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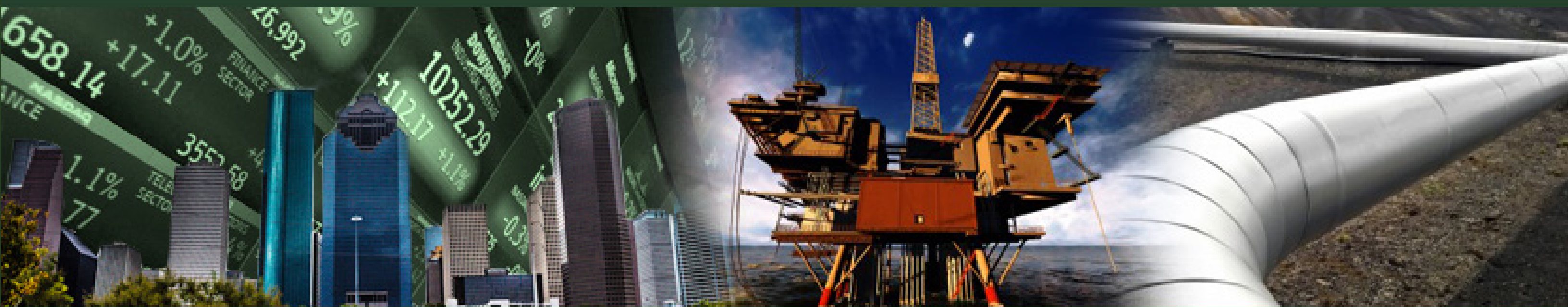
The View from HOUSTON



Energy Prospectus Newsletter: "The View from Houston" *July 24, 2023* ***Issue: 207***

By: Dan Steffens, President

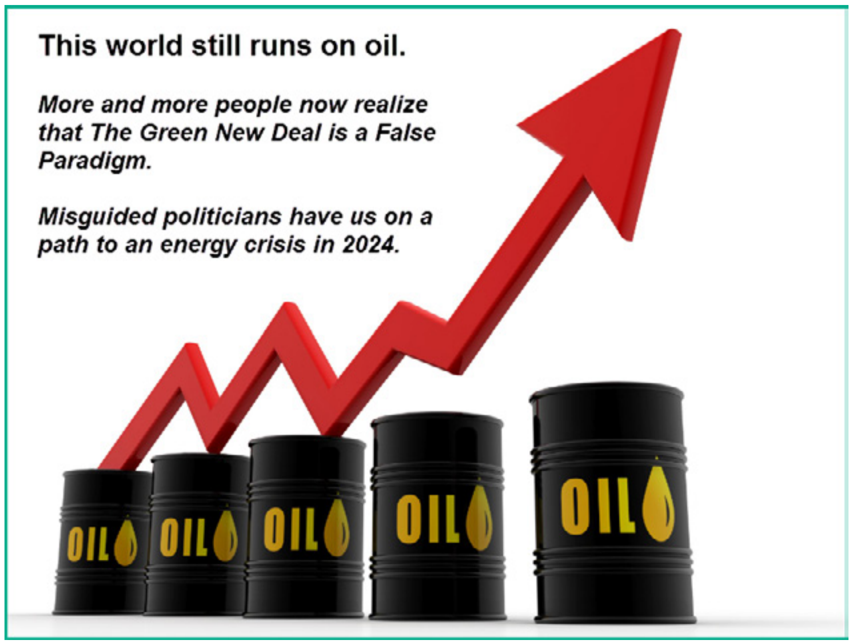
Dan Steffens is the President of Energy Prospectus Group (EPG), a networking organization based in Houston, Texas. He is a 1976 graduate of Tulsa University with an undergraduate degree in Accounting and a Masters in Taxation.

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.



Since my June 26th newsletter there has been a major shift in the outlook for crude oil prices, which feels to me like the first phase of the Big Paradigm Shift that I have been preaching about on my weekly podcasts. I believe that the 10% increase in the oil price is at least partially due to ending more than two and a half years of draining the Strategic Petroleum Reserves (SPR).

The SPR was established in 1975 as an emergency stockpile of oil to protect the U.S. from an economic crisis if we were ever cut off from daily imports of crude oil from OPEC countries. Since the end of January 2021, the SPR has declined by 291.3 million barrels, from 638.1 to 346.8 million barrels. That's a 45.7% decline in one of the most important "savings accounts" on Earth.

