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# The View From HOUSTON

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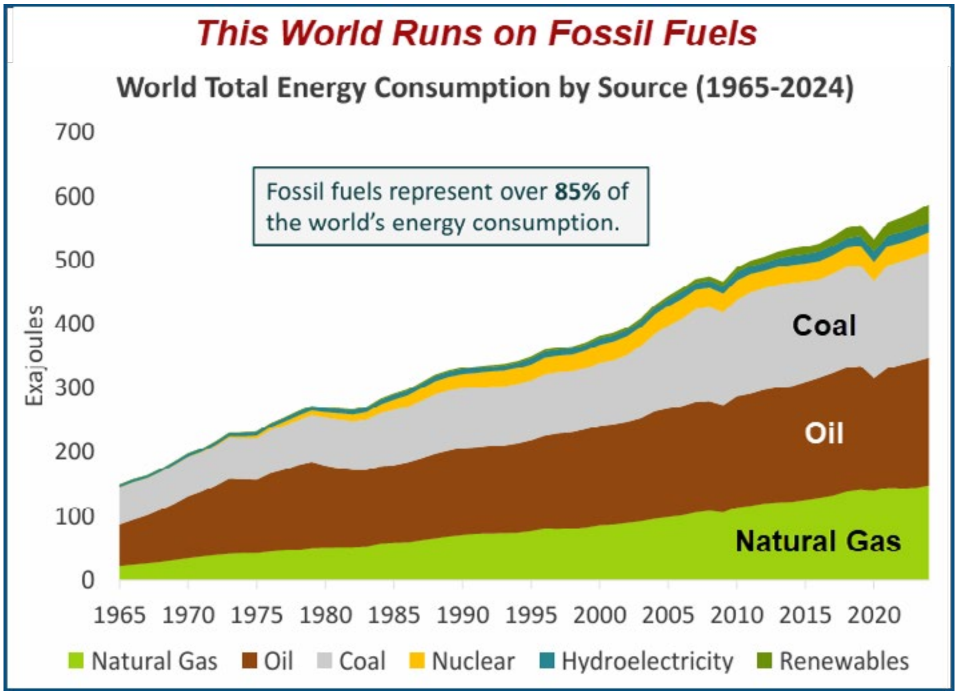
Dan Steffens is the President of Energy Prospectus Group (EPG), a networking organization based in Houston, Texas. He is a 1976 graduate of Tulsa University with an undergraduate degree in Accounting and a Masters in Taxation.

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.

**"Seek and ye shall find."**

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




The image at the top of this page underscores a broader point: wind and solar are unlikely to replace the vast amount of primary energy now supplied by fossil fuels. Renewables help meet growing energy demand, but they remain costly and less reliable than hydrocarbons, particularly for baseload power generation.

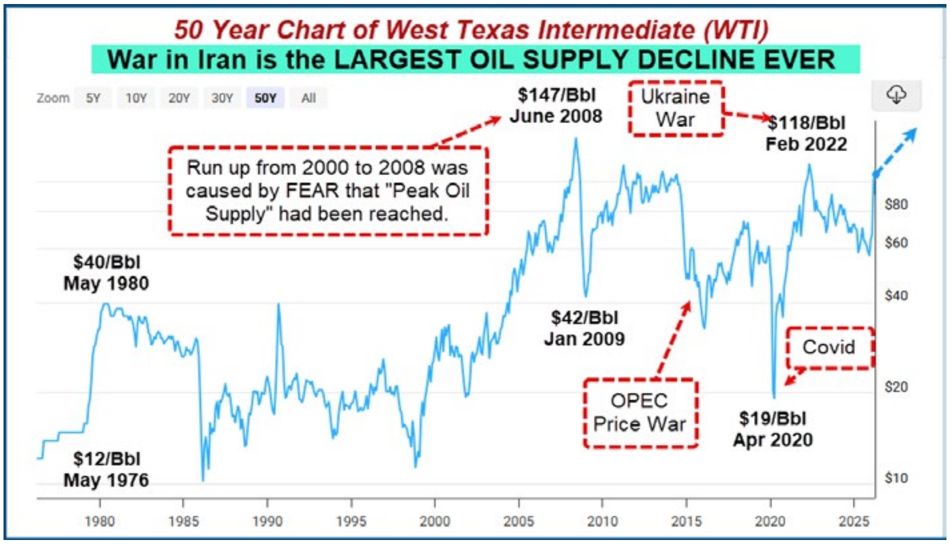
The only major energy source ever to fade from use is whale oil.

As of this writing, Team Trump appears to have negotiated at least a preliminary framework for a possible agreement with Iran to end the Middle East conflict. Much remains unresolved before any deal can be signed, including the difficult task of removing enriched uranium from Iran.

To show how severe today's oil supply shortage is, I want to review some history in light of the Strait of Hormuz having been closed for three months.

## GLOBAL OIL MARKET OUTLOOK

The 1970s offer a classic example of how quickly the oil price cycle can shift from low prices to sharply higher ones. More than 50 years ago, the Arab oil embargo triggered that move, even though the resulting supply shock was




far smaller than the one caused by the ongoing conflict between the U.S. and Iran. As you read on, keep in mind that a market shortfall caused by lost supply is much harder to resolve than one caused by a sudden drop in demand, such as the decline during the COVID pandemic in 2020.

What follows is taken from the **Goehring & Rozencwajg Natural Resource Investors Q1 2026 letter.**

After years of underinvestment in upstream supply, U.S. oil production peaked unexpectedly in 1971 and then began to decline. Few at the time recognized how significant that turning point was. Then **the 1973 Arab oil embargo triggered what was, at the time, an unprecedented disruption to global supply.** Crude prices jumped nearly 80% in a month. After a brief pause, they climbed again, rising several-fold over the following eighteen months. Oil had started the decade near $3 per barrel; before long, it was trading above $30 for extended periods.

