Energy Prospectus Group
A Division of DMS Publishing, LLC

The View from HOUSTON

Energy Prospectus Newsletter: "The View from Houston" March 18, 2024 Issue: 214

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.

A few weeks ago I was interviewed on a Washington DC based webinar. One of the panellists mentioned a report that said the global electicity grid would need to be expanded by at least 30% by 2027 (just 3 years from now). He said that, per a report from the International Energy Agency (IEA), the U.S. grid might need to grow by 70%, which seems impossible to me even if we could afford it. It would take a massive increase in copper production and other materials.

Then last week the New York Times published an article titled "**A New Surge in Power Use Is Threatening U.S. Climate Goals. A boom in data centers and factories is straining electric grids and propping up fossil fuels.** By Brad Plumer and Nadja Popovich March 14, 2024

Below is the contents of the NYT's article. My take is that this is very bullish for natural gas demand since building a lot more natural gas fired power plants is the only near-term solution to this much demand for electricity. There is no way that Wind and Solar can grow fast enough to meet this level of demand growth and nuclear power plants take much longer to get approved and built. A modern economy must have a reliable supply of electricity and clearly Wind and Solar do not meet that requirement.

From the New York Times (not a conservative leaning newspaper):

"Something unusual is happening in America. Demand for electricity, which has stayed largely flat for two decades, has begun to surge."

Over the past year, electric utilities have nearly doubled their forecasts of how much additional power they'll need by 2028 as they confront an unexpected explosion in the number of data centers, an abrupt resurgence in manufacturing driven by new federal laws, and millions of electric vehicles being plugged in.

Many power companies were already struggling to keep the lights on, especially during extreme weather, and say the strain on grids will only increase. **Peak demand in the summer is projected to grow by 38,000 megawatts nationwide in the next five years,** according to an analysis by the consulting firm Grid Strategies, which is like adding another California to the grid.

"The numbers we're seeing are pretty crazy," said Daniel Brooks, vice president of integrated grid and energy systems at the Electric Power Research Institute, a nonprofit organization.

In an ironic twist, the swelling appetite for more electricity, driven not only by electric cars but also by battery and solar factories and other aspects of the clean-energy transition, could also jeopardize the country's plans to fight climate change.

To meet spiking demand, utilities in states like Georgia, North Carolina, South Carolina, Tennessee and Virginia are proposing to build dozens of power plants over the next 15 years that would burn natural gas. In Kansas, one utility has postponed the retirement of a coal plant to help power a giant electric-car battery factory.

Burning more naturla gas and coal runs counter to President Biden's pledge to halve the nation's planet-warming greenhouse gases and to generate all of America's electricity from pollution-free sources such as wind, solar and nuclear by 2035.

"I can't recall the last time I was so alarmed about the country's energy trajectory," said Tyler H. Norris, a former solar developer and expert in power systems who is now pursuing a doctorate at Duke University. **If a wave of new gas-fired plants** gets approved by state regulators, he said, *"it is game over for the Biden administration's 2035 decarbonization goal."*

Some utilities say they need additional fossil fuel capacity because cleaner alternatives like wind or solar power aren't growing fast enough and can be bogged down by delayed permits and snarled supply chains. While a data center can be built in just one year, it can take five years or longer to connect renewable energy projects to the grid and a decade to build some of the long-distance power lines they require. Utilities also note that data centers and factories need power 24 hours a day, something wind and solar can't do alone.

Yet many regulated utilities also have financial incentives to build new gas plants, since they can recover their costs to build plants, wires and other equipment from ratepayers and pocket an additional percentage as profit. As a result, critics say, utilities often overlook, or even block, ways to make existing power systems more efficient or to integrate more renewable energy into the grid.

"It is entirely feasible to meet growing electricity demand without so much gas, but it requires regulators to challenge the utilities and push for less-traditional solutions," Mr. Norris said.

The stakes are high. If more power isn't brought online relatively soon, large portions of the country could risk blackouts, according to a recent report by the North American Electric Reliability Corporation, which monitors the health of the nation's electric grids.

"Right now everyone's getting caught flat-footed" by rising demand for electricity, said John Wilson, a vice president at Grid Strategies.

MY TAKE: We need a Common Sense Energy Plan. We need to "Get Real" and admit that Wind & Solar cannot

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.

March 21 at 11:00AM CT: Live update on **ROK Resources (ROK.V)** from the Company's President, Bryden Wright.

March 28: Houston Luncheon hosted by **U.S. Energy Development Corporation** at Maggiano's Little Italy restaurant, 2019 Post Oak Blvd., Houston, Texas. Doors open at 11:00AM for networking with lunch served at 11:30. Matthew Iak, Executive Vice President will be speaking at noon.

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.

be a significant percentage of the energy supply for a country that must have reliable and affordable energy. Clean burning natural gas is the only logical solution. Looking beyond 2024, the outlook for natural gas prices is bullish. The U.S. and Canada are blessed to have abundant natural gas reserves.