Today the U.S. does produce much more oil than it did back in the 1970s, but we still import over 8.5 million bpd of crude oil and refined products. **This country is not energy independent.**

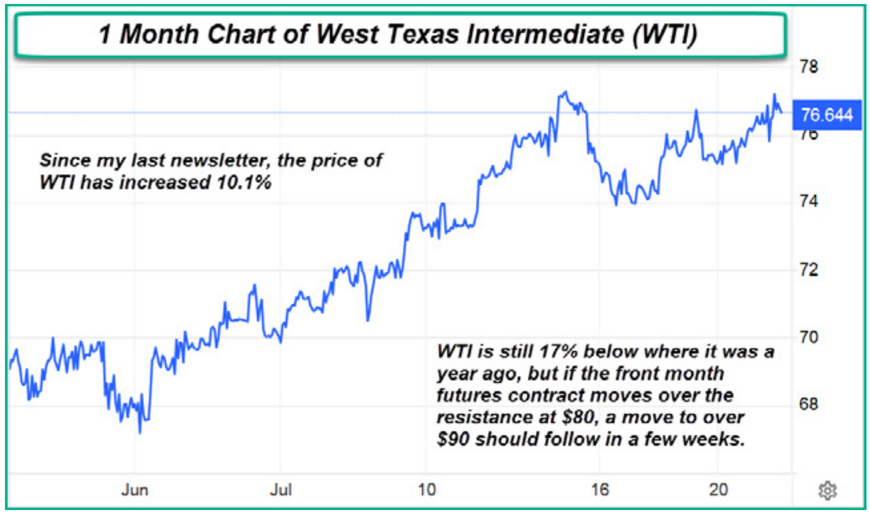
With the Green New Deal came promises that we could transition away from fossil fuels if we spent $Trillions (which we will need to borrow) on building renewable energy sources and start driving electric vehicles. The level of ignorance it took to make those claims set a world record in stupidity.

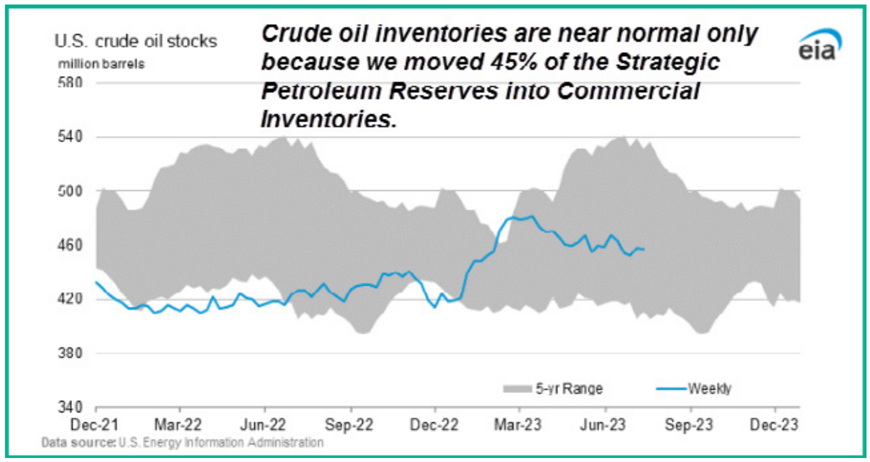
After spending $4 Trillion on wind and solar projects we have learned that renewable energy is not reliable and definitely cannot grow to the scale needed to replace the primary energy we get from fossil fuels. So now we have flawed government policies that have the world on the brink of an energy crisis within less than a year.

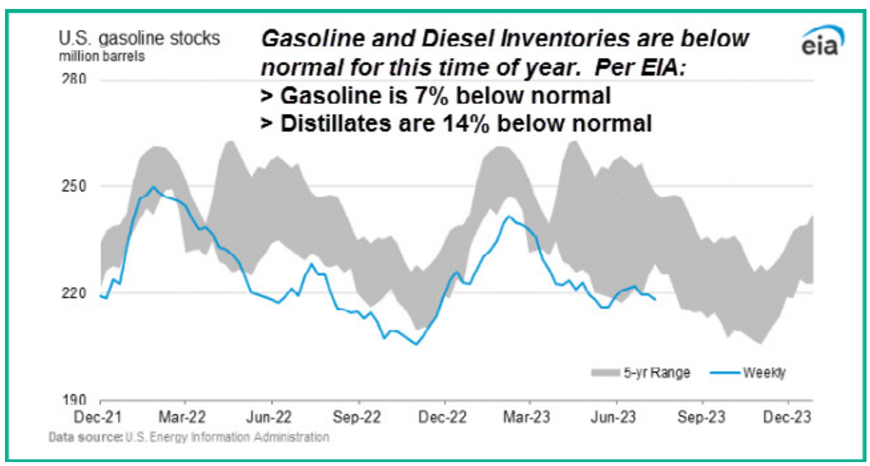
At the beginning of 2020, the **International Energy Agency (IEA)** forecast that global demand for oil would rise to 105 million barrels per day (bpd) by 2030, level off for a few years and then go on steady decline. In IEA's most recent July Oil Market Report, their experts admit that oil demand will touch 103.5 million bpd this quarter and average 102.1 million bpd for the year. Oil demand will rise another 1.1 million bpd in 2024 (OPEC's forecast 2.1 million bpd) and spike to 105 million bpd by Q3 2024, 6.5 years earlier than the wishful thinking they told the world in 2020. Demand for oil is seasonal and it always increases by ~2 million bpd during the 3rd quarter.