A strikingly similar pattern emerged before 2008. After another long stretch of weak upstream investment, the two biggest sources of non-OPEC supply growth—the North Sea and Mexico's Cantarell field—both began to decline unexpectedly. At the same time, demand from emerging markets accelerated, leaving global inventories increasingly tight. With little cushion left in the system, crude prices roughly tripled in just eighteen months before eventually stabilizing near $95 per barrel from 2010 to 2014—almost eight times the lows reached in 1999.

In both cases, the market had already become structurally tight before prices fully reflected it. The physical disruption simply exposed pressures that had been building for years.

We believe the market may be entering another such period.

**U.S. Oil Production likely to peak in 2026**

After the shale boom of the 2010s, the upstream oil industry went through nearly a decade of chronically weak investment. **For most of the past fifteen years, shale supplied almost all non-OPEC production growth worldwide. That engine now appears to be losing momentum.** Output across nearly every major shale basin outside of the Permian Basin has already stalled or turned negative, and even the Permian is growing far more slowly than before. < *This is what happens when the majority of the Tier One drilling locations have been developed. "Drill Baby Drill" cannot save the world from a prolonged shortage of oil supply that has been created by the war in Iran.*

## NEW PROFILES

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

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

**Company Profiles:**

- Antero Resources (AR)
- Antero Midstream (AM)
- Crescent Energy (CRGY)
- Devon Energy (DVN)
- Diamondback Energy (FANG)
- EQT Corp. (EQT)
- Hemisphere Energy (HME.V and HMENF)
- Magnolia Oil & Gas (MGY)
- Northern Oil & Gas (NOG)
- Permian Resources (PR)
- Range Resources (RRC)
- SM Energy (SM)
- Solaris Energy Infrastructure (SEI)

At the same time, the closure of the Strait of Hormuz has created a disruption unlike anything seen in modern energy markets. About one-fifth of the world's seaborne oil trade normally passes through the Strait each day. The market has never had to operate for an extended period with so much volume impaired at once.

**This combination is unusual.** After years of inadequate capital spending, the industry appears to be entering another structurally tight phase just as the market faces a historic physical bottleneck. The last time crude traded at extreme lows was during the COVID lockdowns, when WTI briefly fell below $20 per barrel in April 2020. If oil were to undergo the kind of eight-to-tenfold repricing seen in prior structural shifts, **several years of $120 to $150 oil no longer look as implausible as many investors assume.** That possibility is the core thesis of this letter, and the analysis that follows is meant to support it.

As we write, Operation Epic Fury is in its seventy-sixth day, and the Strait of Hormuz has been closed for most of that period. There is little sign that a resolution is any closer than it was weeks ago. By normal historical standards, this should have sparked near panic in the oil market. Instead, the reaction has been remarkably muted. < As of the date of this newsletter we are in Day 87 of the conflict with Iran.

**At least 15 million barrels per day of supply appears to be directly curtailed. By volume alone, this disruption exceeds every prior oil crisis.** Yet dated Brent—still the best gauge of physically delivered crude—at its peak rose only $4 above its 2008 high. Spot futures were even less impressive, failing to reach their 2022 highs and remaining more than $30 below the 2008 peak.

The contrast is striking. Neither in 2008 nor in 2022 was the physical market as impaired as it is today. In fact, there were days in 2011—a year with no comparable supply disruption—when oil traded above current crisis levels. In other words, **the market is facing the largest energy dislocation on record and reacting as if it were a serious but temporary inconvenience.**

At the start of this year, WTI crude traded near $58 per barrel, placing it in the lowest quartile of nominal prices over the past fifteen years. Adjusted for inflation, it ranked roughly in the lowest decile historically. Measured in gold terms—a framework we discussed in our previous letter—crude began the year cheaper than at almost any point in modern history, except for the brief collapse during COVID in 2020.

**We have gone from the False Paradigm of an over-supplied oil market to the Reality of a grossly under-supplied oil market.**

Investor sentiment reflected that extreme pessimism. Much of the bearishness came from International Energy Agency (IEA) forecasts projecting a surplus of about 2 million barrels per day in 2025, widening to 3.5 million in 2026. If those estimates had been right, the market would have faced the largest oil glut in its history.

We did not find those estimates convincing. Our analysis suggested the prior year's surplus was materially smaller than widely believed, while underlying demand was stronger and growing faster than consensus expected. At the same time, shale production growth—which had driven nearly all incremental non-OPEC supply for more than a decade—was slowing rapidly. Taken together, these factors suggested a market much closer to balance than most investors recognized. We believed 2026 would likely begin near equilibrium before moving into outright deficit later in the year.

We positioned the portfolio accordingly. In January, we sold a substantial portion of our gold-equity holdings and shifted the proceeds into oil and natural gas investments.

On February 28, the United States and Israel launched Operation Epic Fury. Crude prices reacted immediately, rising about 75% within a month. At first glance, the move looked dramatic. A closer look at the futures market, however, told a different story.

While spot prices surged, longer-dated crude futures contracts moved far less. Oil for delivery twelve months ahead rose only about 25% and, even after the rally, remained well below prior nominal peaks—roughly $70 per barrel below the 2008 high, $35 below 2011, and $27 below the 2022 peak.

**Side Note:** The NYMEX Futures contracts have never been an accurate forecast for oil prices. President Trump has been successful in "Talking Down" the price of oil by week-after-week announcing that he was close to a peace agreement with Iran. What Trump announced on Saturday, May 23rd did not end the conflict with Iran.

