Energy Prospectus Group
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The View from HOUSTON

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By: Dan Steffens, President

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

Mr. Steffens began his career in public accounting, becoming licensed as a CPA in 1978. After four years in public accounting, he transitioned to the oil & gas industry with the bulk of his time (18 years) spent with Amerada Hess Corporation (HES). He served as the Hess United States E&P Division Controller from 1994 to 2001.

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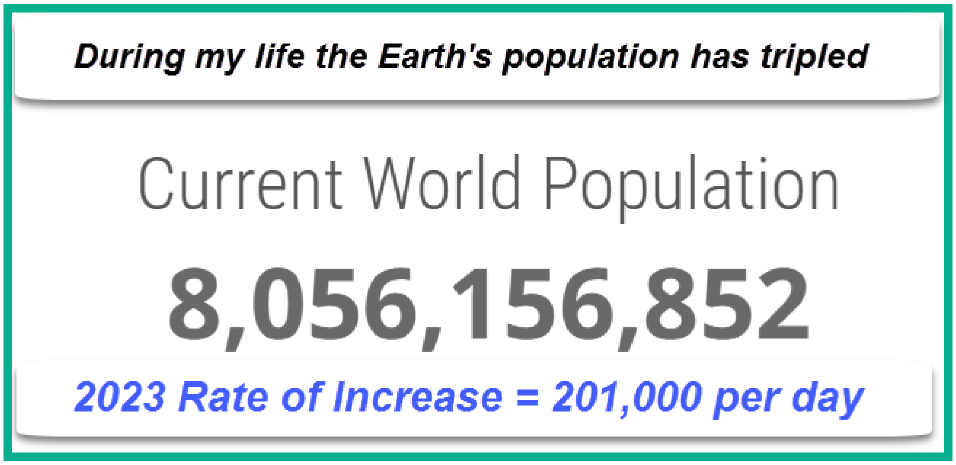
"Seek and ye shall find."

At EPG we are seeking out the best energy stocks and we bring those companies to the attention of our members.



Last week I gave presentations to two groups in Houston. I started them off with the simple truths that (a) demand for energy is directly correlated with human population growth and (b) after spending over $5 Trillion on renewable energy projects, primarily wind & solar, the demand for fossil fuels keeps increasing. The fact is that nothing that we know of today can replace the massive amount of primary energy we get from fossil fuels. Those who continue to spread the "Fear of Fossil Fuels", just can't seem to grasp these realities.

I do understand that nuclear power plants might replace a lot of coal and natural gas fired power plants in the distant future. To add nuclear power to the energy mix, the FEAR of living near a nuke will need to be overcome. **The problem with "Fear Mongering" is that it takes logical solutions to problems off the table.** For the majority of Americans, the fear of living anywhere near a nuclear power plant is right up there with the fear of global warming.

Standard of living advances that have been made for the human species are all tied to the energy we get from fossil fuels. Why many of our "Leaders" keep refusing to "Follow the Science" puzzles me. Maybe they actually believe that Climate Change is going to kill us all and somehow just by reducing carbon emissions we will all be saved. Personally, I am old enough to know that they have been pushing the Fear of Climate Change for decades and none of their deadly predictions have come true.

- The Polar Bear population keeps growing.
- It still snows during the winter in

Great Britain.

- The glaciers are not disappearing.
- There have been no measurable increases in the sea level or hurricane frequency, despite how much the Weather Channel hypes each tropical depression.

How can we keep putting our faith in people who are the most carbon emitting humans on Earth? Is flying around on private jets and riding in big black SUVs good for the atmosphere? All I've heard come out of the World Economic Forum annual meetings in Davos is how working-class folks need to accept a lower standard of living, so the elites who attend the meetings can keep their high standard of living. That junk is not going to sell to middle-class people or the poor people in Africa, China or India that are already living in energy poverty.

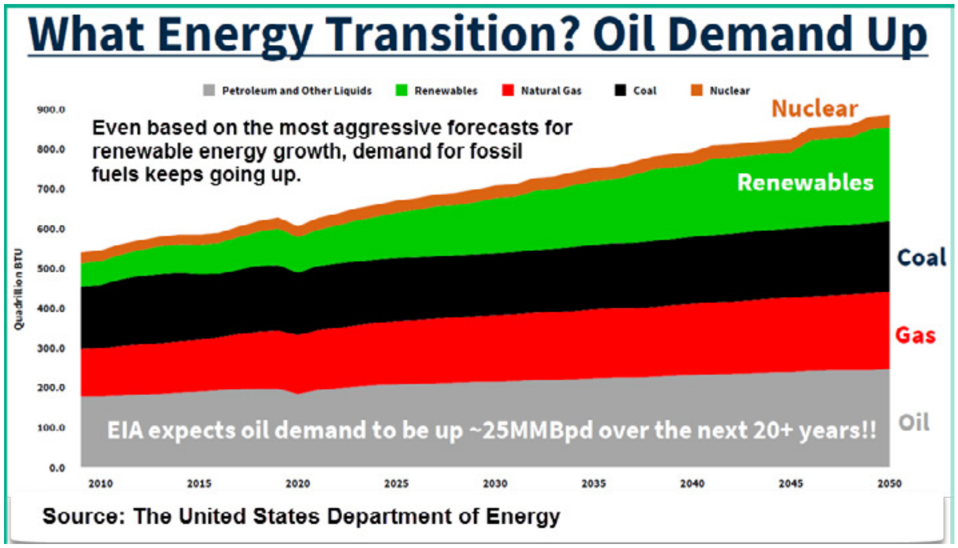
Another truth that needs to be accepted is that the majority of the countries that were stiff armed into signing the Paris Climate Accord can't afford anything close to "Net Zero".

