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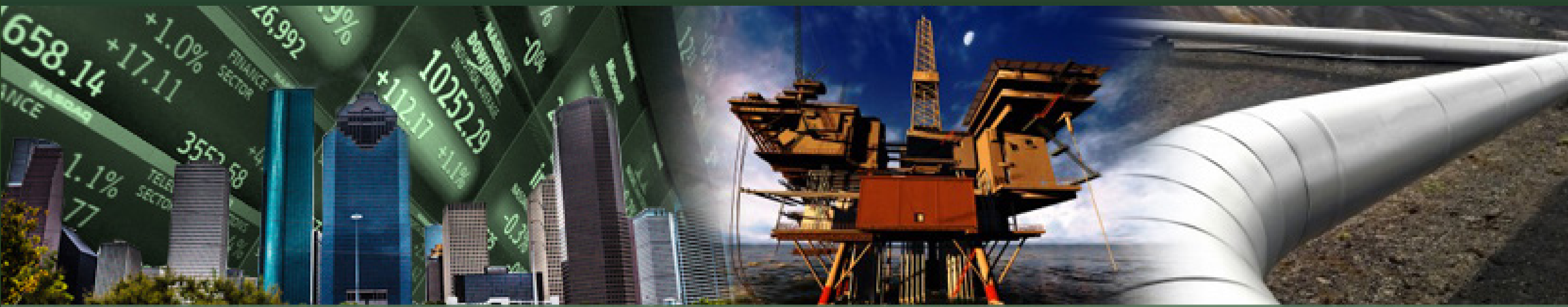
The View from HOUSTON



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Energy Prospectus Newsletter: "The View from Houston" June 26, 2023 **Issue: 206**

By: Dan Steffens, President

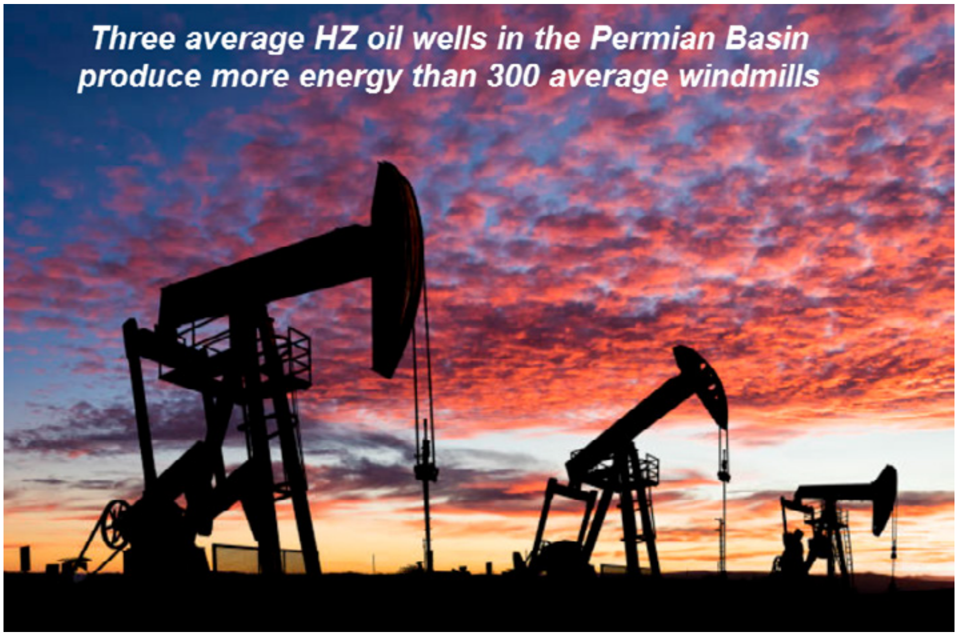
Dan Steffens is the President of Energy Prospectus Group (EPG), a networking organization based in Houston, Texas. He is a 1976 graduate of Tulsa University with an undergraduate degree in Accounting and a Masters in Taxation.

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.



The photo above is a reminder that the $Trillions that the U.S. and other OECD countries are throwing at unreliable renewable energy projects will not replace oil. The Europeans are finally starting to wake up to reality. Last week the government of Sweden ditched its targets for "100% renewable energy" supply amid a shift back to nuclear power in the latest blow for the inefficient wind & solar technology.

With total demand for energy expected to increase by 50% from 2020 to 2050 we are going to need every form of energy to support the global economy. In 2020 fossil fuels were 84% of the world's primary energy. Even the U.S. Department of Energy forecasts that fossil fuels will still provide more than 70% of primary energy in 2050 and my guess is that the number will be closer to 80% unless there is a significant shift to nuclear power plants. We will run out of money way before we reach the goals set out in the Paris Climate Accord.

The International Energy Agency (IEA) keeps increasing their oil demand forecast.

In their most recent "**Oil Market Report"**, the **IEA** raised their global oil demand growth estimate by another 200,000 bpd to 2.4 million barrels per day (bpd) year-over-year in 2023. To reach IEA's forecast of total oil demand averaging 102.3 million bpd this year, 4th quarter demand will need to average close to 104 million bpd. The OPEC cartel will need to produce at maximum capacity for the oil supply to match that level of demand.

In my opinion, Fear of the Fed is the only thing keeping a lid on oil prices. Just a few days after Jerome Powell, the Fed Chairman, announced a "pause" in interest rate hikes that caused oil prices to rise, he testified before the House that he thinks we need at least two more interest rate hikes this year. Fear is a powerful emotion and nervous hedge fund managers sold off their long positions in oil on June 22nd and early on June 23rd. After the price for WTI dipped to $67.50/bbl by noon on Friday, June 23rd the bargain hunters took advantage of the fear induced selloff and WTI closed at $69.44/bbl on Friday.

