			5/26/23				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$15.86	12.0%	$1.90	Qtr	$18.50
KIMBELL ROYALTY PARTNERS	GAS	KRP	$15.28	9.7%	$1.48	Qtr	$22.00
SITIO ROYALTIES CORP	OIL	STR	$25.45	7.7%	$1.97	Qtr	$32.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$26.38	7.0%	$1.85	Qtr	$34.50
Upstream Companies							
COTERRA ENERGY	GAS	CTRA	$24.24	4.2%	$1.01	Qtr	$29.00
DEVON ENERGY	OIL	DVN	$48.07	7.5%	$3.60	Qtr	$67.00
DIAMONDBACK ENERGY	OIL	FANG	$130.99	4.5%	$5.85	Qtr	$177.00
PDC ENERGY	OIL	PDCE	$70.34	2.3%	$1.60	Qtr	$103.00
PIONEER NATURAL RESOURCES	OIL	PXD	$207.93	9.1%	$18.83	Qtr	$260.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$10.44	8.6%	$0.90	Qtr	$13.50
ONEOK, INC.	Midstream	OKE	$57.30	6.7%	$3.82	Qtr	$67.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$14.30	7.5%	$1.07	Qtr	$18.00

mergers are income tax deferred. Your tax basis in PDCE will just transfer to CVX.

The total enterprise value, including debt, of the transaction is $7.6 billion. The transaction price represents a premium of 14% on a 10-day average based on closing stock prices on May 19, 2023.

The transaction has been unanimously approved by the Boards of Directors of both companies and is expected to close by year-end 2023.The acquisition is subject to PDC shareholder approval. It is also subject to regulatory approvals and other customary closing conditions. I am expecting PDC to just pay its base dividend of $0.40/quarter until the deal closes. I will be replacing PDCE in the portfolio during June.

Chevron is a very large multi-national company with a current market-cap over $290 billion. It pays a quarterly dividend that is currently $1.51/share.

Rumors continue to spread that **ExxonMobil (XOM)** will make an offer to buy **Pioneer Natural Resources (PXD)**. In my opinion, the offer price will need to be much higher than where PXD was trading at the time of this report. Pioneer's high dividend yield should continue. If PXD does decide to take an offer from XOM or any other company, you should get a nice premium to the current share price.

Coterra Energy (CTRA) and Diamondback Energy (FANG) show lower yields this month because they have decided to use more of their free cash flow to repurchase stock. Coterra's free cash flow is down due to lower natural gas prices this year.

Diamondback is more heavily weighted to oil and it remains on pace to generate over $3 billion of free cash flow this year. They have confirmed their commitment to return at least 75% of free cash flow to shareholders, but they have decided to repurchase more stock instead of paying higher cash dividends. In total, the Company repurchased 2.53 million shares for $332 million ($131.34 / share average) in the first quarter. Since the inception of the share repurchase program, they have repurchased 15.86 million shares for $1.93 billion ($121.85 / share average). Diamondback still has approximately $2.1 billion authorized to repurchase their stock, which at the current share price would buy back over 16 million shares (~9% of outstanding stock). Obviously, a significant reduction in the outstanding stock will improve per share results and should push the share price higher than my current valuation of $177/share.

Devon Energy (DVN) is on-track for more than 7% production growth this year while it generates more than $3.1 billion in free cash flow. Based on the Company's guidance, Devon is expected to report more than a 10,000 bpd increase in NGL production from Q1 to Q2. I will attempt to get more details on what's causing the surge in NGL production before we publish an updated profile on Devon late this week.

On May 14, 2023 **ONEOK, Inc. (OKE) and Magellan Midstream Partners, L.P. (NYSE: MMP)** announced that they have executed a definitive merger agreement under which ONEOK will acquire all of the outstanding units of Magellan in a cash-and-stock transaction valued at approximately $18.8 billion including assumed debt, resulting in a combined company with a total enterprise value of approximately $60 billion. The consideration will consist of $25.00 in cash and 0.6670 shares of ONEOK common stock for each outstanding Magellan common unit, representing a current implied value to each Magellan unitholder of $67.50 per unit, for a 22% premium, based on May 12, 2023 closing prices.

ONEOK and MMP are both based in Tulsa. I have followed both of these strong midstream companies for over a decade. This merger makes sense. It should be accretive to ONEOK's per share results, increasing the chances that ONEOK will increase its dividends in 2024.

I have updated my forecast/valuation model for ONEOK based on the assumption that the merger will close in Q3 2023. The Company's operating cash flow should increase by approximately $200 million per quarter post-closing.

I also expect **Plains All American Pipeline (PAA and PAGP)** to increase their dividends next year since it is generating a lot more distributable cash flow (DCF) than PAA's current distributions. PAGP is a C-Corp. that pays dividends identical to PAA's quarterly distributions.

Antero Midstream (AM) is a much smaller company than OKE or PAA. I give it a high safety rating because of its relationship with **Antero Resources (AR).**

I have updated the forecast/valuation models for all of the minerals companies and we will be publishing updated profiles on them early in June. All four of them are doing well and they continue to generate lots of free cashflow. **Black Stone Minerals LP (BSM)** is the only MLP in the portfolio. It is the most heavily weighted to natural gas, but it was wise of them to hedge more than 50% of their 2023 gas production at more than $5.10/mcf. The other three **(KRP, STR and VNOM)** have elected to be taxed as C-Corps. They are more weighted to oil and they have more near-term growth potential than BSM.