The distinction matters. Spot markets reflect immediate physical stress, while the outer years of the futures curve show what investors believe about how long that stress will last. In effect, the market was signaling that the disruption might be painful in the near term but would not endure. The prevailing view appears to be that once the Strait reopens, the market will quickly return to surplus and inventories will rebuild with little lasting strain. Implicit in that view is the belief that even if about one billion barrels of supply were lost during the closure, a renewed surplus of 3 million barrels per day would restore inventories to January levels within about a year.

That confidence extends far beyond oil. After initially falling about 9% when hostilities began, the S&P 500 later rallied nearly 20% and now stands materially above its prewar level. Speculative enthusiasm has returned most clearly to technology and artificial-intelligence stocks. Since bottoming on March 30, the tech-heavy Nasdaq Composite has gained nearly 30%, about twice the broader market's advance. Financial markets are behaving as though the world is facing both the largest physical energy disruption in history and no meaningful disruption at all. < *Plus the fact that AI Data Centers will require a massive increase in electricity demand*.

Energy equities, meanwhile, have behaved more like deferred crude contracts than like the spot market. The Energy Select Sector SPDR Fund, dominated by large integrated oil companies, has risen only modestly since hostilities began. The SPDR S&P Oil & Gas Exploration & Production ETF—typically much more sensitive to crude prices because of its heavier exposure to exploration and production companies—has done somewhat better, but still not as one might expect during a disruption of this scale.

Investor flows tell a similar story. Since the end of February, only about $7 billion in net capital has entered the two ETFs combined—an amount notable mainly for how small it is. Between 2022 and 2025, we estimate investors pulled roughly $20 billion from those same vehicles. The broader pattern suggests investors still see the current episode not as the start of a larger structural shift, but as a temporary interruption in a market they fundamentally distrust.

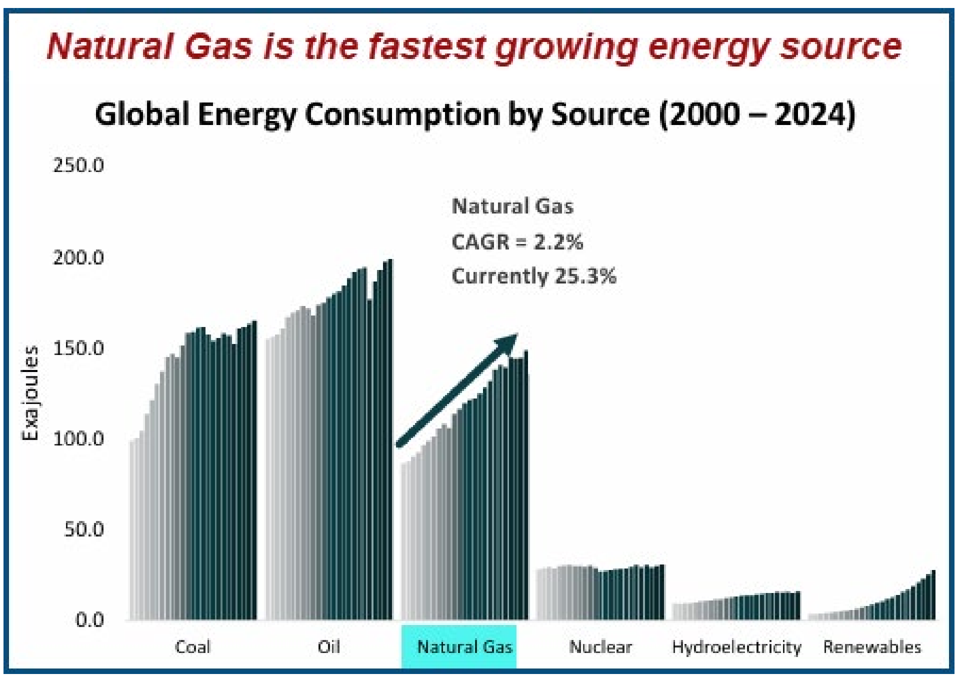
Because the broader equity market has risen much faster than energy stocks, the sector's weighting in the S&P 500 has actually drifted slightly lower since the conflict began. Energy now accounts for only about 3.2% of the index—a small fraction of the roughly 16% weight it reached at the 2008 commodity peak, and not far above the all-time lows recorded during the COVID collapse.

**Bottomline:** Investors continue to materially underprice the upside risk in global energy markets over both the short and long term. Yet the underlying data increasingly suggests the market may be nearing an important inflection point. Two points tell me that it is going to be very difficult for the global oil market to rebalance:

- Oil flowing from the Persian Gulf will not quickly return to prewar levels because of all the damage done to oilfields and infrastructure in the Middle East.
- Strategic Petroleum Reserves (SPR) that have been and will continue to be drained for several months after the war ends will need to be refilled.

## NATURAL GAS MARKET OUTLOOK

There is a good reason to have profitable "Gassers" in your portfolio. Measuring by the amount of energy it is able to generate, natural gas (including NGLs) is the fastest growing energy source on Earth. The compound annual growth rate (CAGR) is approximately 2.2%, compared to approximately 1% for crude oil. In 2024 natural gas was an estimated 25.3% of total energy consumption in the world.




### EIA's Short-Term Energy Outlooks for Natural Gas as of May 12

LNG exports. U.S. liquefied natural gas (LNG) export capacity grew by about 0.9 billion cubic feet per day (Bcf/d) in April, led by the first shipment from Golden Pass LNG's Train 1 and additional output from Corpus Christi Stage 3. Corpus Christi Train 6 is scheduled to come online in summer 2026, adding an additional 0.2 Bcf/d of nominal export capacity, but long lead times for adding new export capacity will constrain growth in U.S. LNG exports. Global LNG prices remain elevated as a result of reduced flows through the Strait of Hormuz, with a wide spread between U.S. domestic natural gas prices and international markets.