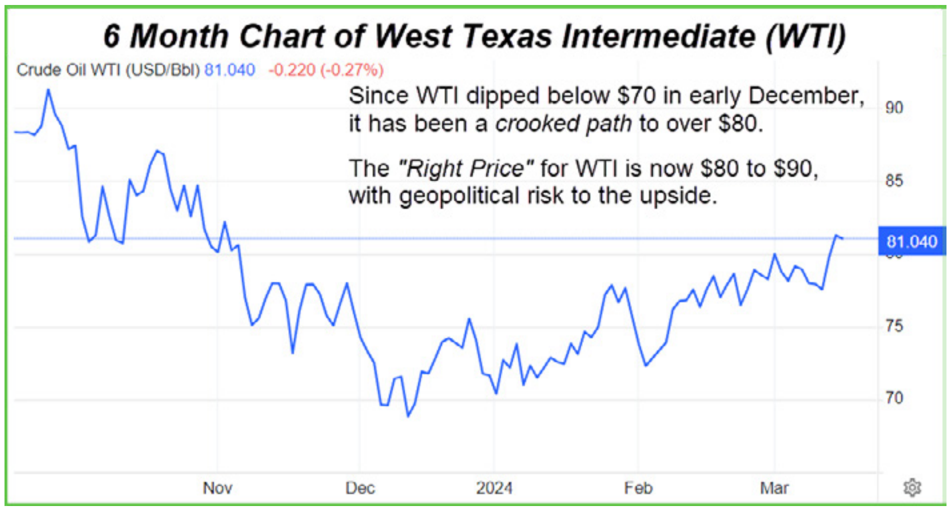
Oil Prices are set by Global Supply/Demand

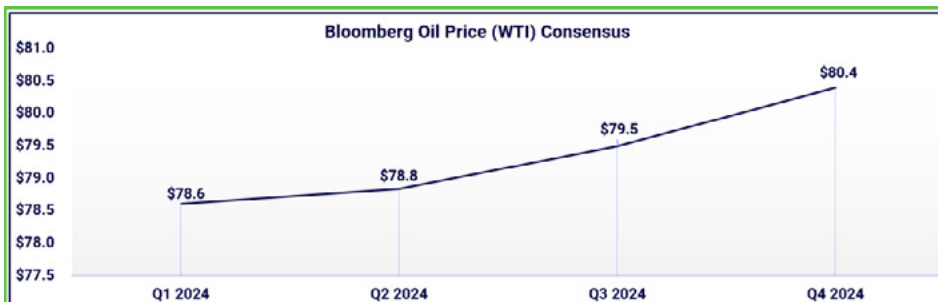
The price of West Texas Intermediate (WTI) closed over $81/bbl on March 15th stepping back from November's high levels but still marking a weekly gain of over 3.5%. It was fueled by strong US demand and a more optimistic outlook for global oil consumption.

Recent data from the U.S. Department of Energy (EIA) revealed a surprise decline in US crude inventories, dropping by 1.536 million barrels last week instead of the expected 1.338 million barrel increase. The International Energy Agency (IEA) also revised its 2024 global oil demand forecast upward to 1.3 million barrels per day, from the previous estimate of 1.2 million bpd, and adjusted its projection for this year to a slight deficit instead of a surplus.

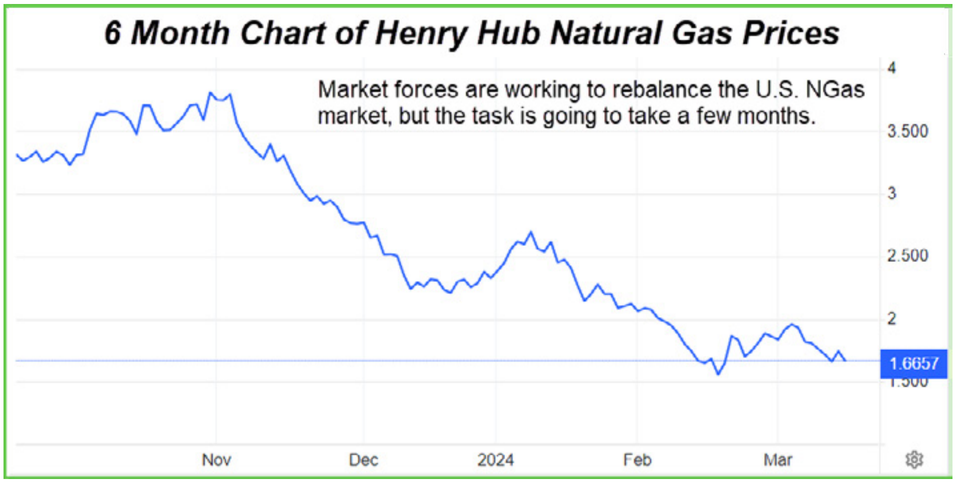
Last week, oil prices were also supported by Ukrainian drone attacks on Russian refineries, causing a fire at Rosneft's largest refinery. Also, ongoing geopolitical tensions in the Middle East and the decision by OPEC+ to extend supply cuts further contributed to the strength in oil prices.

Last week Bloomberg reported that after OPEC+ extended their supply cuts through Q2 2024, several large international banks raised their oil price forecasts. In addition to the three shown in the chart below. Goldman Sachs' oil price forecast has been consistently higher than the price decks used by most energy sector analysts





Firm	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Deutsche Bank	$80	$82	$88	$90
RBC	$75	$80	$81	$82
JP Morgan	$75	$80	$80	$81



Natural Gas Prices are set by Regional Supply/ Demand

As you can see in the chart below, U.S. natural gas prices have been in a steady decline since early November, except for a brief period in January when it stayed over $2.50/MMBtu for two weeks. After the 10-day cold spell in early January, the eastern half of the U.S. has had another mild winter.