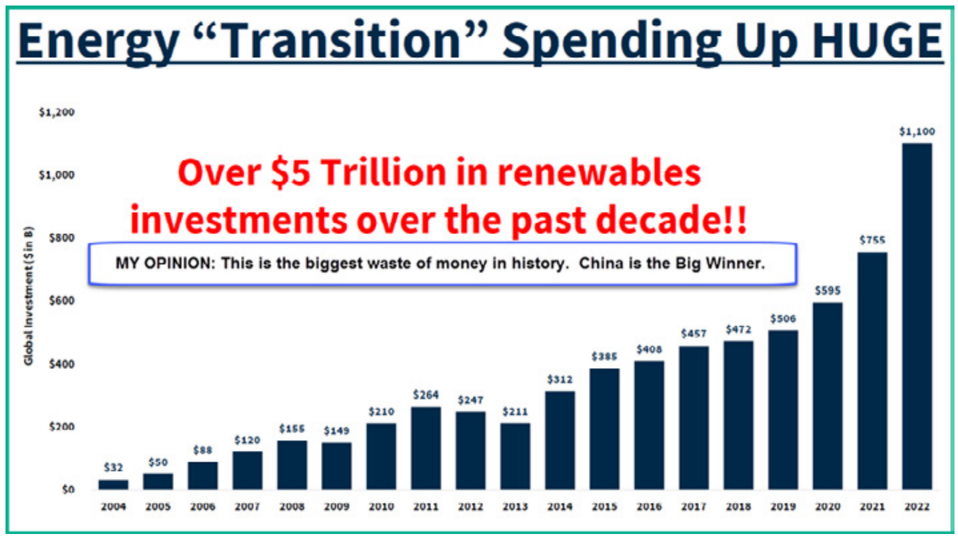
The supply chain built to deliver the fossil fuel-based energy we enjoy today took over a hundred years to build and will cost $100 Trillion to replace. Plus, the amount of materials needed for the task does not exist on this planet. Someday maybe we will be able to build mining colonies on asteroids.

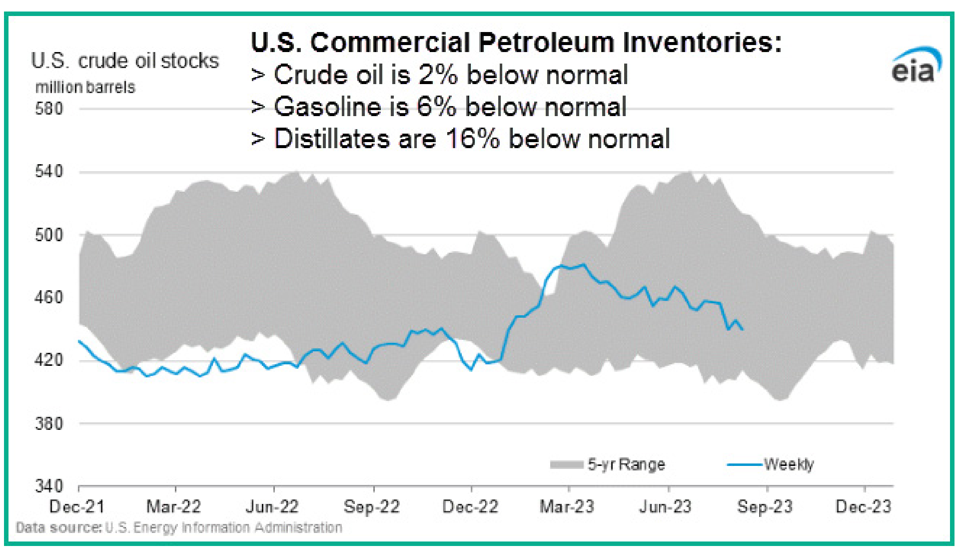
Oil Price

My opening remarks above are meant to give you the foundation for **The Big Paradigm Shift** that is impacting the price of oil. Citizens of the OECD countries are finally waking up to the reality that the Energy Transition is not going to be as easy as we've been told. This world will continue to run on oil-based products for many more years.

Commodity prices, especially oil, do not move up or down in a straight line. The most significant steady





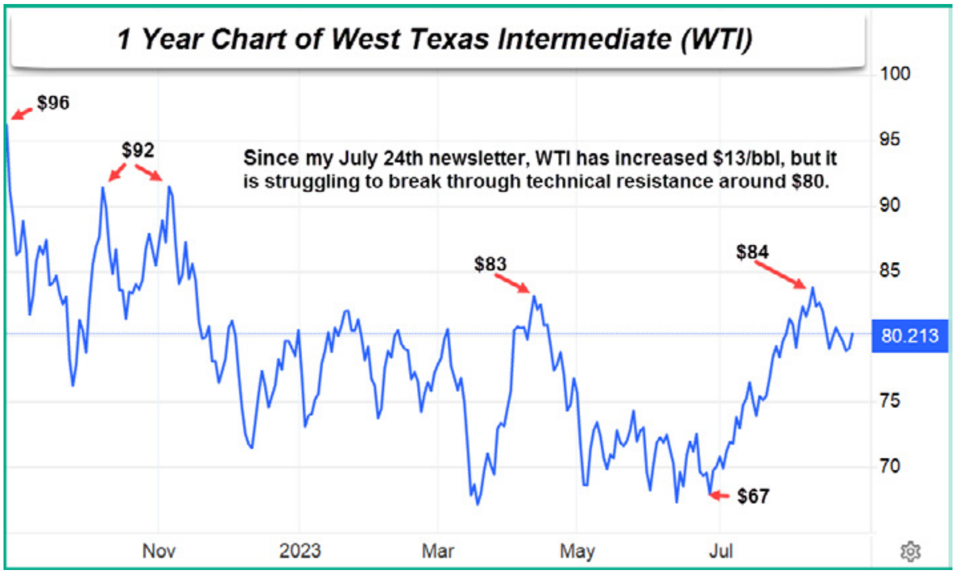


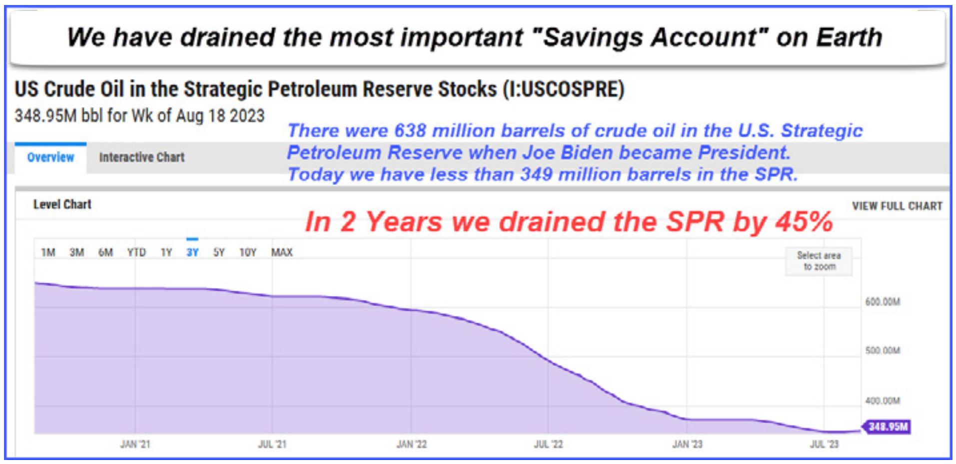
increase in the price of oil occurred in early 2008 when the Fear of Peak Oil pushed WTI up to $147/bbl. Adjusting for inflation would take the 2008 price up to over $220/bbl today. Trust me, we do not want that to happen again.

