The View from HOUSTON

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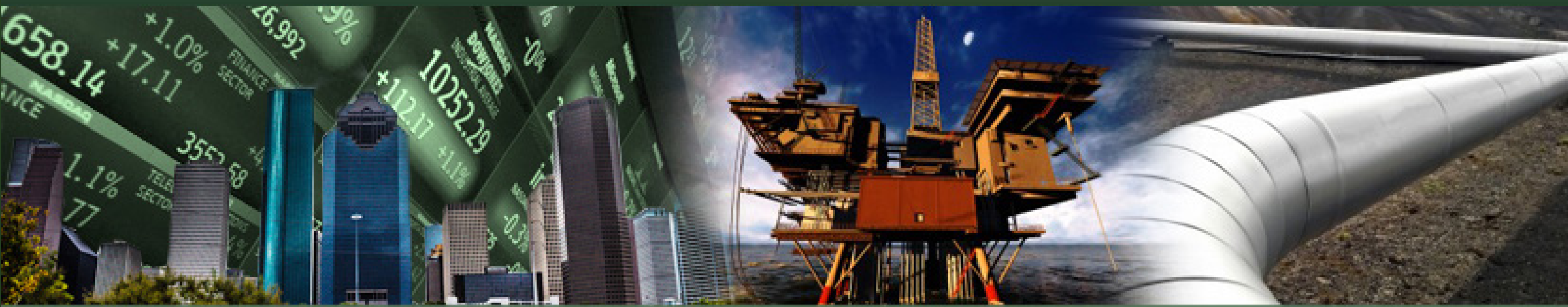


Energy Prospectus Newsletter: "The View from Houston" November 30, 2024 Issue: 222

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.

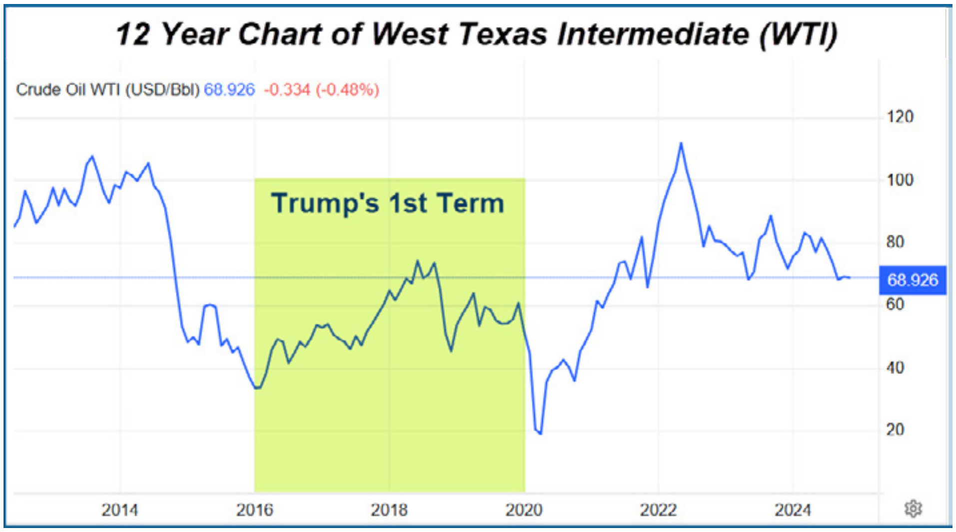
A Common Sense Energy Plan is now possible

Donald J. Trump has a lot of "fixen" to do, including a shift to a Common Sense Energy Policy.

Job One is to secure the southern border with Mexico. All Trump had to do was threaten 25% tariffs on everything into the U.S. from Canada and Mexico and the leaders of both countries called Trump and said they'd take care of it. Obviously, Canada is not the problem and there is no way that Trump can put a 25% tariff on the ~4.5 million barrels per day of oil the U.S. gets from our neighbors to the north each day. We get 3.5 X more oil from Canada than we get from all of the OPEC cartel countries put together. We also import a lot of wood from Canada.

Unless Trump wants gasoline prices and home prices to go up soon after he's sworn in, there aren't going to be any tariffs on things coming from Canada. Canada does need the U.S. to keep buying their oil, gas and timber, so Justin Trudeau will quickly take care of any border problems.

Mexico's President Claudia Sheinbaum also had a conversation with Trump on November 27th, which the President Elect said was "wonderful" and "very productive". Sheinbaum confirmed the call, saying she and Trump had an "excellent conversation" and that they had discussed Mexico's



strategy for dealing with migrants.

But Trump later posted that she had "agreed to stop migration through Mexico, into the United States, effectively closing our southern border." On X Trump added, "THIS WILL GO A LONG WAY TOWARD STOPPING THE ILLEGAL INVASION OF THE USA."

This is what happens when you have a leader that is respected and a little bit feared. I cannot believe that Biden/Harris or whoever has been running the country was able to get away their open border policy. I can't believe the party that wanted to defund the police got elected in the first place.

The oil and gas sector is a big winner with Trump's victory

The importance of Trump's choice of **Chris Wright** to be the Secretary of Energy cannot be over-stated. He is the chairman and CEO of Liberty Energy, an oil and gas services company, which means he's deeply connected to the importance of horizontal drilling and hydraulic fracturing. Over 90% of the wells being drilled in the U.S. are horizontal wells in tight formations that require fracing. He'll also serve on the new Council of National Energy that will be headed by Doug Burgum, **North Dakota's governor.**

Team Trump has made it clear that they believe all of the fear mongering about Climate Change was a fraud by the Democrats to convince the general population, which the elites consider cattle, to support The Green New Deal. No matter how many $Trillions we waste on Wind & Solar projects, it will not impact the Earth's climate. Plus, a modern economy cannot run on unreliable energy supplies. The sun does not shine at night.

Oil Prices are set by Global Supply/Demand

I believe the "Right Price" for West Texas Intermediate crude oil is between the range of $75 to $85 per barrel. I am using $70/bbl WTI in all of my Q4 2024 forecasts and $75/bbl for 2025.

HFI Research 11-26-2024: "President Trump cannot increase US oil production, especially from tight plays. The year 2024 is not 2016 and 2025-2028 is not 2017-2020."

The global oil price crashed in 2015 and struggled to recover in 2016. US oil production declined by more than 1 million barrels per day (bpd) between April 2015 and September 2016. Many upstream oil & gas companies went bankrupt, mostly natural gas companies. Others incurred massive losses. A recovery was needed, and companies looked to President Trump for rescue in one way or the other. Talking about

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:

- APA Corp. (APA)
- Coterra Energy (CTRA)
- Crescent Energy (CRGY)
- Devon Energy (DVN)
- Diamondback Energy (FANG)
- EOG Resources (EOG)
- EQT Corp. (EQT)
- Magnolia Oil & Gas (MGY)
- Matador Resources (MTDR)
- Ovintiv Inc. (OVV)
- Permian Resources (PR)
- SM Energy (SM)
- Solaris Energy Infrastructure (SEI)
- Veren Inc. (VRN)
- Viper Energy (VNOM)
- Vital Energy (VTLE)

production recovery and increasing activities was what the industry wanted to hear from Trump then.