Without some support from the weather, I am expecting U.S. natural gas prices to average $2.30 in 2024.

After the current surplus is worked, which will happen, the outlook for U.S. natural gas prices improves. Three large LNG export facilities are expected to come on-line in the next twelve months: Plaquemines (Venture Global) in Q3 2024, Corpus Christi Train 3 (Cheniere) in Q4 2024 and Golden Pass Trains 1 & 2 (ExxonMobil) in Q1 2025. As discussed above, several more natural gas-fired power plants will need to be built in the next few years to meet surging domestic demand for electricity.

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 valuable low-risk / high return drilling inventory (**"Running Room"**). Thirteen of them pay dividends and/ or have stock buybacks underway.

Since my last newsletter dated February 5, 2023 the Sweet 16 has gained 18%. The largest percentage increase in share price comes from **SM Energy (SM)** that gained 30.84% and the only stock that went down is **EQT Corp. (EQT)** that lost 4.59%.

EQT is down because of the sharp decline in natural gas prices and they surprised the market by announcing an all-stock merger with **Equitrans Midstream Corp. (ETRN)** that is expected to close in Q4 2024. Unanticipated deals of this size frighten off a lot of investors, especially when natural gas prices have pulled back to historic lows.

As discussed above, market forces are at work to rebalance the U.S. natural gas market, so this merger should make a lot more sense when Henry Hub natural gas prices move back over $3.00/MMBtu.

EQT President and CEO Toby Z. Rice stated, *"Equitrans is the most strategic and transformational transaction EQT has ever pursued, and we see this as a once in a lifetime opportunity to vertically integrate one of the highest quality natural*

New Profiles

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

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

Company Profiles:

- Devon Energy (DVN)
- Enbridge, Inc. (ENB)
- Diamondback Energy (FANG)
- EOG Resources (EOG)
- Magnolia Oil & Gas (MGY)
- Matador Resources (MTDR)
- Northern Oil & Gas (NOG)
- Permian Resources (PR)
- Plains All American Pipeline (PAA & PAGP)
- Range Resources (RRC)
- SilverBow Resources (SBOW)
- Talos Energy (TALO)
- Viper Energy, Inc. (VNOM)
- Vital Energy (VTLE)

Updated	Oil & Gas Prices used in Forecast Models					
3/2/2024	2023					2024
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Actual	Actual	Actual	Actual	Forecast
WTI Oil	$ 76.11	$ 73.66	$ 82.32	$ 78.32	$ 77.60	
2024 by Qtr	$ 75.00	$ 80.00	$ 82.50	$ 82.50	$ 80.00	$ 80.00
HH Gas	$ 2.72	$ 2.32	$ 2.66	$ 2.88	$ 2.65	
2024 by Qtr	$ 2.00	$ 2.00	$ 2.50	$ 2.70	$ 2.30	$ 2.30

gas resource bases anywhere in the world. As we enter the global era of natural gas, it is imperative for U.S. natural gas companies to evolve their business models to compete on the global stage against vertically integrated rivals. We have identified multiple, high confidence near-term synergies, with significant upside from future infrastructure optimization projects that we believe will drive material value creation for shareholders over time. Our modern, data-driven operating model, first-hand knowledge of Equitrans' operations and successful track record integrating $9 billion of acquisitions, all of which included midstream assets, gives me tremendous confidence in EQT's ability to seamlessly combine the two companies and capture synergies."

The only other "gasser" in the Sweet 16 is **Range Resources (RRC)**, which has gained 11.25% since the February newsletter. On a BOE basis, ~70% of Range's production comes from dry gas sales, but in 2023 42% of their revenues came from the sale of oil and natural gas liquids (NGLs). The outlook for liquids' prices has improved, since the U.S. has significantly more export capacity than it had a year ago.

The Company also has a hedging program that insulates them from the recent decline in natural gas prices and should cause their 2024 realized natural gas price to average approximately $2.50/mcf. Based on my forecast, Range should remain free cash flow positive each quarter in 2024.

There has been a significant paradigm shift within the Wall Street Gang recently when it comes to fossil fuels and especially when it comes to oil prices. Most people now realize that the Green New Deal is not going to reduce demand for oil this decade and probably not this century. Wind & Solar is not ready for prime time. The IEA increased their oil demand forecast last week and they are now forecasting an oil supply deficit later this year.

The Sweet 16's Q4 2023 financial results also reminded fund managers that upstream companies are very profitable even if WTI averages $75 per barrel.