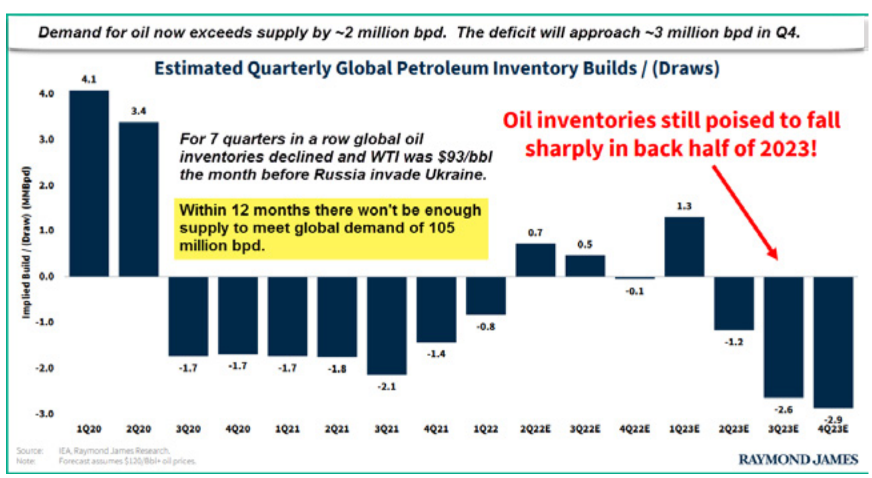
The EIA confirmed that U.S. oil production peaked at the end of June at 12.4 million bpd and is unlikely to increase at the current active drilling rig count. During the first two weeks of July U.S. oil production declined to 12.3 million bpd. Joe Biden's War on Fossil Fuels is going to cause some serious problems.

Another false paradigm is that the OPEC cartel countries can always increase production to keep global supply and demand in balance. Without U.S. production growth, this world will need every barrel of oil that OPEC+ currently says that they have in reserve back online within a few month and the U.S. will need to return to the "Drill Baby Drill" policies of President Trump. This will be a major topic for Americans to deal with in the run up to next year's elections.









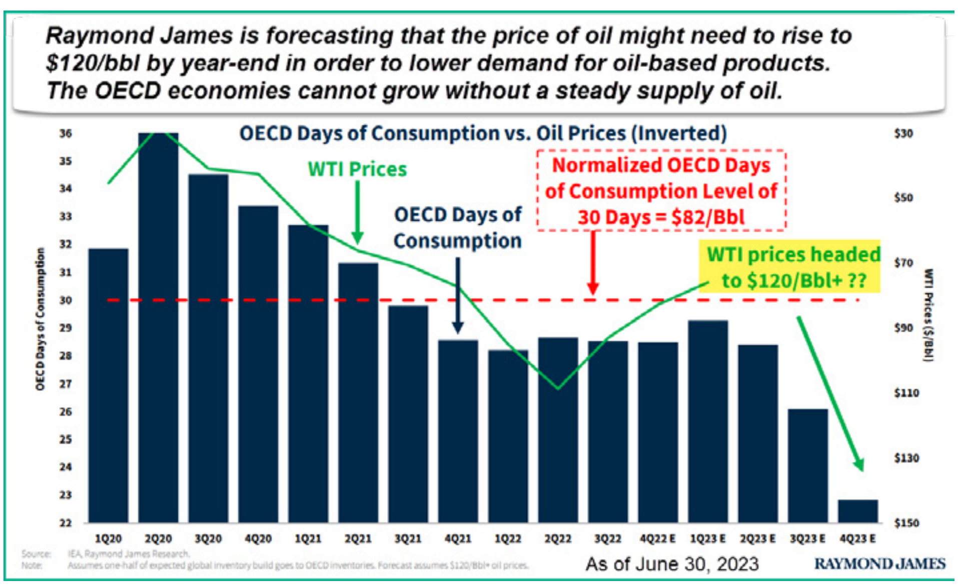
Oil Price

Before I get into why we may be just a few months away from triple digit oil prices. I want you to understand that U.S. commercial inventories of crude have been able to stay near normal only because Team Biden has drained our Oil Savings Account, the SPR. Yes, it was done to keep gasoline and diesel prices lower, but it would have been better to let market forces work through the supply imbalance. Now half of the SPR is gone and we still have a supply shortage.

I run a small business. I run the business on cash from a checking account. I also have a savings account that I tap into from time to time if money runs low in the checking account, but I always rebuild the savings account as soon as I can. What this administration has done is reduce our vital Oil Savings Account and they really are not going to refill it. There are physical reasons why refilling the SPR might take ten years, even if we could afford it.

The other **Organization for Economic Co-operation and Development (OECD)** countries are also draining petroleum inventories without a plan to rebuild them. The OECD is an international economic organization of 34 countries, founded in 1961 to stimulate economic progress and world trade. The OECD countries have economies that are highly dependent on a steady supply of oil-based products. Most of them are net importers of oil, including all of the countries in Europe, the United States, Japan and Korea.

For OECD countries to run smoothly and to grow they should have petroleum inventories that are close to 30 Days of Consumption (DOC). Historically, whenever OECD petroleum inventories have gone below 30 DOC the price of oil rises in order to lower demand and to give producers financial incentive to ramp up supply. **OECD inventories are now below 28 DOC and are forecast to go below 23 DOC by Q4 2023. OECD petroleum inventories have never been that low!**



We have drained almost half of our Oil Savings Account and we will soon be in a bidding war for oil supplies.