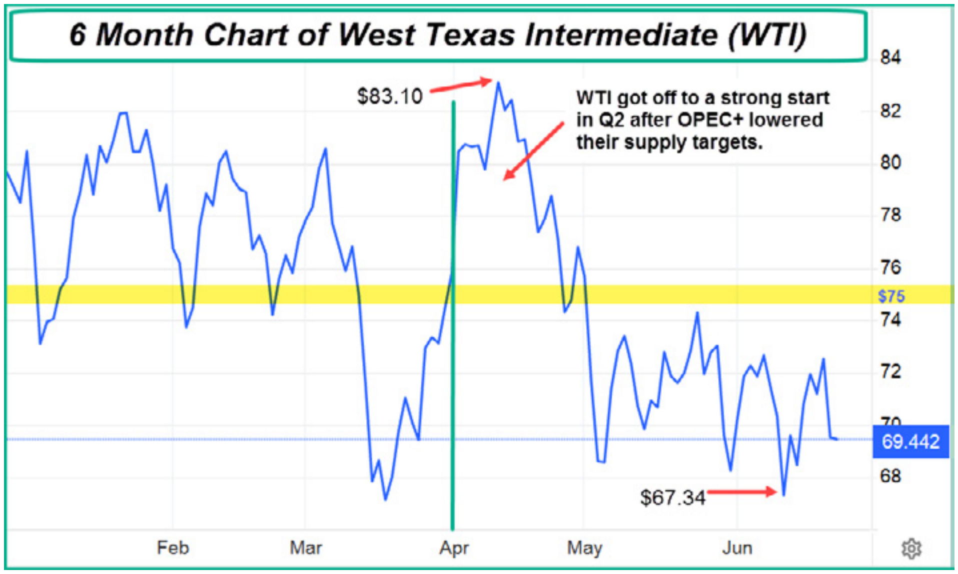
I realize that inflation is a problem, but is forcing the country into a recession the best solution? How about we try cutting back on the out-of-control spending.

Oil Price

As you can see on the chart at the top of this page, it has been a "Wild Ride" for the price of West Texas Intermediate (WTI) during the first half of 2023. I am afraid that the volatility will stay with us for awhile longer, but the fundamentals definitely point to a very tight global oil market during the second half of the year.

My forecast valuation models are based on WTI averaging $75/bbl in Q1 and Q2. The actual oil price in the futures market was $76.11/bbl in Q1 and it looks like WTI will end up averaging around $73/bbl in Q2. My forecast is that WTI will average $80/bbl in Q3. All we need is a little less Fear of Recession.

"WTI crude futures fell below $69 per barrel on Friday and were on



U.S. Oil production is back to where it was in August, 2022

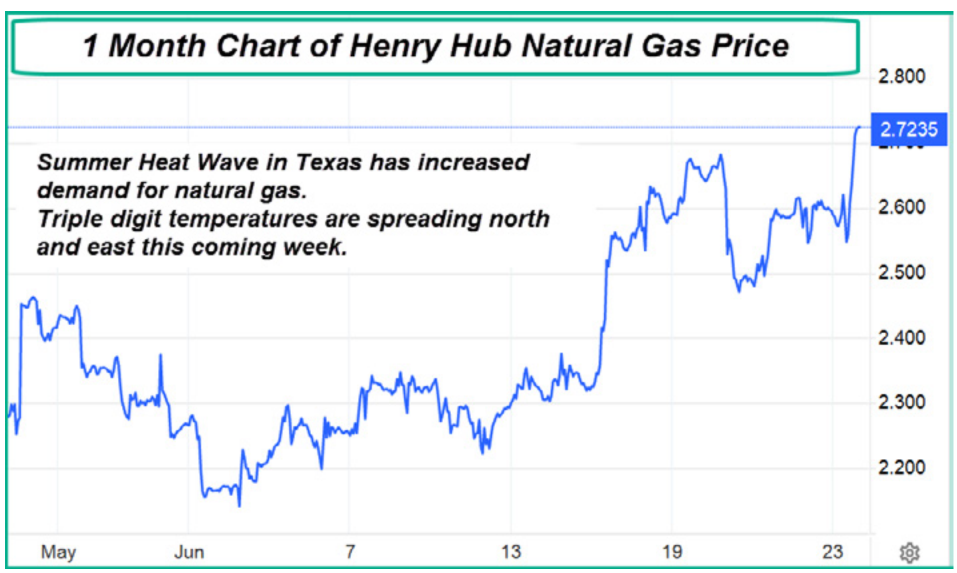
Weekly Supply Estimates < Per EIA's Petroleum Report on June 22, 2023

(Stocks in Thousand Barrels, All Other Volumes in Thousand Barrels per Day)

Data Series: Crude Oil Domestic Production **Period:** Weekly

Download Series History Definitions, Sources & Notes

Show Data By: Data Series / Area		05/12/23	05/19/23	05/26/23	06/02/23	06/09/23	06/16/23
U.S.		12,200	12,300	12,200	12,400	12,400	12,200
Lower 48		11,800	11,900	11,800	12,000	12,000	11,800
Alaska		405	438	418	430	422	425



track to lose more than 4% this week as further monetary tightening and hawkish messaging from major central banks hurt the outlook for the global economy and energy demand. On Thursday, the Bank of England and the Norges Bank raised interest rates by a bigger margin than most analysts expected, while the Swiss National Bank continued to tighten policy. Federal Reserve Chair Jerome Powell also told the US Congress that further rate hikes will be necessary to bring down inflation. Moreover, a raft of PMI data from advanced economies pointed to a sharp slowdown in manufacturing and services activities, denting market sentiment. Meanwhile, EIA data showed US crude inventories unexpectedly fell by 3.8 million barrels last week, compared to forecasts of a 0.33 million barrel rise while stocks at the Cushing, Oklahoma, delivery hub declined by 98,000 barrels." –Trading Economics 6-23-2023

Something else in EIA's weekly Petroleum Report that did not get the attention it deserves was an unexpected 200,000 bpd decline in U.S. oil production during the week ending June 16th. EIA and IEA have both been forecasting steady growth in U.S. oil production, but at 12.2 million bpd, U.S. oil production is back to where it was in August 2022.

The reason that U.S. production growth has stalled is because we are completing a lot fewer wells this year than we did in 2022. At the beginning of 2022 upstream companies had several thousand high-quality drilled but uncompleted (DUC) wells in inventory. Last year more than 2,000 more HZ shale oil wells were completed than were drilled. By the end of 2022, the DUC inventory was depleted and contained a lot of "Dead DUCs" that will never be completed.

On June 22nd I got the following note from the Chief Investment Officer at UBS Investment Research that sums up the fundamentals that point to much higher oil prices within a few months:

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.

July 10: Midwest Energy Emissions Corp. (MEEC) will be hosting a webinar for EPG members at 11AM CT.

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.