**Natural gas production.** U.S. marketed natural gas production averaged 120.2 Bcf/d in 1Q26, up 4% from 1Q25. We expect production to keep rising through 2027, with associated natural gas output increasing as higher crude oil prices support more crude oil production. Natural gas production growth this year is driven primarily by 6% growth both in the Permian and Haynesville regions. We increased our forecast of marketed natural gas production by 1% this year and by 2% in 2027 compared with last month's forecast based on our analysis that shows rising gas-to-oil ratios from many wells in the Permian region.

## SWEET 16 GROWTH PORTFOLIO

Our Sweet 16 Flagship Portfolio includes 15 upstream oil and gas companies plus **Solaris Energy Infrastructure (SEI)**. As of closing stock prices on May 22nd, the portfolio is up 35.56% year to date.

All 16 companies delivered strong Q4 2025 and Q1 2026 results even though oil prices were much lower than they are now (as you can see in the table above). Except for the four remaining "Gassers" (AR, EQT, RRC, and TOU.TO), I expect the rest to post meaningfully higher operating cash flow through the balance of 2026. Oil prices are expected to remain elevated for the rest of the year, regardless of when the conflict with Iran ends.

I do not expect Sweet 16 companies to materially increase drilling activity this year. Higher cash flow should instead support debt reduction, share repurchases, and dividends. Updated company profiles and forecast models

| Updated | Oil & Gas Prices used in Forecast Models | | | | | |
|---|---|---|---|---|---|---|
| 5/16/2026 | 2023 to 2025 Actuals and 2026 & 2027 Forecasts | | | | | AFTER |
| | Q1 | Q2 | Q3 | Q4 | YEAR | 2026 |
| WTI Oil | Actuals | Actuals | Actuals | Actuals | Actuals | Forecast |
| 2023 by Qtr | $ 76.11 | $ 73.66 | $ 82.32 | $ 78.32 | $ 77.60 | |
| 2024 by Qtr | $ 76.91 | $ 80.49 | $ 75.16 | $ 70.28 | $ 75.71 | |
| 2025 by Qtr | $ 71.42 | $ 63.74 | $ 64.93 | $ 59.14 | $ 64.81 | |
| 2026 by Qtr | $ 73.98 | $ 95.00 | $ 105.00 | $ 94.00 | $ 92.00 | $ 85.00 |
| HH NGas | | | | | | |
| 2023 by Qtr | $ 2.72 | $ 2.32 | $ 2.66 | $ 2.88 | $ 2.65 | |
| 2024 by Qtr | $ 2.10 | $ 1.88 | $ 2.16 | $ 2.79 | $ 2.23 | |
| 2025 by Qtr | $ 3.65 | $ 3.43 | $ 3.07 | $ 3.55 | $ 3.43 | |
| 2026 by Qtr | $ 4.95 | $ 2.75 | $ 3.10 | $ 4.00 | $ 3.70 | $ 4.00 |

are now available on the EPG website, so in this newsletter I will highlight only a few of them.

**Solaris Energy Infrastructure (SEI)** is up 61.56% year to date. Since I added SEI to the Sweet 16 one year ago, the stock has gained 192%. Each time it nears my current valuation target of $85, I revisit the story and come away even more impressed by the company's potential. The four most recent TipRanks price targets are $82, $84, $86, and $86, and all four were issued by 5-star analysts.

**Crescent Energy (CRGY)**, up 57.33%, and **SM Energy (SM)**, up 80.59%, are expected to remain among the Sweet 16's top share-price performers because both have completed strategic, immediately accretive mergers. Each also reported Q1 2026 results in line with my forecast models, and their updated guidance increases my confidence in my price targets.

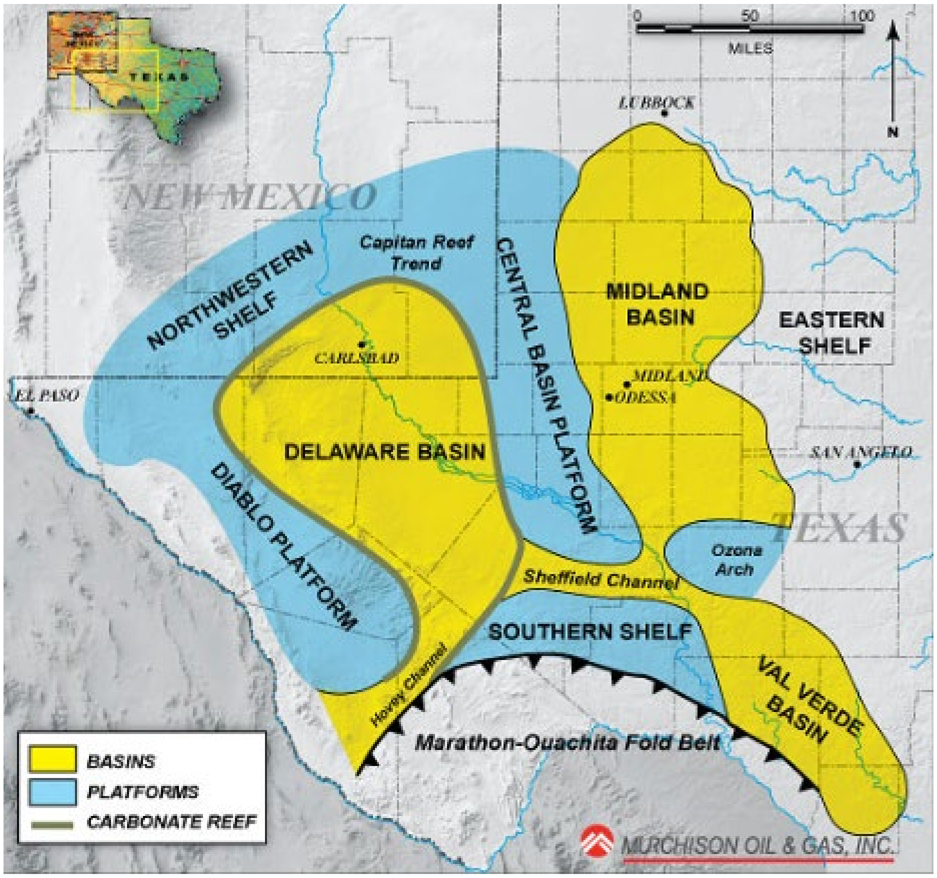
**Coterra Energy (CTRA)** completed its merger with **Devon Energy (DVN)** on May 7, 2026. CTRA is no longer publicly traded. I will announce Coterra's replacement in early June.