Oil price rallies based on supply shortages are difficult to stop because demand for oil-based products in inelastic. Consumers complain about the prices of gasoline, diesel & heating oil, but it takes a big price increase to lower demand.

Since my last newsletter WTI went from $67/bbl to $84/bbl before pulling back to $80/bbl last week. From a technical standpoint this is healthy because $80 was a resistance level and we need it to become a solid support level before can move into the low $90s, which is the oil price my 4th quarter forecasts are based on. There are lots of emotions at play in the oil market with FEAR being the most powerful. Supply / Demand fundamentals will eventually determine the price.

"WTI crude futures rose to trade at $80 per barrel on Friday, August 25 as US diesel prices soared after the number of rigs drilling for oil dropped and a fire broke out at a refinery in Louisiana. Meanwhile, the greenback strengthened to an 11-week high after Powell's speech at the Fed's Jackson Hole summit, who emphasized the US Federal Reserve's commitment to bringing inflation back to 2%. On the supply side, supply cuts from OPEC+ continue to support the market as Saudi Arabia and Russia said they would extend their additional cuts into September. Rising prices of a Russian crude sold to China should peak soon, with more independent refiners likely to switch to cheaper oil from Iran which ramped up exports to 4-year highs in August. Iran's oil minister said the country's oil output will reach 3.4 million barrels per day by the end of September despite US sanctions." – Trading Economic August 25, 2023





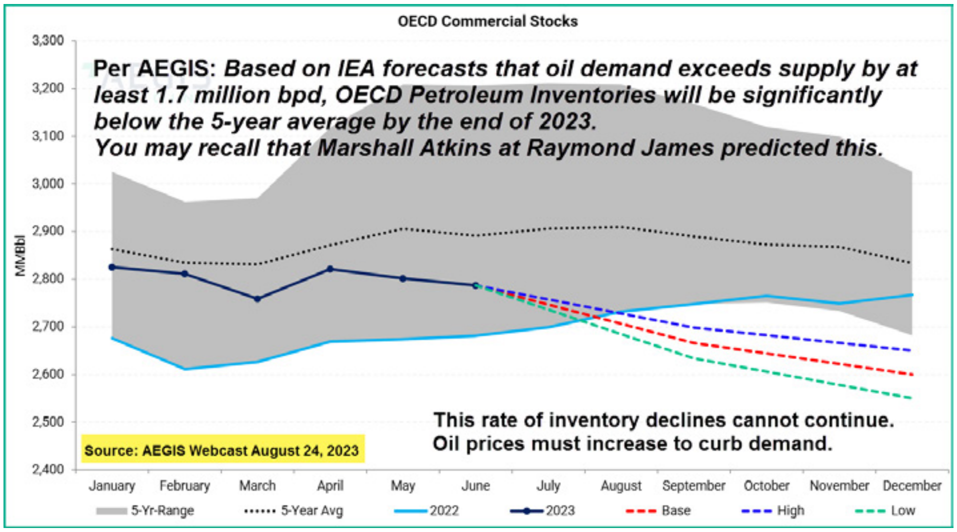
EPG Coming Events

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.

September 21: Live webinar hosted by **ROK Resources (ROKRF)** will begin at 10AM CT. Dan will be joined by Cam Taylor, ROK's CEO

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.



My Quick Takes:

- Fear of the Fed fuels Fear of Recession, which is keeping a lid on oil prices.
- Nothing new came out of Powell's speech at Jackson Hole; just more of the same rhetoric that we must stop the "Inflation Monster".
- The US dollar strength is just relative to the other currencies it is compared to. As the US goes deeper and deeper in debt, does it make sense that our currency would increase in value?
- OPEC+ (Saudi Arabia and Russia) are in control of the oil price and they know it. Saudi Arabia will defend the price of oil, so they will extend and might increase their voluntary production cuts.
- China's economic growth might be slowing a bit, but it is not declining. China and India will keep importing and consuming lots of oil.
- Iran has taken advantage of the US weakness to sell a lot of oil out of storage. Team Biden knows high fuel prices are not good for their re-election chances, so they are eager to let Iran and even Venezuela sell more oil. We actually need the heavy oil from Venezuela to avoid a significant diesel shortage.

The Fundamentals point to $100 WTI in early 2024.

In the International Energy Agency's ("IEA") August Oil Market Report it was forecast that global oil demand will grow year-over-year by 2.2 million barrels per day (bpd) to 102.2 million bpd in 2023. The forecast is for oil demand to increase another million bpd in 2024. In July, global oil supply declined by 910,000 bpd to 100.9 million bpd. Do the math; above ground petroleum inventories are on steep decline.

Per IEA, global observed oil inventories declined by 17.3 million barrels, led by the OECD counties. Commercial Petroleum inventories were estimated to be 115.4 million barrels below the 5-year average and OECD countries use more oil-based products than they did five years ago. Current estimates are that OECD Petroleum inventories have been falling by 1.7 million bpd in August.

During a speech in mid-June, Marshall Adkins, Head of Energy Investment Banking for Raymond James said that his firm's analysis show OECD Petroleum Inventories declining to just 22 Days of Consumption by year-end. That is 8 days below the inventory level considered normal and 4 days lower than the previous low point that pushed WTI up to $93/bbl in early 2022, before the Russian invasion of Ukraine pushed the oil price over $120/bbl. The economies in Europe will go on decline if transportation fuels are forced to be rationed.

The geopolitical risk to the oil supply chain is also quite high.

Natural Gas Price

The fundamentals for natural gas prices in the U.S. are still short-term bearish. I remain concerned that U.S. natural gas prices will struggle to stay over $3.00/MMBtu through the 2023/2024 winter because gas in storage will be much higher at the beginning of December than it was a year ago. That leaves the gas price exposed to the risk of mild temperatures at the beginning of the winter heating season.

Thanks to the "Heat Dome" stuck over Texas, higher demand for electricity has reduced the surplus to

Crude Oil and Oil-Based Product Prices Should Continue to Rise. NGas an Coal will struggle.