To make matters worse, the U.S. economy runs on diesel and refiners cannot make diesel out of the ultra-light shale oil. Today we export shale oil because we already have too much for our refineries to process. All of that oil we drained from the SPR was heavy black oil. So, ramping up drilling in the Permian Basin shale plays will not solve the diesel and home heating oil shortages. We need to significantly ramp up exploration and development in the Gulf of Mexico, California and Alaska, but that will take years and much smarter politicians.

To get more details on the coming energy crisis, go to this website and listen to the interview with Dr. Anas Alhajji that was recorded on July 20: https://www.macrovoices.com/

One of the things Dr. Alhajji brings up during the interview is that China sees this heavy oil shortage coming and they have been buying every barrel of cheap Russian heavy oil that they can get to build up their

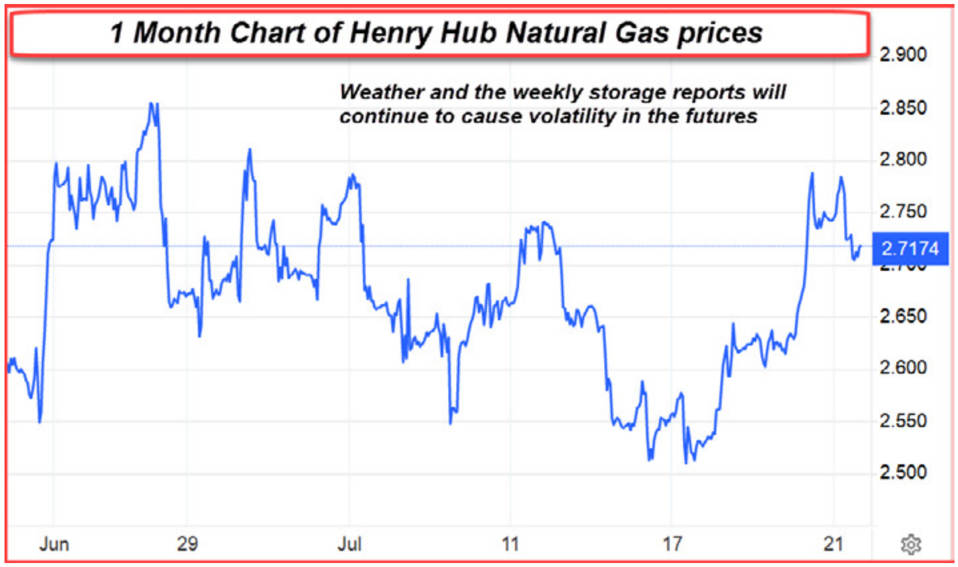
EPG Coming Events

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.

August 24: Live webinar with Dan Steffens to update his view of the oil & gas markets and to answer any questions about the companies in our three model portfolios. The time is to be determined. Check the EPG home page for updates and to register.

We are planning to have a Houston luncheon in September.

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.



SPR. Dr. Alhajji believes the Chinese will bring that oil to market when oil reaches $85/bbl in an attempt to keep fuel prices low in their country. For some reason, I do not think the Chinese will be sending tankers of heavy oil to the U.S.

UBS official forecasts for Brent oil:

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

Goldman Sachs and Raymond James are also forecasting that Brent oil moves into the $90s by Q4 2023. Marshall Atkins, Director of Energy Research at Raymond James recently stated that he believes WTI might need to go to $120/bbl early in 2024 in order to re-balance the global oil market.

Natural Gas Price

Natural gas prices in the U.S. have gotten a boost from the hot weather that has ramped up demand for power generation, but I am concerned that EIA's weekly storage reports are not showing any decline in the storage surplus to the 5-year average. As of July 14th, U.S. natural gas inventories were 575 Bcf higher than last year at this time and 360 Bcf above the five-year average of 2,611 Bcf.

There is plenty of storage capacity left to fill and there is more demand for U.S. natural gas than there was five years ago, but I have lowered the natural gas price in my 2024 forecasts by $0.25 to $3.25/MMBtu. If gas in storage does not move closer to the five-year average by early September, I think the NYMEX strip prices for December to April could pull back.

The winter of 2023/2024 will be influenced by a strong El Nino in the Pacific Ocean. That means we should have a winter closer to average. Our last winter was mild in the East and colder than normal in the West because La Nina winters are controlled by wild swings in the jet stream crossing North America. The big dip in the jet stream got stuck in the western half of the U.S. the entire first quarter. Tropical storm activity in the Gulf of Mexico could also be bearish for natural gas demand if LNG export facilities are forced to shut down.

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.

As you can tell from my comments above, I am now more bullish on crude oil prices than I am on natural gas and NGL prices. Therefore, I recommend overweighting your investments to companies that get the majority of the revenues from crude oil sales.