Today, Devon is producing more than 1.6 million Boepd, including 36% crude oil. That compares with less than 1.4 million Boepd for **EOG Resources (EOG)**, with 39% crude oil, and 960,000 Boepd for **Diamondback Energy (FANG)**, with 52.5% crude oil. Despite Devon being larger, it is trading at a much lower multiple of operating cash flow per share. I expect Devon's valuation multiple to improve after it reports combined Q2 2026 results and provides more detailed guidance for the second half of 2026.

Devon and **Matador Resources (MTDR)** both announced sizable acquisitions of net undeveloped acreage in the core of the Delaware Basin through last week's Bureau of Land Management (BLM) oil and gas lease sale. The new leases appear especially meaningful for Matador, which views the 5,154 net acres as "core-of-the-core," strategic, and highly complementary to its existing position. The acreage supports three-mile-plus laterals, greater use of existing facilities and field teams, and potentially higher midstream value from future Delaware Basin volume growth. The leases carry an 87.5% net revenue interest and a 10-year term across all depths.

## Sweet 16 Growth Portfolio

| Company Name | Primary Product | Stock Symbol | Share Price | EPG Fair Value Estimate | Percent Undervalued |
|---|---|---|---|---|---|
| | | | 5/22/26 | | |
| ANTERO RESOURCES | GAS | AR | 36.75 | $49.00 | 33.33% |
| COTERRA ENERGY (now part of DVN) | GAS | CTRA | 32.56 | $43.00 | 32.06% |
| CRESCENT ENERGY | OIL | CRGY | 13.20 | $30.00 | 127.27% |
| DEVON ENERGY | OIL | DVN | 47.22 | $71.00 | 50.36% |
| DIAMONDBACK ENERGY | OIL | FANG | 200.71 | $240.00 | 19.58% |
| EOG RESOURCES | OIL | EOG | 141.22 | $179.00 | 26.75% |
| EQT CORP | GAS | EQT | 57.92 | $72.00 | 24.31% |
| MAGNOLIA OIL & GAS | OIL | MGY | 29.24 | $39.00 | 33.38% |
| MATADOR RESOURCES | OIL | MTDR | 56.64 | $94.00 | 65.96% |
| OVINTIV INC (was ENCANA) | OIL | OVV | 58.74 | $84.00 | 43.00% |
| PERMIAN RESOURCES | OIL | PR | 20.44 | $28.00 | 36.99% |
| RANGE RESOURCES | GAS | RRC | 41.05 | $50.00 | 21.80% |
| SM ENERGY | OIL | SM | 33.77 | $60.00 | 77.67% |
| SOLARIS ENERGY INFRASTRUCTURE | SERVICES | SEI | 74.27 | $85.00 | 14.45% |
| TOURMALINE OIL ($Cdn) | GAS | TOU.TO | 67.23 | $74.00 | 10.07% |
| WHITECAP RESOURCES ($Cdn) | OIL | WCP.TO | 16.79 | $21.00 | 25.07% |




Each company's press release provides additional details on the BLM leasehold acquisition.

**Permian Resources (PR)** should also attract more attention from these press releases because it is a pure-play Delaware Basin company. The Delaware is a sub-basin of the Permian.

**EOG, FANG, and Magnolia Oil & Gas (MGY)** should benefit the most from higher oil prices because their oil production is largely unhedged. The only exception is a small volume recently hedged by FANG—15,000 bpd under collars with a $115/bbl ceiling.

The production mix for each company in our three model portfolios appears at the bottom of individual forecasts.

### Top Dividend Yields in the Sweet 16

Dividend-focused investors may want to consider these Sweet 16 names, which had the highest annualized dividend yields as of the May 22nd close. Several of these companies should generate enough free cash flow to increase dividends and/or repurchase shares in 2H 2026.

- Whitecap Resources (WCP.TO or WCPRF): 4.35%
- Crescent Energy (CRGY): 3.64%
- Permian Resources (PR): 3.03%
- Tourmaline Oil (TOU.TO and TRMLF): 2.97%
- EOG Resources (EOG): 2.89%
- SM Energy (SM): 2.43%

Updated profiles and forecast/valuation models for all of the Sweet 16 companies can be found on the EPG website under the Sweet 16 tab.

## Small-Cap Portfolio

The Small-Cap Growth Portfolio highlights both the opportunities and risks of investing in smaller energy companies. While small-cap stocks generally carry more risk than the larger names in the Sweet 16, they can also offer greater upside. For upstream companies, scale and room to grow matter: rising production and expanding proved reserves can support higher share prices. Since EPG launched in 2003, well-run small-cap companies with significant growth potential ( I call "Running Room"), have produced the strongest percentage gains.