As you can see in the chart above, the price of oil did increase during Trump's first term until the Covid-19 Pandemic began. The Pandemic cause the largest decline in oil demand in history.

As he prepares for his second term, Trump comes to the scene after a significant increase in U.S. oil production. The nation's production of oil, natural gas, and LNG are at record highs, and upstream companies have been generating record profits.

Upstream companies remain profitable at the current oil price, primarily because completed well costs have come down. If WTI stays within the range of $65 to $70 per barrel and U.S. natural gas prices just get back to above $3.00/MMBtu they will be very profitable during his second term.

Money was almost free during Trump's first term.

Interest rates were near zero between 2010 and 2015, then increased slightly in 2016 and 2017. Low interest rates fueled an increase in activities in tight oil plays, especially in 2017 and 2018. That is not the case today where the interest rate is significantly higher than the peak in 2019. Higher interests rates, along with less access to capital because of the ESG movement, lead to a higher cost of capital for the industry. It is common knowledge that low interest rates fueled growth in shale oil production.

The Permian Basin is the only area of the U.S. with oil production upside and most of the Tier One leasehold in the Permian is now held-by-production. During Trump's first term, upstream companies had to keep drilling to hold the leasehold that they paid a lot for.

U.S. oil production is expected to peak during Trump's 2nd term.

A high percentage of U.S. oil production now comes from horizotal wells that come on strong, but decline rapidly.

The monthly declines in tight oil plays in 2017 and 2018, the first two years in Trump's first term were 324,000 bpd and 467,000 bpd. The decline rate during his first year in his second term in 2025 is forecast to be 660,000 bpd. The oil production decline in 2025 is going to be double that of 2017. Record-high production declines means the replacement of declines in the fields to maintain production is larger than ever. More investment will go toward replacing declines than before, leading to limited growth in production.

Oil Majors and large-cap independents like EOG Resources and Diamondback Energy control U.S. oil production.

When Trump was running for the presidency in 2015 and 2016, the oil industry was dominated by many independents and medium size companies. That is not the case now. After a large wave of mergers and acquisitions in 2022 and 2023, the industry is now dominated by the oil majors such as ExxonMobil and Chevron.

The objective and the time horizon of independents are different from the objective and the time horizon of oil majors. The model for independents was straightforward: drill, book reserves, increase production, and grow the value of the company in order to sell it to bigger companies. With such a model, production increased, especially with low interest rates.

That is not the case with the oil majors who look at reserves from a long-term point of view. They do not have an incentive to increase drilling, reserves, and production because they do not intend to sell like the small independents. Their view is exactly the opposite: growing production without growth in demand would lead to lower prices, revenues, and profits.

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.

December 9 Luncheon in Houston at Maggiano's Little Italy Restaurant, 2019 Post Oak Blvd.: Don Simmons, President & CEO of Hemisphere Energy (HME.V and HMENF) will be speaking. Hemisphere Energy is one of the companies in our High Yield Income Portfolio.

December 18 Webinar: Bryden Wright, President of ROK Resources (ROK.V and ROKRF) will be joining me for an update on the Company's successful 2024 drilling program and a preview of what ROK has planned for 2025.

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.

Bottomline: "Drill Baby Drill" is not going to happen unless oil prices go a lot higher, which they will eventually.

There is another fact to consider: Most US oil exports are light sweet crude. The US ultra light oil reached a refining wall in 2016. If US shale production continues to increase, exports will increase proportionally. The global oil market will also reach a refining wall and cannot handle any additional light sweet crude. Demand will limit shale growth, especially with the decline in gasoline demand because of EV penetration.

The U.S. needs Canada's heavy oil, which is why Trump's new Energy Secretary needs to convince Trump to complete the Keystone XL pipeline. Solving the political problem in Venezuela would also be a good idea.

Natural Gas Prices are set by Regional Supply/ Demand

Trump's second term is going to be bullish for U.S. natural gas prices. The U.S. and Canada are blessed to have massive reserves of natural gas, the "Clean Fossil Fuel". The Biden/Harris Team was too ignorant or afraid of the Climate Change Wackos to take advantage of the fact that we have an abundance of the cheapest form of energy on Earth.

Trump has already promised to fast track the building of more LNG export capacity. I now believe that U.S. natural gas prices are going higher after 2024 no matter what happens.

"Natural gas storage capacity relative to the incoming increase in structural demand will create extremes in natural gas prices." – HFI Research 11-22-2024

Most LNG projects get built in the U.S. based on take or pay contracts. For U.S. LNG exports to be shut in, it would require much higher U.S. LNG prices. Natural gas prices in the U.S. + liquification fees (usually \$3/MMBtu) + transportation costs would have to be meaningfully higher than global LNG prices to shut-in exports.

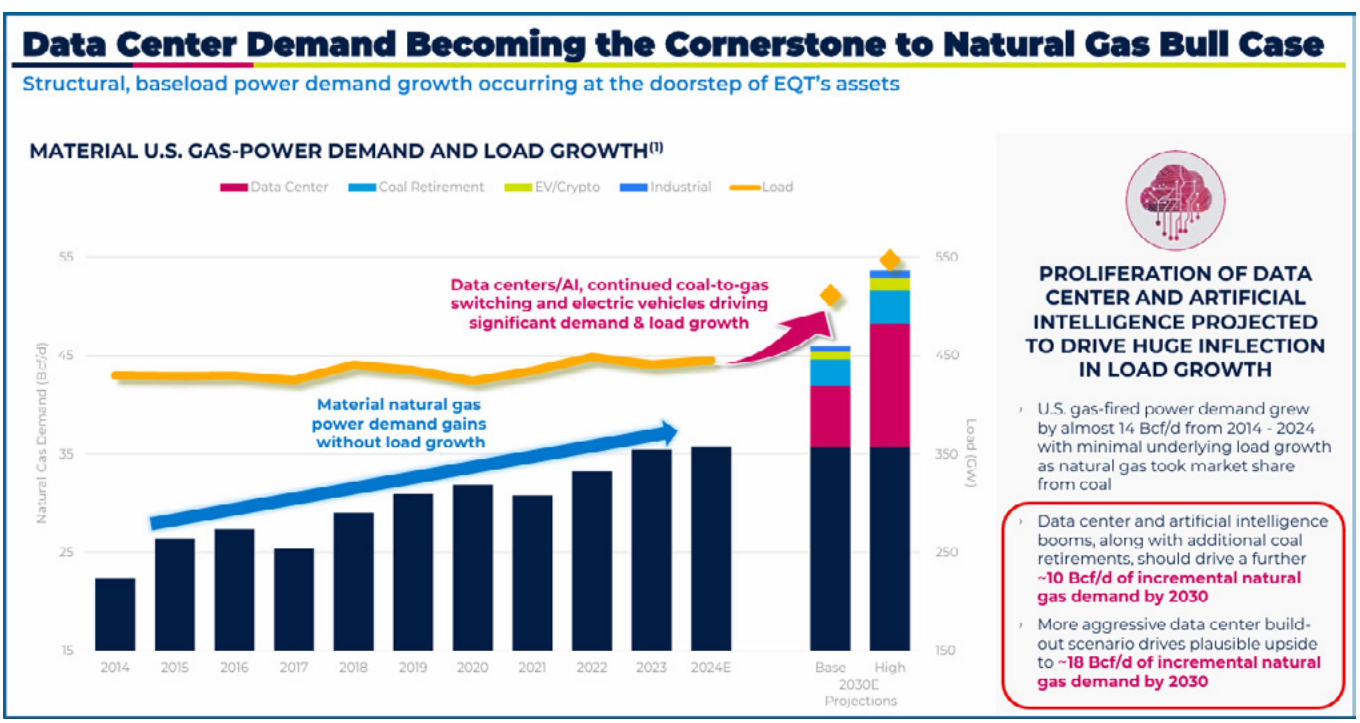
Outside of North America natural gas prices are much higher: If global LNG prices are strong (like they are today), then there's ample room for Henry Hub to rally without any worry over price related shut-ins. LNG cargos are getting over \$14.00/MMBtu in Asia and Europe today and they will go higher if Europe has a colder than normal winter, which is the current forecast.