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			3/15/24		
BAYTEX ENERGY	OIL	BTE	$3.34	$6.20	85.63%
CRESCENT POINT ENERGY	OIL	CPG	$7.77	$10.50	35.14%
DEVON ENERGY	OIL	DVN	$47.62	$56.00	17.60%
DIAMONDBACK ENERGY	OIL	FANG	$189.94	$200.00	5.30%
EOG RESOURCES	OIL	EOG	$122.79	$144.00	17.27%
EQT CORP	GAS	EQT	$33.43	$43.00	28.63%
MAGNOLIA OIL & GAS	OIL	MGY	$23.86	$30.00	25.73%
MATADOR RESOURCES	OIL	MTDR	$66.56	$83.00	24.70%
NORTHERN OIL & GAS	OIL	NOG	$37.91	$65.00	71.46%
OVINTIV INC (was ENCANA)	OIL	OVV	$50.46	$65.00	28.81%
PERMIAN RESOURCES	OIL	PR	$16.48	$21.50	30.46%
RANGE RESOURCES	GAS	RRC	$32.04	$31.50	-1.69%
SILVERBOW RESOURCES	OIL	SBOW	$32.04	$58.00	81.02%
SM ENERGY	OIL	SM	$46.79	$62.00	32.51%
TALOS ENERGY	OIL	TALO	$12.85	$23.00	78.99%
VITAL ENERGY (was Laredo Petroleum)	OIL	VTLE	$50.80	$104.00	104.72%

We have already published updated profiles on 13 of the 16 companies and the other three will be published early this week, so I will just highlight a few of them here.

Diamondback Energy (FANG) leads the pack, up 22.48% YTD. It is expected to close a "Mega Merger" with **Endeavor Energy (a private company)** in Q4 2024. In my opinion, the combined company will have more production and more high-quality Running Room in the Permian Basin than **Pioneer Natural Resources (PXD)** that is being acquired by **ExxonMobil (XOM)** for over $60 billion.

EOG Resources (EOG) is down 5.2% YTD. EOG is the largest company in the Sweet 16 with a market-cap over $71 billion. It does trade at 6.3 X operating cash flow per share, which compares to the Sweet 16 average of 3.75 X CFPS. The Company pays a "Fixed + Variable" dividend that should generate ~6% yield in 2024 based on my forecast. EOG has an incredible amount of high-quality Running Room, so I still rate it a BUY.

Baytex Energy (BTE) booked a $833.7Cdn million non-cash impairment charge in Q4 2023 that caused the stock to sell off, but it has bounced back. Just remember that "impairment" is not "abandonment". My stock valuations are based on the future, not the past.

The Company's production increased 45.9% YOY in 2023 and based on their guidance, production will increase another 25.5% YOY in 2024 to ~153,000 Boepd (~72% crude oil and ~12% NGLs).

Baytex is focusing on developing the South Texas assets acquired on June 20, 2023 in the merger with Ranger Oil. Based on the Company's guidance, my forecast shows Baytex generating more than $1,920Cdn million of operating cash flow and over $600Cdn million of free cash flow from operations in 2024. It pays a small dividend (~2% annual yield) and they are funding a stock buyback program.

Matador Resources (MTDR) is almost a pure play on the Permian Basin, with a small area of operations in the South Texas Eagle Ford play. In my opinion, Matador is an attractive takeover target for a large-cap looking to build on their position in the Permian Basin.

Since I started covering Matador over ten years ago, it has been an aggressive growth company, outspending operating cash flow through 2021 to build proven reserve by over 20% year-after-year, even during the pandemic. Q4 2023 production was 154,261 Boepd (57.5% crude oil).

In 2022 Matador started generating free cash flow from operations. Based on their guidance, free cash flow in 2024 should be $600 to $700 million.

Permian Resources (PR), up 21.2% YTD was my Top Pick in 2023 and it remains one of my Top Picks this year. It is an incredible growth company with an aggressive management team. They now hold a lot of Tier One leasehold in the Delaware Basin.

The full impact of their merger with **Earthstone Energy (ESTE)** that closed on November 1, 2023, will show up in their Q1 2024 results. Current production is over 300,000 Boepd (~47% crude oil) and they have an aggressive drilling program that should push production over 330,000 Boepd by year-end. If PR wants to compete for Top Dog in the Permian Basin, a merger with Matador would be a big step in that direction.

SilverBow Resources (SBOW) is now drawing a lot of overdue attention. The Company's growth has been primarily due to acquisitions and the largest acquisition they've ever made was the Chesapeake South Texas Acquisition that closed on November 30, 2023. SilverBow's total Q4 production was 72,161 Boepd and current production is now over 89,000 Boepd.

On March 13th one of the Company's largest shareholders, Kimmeridge Energy Management, submitted what looks like a merger proposal to SilverBow's Board of Directors. Kimmeridge wants to contribute their natural gas producing assets in South Texas and $500 million in cash to SilverBow for additional equity, which would give them controlling interest in the public company.

There are still lots of negotiations and details to work out, but size does matter in this business. SilverBow's Board of Directors will need to consider the deal, but the Company is in good shape and should only accept an offer that is in the best interest of current shareholders. In my opinion, SilverBow holds the upper hand in this negotiation.

Talos Energy (TALO) is the only offshore (Gulf of Mexico) company in the Sweet 16. Just four days after announcing Q4 2023 results on February 28th, which beat my forecast, the Company announced the early closing of the **QuarterNorth Energy Acquisition** on March 4th. It increases Talos' production by ~30,000 Boepd (~75% oil).

On March 11th Talos provided updated operational and financial guidance. For the full year 2024, Talos expects average daily production between 89.0 and 95.0 thousand barrels of oil equivalent per day ("MBoe/d"), an increase from the previous guidance of between 87.0 and 93.0 MBoe/d. The small production increase is just because the acquisition closed a few weeks earlier than expected.