	Price			Day	Month	Year	Date
Crude Oil	80.21	▲	1.163	1.47%	2.31%	-13.18%	Aug/25
Brent	84.80	▲	1.439	1.73%	2.71%	-12.89%	Aug/25
Natural gas	2.55	▲	0.0282	1.12%	-5.41%	-72.70%	Aug/25
Gasoline	2.86	▲	0.0754	2.71%	0.54%	9.68%	Aug/25
Heating Oil	3.32	▲	0.1605	5.08%	16.93%	-13.93%	Aug/25
Coal	149.00	▼	-1.00	-0.67%	11.19%	-64.31%	Aug/24

Updated	Oil & Gas Prices used in Forecast Models					
8/4/2023	2023					2024
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Actual	Forecast	Forecast	Forecast	Forecast
WTI Oil	$ 76.11	$ 73.66	$ 80.00	$ 90.00	$ 79.94	$ 90.00
HH Gas	$ 2.72	$ 2.32	$ 2.50	$ 2.75	$ 2.57	$ 3.25

the 5-year average by 93 Bcf over the five weeks ending August 18th. However, gas in U.S. storage is still 513 Bcf higher than last year at this time and 268 Bcf above the five-year average of 2,815 Bcf. Gas in Canadian storage is also above the 5-year average.

There is still 13 weeks left in the refill season, so smaller than normal storage builds each week would be bullish for natural gas prices. We are going to need all of the LNG export facilities to ramp up to full capacity and we will need a cold "El Nino" winter to rebalance the U.S. gas market. Twelve months from now, the outlook of U.S. natural gas prices should improve quite a bit.

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"). Twelve of them pay dividends and/or have stock buybacks underway.

The Big News this month is the merger of Earthstone Energy (ESTE) into Permian Resources (PR). This is a merger of two mid-cap Sweet 16 companies that I believed were under-valued and under-covered by the Wall Street Gang. The merger is very good news.

First I want to announce that **Diamondback Energy (FANG)** has been moved back into the Sweet 16, replacing **Antero Resources (AR)**. Diamondback is no longer a good fit for our High Yield Income Portfolio since it has decided to shift the focus of its Shareholder Return program from high variable dividends to an aggressive stock buyback. It is a pure play Permian Basin company on pace to ~15% year-over-year production growth, thanks to the Lario Acquisition that closed on January 31st and a successful drilling program. Diamondback is a much better fit for a "Growth Portfolio".

There is nothing wrong with **Antero Resources** except that I am near-term bearish on natural gas and NGL prices. NGL prices pulled way back in Q2 due to a large surplus of propane inventory, but NGL prices should rise as winter approaches.

Antero's free cash flow went negative in Q2 and it looks like they will be outspending operating cash flow through the remainder of 2023. I have moved AR to my Watch List and I promise to keep an eye on it. My 2024 forecast, based on HH natural gas prices averaging $3.25/MMBtu, shows the Company returning to positive free cash flow early next year.

The **ESTE/PR merger** is bullish primarily because size does matter in this business. Both companies have already drawn a lot more attention from energy sector analysts. Soon after the merger was announced, eight respected energy sector analysts submitted undated price targets for PR to TipRanks that averaged $16.38 per share, which compares to my pre-merger valuation of $16.50. The eight updated price targets range from $14 to $18.

"We believe Permian Resources' acquisition (of ESTE) will ultimately be one of the most accretive transactions in several quarters based on agreed price, cost savings, and future operating efficiencies among other things. We also believe the combination sets PR up as a highly attractive future target given its strong proforma assets and operations. ***We have increased our price target to $18 from $16*** *as we anticipate future PR guidance to include an efficient 2024 plan with the pro-forma company running less D&C activity than the current 11 rigs/4-5*

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)
- Callon Petroleum (CPE)
- Comstock Resources (CRK)
- Crescent Point Energy (CPG)
- Earthstone Energy (ESTE)
- EOG Resources (EOG)
- EQT Corp. (EQT)
- Magnolia Oil & Gas (MGY)
- Matador Resources (MTDR)
- Northern Oil & Gas (NOG)
- Petroleum Resources (PR)
- SilverBow Resources (SBOW)
- SM Energy (SM)
- Vital Energy (VTLE)

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			8/25/23		
CALLON PETROLEUM	OIL	CPE	$36.81	$84.50	129.56%
COMSTOCK RESOURCES	GAS	CRK	$11.48	$15.00	30.66%
CRESCENT POINT ENERGY	OIL	CPG	$7.86	$12.00	52.67%
EARTHSTONE ENERGY	OIL	ESTE	$19.31	$32.00	65.72%
EOG RESOURCES	OIL	EOG	$127.08	$150.00	18.04%
EQT CORP	GAS	EQT	$42.04	$47.00	11.80%
DIAMONDBACK ENERGY	OIL	FANG	$149.55	$178.00	19.02%
MAGNOLIA OIL & GAS	OIL	MGY	$22.46	$29.00	29.12%
MATADOR RESOURCES	OIL	MTDR	$60.83	$83.50	37.27%
NORTHERN OIL & GAS	OIL	NOG	$40.60	$60.00	47.78%
OVINTIV INC (was ENCANA)	OIL	OVV	$46.66	$65.00	39.31%
PERMIAN RESOURCES	OIL	PR	$13.41	$21.00	56.60%
RANGE RESOURCES	GAS	RRC	$31.21	$30.25	-3.08%
SILVERBOW RESOURCES	GAS	SBOW	$41.79	$75.00	79.47%
SM ENERGY	OIL	SM	$40.84	$56.00	37.12%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$57.42	$134.00	133.37%

frac spreads while producing the same or more than current combined production." – **Neal Dingmann, Truist Financial August 22, 2023**

The merger is a stock-for-stock transaction that will be income tax free for those ESTE shareholders that accept the 1.446 shares of PR for each share of ESTE they own at closing. Your tax basis in ESTE will just transfer to PR.

Post-merger, Permian Resources expects to generate $175 million of annual cost savings ("synergies") from reduced completed well costs, lower lease operating expenses and reduced G&A expenses. As a much larger company, they should also be able to refinance debt at lower interest rates.

My current valuation of PR has increased by $4.50 to is $21.00 per share.

We will be publishing an updated profile on Permian Resources in September.

Northern Oil & Gas (NOG) should directly benefit from the synergies generated by the ESTE/PR merger because they have a 1/3rd working interest in the Delaware Basin assets being acquired by ESTE from Novo. See our recent Earthstone profile for details.