"The implementation of the voluntary production cuts by several OPEC+ member states has pushed OPEC crude oil exports to the lowest level since June 2022. OPEC crude exports are running around 900,000 bpd lower over the first three weeks of June than in April, according to data from Petro Logistics. Saudi Arabia has done the heavy lifting, cutting their exports by more than 1 million bpd. Exports from the UAE and Kuwait are also running lower. Iraqi exports were up marginally after a large drop in late March, when exports from northern Iraq were shut in. Nigeria has offset a larger drop in OPEC exports, with Nigerian exports up almost 500,000 bpd versus April following the end of strikes."

"We expect OPEC exports to fall further in July, with Saudi Arabia cutting its production by another 1 million bpd next month. The last time the Kingdom unilaterally cut its production by the same amount in February 2021, the move translated to a similar drop in crude exports. Higher official Saudi selling prices for July will have also likely reduced demand for Saudi barrels. As such, we expect Saudi exports to come in below 6 million bpd in July, levels last seen in June 2020."

"With oil demand seasonally rising during the Northern Hemisphere summer alongside the lower supply, the result should be larger oil inventory declines ahead. This is likely to be first seen in lower oil on tankers in transit before later impacting on-land oil inventories."

UBS official forecasts for Brent oil:

- $85/bbl by September 2023
- $90/bbl by December 2023
- $95/bbl by March 2024
- $95/bbl by June 2024

Goldman Sachs and Raymond James are also forecasting that Brent moves into the $90s by Q4 2023.

Natural Gas Price

Since the end of May the price of natural gas at the Henry Hub in Louisiana has increased by more than $0.50/MMBtu thanks to the spike in demand for power generation. The price of $2.72 reported on June 23rd is for the JUL23 NYMEX contract. The DEC23 contract closed at $3.58 on June 23rd.

Weather is the primary driver of natural gas prices in both the summer and the winter.

"Meteorologists forecast the weather would turn from mostly near normal from June 20-23 to hotter than normal from June 24-July 5 driving up demand for power generation used in air conditioning. On the supply side, domestic gas output is declining from the record

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

After 2024 we should see U.S. natural gas prices move toward the international gas price of ~1/10th the price of Brent Oil

level of 102.5 Bcfpd seen in May. However, gas flowing to US LNG export plants has decreased due to maintenance at various facilities, including Cheniere Energy Inc's Sabine Pass in Louisiana and Freeport LNG in Texas. Meanwhile, data showed utilities added 95 bcf of gas into storage last week, above expectations of a 91-bcf build and compared with an increase of 76 bcf in the same week last year as mild weather reduced the amount of gas power generators burned to meet air conditioning demand." – Trading Economics 6-23-2023

If actual natural gas prices do come in close to the current strip prices, my valuation of our "gassers" will be going up. **Antero Resources (AR)** is virtually unhedged, so it has the most exposure to rising natural gas prices. **Comstock Resources (CRK)** is the closest company I can find to a Pure Gasser, with ~99% of their production being dry gas from the Haynesville Shale in Louisiana and Bossier in East Texas. More than 50% of Comstock's natural gas is hedged at $2.97/MMBtu in Q2 and they are selling over 20% of their gas to the Gulf Coast LNG exporters at a premium to Henry Hub prices. A $0.50 increase in Comstock's realized gas price would increase their free cash flow in Q4 by over $50 million.

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.

The big news since my last newsletter is the announcements by **Earthstone Energy (ESTE) and Northern Oil & Gas (NOG)** that they have teamed up to make a SIGNIFICANT acquisition in the Permian Basin. Earthstone is going to acquire Novo Oil & Gas Holdings, LLC ("Novo"), a privately-held Delaware Basin focused E&P company backed by EnCap Investments L.P. ("EnCap"), for $1.5 billion. This is an all cash deal.

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 (BSM)
- Devon Energy (DVN)
- Diamondback Energy (FANG)
- Hemisphere Energy (HMENF)
- InPlay Oil (IPOOF)
- Kolibri Global Energy (KGEIF)
- ONEOK Inc. (OKE)
- PHX Minerals (PHX)
- Ring Energy (REI)
- Sitio Royalties (STR)
- Solaris Oilfield Infrastructure (SOI)
- Surge Energy (ZPTAF)
- Talos Energy (TALO)
- Viper Energy Partners (VNOM)

Concurrently, Northern will acquire working interests equal to a pro-rata $33^{1/3}$% of the oil and gas assets of Novo for $0.5 billion from Earthstone, resulting in a $1.0 billion purchase price net to Earthstone for the retained $66^{2/3}$% interest. Consideration at closing will be subject to customary purchase price adjustments. The Effective Date of the Novo Acquisition is May 1, 2023, and closing is anticipated to occur in August 2023, subject to customary closing conditions.

Novo will become a 100% owned subsidiary of Earthstone. Northern will be assigned 1/3rd working interests (proportionate to Novo's existing working interest) in all of Novo's oil & gas assets. Earthstone will be the operator of all of the properties now operated by Novo.

All of Novo's assets are in the Delaware Basin near properties already operated by Earthstone. Novo has 114 wells online that are producing approximately 57,000 Boepd (~37% crude oil, 34% natural gas and 29% NGLs). There are also 20 gross operated wells waiting on completion and ~200 gross operated drilling locations that are in Tier One areas of the basin.