There are three key parts to the bull thesis for natural gas:

- Increase in structural demand (LNG + gas exports to Mexico).
- Power burn from AI.
- Production growth not keeping pace.

Current forecasts are for U.S. natural gas supply growth over the next five years of 13.7 Bcf/d versus 16.2 Bcf/d of demand growth. 15.7 Bcf/d out of the 16.2 Bcf/d of demand is coming from increased exports. LNG is expected to be the main driver of that (13.4 Bcf/d of additional LNG export capacity in the next five years).

What's missing in the forecast model is the power burn demand for AI data centers. The current delta between supply and demand is 2.5 Bcf/d. **Antero Resources (AR)**



is forecasting the increase in demand for natural gas fired power plants will be 7 Bcf/d and **EQT Corp. (EQT)** is forecasting at least ~10 Bcf/d of incremental demand (See red box in slide above.

HFI Research 11-22-2024: "Now if you assume EQT is even remotely correct about the incoming demand increase for natural gas, then there is a serious issue developing. At 10 Bcf/d of incremental structural demand for natural gas, the total 5-year demand increase would hit 26.2 Bcf/d versus a supply increase of 13.7 Bcf/d. Realistically speaking, something would break on the way to these estimates."

- The 4.4 trillion cubic feet (Tcf) of natural gas storage capacity in the U.S. is completely insufficient to meet the 26.2 Bcf/d increase in demand. To put things in perspective, 26.2 Bcf/d of demand translates to 9.563 Tcf of gas over 1 year. This is more than double the total capacity the U.S. has in natural gas storage. Clearly, this is not realistic.
- In addition, if you take the gap between 26.2 Bcf/d (demand) and 13.7 Bcf/d (supply), you get 12.5 Bcf/d. This translates to 4.563 Tcf of gas over 1 year and is the equivalent of the entire natural gas storage.

In the opinion of HFI Research, "EQT is likely too optimistic on its power burn demand outlook, but given the scale AI needs to operate at and the fact that many of the hyperscalers are now looking to nuclear for electricity demand solutions, I'm starting to think EQT is at least half right."

If you assumed a more realistic 4 Bcf/d of power burn demand growth, the gap between supply and demand hits 9.2 Bcf/d. Over a 1-year period, that's the equivalent of 3.358 Tcf or 3/4 of what's currently available in natural gas storage.

As I highlighted in my last newsletter, there's ~3.2 Bcf/d of additional gas demand coming in Q1 2025 from just LNG exports alone. The market will have to incentivize producers with higher gas prices to produce more. This is why I believe that a bidding war between utilities and LNG exports for physical natural gas like we saw in August 2022 might happen again in mid-2025.

Why can't "Drill Baby Drill" just increase supply?

There's definitely room for supply growth in the Haynesville and the Permian of another 4 to 5 Bcf per day. The Northeast looks capped from an infrastructure perspective, so growth will have to come from the South. If power burn demand actually increases by ~4 Bcf/d, the gap between supply and demand is at 9 Bcf/d. This means that something will have to give for the natural gas market to balance.

At some point over the coming years, the US natural gas market is going to break. The structural demand increase coupled with the stagnant natural gas storage capacity only means that the market will have to force LNG gas exports to shut in. That will require U.S. natural gas prices at least over $8.00/MMBtu.

Remember the natural gas prices today in Europe and Asis are over $14.00/MMBtu. If Henry Hub + $3 (liquefication cost) + transportation is higher than global LNG prices, then US LNG exports will fall, which will inherently tighten the global market. This means that the US natural gas market will set the price for global LNG prices.

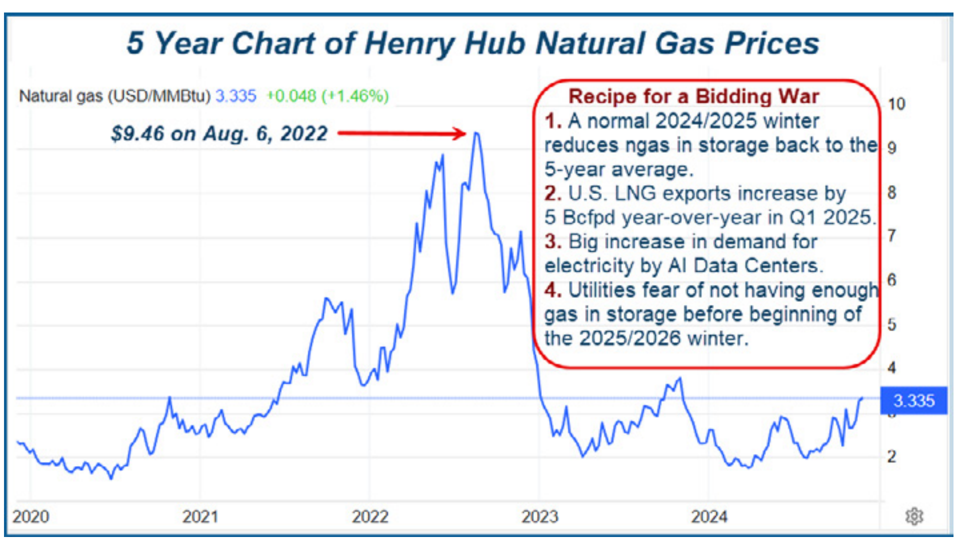
This is how it plays out.

First, you need natural gas storage in the U.S. to go back to the 5-year average. We just need a normal winter and LNG exports from the U.S. to be close to current capacity to get U.S. natural gas in storage back down to the 5-year average of ~1.6 Bcf by the end of March 2025.

That sets up a Bidding War between the LNG exporters and the utilities that bring natural gas to your home for supply during the winter of 2025/2026. **This happened in August 2022 sending HH natural gas futures contracts over $9.00/ MMBtu.**

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").