NOG has been one of the top performing stocks in the portfolio and I expect that trend to continue as their free cash flow generation ramps into high gear. The Company's robust acquisition activity over the past two 2 years - nine large deals totaling $2.2 billion - has increased production by over 50% and provides a strong free cash flow runway.

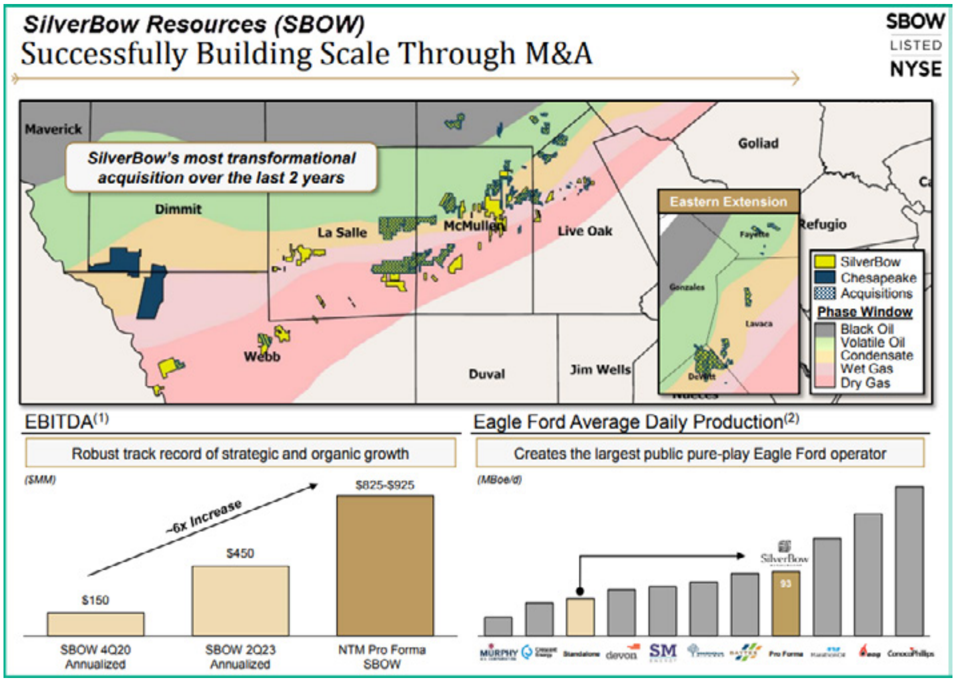
EQT Corp. (EQT) also had some big news. They closed the acquisitions of Tug Hill and XcL Midstream on August 22nd, just days after they received final approval from the Federal Trade Commission. After purchase price adjustments, EQT paid approximately $2.4 billion of cash and 49.6 million shares of EQT common stock. EQT funded the cash portion with $1.25 billion in term loan borrowings, $1 billion of cash on hand and a $150 million cash deposit previously held in escrow.

EQT was the largest producer of natural gas in North America prior to the acquisitions that added ~800,000 Bcfepd of production and reduced EQT's lease operating, transportation and processing expenses per mcfe. EQT's Q4 production guidance is now 6.1 Bcfepd (~6% liquids), compared to actual Q2 production of less than 5.2 Bcfepd. I have increased my current valuation by $5 to $47 per share, which compares to TipRanks' consensus price target of $45.09.

Once the U.S. natural gas market is rebalanced in 2024 and likely going into a supply deficit in 2025, I expect Henry Hub natural gas prices to average more than $5.00/MMBtu beyond 2024. That gas price would push my valuation of EQT over $100/share.

Until we see natural gas prices move firmly over $3.00/MMBtu, I rate **Comstock Resources (CRK) and Range Resources (RRC)** as HOLDs. My long-term outlook for both companies and for all of our "Gassers" remains bullish.

SilverBow Resources (SBOW) is finally getting the Wall Street Gang attention it deserves. The share price is up 31.5% since the last newsletter. On August 14th SilverBow announced that it had entered into



an agreement to acquire Chesapeake Energy Corporation's oil and gas assets in South Texas for a purchase price of $700 million, comprised of a $650 million upfront cash payment due at closing and an additional $50 million deferred cash payment due 12 months post close, subject to customary adjustments. Chesapeake may also receive up to $50 million in additional contingent cash consideration based on future commodity prices.

The word "Transformational" is often over-used when describing upstream acquisitions, but in this case I believe it is warranted. *"The Chesapeake Transaction transforms SilverBow into the largest public pure-play Eagle Ford operator. This acquisition advances all of our long-term strategic objectives, by materially increasing our scale, enhancing our decade-plus high-return inventory, improving our capital efficiency and providing balanced commodity price exposure, all while maintaining a strong balance sheet."* – Sean Woolverton, SilverBow's CEO

Last week **Crescent Point Energy (CPG)** announced the disposition of its North Dakota assets to a private operator for cash proceeds of approximately $500US million. The sale is expected to close mid-Q4 with proceeds used primarily for debt reduction.

In the most recent quarter, the North Dakota assets produced ~23,500 Boepd (89% liquids) and generated annualized net operating income of $375 million (at $75 WTI). The transaction permits the Company to refocus its attention and efforts on more economic plays with longer asset lives.

Crescent Point's production guidance was revised to reflect the sale of these assets but partially offset by stronger production from the Company's other assets. The updated 2023 production guidance is now at 156-161 Mboe/d (from 160-166 Mboe/d previously), and capital expenditure guidance is now $1.09-$1.19 Billion (from $1.19-$1.29 Billion previously).

Five of the Sweet 16 are still down year-to-date, so I took a look at each one to see if the current share prices are justified. Other than the fact that **Comstock Resources (CRK)** has been pulled lower by the sharp decline in natural gas prices, I cannot find any justification for the other four (CPE, EOG, MGY and OVV) being down YTD.

- I am keeping Comstock in the Sweet 16 because I believe they have significant upside in what they call the "Western Haynesville". Plus, their producing assets are in the best location for selling natural gas directly to the LNG exporters along the Gulf Coast, making CRK a possible takeover target.

- Over the past two years, **Callon Petroleum (CPE)** has been one of the most profitable companies in the Sweet 16. They closed two transaction on July 5th that make a big improvement in their balance sheet ratios and liquidity. I expect them to report a nice production increase heading into year-end. The Company is on pace to generate over $18.00/share of operating cash flow this year and it is free cash flow positive. There is no reason it should be trading below book value.