I have adjusted my valuations for three of our four gassers, but they are still trading below my current valuations. Many fund managers consider the natural gas companies a "seasonal trade", so they rotate money into the sub-sector as the winter heating season approaches. There is still near-term upside for the gassers, but my concern is the weather related risk. With U.S. natural gas in storage more than 350

Updated	Oil & Gas Prices used in Forecast Models				
7/21/2023	2023				2024
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Actual	Forecast	Forecast	Forecast	Forecast
WTI Oil	$ 76.11	$ 73.00	$ 80.00	$ 90.00	$ 79.78	$ 90.00
HH Gas	$ 2.72	$ 2.35	$ 2.50	$ 2.75	$ 2.58	$ 3.25

bcf above the 5-year average, if we have a mild start to the winter, gas prices will have trouble holding over $3.00/MMBtu. My valuations are now based on HH natural gas prices averaging $3.25/MMBtu in 2024.

Antero Resources (AR) has the least amount of their production hedged and I now expect them to report a loss for Q2. **EQT Corp. (EQT)** should have a big mark-to-market gain on their outstanding hedges, so they should report a nice profit, but operating cash flow will be lower quarter-to-quarter. Timing the market is up to you but harvesting the gains on EQT and **Range Resources (RRC)** might be a wise move. RRC is close to my current valuation.

Comstock Resources (CRK) is the only gasser that is not in Appalachia's Marcellus and Utica Shale Plays. It is focused on the Haynesville Shale & Deep Bossier zones in Louisiana and East Texas. Their horizontal wells come on strong and generate strong rates of return even if natural gas is selling for just $2.50/MMBtu. Comstock also sells over 20% of their natural gas directly to LNG exporters along the Gulf Coast at a premium price. Comstock has adjusted their drilling program to live within operating cash flow.

All four of the gassers will be fine and Q2 2023 results should be the worst quarter of the year and probably the worst quarter for the remainder of the decade. Poor Q2 results are already baked into the share prices and I believe the Wall Street Gang will be more forward looking when they adjust their price targets. The long-term outlook for natural gas is very bullish, but 2023 and 2024 will be "challenging".

There is not much news to report since my June newsletter, but I want to highlight some companies that are going to get a production boost from recently closed acquisitions.

Matador Resources (MTDR) closed the Advanced Energy Acquisition on April 13th adding ~25,000 Boepd (74% oil). Matador has averaged more than 20% annual production growth since I added it to the Sweet 16 in January, 2018. Based on their guidance, they should exceed 20% year-over-year growth in 2023 and I am forecasting more than 20% drillbit generated growth in 2024.

Ovintiv (OVV) is one of the largest companies in the Sweet 16. Mid-June they closed a Midland Basin acquisition adding 75,000 Boepd of current production and sold their North Dakota Bakken asset package (~37,000 Boepd). From 511,400 Boepd of production in the first quarter, they exited the second quarter producing close to 550,000 Boepd (38% crude oil & condensate, 47% natural gas and 15% NGLs). The Company's production is a bit "gassy", but more than 80% of their Q3 revenues (over $2 billion) will be from liquid sales. Based on my forecast, Ovintiv's 2023 operating cash flow should exceed $3.9 billion with over $1.1 billion of free cash flow.

My Top Pick for 2H 2023 is **Earthstone Energy (ESTE)** that closed three accretive acquisitions in 2022, increasing production by 214% last year and increasing operating cash flow from $232.4 million in 2021 to $1,032.7 million ($7.39/share) last year.

On June 16th Earthstone announced the Novo Acquisition which they are jointly acquiring with **Northern Oil & Gas (NOG)** for $1.5 billion. It will increase Earthstone's production by approximately 25,000 Boepd when it closes in August. The Company's production should average close to 132,500 Boepd in Q4 2023 (~69% liquids). NOG is also going to finish the year with a big increase in production.

Callon Petroleum (CPE) closed the sale of their Eagle Ford assets in South Texas and the acquisition of Percussion Petroleum's Delaware Basin assets in West Texas and SE New Mexico. The transactions did not have a significant impact on net production, but they had a big impact on Callon's balance sheet. Callon reduced their outstanding debt by $300 million since the end of the first quarter and they announced a stock buyback program that starts this quarter. The Company is now a

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:

- Baytex Energy (BTE)
- Civitas Resources (CIVI)
- Coterra Energy (CTRA)
- Kimbell Royalty Partners (KRP)
- Pioneer Natural Resources (PXD)
- ROK Resources (ROK)

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			7/21/23		
ANTERO RESOURCES	GAS	AR	$24.24	$29.50	21.70%
CALLON PETROLEUM	OIL	CPE	$35.02	$82.00	134.15%
COMSTOCK RESOURCES	GAS	CRK	$12.11	$18.00	48.64%
CRESCENT POINT ENERGY	OIL	CPG	$7.75	$13.00	67.74%
EARTHSTONE ENERGY	OIL	ESTE	$15.03	$33.00	119.56%
EOG RESOURCES	OIL	EOG	$124.61	$149.00	19.57%
EQT CORP	GAS	EQT	$39.91	$45.00	12.75%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$49.08	$122.00	148.57%
MAGNOLIA OIL & GAS	OIL	MGY	$21.10	$29.00	37.44%
MATADOR RESOURCES	OIL	MTDR	$55.83	$82.00	46.87%
NORTHERN OIL & GAS	OIL	NOG	$36.51	$60.00	64.34%
OVINTIV INC (was ENCANA)	OIL	OVV	$42.20	$62.00	46.92%
PERMIAN RESOURCES	OIL	PR	$11.25	$16.50	46.67%
RANGE RESOURCES	GAS	RRC	$30.00	$31.00	3.33%
SILVERBOW RESOURCES	GAS	SBOW	$31.82	$63.00	97.99%
SM ENERGY	OIL	SM	$34.29	$52.00	51.65%

pure play on the Permian Basin, which should lower their operating expenses.