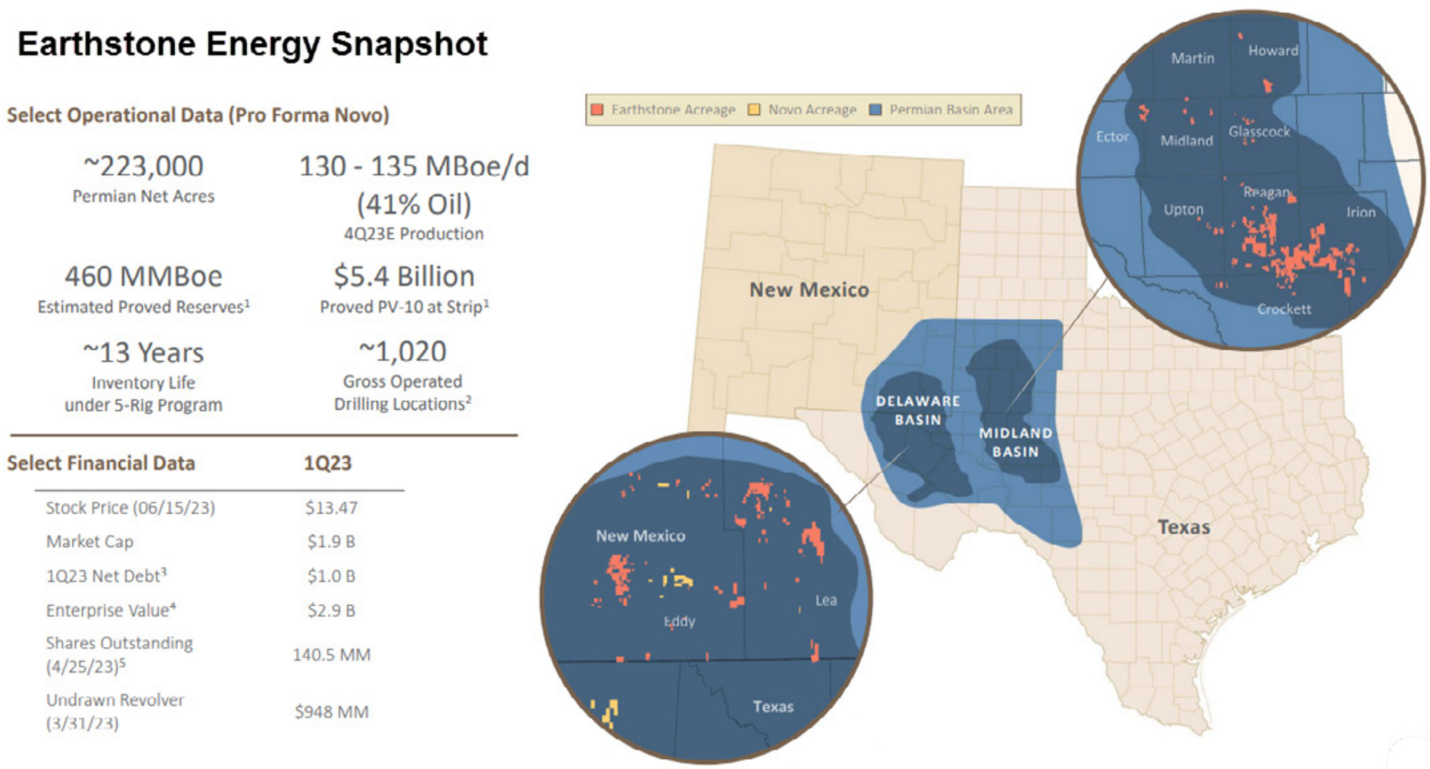
This is a large acquisition for both Earthstone and Northern. It will take time to get all of the properties set up in Earthstone's systems. Numerous Novo field employees will come to work for Earthstone.

- Earthstone's Q1 2023 production was 104,450 Boepd (44.2% oil). Based on the Company's guidance, their Q4 2023 production is expected to be ~132,500 Boepd (41% oil).
- Earthstone is currently running five operated drilling rigs in the Permian Basin with two in the Midland Basin and three in the Delaware Basin. One of the Midland rigs will move on to the Nova properties at the end of Q3.
- Northern's Q1 2023 production was 87,385 Boepd (61.6% oil). Their Q4 2023 production should be ~115,500 Boepd (63.6% oil).
- Additionally, Earthstone and NOG have formed an Area of Mutual Interest in the Delaware Basin for further consolidation of assets.

Neal Dingmann, at Truist Financial raised his price target for ESTE to $32.00. *"While we forecast little production change in 2024 versus when the deal closes, our 2024 earnings and free cash flow estimates notably increase leading to our new higher price target for ESTE of $32. While we anticipate ESTE continuing to run the same five rigs going forward that the company is currently running, we think there is potential for acceleration and/or shareholder return initiation, depending on what happens to commodity prices and the company's stock price among other things."*

Neal Dingman also covers NOG: *"We held a call Friday (June 16) with the Northern executive team to go over the latest $500mm acquisition along with future expectations. We estimate the company's Novo deal to potentially generate among the highest future return of any deal NOG has done to date. Despite the exceptional potential returns, the company suggested it would do no further near-term transactions essentially catching their breath after a series of positions deals. We continue to forecast NOG to potentially generate the highest 2024 free cash flow in our group as we further increase our estimates and price target."* **Truist Financial's price target for NOG is $60.00**

These are Aggressive Growth companies with strong track



Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			6/23/23		
ANTERO RESOURCES	GAS	AR	$21.26	$35.00	64.63%
CALLON PETROLEUM	OIL	CPE	$32.01	$77.00	140.55%
COMSTOCK RESOURCES	GAS	CRK	$10.38	$18.75	80.64%
CRESCENT POINT ENERGY	OIL	CPG	$6.34	$13.00	105.05%
EARTHSTONE ENERGY	OIL	ESTE	$13.05	$33.50	156.70%
EOG RESOURCES	OIL	EOG	$106.82	$157.00	46.98%
EQT CORP	GAS	EQT	$39.18	$47.50	21.24%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$41.90	$114.00	172.08%
MAGNOLIA OIL & GAS	OIL	MGY	$19.66	$29.00	47.51%
MATADOR RESOURCES	OIL	MTDR	$49.64	$82.00	65.19%
NORTHERN OIL & GAS	OIL	NOG	$32.07	$60.00	87.09%
OVINTIV INC (was ENCANA)	OIL	OVV	$34.97	$63.00	80.15%
PERMIAN RESOURCES	OIL	PR	$10.29	$16.50	60.35%
RANGE RESOURCES	GAS	RRC	$28.10	$31.00	10.32%
SILVERBOW RESOURCES	GAS	SBOW	$25.45	$65.00	155.40%
SM ENERGY	OIL	SM	$29.09	$52.00	78.76%

records. I have followed Earthstone Energy since it went public and I have followed the Company's management team for close to 20 years. I have also followed Northern Oil & Gas for close to ten years. I love the fact that these two high-quality management teams have joined forces for a deal of this size and I expect them to work well together on more acquisitions in the future.

Vital Energy (VTLE) is also growing through acquisitions. They closed the Driftwood Acquisition on April 3rd, adding production of ~5,400 Boepd (63% oil) and they expect to close the Forge Energy Asset Acquisition within two weeks, adding production of ~9,500 Boepd (~65% oil). Vital was the most profitable company in the Sweet 16 on a per share basis in 2022 ($37.67 earnings per share) and, based on my forecast, they should finish in the top three most profitable companies in the portfolio this year. The only concern that I had for Vital was a lack of high-quality drilling inventory. The two acquisitions have solved that problem.