Fifteen of them pay dividends and/or have stock buybacks underway.

All 16 companies reported Q3 2024 results that were in line with my forecasts or beat them. I have updated the forecast / valuation models and profiles for each company. You can find them under the Sweet 16 tab on the EPG website. In this newsletter I will just be highlighting a few of the companies which are expected to report big increases in production in Q4 2024 because of transformative acquisitions.

Financial results for Q4 2024 should be good for all of them. Higher realized natural gas and NGL prices should more than offset slightly lower realized crude oil prices during the quarter.

Diamondback Energy (FANG) closed what I labeled a "Mega Merger" with **Endeavor Energy (a private company)** on September 10th. Q4 will be the first full quarter of combined results.

- During Q3, Diamondback's production was 571,098 Boepd (56.2% crude oil, 21.1% natural gas & 22.7% NGLs), compared to 474,670 Boepd in Q2. 21 days of Endeavor production was included in Diamondback's Q3 production.
- The midpoint of Diamondback's Q4 production guidance is 845,000 Boepd (56% crude oil).

At the beginning of the year Diamondback was running 24 drilling rigs. They have significantly improved drilling and completion efficiency. The Company is now drilling the same footage per quarter with 20 drilling rigs. On their Q3 conference call they said that their 2025 goal is to run 18 drilling rigs and complete the same number of wells next year as they did in 2024.

For well completions, they are running four SimulFrac crews, and completing around 4,000 lateral feet per day per crew, 30% more than they anticipated earlier this year. This is mostly thanks to higher pumping hours per day, higher average pump rates, lower swap times per stage, and faster move times between pads.

Diamondback is on pace to generate $6.4 billion of operating cash flow and $3.4 billion of free cash flow in 2024. Based on my 2025 forecast assuming average realized prices of $72.50/bbl of crude oil, $20.00/bbl of NGLs and $2.00/mcf of natural gas, they should generate close to $9.5 billion of operating cash flow in 2025. < The Company's realized natural gas price during the first nine months of 2024 was just $1.00/mcf, which compares to an average realized natural gas price of $1.50/mcf in 2023.

Diamondback is a pure play on the Permian Basin, primarily focused on the **Midland Basin**, with an incredible amount of high-quality "Running Room".

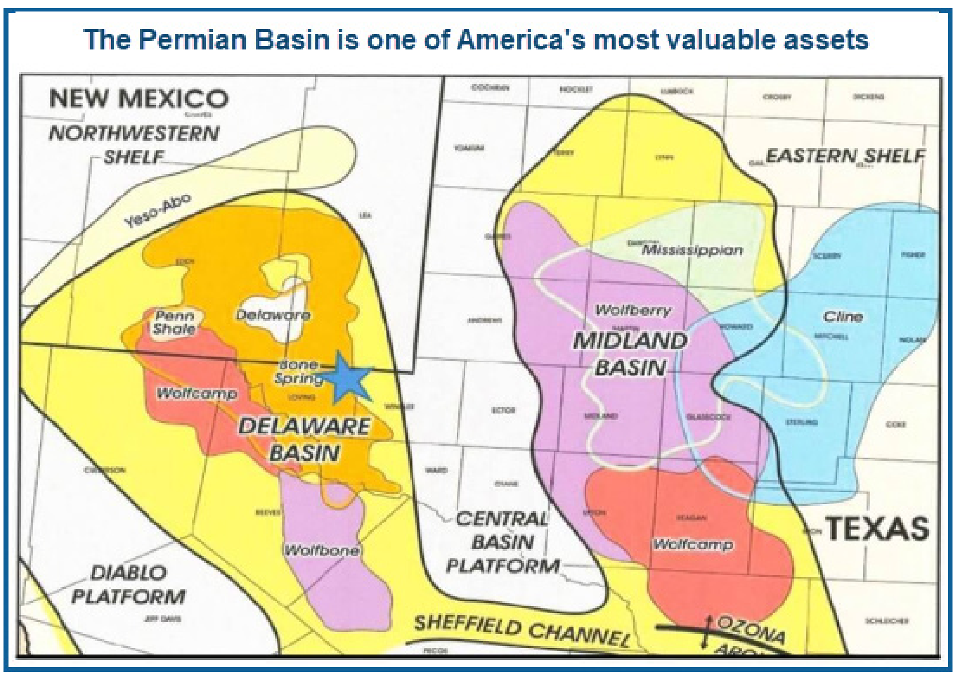
On the western side of the Permian Basin, which is called the **Delaware Basin,** my top picks are **Matador Resources (MTDR) and Permian Resources (PR).**

Matador Resources closed the accretive Advanced Energy Acquisition in Q2 2023 and the Ameredev Acquisition in September, 2024, which added ~25,000 Boepd of production and a lot of high-quality Running Room in the Delaware Basin. Initial well results on the Ameredev acreage have exceeded expectations.

Matador's Q3 2024 production exceeded my forecast as management continues to "under-promise and over-deliver" on production guidance. From Q1 2023 production of 106,654 Boepd, the Company reached record production of 154,261 Boepd in Q4 2023. Matador is now expected to report Q4 2024 production close to 200,000 Boepd (~60% crude oil). Matador's Pro Forma Proved Reserves are now 602.1 million Boe (59% oil) with an estimated reserve life of 10 to 12 years.

Permian Resource (NYSE: PR) was added to our **Sweet 16 Growth Portfolio** on January 1, 2023. Shortly after that date it announced a strategic merger with Earthstone Energy, one of my Top Picks in the 2023 version of the Sweet 16, which closed on November 1, 2023.

PR is an **Aggressive Growth** company, primary through M&A, but their organic growth is also impressive. Year over year production growth has been 56.6%



The Permian Basin is one of America's most valuable assets

Sweet 16 Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			11/29/24		
APA CORP	OIL	APA	$22.65	$42.00	85.43%
BAYTEX ENERGY	OIL	BTE	$2.85	$5.75	101.75%
COTERRA ENERGY	GAS	CTRA	$26.72	$31.25	16.95%
CRESCENT ENERGY	OIL	CRGY	$14.87	$23.00	54.67%
DEVON ENERGY	OIL	DVN	$37.95	$57.00	50.20%
DIAMONDBACK ENERGY	OIL	FANG	$177.59	$235.00	32.33%
EOG RESOURCES	OIL	EOG	$133.26	$146.00	9.56%
EQT CORP	GAS	EQT	$45.40	$45.00	-0.88%
MAGNOLIA OIL & GAS	OIL	MGY	$27.74	$29.50	6.34%
MATADOR RESOURCES	OIL	MTDR	$60.01	$88.00	46.64%
NORTHERN OIL & GAS	OIL	NOG	$43.49	$57.50	32.21%
OVINTIV INC (was ENCANA)	OIL	OVV	$45.42	$68.00	49.71%
PERMIAN RESOURCES	OIL	PR	$15.66	$23.00	46.87%
SM ENERGY	OIL	SM	$45.19	$74.00	63.75%
VEREN INC	OIL	VRN	$5.30	$10.50	98.11%
VITAL ENERGY	OIL	VTLE	$32.83	$55.00	67.53%

in 2022, 103.5% in 2023 thanks to the merger with Earthstone Energy, and they are on pace for more than 75% production growth in 2024. If they don't make more acquisitions (unlikely) their drilling program should deliver 10% year-over-year production growth in 2025.