SilverBow Resources (SBOW) is finally getting the attention it deserves. The share price made a nice move since my June newsletter (up 25%), but it is still trading at less than 50% of my $63.00 valuation. At the beginning of this year, the Company moved their two operated drilling rigs to more oil prone areas of the Eagle Ford. The midpoint of their current guidance is for more than 24% year-over-year production growth and close to a doubling of their oil production from 7,430 BOPD in 2022 to ~14,400 BOPD with an exit rate of 64,000 Boepd (~20,000 BOPD). SilverBow also has significant upside in a large natural gas play in Webb County, Texas.

SBOW, CPE, ESTE and VTLE all closed on July 21 at less than 2X my 2023 operating cash flow per share forecasts. They all deserve to trade at much higher multiples. The Great Paradigm Shift in the global oil market should result in "Multiple Expansions" for all of the Sweet 16.

Upstream companies the quality of our Sweet 16 should be trading for at least 4X operating cash flow per share and they have historically traded at 6X to 8X operating CFPS.

Several of the Sweet 16 will be announcing 2nd quarter results this week. Check the EPG Forum each day for my comments and updated valuations.

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 results 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. Paying off debt, paying dividends and increasing proved reserves is a recipe designed to increase shareholder value.

Q2 2023 results will not be as good as they were in Q1, but I expect all ten companies to report positive earnings and generate more than enough operating cash flow to fund this year's capital expenditures. With oil & gas prices firming up, the next two quarters should be very good for our small-caps. They are all trading at deep discounts to my valuations and First Call's price targets.

Kolibri Global Energy (KGEIF) leads the pack, up more than 54% year-to-date. On July 6th the Company announced that their three new horizontal wells in the Tishomingo Field in Central Oklahoma have been adding over 1,500 Boe per day of new production, which compares to their first quarter actual production of 3,194 Boepd. They are currently drilling two more horizontal development wells that should push Kolibri's production over 5,000 Boepd in Q4 2023.

Kolibri has a strong balance sheet and they are funding 100% of their 2023 drilling program with operating cash flow. If 2H 2023 results come close to my forecast, KGEIF should be a double for us within six months. The successful T-Zone well (Barnes 8-3H) could double the Company's recoverable reserves. I expect Kolibri to complete three additional development wells before year-end, so a sizable proved reserve addition should push the Company's PV10 Net Asset Value above my current valuation.

Watch this interview with Kolibri's CEO: https://www.oilandgas360.com/kolibri/

- 100% of Kolibri's oil & gas assets are in the Oklahoma SCOOP play. It is heavily weighted to oil.
- Production mix is approximately 73% oil, 16% NGLs and 11% natural gas.
- PV10 Net Asset Value should be over $15/share by year end.

Holding onto 2nd place in the portfolio is **Riley Exploration (REPX),** up 17.3% YTD. They closed the Pecos Acquisition on April 4, 2023. So, Q2 production (~20,000 Boepd) should be ~7,000 Boepd higher than Q1 production. I'm eager to see the Company's guidance for 2H 2023. If it matches my forecast, this stock has 60% upside to a reasonable valuation. Keep in mind that Riley has a CO2 flood pilot underway in the Permian Basin that could significantly increase recoverable reserves. Riley's strong Q2 results should draw more of the Wall Street Gang's attention.

The four Canadian Juniors in the portfolio **(HMENF, IPOOF, PTRDF and ZPTAF)** should report decent 2nd quarter results. They are all heavily weighted to oil, so they should report strong results over the next two quarters.

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.

ROK Resources (ROK) is great financial shape, having paid off all of their senior debt.

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			7/21/23		
HEMISPHERE ENERGY	OIL	HMENF	$0.96	$2.25	134.38%
INPLAY OIL	OIL	IPOOF	$1.97	$6.00	204.57%
KOLIBRI GLOBAL ENERGY	OIL	KGEIF	$4.49	$9.00	100.45%
PHX MINERALS	OIL	PHX	$3.13	$4.60	46.96%
RILEY EXPLORATION PERMIAN	OIL	REPX	$34.95	$57.00	63.09%
RING ENERGY	OIL	REI	$2.16	$5.00	131.48%
ROK RESOURCES	OIL	ROKRF	$0.25	$0.75	200.00%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$9.50	$15.75	65.79%
SURGE ENERGY	OIL	ZPTAF	$6.02	$11.00	82.72%
TALOS ENERGY	OIL	TALO	$15.37	$23.50	52.90%

- Operating Cash Flow should be ~$40.7 million ($0.19Cdn per share). Based on my forecast, they should generate close to $10 million of free cash flow this year.
- Production will decline from Q1 to Q2 due to fire related shut-ins and the non-core asset sales that generated cash proceeds that were used to pay off all senior debt in May.
- Dense smoke was the reason several Canadian companies were forced to evacuate personnel and shut-in wells. The fires did not cause any serious damage to existing wells or infrastructure.
- ROK's 2023 drilling program is back end loaded. Production should increase sharply from ~3,200 Boepd in Q3 to ~4,500 Boepd in Q4.