Last week **SM Energy (SM)** announced that their Q2 2023 production will exceed the high end of their guidance and that D&C capital expenditures and lease operating expenses will come in below guidance for Q2. They also announced a Midland Basin asset acquisition that should add ~1,250 Boepd in early Q3. SM's full year production should be approximately 150,000 Boepd (~43% oil). Rising natural gas prices and production volumes should push the Company's free cash flow over $450 million this year.

Q2 results should be the low point of the year for earning per share for our four "gassers" **(AR, CRK, EQT and RRC)**. They have pulled back on their well completions to avoid selling gas at low prices. I expect all four of them to be profitable in 2H 2023 and finish the year strong. As discussed above, hot weather and market forces are rebalancing the U.S. natural gas market and the future is bright for the global natural gas market.

Callon Petroleum (CPE) and SilverBow Resources (SBOW) are currently trading at less than 2X operating cash flow per share and at less than 50% of my current valuations. Both of them are on track to generate over $10 of earning per share this year. Callon is going to close two transactions in July that will significantly improve their balance sheet. SilverBow remains on-track for more than 24% production growth in 2023. It is a bit "gassy", but that should turn out to be a good thing in Q4 now that natural gas prices are increasing.

I have updated the profiles and forecast/valuation models for all 16 companies in the portfolio. They were all profitable in the first quarter and they should continue to report quarterly profits. Reported earnings will be lower in 2023 than in 2022, but most of the Sweet 16 are going to have much stronger balance sheets by year-end and a lot of high-quality running room. There has been a lot of "noise" this year keeping a lid on equity prices, but the outlook for the upstream oil & gas sub-sector remains bright.

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Sweet 16, but they also have more potential. I am very bullish on this group because they all reported solid result for 2022 and Q1 2023. Last year's free cash flow was used to shore up their balance sheets and six of them pay nice dividends. This year's drilling programs are fully funded by operating cash flow. Paying off debt, paying dividends and increasing proved reserve is a recipe designed to increase shareholder value.

We have four Canadian Juniors in the portfolio **(HMENF, IPOOF, PTRDF and ZPTAF) and Kolibri Global Energy (KGEIF)** that was born in Canada, but 100% of its oil & gas production now comes from the SCOOP oil play in Central Oklahoma.

InPlay Oil (IPOOF) and ROK Resources (PTRDF) were forced to shut-in some production during Q2 due to the wildfires in Western Canada. Those wells are now back online and both companies should report solid production growth in 2H 2023. InPlay is virtually debt free and they will be funding an aggressive drilling program that started in June entirely with operating cash flow. I now expect InPlay to exit this year with production of 11,500 Boepd.

As I reported in my May newsletter, **ROK Resources (ROK)** had to shut-in ~300 Boepd up in Alberta's Kaybob area due to the fires. However, since ~80% of the shut-in production was natural gas, the shut-ins did not have a significant impact on my financial forecast for Q2. What has caused most of the production decline of ~870 Boepd from Q1 to Q2 is the successful closing of some non-core asset sales for proceeds of $47.25Cdn million that was used by ROK to pay off 100% of the term loan that had an initial balance of $52.5 million.

ROK is now expected to ramp up production from approximately 3,270 Boepd in Q2 2023 to a 2023 exit rate of more than 4,500 Boepd (~59% oil).

ROK also holds some assets in Southeast Saskatchewan that have the potential for lithium production. Recent third-party testing of two projects (Mansur and Viewfield) targeting the Duperow formation water show that ROK's leasehold may have the highest lithium concentration ever recorded in an oilfield brine in Canada according to public records. There is nothing in my current valuation of ROK for the Company's lithium projects.

We will be publishing an updated profile on ROK this week.

I now have several lithium companies on my Watch List. I urge all of you to watch the replay of our May 30th webinar that was hosted by **LithiumBank (LBNK.V)**. Kevin Piepgrass, the Company's Chief Operating Officer did a great job of explaining the Direct Lithium Extraction (DLE) process used to produce lithium from oilfield brine.

Global demand for lithium is going up. If any of the lithium companies I'm following can come up with a process that can profitably extract lithium from oilfield brine water, it could be a "Game Changer" for the rechargeable batteries industry.

Hemisphere Energy (HMENF) continues to be one of my Top Picks for steady production growth and high yield dividends. The Company's 2023 well completion schedule is back-end loaded. After a small production dip in Q2, Hemisphere should ramp up production in both Q3 and Q4 to an exit rate over 3,600 Boepd (99% oil). Q2 operating cash flow should get a boost from the improvement in differentials for the Company's heavy oil this quarter. Hemisphere is virtually debt free and free cash flow from operations now exceeds their quarterly dividend payouts. Therefore, I expect them to announce an accretive acquisition soon or pay a special dividend at year-end.

We recently published an updated profile on **Surge Energy (SGY.TO and ZPTAF)**, which you should read carefully. Surge's production increased by 20.5% year-over-year in 2022 and I expect them to come close to that growth rate again in 2023. Surge and InPlay both pay monthly dividends.

Kolibri Global Energy (KEI) will soon announce initial production rates from three new horizontal development wells in the Tishomingo Field in Oklahoma. My forecast assumes that the three new wells

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price 6/23/23	EPG Fair Value Estimate	Percent Undervalued
HEMISPHERE ENERGY	OIL	HMENF	$0.93	$2.25	141.94%
INPLAY OIL	OIL	IPOOF	$1.75	$6.00	242.86%
KOLIBRI GLOBAL ENERGY	OIL	KGEIF	$4.18	$8.50	103.35%
PHX MINERALS	OIL	PHX	$2.98	$4.60	54.36%
RILEY EXPLORATION PERMIAN	OIL	REPX	$35.87	$57.00	58.91%
RING ENERGY	OIL	REI	$1.72	$4.35	152.91%
ROK RESOURCES	OIL	PTRDF	$0.31	$0.75	140.38%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$7.88	$15.75	99.87%
SURGE ENERGY	OIL	ZPTAF	$5.13	$12.00	133.92%
TALOS ENERGY	OIL	TALO	$13.34	$23.50	76.16%

combined will increase Kolibri's production by 1,000 Boepd from Q2 to Q3. **The key well is the Barnes 8-3H HZ well that is being completed in the T-zone with an improved completion "recipe".** If successful, the T-zone could double the Company's probable (2P) oil reserves and significantly increase my stock valuation. **Kolibri is not a high-risk exploration play.** They plan to fund all future D&C expenditures with operating cash flow and they have over 60 proved low-risk / high-return development drilling locations in the Caney formation.