Permian Resources' results for the first three quarters of 2024 beat my forecasts. The Company's well results in the Delaware Basin continue to beat expectations. They continue to increase operational efficiencies, driving down drilling and completion costs per foot. 2024, drilling and completion costs per lateral foot have been approximately ~$830 per lateral foot, which represents a 13% decrease from 2023.

On September 17th , Permian Resources announced that it had closed the previously announced acquisition from **Occidental (NYSE: OXY)** to purchase ~29,500 net acres, ~9,900 net royalty acres and ~15,000 Boe/d (~55% oil) of current production in the core of the Delaware Basin for $817.5 million. The acquired assets directly offset PR's existing positions in Reeves County, Texas and Eddy County, New Mexico. Most importantly, the acreage acquired has over 200 low-risk / high-return two mile long horizontal drilling locations. PR's high-quality "Running Room" is why it remains one of my Top Picks.

Vital Energy, Inc. (VTLE) is another pure play on the Permian Basin. On a per share basis, it has been the most profitable company in the Sweet 16 for the last two years; reporting GAAP earnings per share of $37.67 in 2022 and $34.32 in 2023.

Vital has been and continues to be active in the M&A market. During 2023, the Company acquired six asset packages with the acquisitions from Driftwood (closed April 3, 2023) and Forge Energy (closed June 30, 2023) being the largest followed by four small bolt-on acquisitions that closed in Q4 2023. Vital's production increased from 80,416 Boepd in Q1 2023 to 113,747 Boepd (46.7% oil, 26.8% NGLs & 26.5% natural gas) in Q4 2023.

On February 5, 2024, Vital closed a

Updated	Oil & Gas Prices used in Forecast Models					
11/2/2024	2023 & 1H 2024 Actuals and Q4 2024 Forecasts					2025
	Q1	Q2	Q3	Q4	YEAR	YEAR
	Actuals	Actual	Actual	Actual	Actual	Forecast
2023 WTI Oil	$ 76.11	$ 73.66	$ 82.32	$ 78.32	$ 77.60	$ 75.00
2024 by Qtr	$ 76.91	$ 80.49	$ 75.16	$ 70.00	$ 75.64	
2023 HH Gas	$ 2.72	$ 2.32	$ 2.66	$ 2.88	$ 2.65	$ 3.50
2024 by Qtr	$ 2.10	$ 1.88	$ 2.16	$ 2.75	$ 2.22	

small acquisition (~1,850 Boepd) that increased their working interest in areas that they currently operate. During 2024 Vital has set new production records each quarter with Q3 production of 133,339 Boepd and Q4 production guidance of ~140,000 Boepd.

On July 28, 2024 Vital announced the Point Energy Acquisition that closed September 20, 2024. It added approximately 15,500 Boepd of current production (~67% oil) and 68 gross development drilling locations. Vital's Q4 2024 production mix should be 46% crude oil, 27% natural gas and 27% NGLs, **Northern Oil & Gas (NOG)** participated in the Point Energy Acquisition, acquiring 20% of the working interest in the assets acquired from Point Energy.

VTLE trades at a much lower multiple of operating cash flow than the other Permian Basin companies because it is the only Sweet 16 company that does not pay a dividend. Its free cash flow needs to go toward paying down debt. Over 90% of their Q4 2024 oil is hedged at $76.49/bbl and over 60% of their estimated 2025 oil is hedged at $74.79/bbl, lowering their commodity price risk.

Thanks to their oil hedges and rising natural gas prices, Vital Energy should remain free cash flow positive through 2025. The Company has no near-term debt issues.

EQT Corporation (EQT) is the only "pure gassers" in our Sweet 16 Growth Portfolio. Based on average daily sales volumes, EQT is now the 2nd largest producer of natural gas in the United States. In response to rising natural gas prices and the Company's solid Q3 2024 results, the share price has moved over my current valuation.

On July 22, 2024 EQT closed its acquisition of **Equitrans Midstream Corporation.** The merger of Equitrans into EQT creates America's only large-scale, vertically integrated natural gas business. The combined company is projected to have an unlevered NYMEX free cash flow breakeven price of approximately $2.00 per MMBtu, which is at the low end of the North American cost curve and ensures robust free cash flow generation through all parts of the commodity cycle.

On November 25th EQT announced that it has entered into a definitive agreement with funds managed by **Blackstone Credit & Insurance ("BXCI")**, to form a new midstream joint venture consisting of EQT's ownership interest in high quality infrastructure assets, including the Mountain Valley Pipeline, LLC., the Hammerhead Pipeline and other FERC regulated transmission and storage assets.

It is not clear to me how this joint venture will impact my 2025 forecast for EQT. **For now, I rate EQT a HOLD.**

Since November 25th seven analysts have submitted new price targets for EQT to TipRanks. Most of them increased their price targets, probably more due to the increase in natural gas prices. The seven new price targets range from $41 to $56 with an average of $49. Only 3 of the 7 rate EQT a BUY. The other 4 rate it a HOLD.

If you do decide to harvest your gain on EQT, and want to remain exposed to natural gas, I recommend **Coterra Energy (CTRA), Crescent Energy (CRGY) and Ovintiv (OVV).** They all trade at a discount to my valuations.

All of my Q4 2024 forecasts are based on WTI oil averaging $70/bbl and HH natural gas averaging $2.75/mcf. I have a high level of confidence in all of the Sweet 16 company forecast models. I expect all of them to report Q4 results that meet or exceed my forecasts.

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. As upstream companies grow production and proved reserves they deserve higher stock valuations. Since EPG was founded in 2003, our largest percentages gains have come from small-caps with high-quality management teams and lots of "Running Room".

On November 25th we published an updated profile on **Solaris Energy infrastructure (SEI)**. The share price is up 207% year-to-date (YTD) and there is more upside if their Q4 2024 results and 2025 guidance confirm my forecast model assumptions. SEI's Power Solutions division is

Small-Cap Growth Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	EPG Fair Value Estimate	Percent Undervalued
			11/29/24		
JOURNEY ENERGY	OIL	JRNGF	$1.50	$2.85	90.00%
KOLIBRI GLOBAL ENERGY	OIL	KGEI	$4.25	$6.20	45.88%
RILEY EXPLORATION PERMIAN	OIL	REPX	$35.10	$53.00	51.00%
RING ENERGY	OIL	REI	$1.53	$4.00	161.44%
ROK RESOURCES	OIL	ROKRF	$0.12	$0.41	235.52%
RUBELLITE ENERGY	OIL	RUBLF	$1.60	$4.45	178.13%
SOLARIS ENERGY INFRASTRUCTURE	SERVICES	SEI	$24.65	$35.00	41.99%
SPARTAN DELTA	GAS	DALXF	$2.47	$4.25	72.06%

expected to double the Company's quarterly revenues over the next twelve months. To get a better understanding of SEI's business strategy, go to the SEI website (https://ir.solaris-energy.com/) and take 30 minutes going through their November 11th Investor Presentation slides.