**The Small-Cap Growth Portfolio has gained 53.73% year to date.**

Over the next two weeks, we will publish updated profiles for all nine companies in the portfolio. I have already refreshed each forecast and valuation model to

## Small-Cap Growth Portfolio

| Company Name | Primary Product | Stock Symbol | Share Price | EPG Fair Value Estimate | Percent Undervalued |
|---|---|---|---|---|---|
| | | Dividends | 5/22/26 | | |
| | | | USD | USD | |
| BAYTEX ENERGY | OIL | BTE | $5.15 | $5.84 | 13.40% |
| JOURNEY ENERGY | OIL | JRNGF | $4.39 | $6.00 | 36.67% |
| KOLIBRI GLOBAL ENERGY | OIL | KGEI | $5.87 | $8.75 | 49.06% |
| PINE CLIFF ENERGY | GAS | PIFYF | $0.43 | $0.54 | 24.42% |
| RILEY EXPLORATION PERMIAN | OIL | REPX | $38.60 | $61.00 | 58.03% |
| RING ENERGY | OIL | REI | $1.38 | $3.00 | 117.39% |
| ROK RESOURCES | OIL | ROKRF | $0.21 | $0.36 | 69.09% |
| RUBELLITE ENERGY | OIL | RUBLF | $2.51 | $5.11 | 103.91% |
| SPARTAN DELTA | GAS | DALXF | $9.50 | $10.58 | 11.37% |

reflect Q1 2026 results and updated guidance. The models are available on the EPG website under the Small Cap tab. Here are a few highlights.

**Spartan Delta (SDE.TO up 81.24% YTD) and Journey Energy (JOY.TO up 88.68% YTD)** are leading the portfolio, driven by exceptional well results from their Duvernay joint venture. Spartan Delta operates the JV with 70% working interest. Journey's 30% working interest gives them more impact from higher oil prices.

**Baytex Energy (BTE.TO up 60.36% YTD)** used proceeds from the sale of its South Texas assets to eliminate nearly all of its debt. With a very strong balance sheet, about 69,000 Boepd of production (~81.5% oil and condensate), and substantial high-quality Running Room in Western Canada, BTE is attracting significant investor interest.

**Kolibri Global Energy (KGEI up 49.36% YTD)** continues to post double-digit annual production growth - 15.4% in 2025 and roughly 15% again in 2026 based on their guidance. The company has begun drilling the first of three horizontal development wells from a pad in the Tishomingo Field, which should increase oil production in Q3 2026. I also hope Kolibri's new board approves a more aggressive drilling program, which I believe would justify a higher share price.

**Riley Exploration Permian (REPX up 46.21% YTD)** is my top Growth & Income pick in this portfolio. Based on my forecast, operating cash flow per share could exceed $15.00 this year, supported by the company's guided 32% production growth. Dividend yield based on the current share price is 4.15% and I expect them to increase dividends in 2H 2026.

**Ring Energy (REI up 59.15% YTD)** pulled back after announcing an equity offering. While the share sale is dilutive, the proceeds should strengthen a balance sheet that needed rebalancing. Ring's revenue mix remains heavily weighted toward oil.

**Rubellite Energy (RBY.TO up 43.75% YTD)** is a heavy-oil producer that I view very favorably. With Q1 2026 production of 13,843 Boepd (62.4% heavy oil) and annual production growth of about 10% now fully funded by operating cash flow, the stock should attract more attention. If you have not already, I recommend watching my March 26 webinar with Sue Rose, the company's CEO.

As noted in the April newsletter, **ROK Resources (ROK.V up 28.26% YTD)** is now a "Special Situation" stock following the termination of its go-private deal on March 4. I view the canceled sale as a positive development. ROK is expected to release details of its 2026 drilling program this week, which should materially increase oil production. The company also has a strong balance sheet, with enough cash and operating cash flow to fully fund this year's program.

**Pine Cliff Energy (PNE.TO down 27.16% YTD)** is the only holding down year to date, largely because its revenue is heavily tied to Western Canadian natural gas prices. The company remains in solid financial condition and recently reported the February completion of a horizontal Glauconite well with a 60-day initial production rate of 1,150 Boepd, 55% of which was high-value liquids. Pine Cliff has considerable Running Room on that acreage. If AECO natural gas prices rise above $3.00 Cdn/MMBtu, Pine Cliff could become a strong performer for us. The company does pay monthly dividends, which are sustainable.

## High Yield Income Portfolio

Our High Yield Portfolio focuses on companies with strong balance sheets and dependable, sustainable dividends. Although yield is the main objective, most holdings also qualify as growth companies, offering meaningful upside in share price. Compared with our dedicated growth portfolios, this portfolio is typically less volatile because price movements are driven more by dividend yield than by market speculation. High-yield investors also tend to take a long-term, buy-and-hold approach rather than trade frequently.

I've only had time to update the profiles for AM and NOG, so most of this section repeats content from the April newsletter. My quick takeaway from the companies' Q1 2026 results is that they are performing well and should benefit from higher oil prices.

**The High Yield Portfolio is up 26.83% year to date, excluding dividends paid so far this year.**

The attached table includes updated 2026 annual dividend estimates. My latest forecasts suggest that the minerals/royalties and upstream oil and gas companies should generate higher free cash flow, and I expect several to raise dividends this year.

**Minerals / Royalties Companies**

Minerals and royalties companies are generally safer than upstream oil and gas producers because they do not take on drilling risk. However, they still face commodity-price exposure, so production mix remains an important part of my analysis.