January 15, 2024, press release: *"QuarterNorth's assets will provide additional scale from high quality deepwater assets with a favorable base decline profile along with attractive future development opportunities.* ***The Transaction is immediately accretive to Talos shareholders on key metrics and is expected to accelerate the de-leveraging of Talos's balance sheet.*** *Consideration for the Transaction consists of 24.8 million shares of*

Talos's common stock and approximately $965 million in cash. The board of directors of both Talos and QuarterNorth have unanimously approved the Transaction."

On January 25th Barron's reported that a firm controlled by the family of Mexican billionaire Carlos Slim Helú recently paid more than $300 million to become the largest investor in Talos Energy. On March 16th one of our members posted that Carlos Slim had acquired another 1.1 million shares of TALO. People like Carlos do extensive due diligence before making investments of this size.

TALO shares closed on March 15th at less than 2X my operating cash flow per share forecast for 2024. It is free cash flow positive and YOY production growth will be 45% to 50% based on their updated guidance. It deserves a much higher valuation.

Vital Energy (VTLE) is now up 11.67% YTD and among the Sweet 16 it continues to trade at the deepest discount to my valuation of $104/ share. The Company's Q4 2024 results beat my forecast with production increasing by 11.8% quarter-over-quarter to 113,747 Boepd (46.7% crude oil, 26.8% NGLs & 26.5% natural gas).

Vital is one of the most profitable companies in the Sweet 16 on a per share basis. On Q4 revenues of $444.3 million, Vital reported Net Income of $281.4 million ($13.90/ share) and Adjusted Operating Cash Flow of $245.0 million ($12.10/share).

Vital is free cash flow positive and it has a clear path to production rising to more than 120,000 Boepd by the end of this year. My current valuation is just 3.25 X annualized operating CFPS, which is a low multiple for a company of this size and quality.

On Saturday, I checked to see what TipRanks' forecast was for Vital. Nine energy sector analysts have recently submitted updated forecast models to TipRanks. The average of the 9 forecasts for 2024 is $1,894 million of revenues, earnings per share of $9.22 and operating cash flow per share of $29.29. All of these numbers are slightly higher than my updated forecast.

On March 14th Vital announced a private placement of $800 million of senior notes that will restructure their debt at a lower interest rate. This is an improvement to the Company's balance sheet and lowers interest expenses going forward.

We will be publishing updated profiles on **Baytex Energy (BTE), Crescent Point Energy (CPG) and Ovintiv (OVV)** this week.

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			3/15/24		
GRANITE RIDGE RESOURCES	OIL	GRNT	$6.25	$8.75	40.00%
KOLIBRI GLOBAL ENERGY	OIL	KGEI	$3.63	$6.50	79.06%
RILEY EXPLORATION PERMIAN	OIL	REPX	$29.01	$50.00	72.35%
RING ENERGY	OIL	REI	$1.87	$4.25	127.27%
ROK RESOURCES	OIL	ROKRF	$0.21	$0.65	217.07%
SOLARIS OILFIELD INFRA-STRUCTURE	SERVICES	SOI	$8.54	$13.60	59.25%
SURGE ENERGY	OIL	ZPTAF	$5.08	$10.25	101.77%

Small-Cap Portfolio

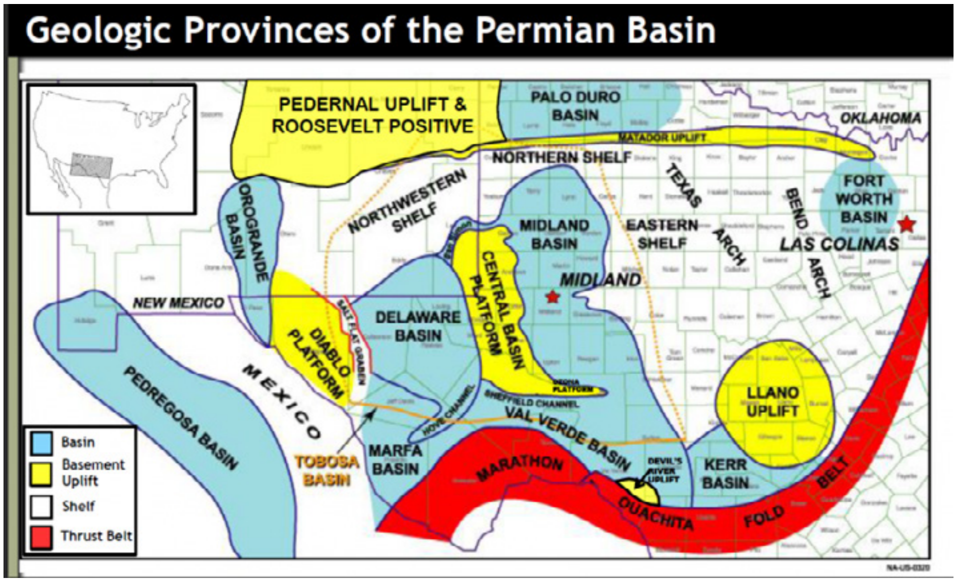
Small-Caps have more risk than the larger companies in our Sweet 16, but they also have more potential. Size does matter in this business and as upstream companies grow production and proved reserves, they normally deserve higher stock valuations. Since EPG was founded in 2003, our largest percentages gains have come from small-caps.