Riley Exploration Permian (REPX) was my Top Pick among the small-caps at the beginning of 2024. The share price is up 28.5% YTD, and it still trades at more than a 50% discount to my current valuation. We will be publishing an updated profile on Riley this week.

Kolibri Global Energy (KGEI) reported solid Q3 2024 results that were in line with my forecast model. More importantly, they reported strong initial production from three new horizontal wells in a part of their Tishomingo Field that was considered an unproven area within their 17,000 acre leasehold block.

November 12th Press Release: The Alicia Renee 2-11-3H3H ("Alicia 3H"), Alicia Renee, 2-11-4H ("Alicia 4H") and Alicia Renee 2-11-5H ("Alicia 5H") wells were all successfully drilled (with 1.5 mile laterals) and completed in the Caney formation and are currently flowing back the fracture stimulation fluid. The wells are still cleaning up, but over the last five days, the Alicia 3H well has averaged 1,049 Barrels of oil equivalent per day ("BOEPD") (720 barrels of oil per day ("BOPD")), the Alicia 4H well has averaged 845 BOEPD (590 BOPD) and the Alicia 5H well has averaged 630 BOEPD (435 BOPD).

Kolibri believes that the Caney is going to be productive throughout their entire leasehold position in the Tishomingo Field.

On November 12th , even with the wells still cleaning up, current combined production from the three Alicia Renee wells was about 2,524 Boepd with ~69% crude oil. Kolibri owns a 100% working interest in the wells, which were drilled at a 6-well per section spacing pattern.

Wolf Regener, President and CEO, commented, "We are very pleased that the first three of our longer lateral Caney wells are performing so well. The early production results indicate the wells to be very economic. In addition, I'm proud that our team once again drilled and completed these wells safely and under budget. Assuming the wells continue to perform as we anticipate, it should lead to higher rates of return and efficiencies than we were forecasting."

Since November 11th KEGI has risen 27%.

It is important to note that the three Alicia Renee wells were drilled in an unproven area of Tishomingo Field. Kolibri's 3rd party reserve report at the end of 2023 showed a PV10 Net Asset Value of just their proved reserves was $4.40/share as of December 31, 2023. With most of their wells in the field producing above the type curves, I now expect their updated year-end reserve report to show a PV10 Net Asset Value close to my stock valuation of $6.20/share.

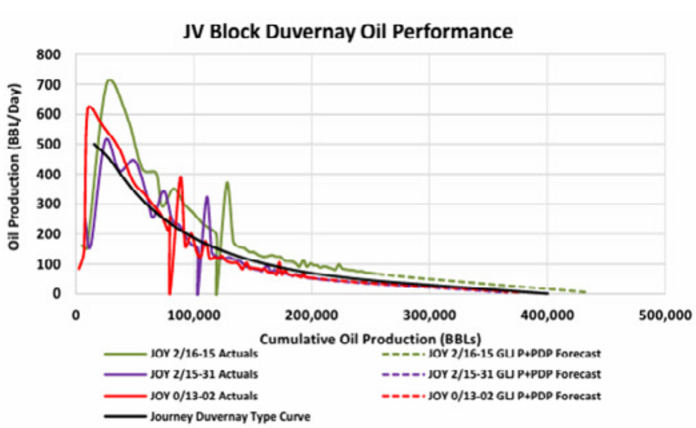
Spartan Delta (SDE.TO and DALXF) is the only "Gasser" in this portfolio. Q3 2024 production was 37,020 Boepd with a mix of 67.8% natural gas, 24.3% NGLs and 7.9% crude oil & condensate. Despite their low realized natural gas price of $1.68/mcf (including cash settlements on their hedges) in Q3 the Company still managed to generate positive net income.

I added Spartan Delta to the portfolio because of the management team's strong track record and the potential I believe they have in the **Duvernay Light Oil joint venture with Journey Energy (JOY.TO and JRNGF).**

Spartan Delta is the operator of the joint venture. They have completed the first two horizontal development wells in the JV block with initial results to be announced within a few weeks. The pre-drill expectations are that the wells will have IP30 rates of 722 Boepd (74% oil and NGLs). Estimated recoverable oil per well is 400,000 barrels.

On November 18th I had a conference call with Sue Riddell Rose, the CEO of **Rubellite Energy (RBY.TO and RUBLF),** and Ryan Shay, the Company's CFO. They confirmed most of my forecast model assumptions and I made a few adjustments based on the call.

Duvernay Light Oil Joint Venture between Spartan Delta and Journey Energy



Single Well Economics[(2)]		
DCET[(1)] Capex ($,000)	13,000	11,000
Reserves (MBOE)	573	573
Oil Reserves (MBBL)	400	400
% Oil and NGLs	74%	74%
IP30 (BOE/day)	722	722
IP365 (BOE/day)	420	420
F&D ($/BOE)	22.70	19.20
NPV[(3)]@ 10% BT ($,000)	7,600	9,600
IRR[(3)] (%)	35	52
Payout[(3)] (Years)	2.3	1.7

Rubellite Energy is a Canadian Junior upstream company that was a pure play on Canadian heavy oil until they announced on September 17th that they are going to recombine with **Perpetual Energy (PMT.TO)** in a transaction that closed on October 31, 2024.

On August 2nd Rubellite closed the previously announced Buffalo Mission Acquisition. The Company reported Q3 production of 5,953 Boepd; 100% heavy oil that sold for $80.06/bbl including cash proceeds on their hedges of $168,000Cdn. The midpoint of Rubellite's Q4 production guidance is 10,150 Boepd (75% heavy oil, 23% natural gas and 2% NGLs).

During the conference call I was told that if Western Canadian natural gas prices do get over $2.50Cdn/MMBtu they expect their outside operated natural gas production to ramp up to 21,000 mcfpd from ~14,000 mcfpd in Q4. **Tourmaline Oil Corp. (TOU.TO)** is the operator of natural gas wells that were owned by Perpetual Energy.

Ring Energy (REI) reported Q3 2024 results that were slightly better than my forecast. Production increased from 19,786 Boepd to 20,108 Boepd, but oil production declined by 3% from 13,623 bpd to 13,204 bpd. If Ring can hold production flat and natural gas prices rise in the Central Basin Platform area, they will eventually get the Company's debt down to the point where they can start paying dividends. Their 2023 year-end 3rd party reserves report shows a PV10 Net Asset Value over $4.00/share.

On November 20th **ROK Resources (ROKRF)** announced Q3 results in line with my forecast model. The quarter was highlighted by the sale of a non-core gross overriding royalty interest for proceeds of $4.0Cdn million. Coupled with free cash flow from operations, ROK reduced its net debt to $9.1 million. ROK's balance sheet is now in good shape.