- **EOG Resources (EOG)** is the largest company in the portfolio and it has an incredible inventory of low-risk / high-return development projects. EOG now generates over $1Billion of free cash flow each quarter. Its production will top 1,000,000 Boepd in Q4.

- The only reason that I can see for **Magnolia Oil & Gas (MGY)** not being up YTD is because it is not a Permian Basin company. It generates a lot of free cash flow that funds a shareholder friendly program of dividends and stock buybacks.

- **Ovintiv (OVV)** is a bit "gassy" based on their production mix (~65% natural gas & NGLs), but natural gas sales will be less than 20% of total revenues in 2H 2023 . For a company of this size (over 550,000 Boepd of production) with more than 7% YOY production growth locked in, it deserves to trade at more than 3.5 X operating cash flow per share. It was free cash flow positive in Q2 and FCF should increase to more than $300 million per quarter in Q4 and it has no near-term debt issues.

The Wall Street Gang is looking for Permian Basin takeover targets. I have seen **Matador Resources**

(MTDR) and SM Energy (SM) on several lists of potential takeover candidates. **Vital Energy (VTLE)**, the most profitable company in the Sweet 16, is also a pure play on the Permian Basin. In my opinion, Matador is the most likely to be acquired or merged into a large-cap because it has a lot of running room in the Delaware Basin.

All of the Sweet 16 company profiles have been updated on the EPG website except for **Diamondback Energy (FANG)**, which will be updated in a few days.

Small-Cap Portfolio

Small-Caps have more risk than the larger companies in our Elite Eight, but they also have more potential. I am very bullish on this group because they all reported solid results for 2022 and 1H 2023. Second quarter results were down a bit because of lower commodity prices, but Q2 should be the low point for the year. All nine companies are well positioned for the next two quarters, which should benefit from higher oil, gas and NGL prices.

I have decided to move **Hemisphere Energy (HMENF)** to the High Yield Income Portfolio and I am moving **PHX Minerals (PHX)** back to my Watch List.

Hemisphere is a rock-solid Canadian Junior that is a pure play on heavy oil, but it has limited "running room". It is just a better fit for those of you investing primarily for high dividend yield. The Company's annualized dividends ($0.10Cdn) equates to 8.2% annual yield and it has share price upside.

Production from Hemisphere's two polymer floods within their Atlee Buffalo core area will require minimal capital expenditures to continue to grow production to approximately 4,000 BOPD by the end of 2024. Once all of the horizontal wells are in place, only maintenance capital will be required to hold production at that rate for many years. Free cash flow should be more than enough to raise dividends for several years. Successful polymer floods take many years to reach full production, so depletion is not a near-term issue.

PHX Minerals has a lot of exposure to natural gas prices, so I think it best to move it to the side lines until natural gas and NGL prices rebound. Drilling activity on their Haynesville minerals has also declined.

Baytex Energy (BTE) is being added to the portfolio. They closed the acquisition of Ranger Oil on June 20, 2023. The Company reported solid Q2 results that beat my forecast despite having to deal with the Canadian wildfires and weather conditions that hamper drilling operations in Western Canada each year. **Timing is good on this one because they should report a production increase of more than 60,000 Boepd from Q2 to Q3, primarily because of the Ranger Acquisition.** If their Q3 results and guidance confirm my forecast model assumptions (an exit rate of ~160,000 Boepd), BTE will be a strong candidate for promotion to our Sweet 16. We will be publishing an updated profile on Baytex next week.

I want to remind investors that second quarter results for all upstream companies doing business in Western Canada and the Williston Basin (North Dakota and Eastern Montana) are impacted by "Spring Break-Up" each year. As the temperatures warm up in March and April the ground thraws and it gets very muddy. It is difficult and expensive to move heavy equipment. In some areas, roads are closed to the movement of drilling & completion equipment. This year, the smoke caused by wildfires also required many wells to be shut-in. The good news is that none of our companies reported any serious damage from the fires.

InPlay Oil (IPOOF) and ROK Resources (PTRDF) were the two companies in the portfolio that were most impacted by the wildfires in Western Canada.

InPlay reported Q2 production declined by 6% to 8,474 Boepd, which actually beat my forecast. Their Adjusted Funds Flow ("AFF") of $21.8Cdn million ($0.25 per share) also beat my forecast of $16.6Cdn million. The Company is now back on-track to ramp production up to 12,000 Boepd by the end of 2024.

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			8/25/23		
BAYTEX ENERGY	OIL	BTE	$3.84	$6.50	69.27%
INPLAY OIL	OIL	IPOOF	$1.82	$6.00	229.31%
KOLIBRI GLOBAL ENERGY	OIL	KGEIF	$3.99	$9.00	125.56%
RILEY EXPLORATION PERMIAN	OIL	REPX	$32.53	$55.00	69.07%
RING ENERGY	OIL	REI	$1.85	$4.35	135.14%
ROK RESOURCES	OIL	ROKRF	$0.27	$0.75	181.95%
SOLARIS OILFIELD INFRASTRUCTURE	SERVICES	SOI	$10.26	$18.00	75.44%
SURGE ENERGY	OIL	ZPTAF	$5.88	$10.00	70.07%
TALOS ENERGY	OIL	TALO	$16.75	$23.00	37.31%

With realized prices of over $100Cdn/bbl for their light oil, InPlay's AFF should exceed $25Cdn million in Q3 and over $30Cdn million in Q4.

InPlay pays a nice monthly dividend of $0.015/share ($0.18Cdn per year) for annual yield of more than 7%, which does qualify it for our High Yield Income Portfolio. It's strong running room in Alberta is why I'm keeping it in this portfolio for now. Based on my forecast, they should generate more than enough free cash flow to double their dividends in 2024.

ROK Resources (ROK) is a recent addition to the portfolio. I am gaining confidence in my forecast model and it is telling me that this micro-cap should be a triple for us. Despite the impact of the wildfires and the annual "Spring Breakup" weather, ROK made significant progress in Q2. Most significant is that they paid off 90% of their debt during the quarter.