**Viper Energy (VNOM)** is up 21.30% YTD and remains my top pick for combining growth and income. Its scale and close relationship with **Diamondback Energy (FANG)**, its largest shareholder, support continued growth, especially as Diamondback pursues an aggressive drilling program on Viper's mineral acreage. Viper's revenue is heavily weighted toward oil. I expect Viper's base + variable dividends to be much higher after the $0.68/share dividend based on Q1 2026 results. We will publish an updated profile on Viper tomorrow morning. It is important to note that Viper has only used Puts to hedge their oil production, so it will get the full benefit of rising oil prices.

**Black Stone Minerals (BSM),** an MLP, has the highest natural gas weighting in this group. **The unit price is up just 4.21% YTD,** the lowest performance among these names. After closing several aggressive development agreements with high-quality upstream operators, the company now has a clearer path to steady distributable cash flow growth. BSM has also said publicly that it hopes to double annual distributions over the next five to 10 years, and it has raised its 2026 production guidance.

**Hemisphere Energy gets maximum benefit from high oil price**

TSX-V: HME
OTCQX: HMENF

| Price Sensitivity | | US$60/bbl WTI | US$80/bbl WTI | US$100/bbl WTI |
|---|---|---|---|---|
| Average Annual Production | boe/d | 3,900 | **3,900** | 3,900 |
| Adjusted Funds Flow ("AFF")(2) | $ million | 40 | **57** | 78 |
| AFF per basic share(2,3) | $/share | 0.42 | **0.60** | 0.83 |
| Capital Expenditures(2) & ARO(4) | $ million | 12 | **12** | 12 |
| Free Funds Flow ("FFF")(2) | $ million | 28 | **45** | 66 |
| FFF per basic share(2,3) | $/share | 0.29 | **0.47** | 0.70 |
| Base Dividends per basic share(3) | $/share | 0.10 | **0.10** | 0.10 |

**2026 Capital Expenditures - $12 million**

- Development projects
- Exploration and land acquisition
- Flexibility to easily grow or reduce program with market conditions

**Key Assumptions(1)**

- WCS Differential: US$15.00/bbl
- Cdn$ to US$ Exchange Rate: 0.73
- Quality Adjustment: $4.00/bbl
- Opex: $15.00/boe

**Kimbell Royalty Partners LP (KRP)** is up 29.08% YTD and offers the highest after-tax dividend yield for investors at 12.44%, based on the May 22nd closing price. **KRP pays variable dividends,** which totaled $1.57 per unit in 2025. Based on my 2026 forecast, dividends should exceed $1.85 per unit this year. KRP is a partnership that has elected to be taxed as a C-Corp.

**Freehold Royalties (FRU.TO and FRHLF)** is up 15.87% YTD. This Canadian mineral royalty company has been expanding aggressively in the U.S., completing several large acquisitions over the past four years using both debt and equity. Unlike companies that rely mainly on debt, Freehold has maintained balanced financial flexibility while increasing scale, drilling inventory, and cash flow.

**Upstream Oil & Gas Companies**

The High Yield Income Portfolio includes five upstream oil and gas companies. With the recent rise in oil prices, all five should generate significantly higher free cash flow in 2026.

**Hemisphere Energy (HME.V)** leads the group, up 47.21% YTD, largely because it is a pure play on heavy oil. The company is generating strong free cash flow from two successful polymer floods in Southern Alberta. It pays a quarterly

## High Yield Income Portfolio

| Company Name | Primary Product | Stock Symbol | Share Price | Estimated Annual Yield | Annual Dividend | Paid | EPG Valuation |
|---|---|---|---|---|---|---|---|
| | | | 5/22/26 | | USD | | |
| Minerals Companies | | | | | | | |
| BLACK STONE MINERALS LP | GAS | BSM | $13.82 | 9.77% | $1.35 | Qtr | $15.50 |
| FREEHOLD ROYALTIES | OIL | FRHLF | $12.74 | 6.50% | $0.79 | Qtr | $14.60 |
| KIMBELL ROYALTY PARTNERS | OIL | KRP | $15.19 | 12.44% | $1.89 | Qtr | $19.00 |
| VIPER ENERGY, INC. | OIL | VNOM | $46.89 | 8.38% | $3.93 | Qtr | $64.00 |
| Upstream Companies | | | | | | | |
| HEMISPHERE ENERGY | OIL | HMENF | $2.09 | 7.68% | $0.161 | Qtr | $2.92 |
| INPLAY OIL | OIL | IPOOF | $12.86 | 6.13% | $0.788 | Mo | $20.00 |
| NORTHERN OIL & GAS | OIL | NOG | $23.75 | 7.58% | $1.800 | Qtr | $45.50 |
| PEYTO EXPLORATION & DEVELOPMENT | GAS | PEYUF | $19.33 | 5.44% | $1.051 | Mo | $21.17 |
| SURGE ENERGY | OIL | ZPTAF | $7.25 | 5.24% | $0.380 | Mo | $13.87 |
| Midstream Companies | | | | | | | |
| ANTERO MIDSTREAM CORP | Midstream | AM | $22.17 | 4.06% | $0.90 | Qtr | $24.50 |
| FLEX LNG | Midstream | FLNG | $31.96 | 9.39% | $3.00 | Qtr | $31.00 |
| PLAINS GP HOLDINGS LP | Midstream | PAGP | $25.95 | 6.44% | $1.67 | Qtr | $25.00 |

dividend of $0.025 per share and issues special dividends when cash exceeds capital needs. With higher oil prices, I expect Hemisphere to pay at least four special dividends this year. After March 31st none of Hemisphere's oil is hedged. My forecast based on WTI averaging $92US/bbl in 2026 shows Hemisphere's Adjusted Funds Flow for 2026 of $72.5Cdn million compared to a Capital Expenditure Budget of $12Cdn million.