The Company successfully executed its Q3 2024 drilling program, drilling 2 gross (1.5 net) wells in Saskatchewan. At September 30, 2024, one well was on-stream, achieving an IP30 of 240 Boepd (85% liquids). **Both wells drilled in the quarter had no prior reserve value associated.** The 2024 drilling program continues, on average, to outperform internal type curves, with an average IP90 of 130 Boepd (85% liquids) per well. The successful well results set up the Company with future drilling prospects in their core areas of Saskatchewan.

The Company remains well positioned to continue the balance of its 2024 drilling program which includes 3 gross (2.9 net) wells, targeting inventory growth in the Frobisher and testing of its first multi-lateral Midale well in Southeast Saskatchewan. Given the Company's continued drilling success, construction of a multi-well facility remains on schedule for Q4 2024, which will lower operating costs and allow for continued optimization of existing wells.

We will publish updated profiles on all of the Small-Caps by mid-December.

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, most of 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".

- **The Annual Dividends shown in the table are now based on my 2024 forecasts.**
- Minor changes to my stock valuations are the result of using my updated oil & gas price deck for all of my forecast/valuation models (i.e.- lower oil prices in Q4 2024 and 2025 and higher natural gas prices for Q4 2024 and 2025).
- The minerals and upstream companies all pay fixed + variable dividends, so they do have more commodity price risk than the midstream companies.

Minerals Companies for Low Operational Risk, Steady Growth & Income

Viper Energy (VNOM), up 72% year-to-date (YTD) is the top performing stock this year.

Viper's relationship with **Diamondback Energy (FANG)** draws a lot of attention to VNOM. Diamondback has said on several conference calls that it will be dropping the minerals that it got from Endeavor Energy into Viper "soon". Viper will pay for the new minerals with a combination of cash and stock. In my 2025 forecast, I have increased interest expense and the common stock outstanding for Viper.

Since I am not sure when or how large the drop downs will be, my 2025 forecast is a bit of a WAG, but 3 of the 4 most recent price targets submitted to TipRanks are higher than my valuation of $57, which indicates to me that the Wall Street Gang sees that Viper will soon have a much larger asset base.

Bottomline: Diamondback and Viper are very profitable companies and the Wall Street Gang LOVEs them both. The ESG movement by investors away from oil & gas companies will reverse under President Trump's "Common Sense" energy plan. Rock solid companies like FANG and VNOM will get a lot of the money that rotates back into the "OK to own" energy sector in 2025.

Rising natural gas prices should benefit **Black Stone Minerals (BSM) and Kimbell Royalty Partners (KRP)** because both companies production is heavily weighted to natural gas and NGLs.

High Yield Income Portfolio

Company Name	Primary Product	Stock Symbol	Share Price	Estimated Annual Yield	Annual Dividend	Paid	EPG Valuation
			11/29/24				
Minerals Companies							
BLACK STONE MINERALS LP	GAS	BSM	$15.52	9.66%	$1.50	Qtr	$16.00
KIMBELL ROYALTY PARTNERS	OIL	KRP	$16.18	10.57%	$1.71	Qtr	$22.00
SITIO ROYALTIES CORP	OIL	STR	$23.70	5.53%	$1.31	Qtr	$30.00
VIPER ENERGY, INC.	OIL	VNOM	$54.11	4.38%	$2.37	Qtr	$57.00
Upstream Companies							
CIVITAS RESOURCES	OIL	CIVI	$51.88	9.58%	$4.97	Qtr	$100.00
HEMISPHERE ENERGY	OIL	HMENF	$1.35	8.77%	$0.118	Qtr	$3.15
INPLAY OIL	OIL	IPOOF	$1.27	10.49%	$0.133	Mo	$3.50
SURGE ENERGY	OIL	ZPTAF	$4.06	9.61%	$0.390	Mo	$9.70
Midstream Companies							
ANTERO MIDSTREAM CORP	Midstream	AM	$15.97	5.64%	$0.90	Qtr	$16.00
ENBRIDGE INC	Midstream	ENB	$43.38	6.25%	$2.71	Qtr	$42.00
ONEOK, INC.	Midstream	OKE	$113.60	3.49%	$3.96	Qtr	$122.00
PLAINS ALL AMERICAN PIPELINE - GP	Midstream	PAGP	$20.02	6.34%	$1.27	Qtr	$21.00

BSM is the only Master Limited Partnership (MLP) in our three model portfolios. It has a high "safety rating" because it has a pristine balance sheet, has a hedging program that reduces commodity price risk, and they should increase distributions in 2025 if natural gas prices do move higher.

Kimbell Royalty Partners LP (KRP) is a partnership that has elected to be taxed as a C-Corp. It has the highest after-tax dividend yield. On a Boe basis, KRP's production mix is 52% natural gas, 30% oil and 18% NGLs. Oil sales are estimated to be 67% of 2024 revenues. Increasing natural gas and NGL prices should give the partnership a nice free cash flow boost in Q1 2025.

I like the balanced production mix of Sitio Royalties Corp. (STR), but their production declined slightly from Q2 to Q3 2024 and the gas-to-oil ratio increased. Their Adjusted Net Income of $24.4 million in Q3 did beat my forecast of $21.0 million and the balance sheet is solid. Due mainly to the lower yield, I rate it at the bottom of the four minerals companies.

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 down 24.7% YTD, but they are on pace to increase production by 62% year-over-year in 2024, after increasing production 24.5% in 2023. Granted, the production growth is primarily due to acquisitions, but 2024 financial results have been solid. The Company is on pace to generate over $3.1 billion ($32/share) of Adjusted Cash Flow from Operations and $1.2 billion of free cash flow from operations.

Civitas was paying a Base + Variable dividend, but the BOD decided just to pay the Base dividend of $0.50 this quarter and use the remaining free cash flow to pay down debt and buy back shares. Since the share price is so far below book value, stock buybacks are the right move. Their aggressive stock buybacks increase per share financial results, which justifies a higher valuation multiple.

If Civitas decides to stay with just their Base Dividend, this stock will be a better fit for the Sweet 16 Growth Portfolio. There is no reason

I see to justify a share price below book value, which is why the BOD recommended a more aggressive stock buyback program.

With a production mix of approximately 47% crude oil, 28% natural gas and 25% NGLs, if Civitas' realized natural gas price just gets back to $2.50/mcf (where it was in 2023), Civitas will have a lot more free cash flow to pay higher dividends.

If you have not done so already, I urge all of you to watch the replay of our November 26th webinar hosted by **InPlay Oil (IPOOF)**. The Company is going to report a significant increase in production and free cash flow from Q3 to Q4 2024. Natural gas prices are rebounding in Western Canada, which will give InPlay a big revenue boost in 2025.

Hemisphere Energy (HMENF) will be hosting our next Houston luncheon on December 9th. The Company's Q3 results were slightly lower than my forecast, but production should ramp up into year-end as they completed 7 of 8 new wells within their Atlee Buffalo core area early in Q4.

The Company continues to generate a lot of free cash flow, so we can expect more "Special Dividends" in 2025. It has a pristine balance sheet. In its Marsden, Saskatchewan property, Hemisphere continues to evaluate its new polymer pilot project and is awaiting source well regulatory approval in order to increase injection rates. At this time, no significant production is expected from the Marsden area. Don Simmons will have more information to share with us at the December 9th Houston luncheon.