From the ROK's press release: *"The first six months of 2023 were focused on corporate debt reduction, accretive asset purchases, non-core divestitures and the integration of new assets, as well as the restructuring of the Company's hedge book to provide greater exposure to an inclining commodity price environment. Total debt was reduced by over 90% year-over-year, which has provided the Company with the flexibility to allocate additional development capital across some of the most economic plays in North America. Given the significant delivering in the first half of the year, the Company will utilize a portion of its spare debt capacity but will continue to target a Debt to Cash Flow ratio of 0.5. ROK will focus the next 12-18 months on organic production growth and will continue to evaluate strategic, tuck-in acquisitions in core operating areas."*

ROK is now running three operated drilling rigs. Production is expected to go up from 3,297 Boepd in Q2 to an exit rate of ~4,500 Boepd. They expect to fund most of this year's drilling program with operating cash flow. The Company's CEO will join me on a live webinar set for September 21st. I urge you to join us on the live event and learn why I believe ROK has the potential to be a triple for us.

Surge Energy (SGY.TO and ZPTAF) is a Canadian mid-cap that was impacted by weather related delays and some 3rd party midstream issues. Most of the Q2 problems have been resolved and they have assured me that their production forecast of 25,000 Boepd by year-end is achievable. I do like their production mix and monthly dividends.

Kolibri Global Energy (KGEIF) is the top performing stock in the Small-Cap Growth Portfolio this year. It is a one asset company that has an early-stage oilfield in **Central Oklahoma ("Tishomingo")** that is within the SCOOP oil play area southwest of Oklahoma City. For a company of this size, **it has an incredible amount of running room** in an area of the country that has plenty of infrastructure; allowing the Company to complete wells to sales soon after they are drilled. I worked in Oklahoma for two decades. It is a very friendly place for oil & gas companies to operate.

Kolibri's production was down 779 Boepd to 2,415 Boepd from Q1 to Q2, primarily because some wells had to be shut-in while new horizontal wells were completed. Production has already rebounded to above the Q1 level and I expect production to spike to more than 5,000 Boepd in Q4 after they complete the last five horizontal wells in their expanded eight well 2023 drilling program. **If Netherland Sewell confirms that the T-Zone is economic to develop across Kolibri's entire leasehold block, my valuation of this stock could double.**

At current oil prices, Kolibri should have enough operating cash flow to fund a 12 to 14 horizontal well drilling program in 2024. Their horizontal Caney wells cost approximately $6.5 million to complete to sales and they come on at rates of 400 to 700 Boepd. Based on the Company's most recent Netherland Sewell report, they have 60 proved locations, 63 probable locations and 57 possible locations. That is over ten years of high-quality development drilling inventory without considering the potential in the T-Zone.

Riley Exploration (REPX) closed the Pecos Acquisition on April 4, 2023, and they reported Q2 production of 21,236 Boepd, which was more than 1,200 Boepd higher than my forecast. I need to spend more time on my forecast model, but I do think there is upside to my current valuation. We will be publishing an updated profile on REPX early in September.

Ring Energy's (REI) announced Q2 results in line with my forecast. I have lowered my forecast a bit to align it with the low end of their guidance. The Company remains free cash flow positive even at the bottom of their production guidance. The only thing that explains the recent stock performance is that the Central Basin Platform of the Permian Basin does not have the "excitement level" of the Delaware Basin that has recently gotten a lot more attention. Ring is going to remain free cash flow positive. They are generating more than enough operating cash flow to fund their 2H 2023 capital program that should push production over 19,000 Boepd heading into 2024.

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. Q2 results were solid. This one has a lot of upside for us if upstream companies increase their drilling programs next year.

Talos Energy (TALO) is the only offshore company in any of our three model portfolios. Q2 results were a bit lower than my forecast, but still solid. It does have hurricane risk, which is considered in my forecast model. I keep Talos in the portfolio because it does have significant exploration upside. For example, they will be completing some high-rate wells early in 2024 at their Lime Rock and Venice prospects where they drilled the discovery wells in 2022. On August 8th Talos announced a successful discovery at their Sunspear Prospect, which they recently acquired from EnVen. I like the Talos team and I believe the Gulf of Mexico still has lots of oil left to produce.

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 less volatility than our two growth portfolios because the share prices tend to trade based on their dividend yield. I also believe that investors seeking high yield tend to be "Buy & Hold" rather than "High Frequency Traders".

A group of solid stocks that pay high dividends is a nice place to park your money when commodity prices seem to lack direction.

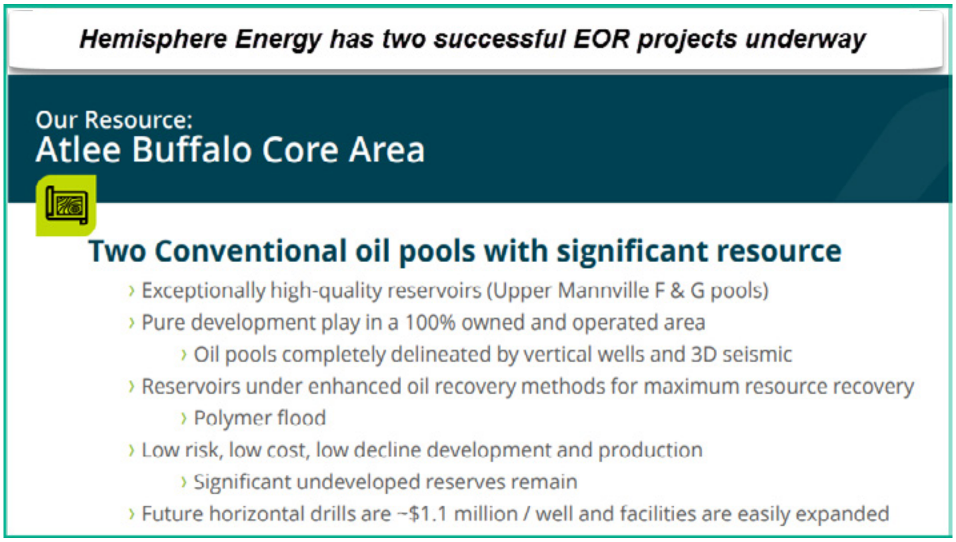
Hemisphere Energy (HMENF) has been moved into the portfolio to replace **Diamondback Energy (FANG)** that was moved back to the Sweet 16. In addition to strong production growth, Diamondback has a very aggressive stock buyback underway that should significantly improve per share results and push the share price higher.

Hemisphere is a Canadian Junior that is a pure play on heavy oil. The management team has expertise in **Enhanced Oil Recovery ("EOR")** techniques. They have two polymer floods underway in the Atlee Buffalo area that should generate steady production growth with minimal capital expenditures needed to maintain production for many years.