**Surge Energy (SGY.TO and ZPTAF)** is up 44.78% YTD. Surge's Q1 2026 production of 23,893 Boepd exceeded my forecast, and its strong well results are attracting more attention. Surge's production mix is now 86.5% crude oil, 10.8% NGLs, and 2.7% natural gas. With oil prices elevated, Surge should soon meet its debt reduction target, accelerate stock buybacks in the second half of 2026, and add development wells that support higher production by year-end. I do expect Surge to raise their dividend in 2027. Peters & Company, a highly respected research firm, recently raised its price target to $14.00 Cdn.

**InPlay Oil (IPO.TO)** is up 44.19% YTD. Based on the midpoint of its production guidance of 19,000 Boepd, with about 48.5% light oil, production should rise roughly 11.7% year over year. I also expect InPlay to add more development wells to this year's drilling program, making a 2026 exit rate of 21,000 Boepd possible.

**Northern Oil & Gas (NOG)** is up 10.47% YTD and has delivered consistent growth since I began covering it in 2022. Production increased 30.8% in 2023, 25.7% in 2024, and 8.8% in 2025. We published an updated profile on NOG on May 8. Based on company guidance, production should rise another 8.1% this year. Because a large share of NOG's 2026 oil production is hedged, it will benefit less from higher oil prices. If oil prices remain elevated in 2027, as I expect they will, NOG will deserve a much higher share price.

**Peyto Exploration & Development (PEY.TO and PEYUF)** is up 17.70% YTD. It is close to a pure play on Canadian natural gas. Each time I update my forecast and valuation model for Peyto, I come away more impressed by how effectively it markets its gas. It continues to report the highest realized natural gas prices in this group. I view Peyto as the safest way to increase exposure to Canadian natural gas. In addition to its high-yield dividend, Peyto has the flexibility to increase production if market conditions improve.

**Midstream Companies: Safe Bets for Income and Growth**

Given the volatility in oil, gas, and NGL prices, midstream companies remain the safest holdings across all three model portfolios because they have no direct commodity price exposure.

**Antero Midstream (AM)** is better described as a "Growth + Income" stock and is up **24.62% YTD.** It is the smallest midstream company in the portfolio, and its growth is closely tied to the aggressive drilling activity of **Antero Resources (AR).** AM's share price is getting close to my current valuation, so I now rate it a HOLD.

**Flex LNG, Ltd. (FLNG)** is up 28.05% YTD. The company owns and operates a modern fleet of LNG carriers, most of which are employed under long-term, fixed-rate charters. That limits exposure to volatile spot shipping rates and provides strong cash flow visibility. This structure has allowed Flex to consistently generate excess free cash flow and return a substantial share of it to investors through dividends. FLNG closed on May 22nd above my current valuation, so I rate it a HOLD until I have a chance to re-evaluate it. TipRanks rates it a SELL.

**Plains All American Pipeline LP (PAA)** is an MLP with a slightly higher yield than its general partner, **Plains GP Holdings (PAGP),** a C-Corp that pays the same dividend without issuing K-1 tax forms. **PAGP is up 35.58% YTD** and remains my top midstream pick for safety and its attractive 6.15% dividend yield. After Q3 2025, PAA and PAGP raised their quarterly dividends to $0.42, and I expect annual dividend increases to continue. TipRanks rates it a HOLD.

# Final Thoughts

News reports indicate that Iran has agreed in principle to dispose of its highly enriched uranium, but no agreement had been signed when I finished this newsletter. In my view, even a signed paper agreement would have limited value unless it resolves key issues such as control of the Strait of Hormuz and whether Iran will stop funding proxy groups like Hezbollah and the Houthis.

Trump is also under pressure from within his own party to reopen the Strait of Hormuz quickly, since higher gasoline prices could hurt the GOP's chances of retaining control of the House.

Shortly after again saying that Iran had agreed to a deal, Trump emphasized that negotiations were still incomplete. As OilPrice.com reported: *"President Donald Trump said Sunday that the United States will not 'rush' into a nuclear agreement with Iran, stressing that negotiations*

*remain ongoing and that both sides must take the time to 'get it right' as talks continue over the future of the Strait of Hormuz and Tehran's uranium program."*

*"Our relationship with Iran is becoming a much more professional and productive one,"* Trump wrote in a social media post. *"They must understand, however, that they cannot develop or procure a Nuclear Weapon or Bomb." He later added, "The Blockade (of the Strait of Hormuz) will remain in full force and effect until an agreement is reached, certified, and signed."*

Israeli Prime Minister Benjamin Netanyahu said he spoke with Trump about the Iran negotiations and reiterated that any final agreement must fully eliminate the threat of an Iranian nuclear weapon. According to people familiar with the talks, the discussions have at times been tense, with Netanyahu pushing for a tougher line while parts of the Trump administration continue to pursue a negotiated settlement and an extension of the fragile ceasefire.

You may want to get an oil change soon. The conflict in Iran is disrupting supplies of Group III base oil; a little-known but essential lubricant used in many synthetic motor oils. The United States imports roughly 45% of its Group III supply from the Middle East.

The disruption began in March, when Shell's Pearl GTL facility in Qatar—one of the world's largest Group III suppliers—was damaged in the March 18 attacks on Ras Laffan Industrial City. Shell says repairs could take about a year.

Michael Rumore, procurement director at New York-based motor oil producer Lubenet, says prices have risen by as much as $5 a gallon in recent weeks. Holly Alfano, CEO of the Independent Lubricant Manufacturers Association (ILMA), warns that adequate motor oil supplies could become a serious issue by next month. As she told Bloomberg, **"This is just the beginning."**

**Thank you for your support.**

Monitor the macro-environment while also conducting a thorough analysis of company specific details prior to making any investment decisions. Best wishes for your success.

Dan Steffens, President
Energy Prospectus Group