This micro-cap holds several years of high-quality drilling locations. I expect their 2H 2023 results to set up a BIG YEAR for this Canadian Junior in 2024.

Hemisphere Energy (HMENF) is the closest company to a pure play on oil. Production will be flat from Q1 to Q2 (~2,950 Boepd), but thanks to higher realized oil prices, they should report that revenues increased. Based on the Company's production guidance of 3,300 Boepd (99.5% oil) for 2023 and their Atlee Buffalo development plan, their production should increase to ~4,000 Boepd by the end of 2024.

- Hemisphere is virtually debt free; with current assets that exceed their total liabilities.
- It generates steady production growth. 6.9% production growth in 2021 was followed by 55.3% YOY growth in 2022 thanks to the first polymer flood in the G Pool within the Atlee Buffalo Field kicking into high gear. In 2H 2023 Hemisphere expects strong growth from the F Pool polymer flood.
- It generates a lot of free cash flow from operations. Operating cash flow of $43 million in 2023 reduced by $14 million of capex spending leaves $29 million of free cash flow (over $0.28/share) that can be used for dividends and stock buybacks.
- It pays a nice dividend of $0.025Cdn per quarter for annualized yield of 7.9%.

- I do expect the Company to announce a significant acquisition this year or pay a nice special dividend after year-end.

Surge Energy's (SGY.TO and ZPTAF) stock price has not performed as well as I expected, but I remain impressed by the company. Here is what I like:

- **Strong Management Team** with an impressive track record.

- **Running Room:** Lots of high-quality / low-risk drilling inventory.

- **Production Growth:** Production was up 20.5% YOY in 2022 and they are on track to increase production by 18.9% YOY in 2023. Production should be down slightly from Q1 to Q2, but then increase steadily to an exit rate of ~25,800 Boepd by year end.

- **Production Mix:** 83.5% crude oil, 2.5% NGLs and 14.0% natural gas.

- **Surge pays nice monthly dividends:** The $0.48Cdn per year dividend yield is ~6%, which is very good for an upstream company with lots of "running room". I am considering moving Surge to our High Yield Income Portfolio because if oil prices go where I think they are heading, Surge could double their dividends.

On July 11th **Ring Energy's (REI)** announced a small, but immediately accretive acquisition. They will be acquiring ~3,600 net acres in the Central Basis Platform (CBP) area of the Permian Basin from Founders Oil & Gas IV, LLC for $75 million in cash. Founders' CBP operations are located in the Permian Basin in Ector County, Texas. The acreage being acquired is similar to Ring's CBP assets acquired in 2022 from Stronghold Energy Operating II, LLC and its affiliate ("Stronghold"). Ring's current production is ~18,200 Boepd (~68% oil) with Q4 production expected to be over 19,000 Boepd.

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.

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. It has a super strong balance sheet and pays a nice dividend that is fully funded by free cash flow. 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.

Talos Energy (TALO) recently sold 49.9% of their stake in the Zama Project off the Mexican coast. The proceeds were used to pay down debt. Based on my forecast, Talos should be able to fund all of their 2023 D&C Capex with operating cash flow. There is nothing in my valuation for Zama or their CCS business. Talos' production should be up ~9,000 Boepd (mostly oil) from Q1 to Q2 thanks to the EnVen Energy Acquisition that closed 2-13-2023.

Last week we published a profile on **Baytex Energy (BTE)**, a strong candidate for the portfolio. They closed the merger with Ranger Oil on June 20th, adding a lot of running room in South Texas. My 2H 2023 forecast looks very promising. I want to see Q2 actual results and updated guidance before adding it to one of our Growth Portfolios. The size of the Company (~153,000 Boepd) makes it large enough for the Sweet 16.

Based on my forecast, BTE is trading at ~2.4 X operating cash flow per share. I am expecting WTI to average $90/bbl in 2024. If so, Baytex should generate over $2.5 billion of operating cash flow next year and ~50% of it should be free cash flow.

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 share prices for all eleven companies have increased since our June newsletter. As generalist investors gain more confidence in rising oil & gas prices, we should see more money rotate into these profitable companies that pay nice dividends.

Recently updated profiles and forecast models for all eleven companies can be downloaded from the EPG website. I highly recommend taking the time to study the reports before investing.

The portfolio is divided in to 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 and over-riding royalties (ORR are carved out of the working interest) that get paid to them by the upstream companies that have producing wells on acreage where they hold the minerals. These companies have very low cash expenses and they pay out a high percentage of their free cash flow in the form of quarterly dividends. **Black Stone Minerals LP (BSM)** is the most heavily weighted to natural gas and **Viper Energy Partners LP (VNOM)** is the most heavily weighted to oil.