Hemisphere reported solid 2nd quarter financial results on August 24th. Production was slightly less than my forecast due to the annual weather related issues in Alberta that always hampers field work. The summer drilling program kicked off in June. They will be completing five new wells within their core area during the 3rd quarter, which should

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			8/25/23				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$16.91	11.2%	$1.90	Qtr	$18.00
KIMBELL ROYALTY PARTNERS	GAS	KRP	$15.13	9.8%	$1.49	Qtr	$21.50
SITIO ROYALTIES CORP	OIL	STR	$24.18	8.1%	$1.96	Qtr	$31.50
VIPER ENERGY PARTNERS LP	OIL	VNOM	$27.17	6.6%	$1.78	Qtr	$37.00
Upstream Companies							
CIVITAS RESOURCES	OIL	CIVI	$80.13	9.4%	$7.55	Qtr	$104.00
COTERRA ENERGY	GAS	CTRA	$27.74	3.4%	$0.93	Qtr	$29.00
DEVON ENERGY	OIL	DVN	$50.43	6.1%	$3.08	Qtr	$65.00
HEMISPHERE ENERGY	OIL	HMENF	$0.91	8.2%	$0.074	Qtr	$2.25
PIONEER NATURAL RESOURCES	OIL	PXD	$233.78	6.8%	$15.84	Qtr	$252.00
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$11.94	7.5%	$0.90	Qtr	$13.50
ONEOK, INC.	Midstream	OKE	$64.95	5.9%	$3.82	Qtr	$75.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$15.97	6.7%	$1.07	Qtr	$18.00



increase the Company's production to ~3,500 BOPD early in the 4th quarter. Atlee Buffalo is expected to be producing close to 4,000 BOPD by the end of 2024.

Hemisphere also announced a strategic acquisition of over 10 sections of new land in Alberta that management believes to be prospective enough to become an additional core area for the Company. The addition of more "running room" would increase my valuation of this stock. Since they are generating a lot of free cash flow, I do expect Hemisphere to increase dividends in 2024.

You can find my updated forecast/valuation model for Hemisphere Energy on the EPG website and we will be publishing an updated profile on the Company next week.

The High Yield 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. BSM is the only **Master Limited Partnership (MLP)** in the portfolio. Viper is already taxed as a C-Corp., but they are taking steps to convert to an actual C-Corp. The significant of the conversion is that many hedge funds cannot invest in partnerships. A wider shareholder base should move VNOM higher.

Large-Cap Upstream Oil & Gas Companies that pay Fixed + Variable dividends. The five upstream 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. The dividends shown in the table are my forecast of the total dividends that they will pay out this year. Hemisphere does not have a "variable" component to their dividend policy, but I do expect them to pay out "special dividends" after year-end since they are generating more than enough free cash flow to double their quarterly dividends.

Coterra Energy (CTRA) is the only one that is heavily weighted to natural gas. In 2022 the Company paid out cumulative fixed + variable dividends of $2.73/share. Due to much lower natural gas and NGL prices this year, they are only paying the fixed dividends until revenues from gas sales increase, which I am forecasting to happen in Q4. Coterra's production mix is now approximately 73% natural gas, 13% NGLs and 14% crude oil. They have increased their oil production guidance.

Midstream Companies 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. ONEOK will soon be closing the merger with Magellan **Midstream Partners (MMP)**. I expect OKE and PAGP to increase dividends in 2024.

Hywind Tampen, the world's largest floating offshore wind farm, was inaugurated today by global power giant Equinor and its partners.

We will be publishing updated profiles on all twelve companies during the next few weeks.

Final Thoughts

America's War on Fossil Fuels needs to stop before it destroys our economy. Texas should be the leader on this issue. We should start by building more natural gas fired power plants around our large cities, so ERCOT does not have to beg us each summer to raise our thermostats.

The notes below come primarily from an article written by Stephen Moore. He is a senior fellow at the Heritage Foundation and a co-founder of the Committee to Unleash Prosperity. *I've added some comments in italics.*

Natural gas is the world's wonder fuel: cheap, abundant, made in America, reliable and clean burning.

So why are the Biden administration and environmental groups against it? There's really no good answer.

What makes the Left's war against natural gas inexplicable is that the single biggest factor in reducing carbon emissions into the atmosphere has been the increased reliance on natural gas for electric power generation as we transition slowly away from coal. (By the way, emissions from coal plants have been dramatically reduced as well, which is one reason why the air that we breathe today is much cleaner than the air 20 or 50 or 100 years ago.)

No country produces more natural gas than America *and Texas produces so much more gas than it needs that the state is exporting a higher percentage to Mexico via pipelines and to Europe & Asia as LNG.* Latest reserve forecasts predict we have nearly 100 years of recoverable natural gas with existing drilling technologies, and hundreds of years of potential future supply. We're not running out. America is the Saudi Arabia of natural gas.

The two innovations that spurred the natural gas shale revolution of the last 15 years were horizontal drilling and hydraulic fracturing. These drilling technologies tripled our supply and output almost overnight.

No single person is more responsible for this energy revolution than Harold Hamm of Continental Resources. His new book "Game Changer" documents how drilling in places like the Bakken Shale in North Dakota and the Marcellus Shale in Pennsylvania and West Virginia helped triple U.S. oil and gas supplies while lowering the price we pay for energy.

He tells me that "U.S. natural gas price has fallen by more than half while the rest of the world has seen their prices double or triple." This means that our energy costs are a fraction of the costs that Europe and Asia pay. That is an immeasurable economic and geopolitical advantage America has. *Cheap energy throughout North America gives the U.S., Canada and Mexico cost savings that offsets cheap labor in China. Without low cost coal and natural gas, even more of our manufacturing jobs will be moving to Asia.*

All we need to be the world's energy superpower is liquefied natural gas terminals, pipelines and drilling permits. We also need states to redefine natural gas as a "clean" and "net zero" form of energy so that utilities can use it. Why isn't this happening?

The main reason is radical environmentalists want to end all natural gas and oil production, and force utilities and consumers to get our power and transportation fuels from unreliable and expensive wind and solar power. *Not only is this foolish, but it is also extremely expensive. $5Trillion has been spent on renewable energy projects over the last ten years and wind & solar are only 4% of the Earth primary energy supply.*

In pursuing this agenda, and moving away from the Trump pro-drilling policies, they are killing one of the cleanest forms of energy and costing the U.S. over $150 billion a year. For that amount of money, we could modernize every school in America.

The False Paradigm that electricity from wind and solar is "cheap" has been exposed.

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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