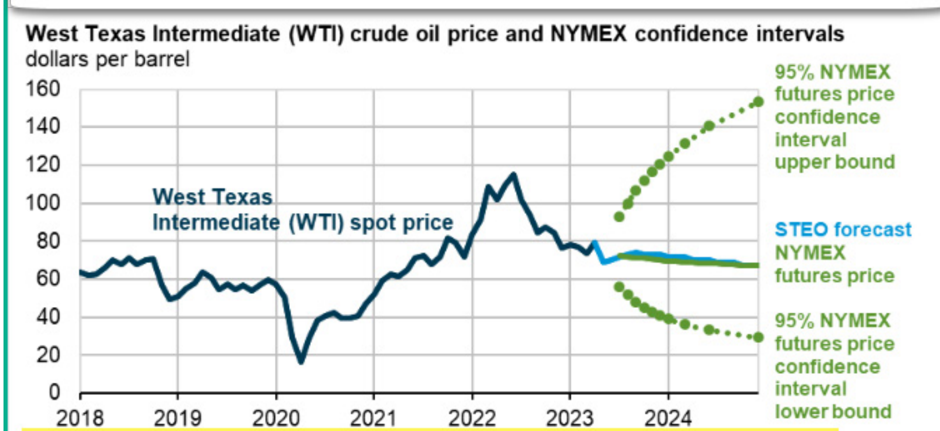
Final Thoughts

The hardest part of building a reliable forecast/valuation model for each company is coming up with reasonable commodity price forecasts. Each month the U.S. Energy Information Administration (with a multi-$billion budget) publishes its Short-Term Energy Outlook ("STEO"). It contains oil and gas price forecasts that are in my opinion worthless. As you can see from the chart, they are now forecasting that WTI prices will be within the range of $40/bbl to $125/bbl at the end of 2023 and within the range of $30/bbl to $150/bbl by the end of 2024 "with 95% confidence". In my opinion, that kind of forecast is not only worthless, but also laughable.

Plus, the "STEO Forecast" shown in blue is just the NYMEX futures strip, which everyone knows is not a forecast. Futures contracts are "derivatives" that derive their price from the current price of oil & gas adjusted for the risk factors the paper traders put on those commodities.

As you can tell from my opening remarks, I believe that for the price of oil the supply & demand risk factors point to much higher oil prices by the end of this year. Barring a MAJOR Global Recession, demand for oil-based products will exceed supply by at least 2 million bpd within a few month. In my opinion, the risk of WTI trading near $40/bbl in Q4 is less than 0.01% and the risk of it trading over $100/bbl by then is near 50%. As of the date of this reports, Raymond James WTI oil price forecast for Q4 2023 is $105/bbl.

The EIA is not a reliable source for an oil price forecast



Data source: U.S. Energy Information Administration, Short-Term Energy Outlook, May 2023, CME Group, Bloomberg, L.P., and Refinitiv an LSEG Business
Note: Confidence interval derived from options market information for the five trading days ending May 4, 2023. Intervals not calculated for months with sparse trading in near-the-money options contracts.

My forecast/valuation models are currently based on lower prices than I believe we will see in the next two quarters, but I would rather err on the side of being too conservative.

I believe that the people working for the EIA and the **International Energy Agency (IEA)**, based in Paris, France know that the people who sign their paychecks want reports that support the Green New Deal or the Paris Climate Accord.

If you have been following the IEA's monthly "Oil Market Report", you should know that they have been increasing their oil demand forecast for 2023 and warning the world of an oil supply shortage just a few months away. "Oil Prices were pressured lower (in April) by muted industrial activity and higher interest rates, which, combined have led to recessionary scenarios gaining traction and worries of a downward shift in oil demand growth. The current market pessimism, however, stands in stark contrast to the tighter market balances we anticipate in the second half of the year, when demand is expected to eclipse supply by almost 2 million bpd." – Quote from IEA's Mid-May "Oil Market Report".

You can read a summary of the IEA's report for May at this **LINK**.

Susan & I were married at age 21 on May 30, 1975. So, Tuesday is

Add Bermuda to your Bucket List

our 48th wedding anniversary. "Time flies when you are having fun" is one of the most accurate statements ever made. We've been very fortunate to have lived in the "Hydrocarbon Age", the most significant period in history of improvement in human standard of living. I've had some "Game Changing" breaks in my life, but getting a football scholarship to Tulsa University, where Susan & I met, is at the top of the list. God getting our family to Houston, Texas in 1994 was another. We actually live in a Sugar Land planned community called First Colony. Sugar Land is a town about 35 miles Southwest of downtown Houston and I thank God daily for helping us find a home in First Colony, a wonderful place to live.

Our wedding anniversary gift to each other is a cruise to Bermuda that leaves from New Jersey on June 4th. We have the internet package, so I will be checking the EPG Forum from time-to-time.

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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