The five companies that have released Q4 2023 results in March all met or exceeded my forecast. **Kolibri Global Energy (KGEI) and ROK Resources (ROK)** are going to release Q4 results this week. Since they are both heavily weighted to oil, I expect both to report solid financial results. Two members of the ROK management team will be joining me on our March 21st webinar. You need to register on the EPG home page if you wish to attend the live event.

We will be publishing updated profiles on all seven companies in the portfolio before the end of March, so I will keep my comments brief.

Granite Ridge Resources (GRNT) is a non-op company like Sweet 16-member **Northern Oil & Gas (NOG)**, but much smaller. It offers investors steady production growth, 22.4% YOY in 2022 and 22.9% YOY in 2023, and it pays dividends of $0.11/ quarter for annualized yield of ~7%. 2023 production of 24,300 Boepd was split 47% crude oil and 53% natural gas & NGLs, which the Company reports on a combined basis. Production will be down ~2,000 Boepd in Q1 2024 due to weather related issues and the timing of well completions. After Q1, production should ramp up steadily.

Riley Exploration Permian (REPX) reported outstanding financial and operating results for Q4 2023. For the year 2023 they reported Net Income of $111.6 million ($5.47/



share) and Adjusted Operating Cash Flow of $206.1 million ($10.10/share). Based on their guidance, I expect them to exceed those results in 2024. We will be publishing an updated profile on the Company this week.

Riley and **Ring Energy (REI)** are both pure plays on the **Central Basin Platform (CBP)** area of the Permian Basin. Ring also reported solid Q4 results that included a production increase of 10.8% quarter-over-quarter to 19,397 Boepd (70.3% crude oil), primarily due to the closing of the Founders Asset Acquisition that closed on August 15, 2023. In addition to current production of ~2,500 Boepd (~86% crude oil), the acquisition provides a lot more high-quality Running Room. **Ring has generated free cash flow from operations for 17 consecutive quarters.**

For more than a year, one of Ring's largest shareholders has been liquidating their position in the Company. That seller is now gone, which should allow REI to move closer to a more reasonable valuation. **Based on Ring's December 31, 2023, reserve report, the Company's PV10 Net Asset Value of just their proved reserves is $4.40/share, using SEC guidelines.** My current valuation of $4.25/share is based on 4X annualized operating cash flow for 2023 to 2025.

Surge Energy (SGY.TSX and ZPTAF) is a Canadian Junior that has generated steady production growth since I started covering it two years ago. Production increased 20.5% YOY in 2022 and another 14.9% YOY in 2023. Q4 2023 production was 25,050 Boepd (82.8% crude oil). Their 2024 drilling program is front-end loaded, designed to generate more free cash flow in 2H 2024. Surge pays monthly dividends (currently $0.04Cdn/share) for annualized yield of ~6.9%. I do expect them to raise dividends later this year after they reach their debt repayment goal.

Solaris Oilfield Infrastructure (SOI) is an oilfield services company that gained a lot of market share during the pandemic because of their strong balance sheet and ability to quickly adjust spending during the slowdown in well completion activity. Their primary business is managing frac sand during well completions. They reported solid financial results for Q4 and the full year 2023; increasing Adjusted Operating Cash Flow per share from $2.54 in 2022 to $3.18 in 2023. They recently increased their quarterly dividend to $0.12/share (~5.8% annual yield). Based on the Company's guidance, rising free cash flow should lead to higher dividends in 2024.

You can find my updated forecast/valuation models for all seven companies on the EPG website under the Small-Cap tab.

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".

- If the Fed does reduce interest rates several times in 2024, it should be supportive for stocks that pay high and sustainable dividends.
- **The Annual Dividends shown in the table are now based on my 2024 forecasts.**
- The minerals and upstream companies all pay fixed + variable dividends, so they do have more commodity price risk than the midstream companies.
- They have all reported Q4 2023 results except for **Hemisphere Energy (HMENF)** which has provided an operational update and their year-end 2023 reserve report.
- All twelve of the forecast/valuation models are now up-to-date.

Minerals / Royalties companies have the most exposure to commodity prices.

All four of our minerals companies did report strong 4th quarter and full-year results for 2023. These companies all pay out a high percentage of their free cash flow as variable quarterly dividends. In my opinion, they are the "Safe Bets" because they have no drilling risk and have very low cash operating expenses. They are "Free Cash Flow Machines" at the current oil, gas and NGL prices.

Black Stone Minerals LP (BSM) is

structured as a Master Limited Partnership (MLP). It has the most exposure to natural gas price fluctuations, but it does hedge a high percentage of its production to reduce commodity price risk each year. Unless low natural gas prices carry into 2025, the partnership should be able to maintain its cash distributions to unitholders at $0.475 per quarter. Cash settlements on this year's natural gas hedges combined with higher NGL prices should keep Black Stone's realized gas + NGL prices over $3.50/mcfe in 2024.