Surge Energy (SGY.TO and ZPTAF) reported Q3 2024 production of 23,795 Boepd (87% liquids) that was slightly higher than my forecast. Free cash flow from operations more than covers their monthly dividends. The Company's free cash flow will increase in Q4.

During Q3, Surge completed the strategic repositioning of the Company's debt capital structure with the closing of a $175 million, 5 year term, senior unsecured note financing ("Senior Unsecured Notes"). Concurrently, Surge paid off the Company's $126 million second-lien secured term facility, as well as all amounts drawn under Surge's first-lien revolving credit facility.

With the completion of the Senior Unsecured Note financing, substantially all of the Company's net debt has now been termed out through late 2028 (Surge's existing $48 million aggregate principal amount of convertible debentures), and late 2029 (the $175 million Senior Unsecured Notes).

As at September 30, 2024, Surge had $11.5 million of cash on hand, in addition to its undrawn $250 million first-lien revolving credit facility, as a result of these strategic debt capital transactions.

Surge's balance sheet is in good shape, with no near-term debt issues.

In Q3 2024, Surge continued to validate and expand the Company's large, new Sparky crude oil discovery at **Hope Valley**, drilling 3.0 additional multi-lateral wells at the property. Surge now estimates over 80 multi-lateral drilling locations at Hope Valley. The Company is encouraged by the repeatability of its ongoing drilling results at Hope Valley as it moves into the full development phase of this new Sparky discovery.

Midstream Companies:

If the Fed keeps lowering interest rates, our four midstream companies will draw more attention because they provide investors with safety of principle and rising dividends.

I now expect all of the midstream companies (AR, OKE, ENB and PAGP) to raise their dividends in 2025. I consider these companies to be the "safe bets" primarily because they do not have direct exposure to commodity prices.

ONEOK, Inc. (OKE) is up ~60% YTD. Its drawing so much attention because since it closed an $18.8 billion cash-and-stock acquisition of **Magellan Midstream Partners** on September 25, 2023 its EBITDA has increased significantly.

In August 2024 the Company announced that it was going to acquire **Medallion Midstream** and a controlling interest in **EnLink Midstream (ENLC)** from **Global Infrastructure Partners** for $5.9 billion in cash. The acquisitions further expanded and extended its midstream footprint. These transactions closed in October.

This month, ONEOK unveiled two more transactions. It agreed to sell three natural gas pipeline systems to **DT Midstream (DTM)** for $1.2 billion in cash. It followed that up by agreeing to buy the rest of the **EnLink Midstream** shares that it doesn't currently own for $4.3 billion in stock.

Size matters in the midstream business: "ONEOK has significantly enhanced its diversification, scale, and earnings capacity over the past couple of years by making several needle-moving acquisitions. It has become a giant in the midstream sector, putting it in a strong position to continue growing in the future. Because of that, it should have lots of fuel to increase its dividend, making it a compelling option for those seeking income and growth in the coming years." –The Motley Fool 11-26-2024

Antero Midstream (AR) announced strong Q3 2024 results on October 30th. The Company's Adjusted Net Income of $113 million beat my forecast of $103 million, despite a decline in their water hauling revenues. Revenues for gathering and compression were up $5.9 million and direct operating expenses were down $4.7 million quarter-to-quarter.

AM's growth is tied to **Antero Resources (AR)** drilling program. AM generates very little revenue from services that they provide to companies other than AR. AR did cut back to one completion crew in Q3, so AM's water hauling revenues declined from Q2 to Q3. AR is expected to have a more aggressive drilling program in 2025.

AM will be generating a lot more free cash flow in Q4 because they accelerated some capital projects into Q3 to take advantage of better weather. Free cash flow after dividends is being used to pay down debt. They should reach their debt reduction goal by year-end, so I expect them to raise dividends in 2025.

I will be adding **Antero Resources (AR)** back to our Sweet 16 Growth Portfolio in 2025.

On November 1st **Enbridge Inc. (ENB)** reported Q3 2024 results that beat my forecast. Adjusted Net Income for the quarter was $1.2 billion or $0.55Cdn per common share. Cash provided by operating activities was $3.0 billion and distributable cash flow (DCF) of $2.6 billion was in line with my forecast.

Plains All American Pipeline LP (PAA) reported net income and operating cash flow that beat my forecast. PAA is a **Master Limited Partnership (MLP)** and its general partner **Plains GP Holdings, LP (PAGP)** is a C-Corp. that pays identical quarterly dividends. PAA and PAGP should be increasing dividends next year. Distributable Cash Flow (DCF) is almost double the current dividend, PAA has reached its debt reduction goal and guidance is now at the top of their EBITDA guidance for the year.

"We delivered solid operational and financial results in the third quarter and we continue to make progress on our efficient growth strategy, which includes generating multi-year Free Cash Flow, maintaining capital discipline and returning capital to our investors while preserving financial flexibility. Our company is well positioned, and we have grown increasingly confident in both the durability and cash generating potential of the asset base. The improved outlook for the year provides more confidence in our long-term return of capital framework, which should continue creating value for our unitholders." - Willie Chiang, Chairman and CEO of Plains.

We will be publishing updated profiles on all twelve companies in the High Yield Income Portfolio during December.

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

Final Thoughts

No matter what happens over the next four years, Donald J. Trump will go down in history for making one of the most incredible political comebacks of all time. Love Donald or hate him, on November 5, 2024 the American people decided they wanted a strong leader that loves our country and wants to make it great again.

I personally think he will re-unite the country. It is now cool to wear a MAGA hat or a Trump T-shirt. "Trump Time" watches will become collectors' items. After his second term his face might be on some of our currency. He gained voters among all ethnic groups because they believe his policies are good for ALL AMERICANS.

If Trump ends the war in Ukraine, he will earn the Noble Peace Prize.

The Green New Deal, DEI and WOKE are dead. The Democrats need to shut down the "Squad" and stop tolerating Antifa.

I hope the Democrats can get a new leadership team. Kamala Harris does not have leadership skills, primarily because she is unable to communicate what she stands for. "Make America Great Again" was sure to beat a candidate with no clear agenda. It would be nice to

"Trump Time" has already started

have two parties that are Pro-America.

Trump's energy policy will be based on abundance, security, reliability and affordability. Global demand for energy has always grown in lock step with population growth and now demand for energy is accelerating. U.S. oil production will soon peak. Our abundance of natural gas, which can be used as a transportation fuel (CNG and LNG), will soon be the highest percentage of U.S. energy supply.

Team Biden lost the War on Fossil Fuels: Global demand for coal is increasing because it is still one of the best primary sources of energy for generating electricity. Over the next two years the U.S. will need hundreds of natural gas fired power plants of all sizes. We need to build more nuclear fueled power plants. Wind and solar will remain a small percentage of the world's energy supply.

All Americans should follow this simple rule: **"Love American, or Leave It".**

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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