Riley Exploration Permian (REPX) continues to be one of the top preforming company in the portfolio, up 28.5% YTD. The Pecos Acquisition that closed April 4th increased the Company's production by ~7,200 Boepd to ~20,000 Boepd in Q2 (~70% oil). On May 9th Neal Dingmann at Truist Financial rated the stock a BUY with a price target of $60.

Riley is the perfect example of what I am looking for in a small-cap upstream company; a strong/ experienced management team and a solid base level of production that generates enough operating cash flow to fund steady production growth. Riley has lots of "running room" in the Permian Basin where the management team knows the geology and how to manage a successful drilling program. Riley also pays a nice dividend.

Ring Energy's (REI) primary goal in 2023 is to generate free cash flow and use it to pay down the debt they incurred to make the Stronghold Energy Acquisition that closed August 31, 2022. That deal turned Ring into a larger company with much more running room than it had heading into 2022. Based on Ring's Q1 results and updated guidance, **the Company's production should increase more than 37% year-over-year in 2023** and they should generate close to $50 million of free cash flow this year.

Ring's 2023 capital program is designed to hold production flat, but a few more well completions this summer and some successful workovers should push production up to 18,500 Boepd in Q4.

Talos Energy (TALO) sold 49.9% of their stake in the Zama Project located in shallow water off the Mexican coast. The proceeds were used to pay down debt. The Company has much more near-term upside in the assets that they acquired from EnVen Energy in February. Talos is the only offshore Gulf of Mexico company in the portfolio. It does have hurricane risk, which I factor into each year's forecast.

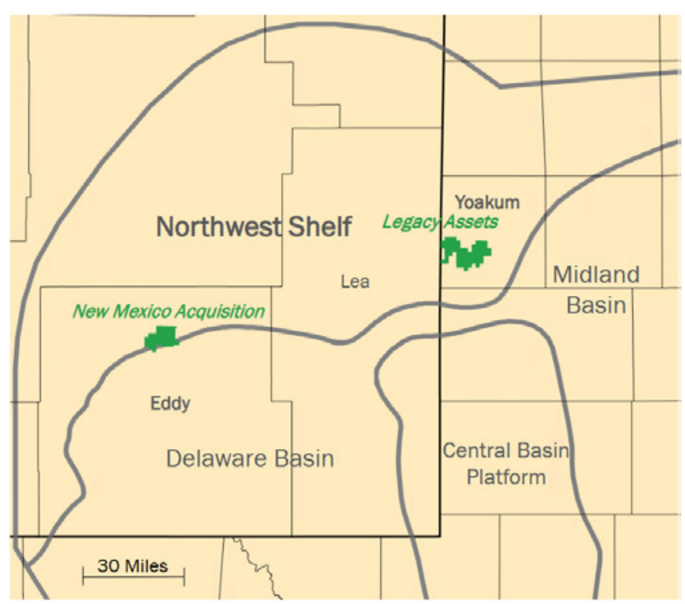
Solaris Oilfield Infrastructure (SOI) is a well-respected oilfield services company that is used by a lot of the upstream companies in our three model portfolios for well completions. Solaris has a super strong balance sheet, pays a nice dividend that is fully funded by their free cash flow and the stock trades at half of my valuation. The Company's new and improved Top Fill and AutoBlend systems are gaining market share and generating higher profit margins. I now expect Solaris to increase their dividends in 2024 and continue executing on their stock buyback program.

PHX Minerals (PHX) is a mineral/ royalty company that should get a nice revenue boost from rising natural gas prices. They own promising minerals in the Haynesville Shale gas play in Louisiana and in the SCOOP oil play in Oklahoma.

I will finish this section by reminding you that all ten of our Small-Caps are profitable companies with a lot of running room. I will not put "Story Stocks" that don't generate strong operating cash flow into our model portfolios. I do have a few early-stage companies on my Watch List and I will post comments about them on our Forum from time-to-time. The secret to big gains on small-caps is finding them before the Wall Street Gang does.

Riley Exploration Permian: Pecos Acquisition is a "Game Changer"

- Strategic acquisition in the prolific Yeso trend (Eddy County, NM), along the same Northwest Shelf as legacy Yoakum County, TX properties
- ~4MBopd and ~7MBoepd production
- 100+ gross, high-quality drilling locations including locations primarily in the Blinebry, Glorieta and Paddock formations
- Unadjusted purchase price of $330 million with 100% cash consideration
- Transaction was valued at 3.4x 2023 Adjusted EBITDAX(1) and a 15% free cash flow(1) yield
- Funded through a combination of borrowings under the Company's revolving credit facility and the proceeds from the issuance of $200MM of senior unsecured notes (10.5% annual interest, April 2028 maturity)



High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			6/23/23				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$15.68	12.1%	$1.90	Qtr	$18.50
KIMBELL ROYALTY PARTNERS	GAS	KRP	$14.77	10.2%	$1.50	Qtr	$21.50
SITIO ROYALTIES CORP	OIL	STR	$24.56	8.0%	$1.97	Qtr	$32.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$25.00	7.8%	$1.96	Qtr	$36.00
Upstream Companies							
CIVITAS RESOURCES	OIL	CIVI	$64.84	12.3%	$8.00	Qtr	$90.00
COTERRA ENERGY	GAS	CTRA	$23.72	4.2%	$1.00	Qtr	$31.00
DEVON ENERGY	OIL	DVN	$47.15	7.6%	$3.58	Qtr	$67.00
DIAMONDBACK ENERGY	OIL	FANG	$125.40	3.6%	$4.49	Qtr	$177.00
PIONEER NATURAL RESOURCES	OIL	PXD	$198.66	9.3%	$18.51	Qtr	$255.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$10.74	8.4%	$0.90	Qtr	$13.50
ONEOK, INC.	Midstream	OKE	$57.69	6.6%	$3.82	Qtr	$67.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$13.82	7.7%	$1.07	Qtr	$18.00

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. 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:

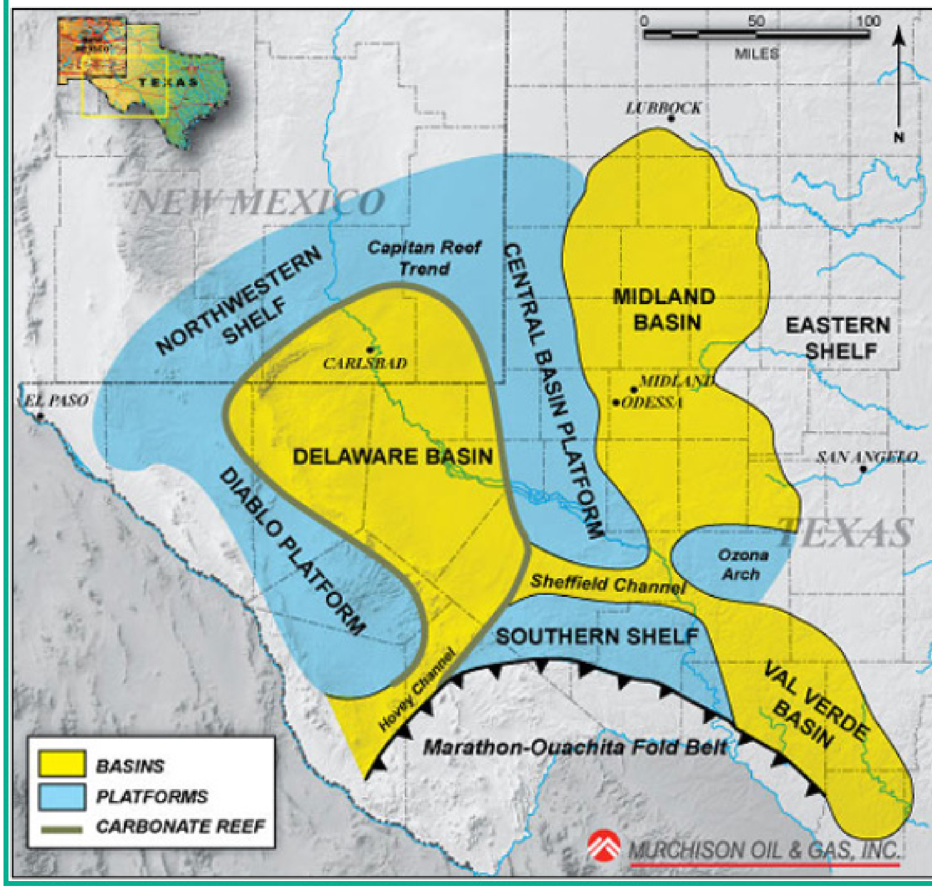
Minerals Companies (often referred to as Royalties Companies) are safe bets because they own mineral interests that do not expire. Their revenues are primarily from the lease bonuses and royalties paid to them by the upstream companies that lease from them. The upstream companies that have leased the exploration & development rights from them have all of the drilling, completion and operating expense risks. Minerals companies have very low cash expenses and they pay out a high percentage of their free 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. They are returning cash to shareholders in the form of dividends and stock repurchase programs.

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

Among the four minerals companies, **Black Stone Minerals LP (BSM)** offers investors the highest yield and it has the most exposure to rising natural gas prices. Plus, more than 50% of their 2023 natural gas production in 2023 is hedged at a weighted average price of approximately $5.10/MMBtu. It is the only Master Limited Partnership (MLP) in the portfolio. Most MLPs are not suited for IRA accounts.

The Permian Basin covers ~19 million acres



Kimbell Royalty Partners (KRP) is the smallest of the four minerals companies in the portfolio, but it has been actively acquiring more minerals in the Permian Basin. After closing the MB Minerals Acquisition on May 17th that added ~1,900 Boepd they should have ~19,000 Boepd of production heading into the 3rd quarter. Year-over-year production growth should be close to 24%. The partnership's production mix is approximately 34% crude oil, 14% NGLs and 52% natural gas. The majority of their revenues now come from the sale of liquids, but rising natural gas prices should give them a nice revenue boost in 2H 2023.

Sitio Royalties Corp. (STR) and Viper Energy Partners LP (VNOM) are more heavily weighted to oil. I expect Sitio to report Q2 production of ~35,500 Boepd (50% oil) and I expect Viper to report Q2 production of ~37,300 Boepd (58% oil).

Within the upstream group, **Pioneer Natural Resources (PXD)** is the largest company with a market-cap of close to $49 billion. The rumors that ExxonMobil (XOM) is going to acquire PXD have faded. PXD has adjusted their dividend policy to focus a bit more free cash flow on debt repayment, which in my opinion is a good thing. For at least the next two quarters 25% of FCF will go toward debt reduction and 15% will cover their base dividend, with the remaining 60% earmarked for variable dividends.

Civitas Resources (CIVI) has been added to the portfolio to replace **PDC Energy (PDCE)** that has agreed to be acquired by **Chevron Corp. (NYSE: CVX)** in an all-stock merger valued at $6.3 billion. Today Civitas is a pure play on the DJ Basin. On June 20th the Company announced two purchase agreements valued at a total of $4.7 billion that will establish a second core area in the Permian Basin.

The combined transactions will add approximately 68,000 net acres (90% held-by-production) in the Midland and Delaware Basins (sub-basins of the Permian) and will add combined proved reserves of approximately 335 MMBoe, as of year-end 2022. The transactions will increase Civitas' existing production by 60%, adding approximately 100 MBoe/d (54% oil) of current production with the acquired assets expected to average approximately 105 Mboe/d from close through year-end 2023.

Per Civitas proforma guidance, their Q4 2023 production should be approximately 265,000 Boepd (49% oil), which compares to their Q1 2023 production of 159,429 Boepd (45% oil).

We will be publishing a detailed profile on Civitas Resources this week.

Coterra Energy (CTRA) and Diamondback Energy (FANG) show lower yields because they have decided to use more of their free cash flow to repurchase stock. Coterra's is the most heavily weighted to natural gas among the five upstream companies, so its variable dividends in 2H 2023 should be higher than my current forecast.

I may decide to move Diamondback back to the Sweet 16 because it is an outstanding growth company with a strong balance sheet and lots of high-quality leasehold in the Permian Basin. It is on pace to generate over $3 billion of free cash flow this year. If you are investing for dividend yield then take a look at VNOM. Viper's growth and higher yield is tied to Diamondback's aggressive drilling program.

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. First quarter oil production averaged 320,000 barrels per day, exceeding the midpoint of the Company's guidance by 2,000 barrels per day. This record-setting oil volume performance was driven by better-than-forecasted results across the company's diversified portfolio. Total production for the first quarter averaged 641,000 Boepd.

The three midstream companies (AM, OKE and PAGP) are the safest bets to maintain their high dividend yield. They don't have direct commodity price risk since their revenues are generated by fees based on the volumes they handle for their customers.