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			7/21/23				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$16.63	11.4%	$1.90	Qtr	$18.50
KIMBELL ROYALTY PARTNERS	GAS	KRP	$15.04	10.2%	$1.53	Qtr	$21.50
SITIO ROYALTIES CORP	OIL	STR	$26.93	7.3%	$1.96	Qtr	$32.00
VIPER ENERGY PARTNERS LP	OIL	VNOM	$26.14	7.5%	$1.96	Qtr	$38.00
Upstream Companies							
CIVITAS RESOURCES	OIL	CIVI	$70.70	12.5%	$8.85	Qtr	$96.00
COTERRA ENERGY	GAS	CTRA	$26.71	3.7%	$1.00	Qtr	$30.00
DEVON ENERGY	OIL	DVN	$52.26	6.9%	$3.58	Qtr	$64.00
DIAMONDBACK ENERGY	OIL	FANG	$141.24	3.1%	$4.43	Qtr	$173.00
PIONEER NATURAL RESOURCES	OIL	PXD	$215.85	8.4%	$18.20	Qtr	$250.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$11.85	7.6%	$0.90	Qtr	$13.50
ONEOK, INC.	Midstream	OKE	$66.49	5.7%	$3.82	Qtr	$75.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$15.67	6.8%	$1.07	Qtr	$18.00

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.

- **Coterra Energy (CTRA)** is the only one that is heavily weighted to natural gas.

- **Diamondback Energy (FANG)** has reduced its dividend, deciding to significantly increase its stock buybacks. I may be moving FANG back to the Sweet 16 portfolio. If your primary investment goal is building a portfolio that generates a lot of cash, I recommend selling FANG and moving the proceeds to VNOM.

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

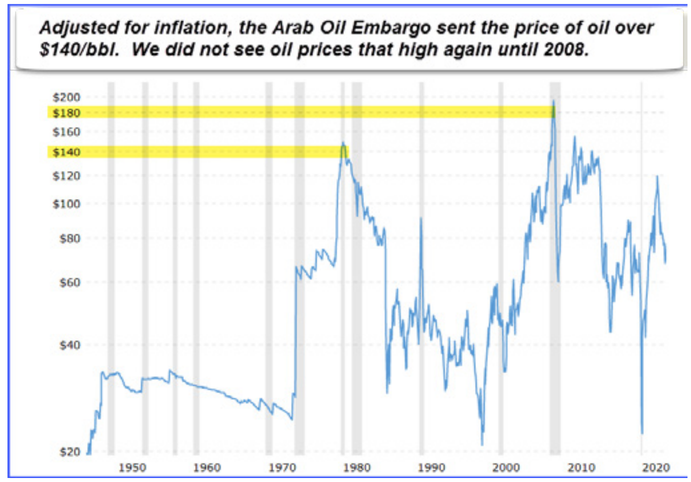
All three of our midstream companies **(AM, OKE and PAGP)** are generating a lot of free cash flow since their pipes are full. I expect OKE and PAGP to increase dividends in 2024.

Final Thoughts

If you were old enough to be driving a car in the early 1970's you remember what it was like to deal with gasoline rationing. In 1973 the Arabs did not like our relationship with Israel.

The Arab oil embargo, was a temporary cessation of oil shipments from the Middle East to the United States, the Netherlands, Portugal, Rhodesia, and South Africa, that was imposed by oil-producing Arab countries in October 1973 in retaliation for support of Israel during the Yom Kippur War; the embargo on the United States was lifted in March 1974, though the embargo on the other countries remained in place for some time afterward.

I turned 16 in early 1970 and purchased my first car, a used Ford Galaxy 500 for $600 that summer. Prior to the Arab oil embargo, gasoline was under $0.25/gallon and we often had gasoline price wars that pushed the price under $0.20/gallon. The embargo pushed prices over $1.00/gallon and when



the gasoline rationing started, the price went over $1.50/gallon. Adjusted for inflation, the price of oil went to $140/bbl.

The U.S. went into "Drill Baby Drill" mode in the mid-1970s and we developed the giant oil field in Prudhoe Bay, Alaska that was discovered by ARCO and Exxon in March, 1968. First oil production from Prudhoe Bay was June 20, 1977.

The oil shortage that's coming in 2024 will be different. It should not have much impact on gasoline supplies in the U.S. because our ultra-light shale oil is good for making gasoline. However, it may be worse for our economy because the U.S. runs on diesel and we do not have enough black oil production to make the distillates we use today. Prior to the war in Ukraine, we were actually importing diesel from Russia.

I have a few ideas for Team Biden to consider.

- We should complete the Keystone XL pipeline, which was being built before Biden took office to bring heavy oil from Western Canada to our Gulf Coast refineries.

- Let's focus on solving the political mess down in Venezuela. They have lots of heavy oil that they'd be happy to sell us. I've never understood why the U.S. has not focused on developing an oil supply line from South America.

- Instead of sending more bombs to Ukraine, why not send a team to Russia and work out a solution to the most recent senseless war on Earth.

Big Paradigm Shifts are how those of us that can see them coming can make a lot of money in the stock market. This one has the potential to be very big.

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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