Kimbell Royalty Partners (KRP) Q4 2023 production of 25,235 Boepd (50% natural gas) exceeded my forecast by ~1,200 Boepd. Liquids sales generated more than 81% of the Company's revenues. KRP increased production by 34.6% in 2023 and based on the midpoint of their guidance, production should be up 19.4% YOY in 2024.

Sitio Royalties Corp. (STR) reported a Q4 2023 loss of $144.5 million on the sale of their Appalachia and Anadarko Basin assets that sold for $170 million. Free cash flow from operations was not impacted by the non-cash loss. The Company's production mix should improve in 2024 and cash flow from operations should be almost identical to 2023 at approximately $425 million ($5.18/share).

Viper Energy Partners LP (VNOM) is my Top Pick in this group because it is the most heavily weighted to crude oil sales (56% of production) and more importantly because of its relationship with **Diamondback Energy (FANG).** Diamondback's aggressive drilling program in the Permian Basin will generate year-after-year production growth for Viper. We published an updated profile on Viper on February 28th.

Diamondback has also indicated that it will be dropping down a lot of minerals into Viper once they close the merger with Endeavor.

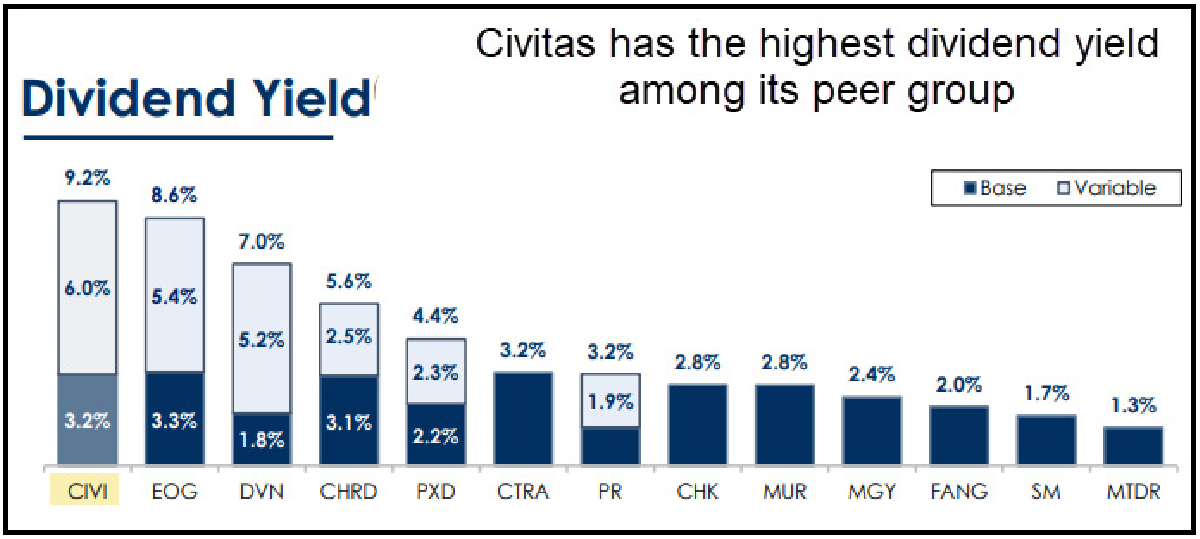
KRP, STR and VNOM are all taxed as C-Corps., so they are appropriate for IRA accounts.

The Upstream Companies offer Growth + Income.

Civitas Resources (CIVI) is my Top Pick in this group. The Company's Q4 2023 production and Adjusted Net Income beat my forecast. On January 2nd they closed the **Vencer Energy Acquisition (Midland Basin)** that adds ~62,000 Boepd of production (~50% crude oil). 2024

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			3/15/24				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$15.53	12.23%	$1.90	Qtr	$17.50
KIMBELL ROYALTY PARTNERS	OIL	KRP	$15.24	11.42%	$1.74	Qtr	$20.00
SITIO ROYALTIES CORP	OIL	STR	$23.87	8.67%	$2.07	Qtr	$27.50
VIPER ENERGY, INC.	OIL	VNOM	$35.83	6.56%	$2.35	Qtr	$41.00
Upstream Companies							
CIVITAS RESOURCES	OIL	CIVI	$71.42	10.64%	$7.60	Qtr	$108.00
COTERRA ENERGY	GAS	CTRA	$26.42	4.24%	$1.12	Qtr	$30.50
HEMISPHERE ENERGY	OIL	HMENF	$1.16	8.28%	$0.096	Qtr	$2.05
INPLAY OIL	OIL	IPOOF	$1.69	7.88%	$0.133	Mo	$3.75
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$13.36	6.74%	$0.90	Qtr	$15.00
ENBRIDGE INC	Midstream	ENB	$35.52	7.63%	$2.71	Qtr	$37.50
ONEOK, INC.	Midstream	OKE	$77.00	5.14%	$3.96	Qtr	$83.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$17.43	7.29%	$1.27	Qtr	$21.00



YOY production growth should be ~58%.

Their next quarterly "Base+Variable" dividend of $1.45/share will be paid on March 29. Based on my forecast, dividends paid in 2024 should total $7.60/share. This is one of the best "Growth + Income" stocks that I've found.

Coterra Energy (CTRA) reported solid Q4 2023 results, but 71% of their production is natural gas, so I rate it a HOLD for now.