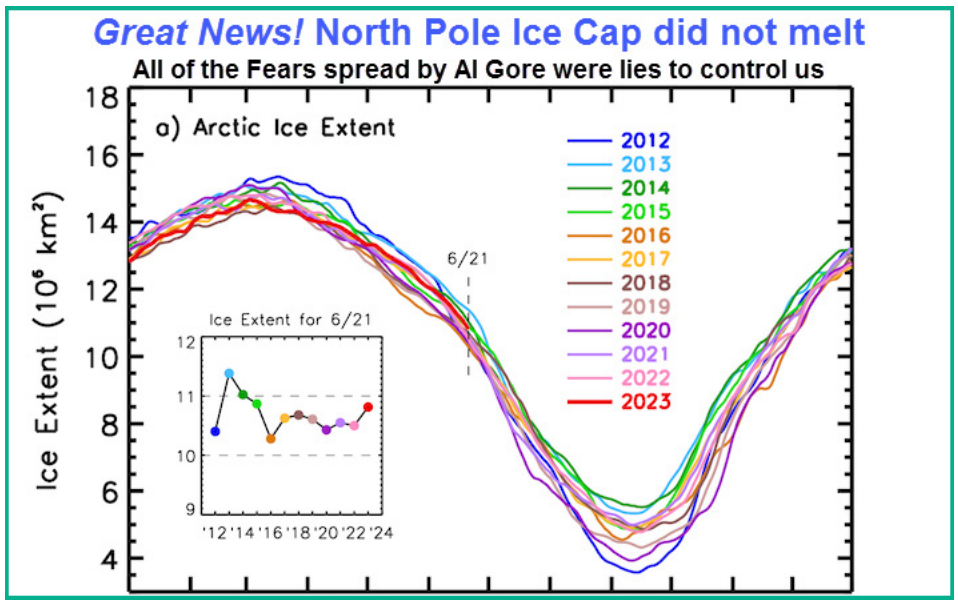
On May 14, 2023 **ONEOK, Inc. (OKE) and Magellan Midstream Partners, L.P. (NYSE: MMP)** announced that they have executed a definitive merger agreement under which ONEOK will acquire all outstanding units of Magellan (an MLP) in a cash-and-stock transaction valued at approximately $18.8 billion including assumed debt, resulting in a combined company with a total enterprise value of $60 billion.

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

On June 22nd we published a detailed profile on ONEOK that should help you understand the significance of the merger with MMP. **I do expect ONEOK to raise their dividends soon after the merger closes.**

I also expect **Plains All American Pipeline (PAA and PAGP)** to increase their dividends next year since it is generating a lot of free cash flow thanks to much lower capital expenditures in 2023 and 2024. Based on my forecast, PAA will generate more than $700 million of distributable cash flow in excess of its current dividends this year. PAGP is a C-Corp. that pays identical dividends to PAA's quarterly cash 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).**



This week we will be publishing updated profiles on CIVI, CTRA, KRP and PXD.

Final Thoughts

For thousands of years corrupt leaders have used FEAR to control their subjects. Fear is a powerful human emotion. We all experienced an extreme example of this during the Covid-19 Pandemic. Instead of "Following the Science", ignorance and fear were used to make us wear paper masks that could not stop a virus. Dr. Fauci used fear to gain power and make lots of money, while millions of people lost their jobs and small businesses. Energy Prospectus Group lost about a third of our members in Texas because we stopped having luncheons for over two years. NEVER follow anyone that states that "He is the Science".

Fear = Click Bait for the cable news networks

We should all feel sorry for Greta Thunberg, a young Swedish girl that is being used by the Climate Change Wackos to spread fear. Isn't it ironic that her homeland of Sweden has abandoned their wind & solar projects?

Today Fear of Climate Change, which in my opinion is not even close to a "Crisis", has the U.S. spending $Trillions on wind and solar projects that have no hope of meeting even a 10% share of our energy demand. When stuff like this seems totally illogical, it is 99% sure to be all about the money. When the government spends $Billions on individual projects it is easy to skim off $millions.

The war in Ukraine is terrible. Several hundred thousand people will die and millions have already been forced from their homes and likely forced into poverty. The only good thing to come from it is that the Europeans are waking up to the nonsense they were being fed by the Paris Climate Accord. Several countries are starting to move back to more reliable forms of energy.

The amount of CO_2 in the atmosphere is not even close to dangerous for humans to breathe and it is good for the plants. I'm more worried about the Earth's ability to produce enough food for over 8 billion people than I am about a one degree increase in the Earth's temperature. The Earth's weather system is self-balancing by design. Guess who designed it. Even if America's CO_2 emissions went to zero, it will have no impact on the global climate unless China and India go along with the reduction in fossil fuels. We all know that is not going to happen.

I am starting to see more hope of common sense energy policy coming out of Europe. When BP and Shell start rejecting WOKE nonsense then there is hope for America and Canada as well.

From the Daily Caller 6-18-2023

"Two of Europe's largest energy firms are pivoting from green energy back to their core oil and gas businesses, a move that industry experts tell the Daily Caller News Foundation signals a willingness to take political hits as oil and gas continue to be major sources of revenue.

Both Shell and fellow U.K. energy firm BP opted against further cuts to oil production recently, in a bid to restore investor confidence as their renewable ventures struggled, according to Bloomberg. While the moves were met with criticism from climate-focused investors — activist investors and protestors attempted to storm the stage at Shell's annual shareholder meeting in late May — the companies are likely to stay the course despite criticism, thanks to the reliability of oil and gas to drive profits despite the emergence of green energy, Dan Kish, senior research fellow at the Institute for Energy Research, told the DCNF.

"Smart energy executives looking at the long term recognize that politics are fleeting," Kish said. "Politicians may be flighty and distracted by today's shiny objects, but real business sense combined with a knowledge of engineering and physics shows that real energy makes good business because it is what people need and want."

"Shell CEO Wael Sawan described his company's shift as a "fundamental culture change" during a Wednesday presentation intended to draw investors, especially American ones, to support the company, The Wall Street Journal reported. Shell performed poorly in 2022 compared to U.S. titans Exxon Mobil and Chevron in 2022, and Sawan has made playing catch up a priority."

Net Zero is an impossible goal unless these companies are OK with "Net Zero Profits." We MUST elect smarter leaders in the U.S. and Canada who realize that this Green New Deal is a waste of money and will push many of our citizens into "Energy Poverty".

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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