Hemisphere Energy (HMENF) won't announce Q4 2023 financial results until April 19th, but it has announced their December 31, 2023 reserve report, an operations update and guidance for 2024. Hemisphere is a pure play on crude oil.

Based on the Company's updated reserve report, the stock is trading below the PV10 Net Asset Value of just its Proved Developed Producing (PDP) reserves. That is crazy for a company that is extremely profitable, pays nice dividends and is funding a stock buyback. It has a PRISTINE BALANCE SHEET.

This summer Hemisphere is going to begin drilling horizontal wells within a new area in Saskatchewan that they believe is a strong candidate for a polymer flood that could DOUBLE THE COMPANY'S PRODUCTION in a few years.

Based on McDaniel's reserve report, PV10 Net Asset Values per share are $2.49Cdn for just PDP reserves and $3.18Cdn for total proved reserves.

"The Company's new Saskatchewan lands currently account for only 5% of 1P and 7% of 2P reserves, while making up only 3% of 1P and 5% of 2P NPV10 BT valuations of Hemisphere's reserves. Significant reserve upside remains on Hemisphere lands if the play proves successful over the course of 2024 and beyond." – **Don Simmons, Hemisphere's CEO on March 12, 2024**

InPlay Oil (IPOOF) announced Q4 2023 results on March 13th that matched my forecast. It is also trading below its PV10 Net Asset Value of just its proved reserves. We will be publishing an updated profile on InPlay Oil this week. InPlay pays monthly dividends, which they should be able to increase this year if WTI stays over $80/bbl.

Our four **Midstream Companies (AR, ENB, OKE and PAGP)** are "Safe Bets" for dividends because they have long-lived assets that generate strong free cash flow and they do not have direct exposure to commodity prices. None of them should be impacted by an extended period of low natural gas prices. I am expecting ENB, OKE and PAGP to increase dividends this year.

I have updated my forecast models for all four of the midstream companies and we have published updated profiles on ENB and PAA. We will publish updated profiles on AM and OKE next week.

There are several companies in our Sweet 16 and Small-Cap Growth portfolios that offer annual dividend yields over 5%.

Final Thoughts

I think we can all agree that most companies that are outspending their revenues are risky investments. So, why is it a good idea for the United States and most of the OECD countries to outspend their revenues by $Trillions year-after-year. I've heard that the Biden Administration's 10-Year Budget, if implemented, would increase our National Debt by at least another $18 Trillion.

By now we all know that The Inflation Reduction Act is doing the exact opposite. On March 13th during a campaign speech in Milwaukee President Biden announced that he's approved a $3.3 Billion "investment in environmental justice for the purpose of uplifting minority communities". Maybe doing things to lower inflation might be more uplifting.

I know that a few $Billion here and there isn't going to balance the budget, but this stuff is crazy when our country's debt is growing out of control. It looks like they are trying to bankrupt the nation.

Just maybe ending the "War on Fossil Fuels" would lower inflation and increase our national security. Maybe fast tracking the approval process for new LNG export facilities would create high paying jobs and move us toward reducing our trade deficit. Maybe completing the Keystone XL pipeline should be considered instead of draining the Strategic Petroleum Reserve (SPR). Why would any government go to "War"' with the industry that is the primary reason their citizens have the highest standard of living on Earth?

Maybe when we perfect Artificial Intelligence we can get better ideas out of Washington, DC.

The good news is that there has been a shift away from the **False Paradigm** that Wind, Solar and other renewable energy sources can replace fossil fuels. On February 14, Ken Fisher, the Founder of Fisher Investments, made the forecast that the Energy Sector would shift into high gear and outperform the overall market for the rest of the year. Since that date, our Sweet 16 Growth Portfolio is up 18% while the S&P 500 Index is up just 2.3%. As of March 15th, the Sweet 16 has outgained the S&P 500 Index by 1.41% YTD.

Ken pointed out that investors make a big mistake by extrapolating oil & gas price movements into the future, thinking that the oil price decline from the mid-$80s in Q3 2023 to $70 in early December meant we had an oversupply of oil that would keep prices lower for longer. As I have mentioned numerous times in my podcasts, demand for oil-based transportation fuels is "seasonal" and it ALWAYS increases by 2 to 3 million barrels per day starting in March. I've also mentioned numerous times that the International Energy Agency ALWAYS underestimates global oil demand growth.

There are political forces that are trying to keep the price of oil down, but the supply & demand fundamentals will win the war. With real shooting wars in Eastern Europe and the Middle East, a tightening global oil market is moving closer to one significant supply disruption causing WTI to spike over $100/bbl.

Keep points from the IEA's March Oil Market Report:

- Global oil demand is forecast to rise by a higher-than-expected 1.7 million b/d in 1Q24 on an improved outlook for the United States and increased bunkering.
- World oil production is projected to fall by 870,000 b/d in 1Q24 vs 4Q23 due to heavy weather-related shut-ins and new curbs from the OPEC+ bloc.
- Refinery crude runs are forecast to rise from a February-low of 81.4 million b/d to a summer peak of 85.6 million b/d in August.
- Global stocks (total petroleum inventories) plunged by 48.1 million barrels in January, with OECD industry stocks at a 16-month low. < They have started to bounce back, but the higher demand period is just ahead.

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