THE National Investor

Spring, 2024 | <u>*You can get information anywhere. Here, you get KNOWLEDGE*</u>. | SPECIAL ISSUE

A FUNNY THING HAPPENED ON THE WAY TO THE ENERGY TRANSITION!

(With apologies to the late, great Zero Mostel, et al at The Forum!)

Ah, those bright, promising days of early 2021!

We had a new American president who made a core promise to the American people to do away with the hated, "dirty" fossil fuel industry. The picture was painted of solar panels and wind farms intermingled with wildflowers in the fields…a "green" Electric Vehicle (E.V.) in every garage…etc.

Soon at his side was the first Treasury Secretary in American history *not* nominated for her financial acumen. Janet Yellen's "qualifications," rather, were 1. Her founding membership on an international "Who's Who" team of global warming/climate change crusaders and 2. Her promise to use her tools as Treasury Secretary to bring President Biden's promises to fruition.

What have we seen for all the starry-eyed idealism here in America…Canada…and elsewhere? As a recent *Bloomberg* item opened, recapping last year's COP28 summit and 2023 generally, "This was a year when the world experienced its hottest 12 months on record, when China connected more new coal plants than ever before, US oil production hit the highest level of any country in history and shipment volumes for liquified natural gas reached an all-time high…(and) the annual United Nations climate meeting in Dubai left fossil fuel producers grinning and climate campaigners fuming…"

To a great extent, it's "back to the drawing board time." Starting from even farther behind now we must as a society *and world* craft—this time—a workable game plan to both meet the ever-increasing demand for energy and do it more efficiently. ***In this issue, we'll focus on "Old Energy's" continued role.***

INTRODUCTION: GOOD INTENTIONS OR NOT, WE ARE NOW FARTHER AWAY FROM A SENSIBLE ENERGY POLICY

Chris Temple--Editor/Publisher

Those of you already familiar with *The National Investor* and Yours Truly's many interviews and commentaries on the subject at hand have been hearing a LOT from me on all this for a while now. ***In a Special Report as far back as late 2021, I was already discussing what I saw as "The New Energy Crisis."*** Sure enough—worsened early the following year by the commencement of Russia's move into Ukraine and all the intended *and unintended* consequences and various state actions alike—we soon saw record high fuel prices in America (and elsewhere)…record high natural gas prices overseas…and rolling shortages, especially for diesel fuel.

And that spike in energy costs made worse still, also, the return of chronically high inflation.

While those areas have simmered down since in relative terms, elsewhere we see shortages and rising costs for *other* energy-related materials, **led for the last two years by uranium's new boom** (which I am covering elsewhere these days as well!) *And as I am also discussing elsewhere, with almost any energy-related, needed commodity you look at, the story is all the same: insufficient long-term supply for the burgeoning and ever-expanding demand for everything both in America and worldwide*.

In discussing this broad issue countless times already over the last few years, I have often made reference to Representative Marcy Kaptur (D-OH, at right), the longest-serving woman in the U.S. House. Some years back in a speech on the House floor she gave one of the most insightful and understanding speeches on what would ultimately face America—frankly, the issues increasingly before us *now*—of anyone I have ever heard.

At its core, her message was that this country was essentially flying blind when it came to energy. Politics and "short-termism" dictated said policy, which otherwise lurched from one crisis to the next. Successive administrations when the party in power changed meant little more than recirculated energy *policy* NOT necessarily based on future needs, economics and all *as much as on placating that party's activists*. A Republican is in power? Then it's drill, baby drill. A Democrat? Push for wind farms and solar panels everywhere (and more recently, a wholly unrealistic, compelled "transition" to Electric Vehicles together with similarly unrealistic mandates as to their uptake.)

Usually lacking along the way no matter who has been in charge has been *anything* resembling a far-sighted game plan. Rather than *begin* with an assessment of present and projected future needs for all forms of energy…looking at what is now available…planning properly for what additional materials/technology is needed…weighing ALL factors (economic, engineering, availability of each key resource needed, how to account for what isn't available but needed, environmental issues, etc.) **energy policy—especially of late—has been driven by pie-in-the-sky wish lists.**

A while back in a discussion on energy policy/future needs with my good friend Scott Melbye, Vice President of Uranium Energy Corp. (NYSEArca-UEC) and one of the *world's* foremost experts on that industry, Melbye recapped **how the Industrial Revolution which began over a century ago was largely *technologically driven*.** New and more efficient ways were being discovered back then to build, power, transport etc. a world busting at the seams by the standards of those days. This all coming together at once served to dramatically accelerate trends in manufacturing, other industries, transportation, energy and the like that *everyone* was largely behind.

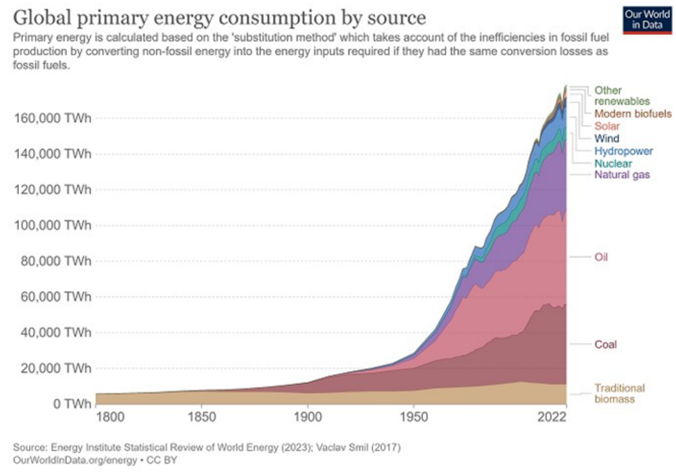
"The Green Revolution" the "Energy Transition" or whatever you choose to call it, on the other hand, started from much the other extreme; as *policy ideal driven*. Worse, many of the policies being discussed and even implemented already in many places are not being promoted based on sound economics, mathematics, or much in the way of common sense, but instead are undergirded by little more than hopes, virtue-signaling and the like. In many countries, the consequences of this are already being felt: surging prices, energy shortages, blackouts and such.

"I'm ready for my closeup, Mr. DeMille"

While all of us can and should sympathize with the desire *today*—as we embark on the monumental task of meeting the ever-growing demand globally for *all* forms of energy—to not repeat the environmental mistakes of the past, **that *policy* has become a mindless be-all and end-all to many.** It has become fashionable to protest anything to do with extractive industries generally and fossil fuels particularly. Many of those doing the protesting have been skillfully used/exploited by the media and certain anti-development groups to influence public opinion against the clear and present danger of "climate change."

Putting aside the notion, for now, as to the sincerity (or lack thereof) of any and all of such recently-minted celebrities as the young Swedish woman Greta Thunberg, what seems to be missing amid all of this is: "What are *your* answers as to how to supply the growing global demand for energy of all kinds?" Those are in short supply; but more than ever, we need workable ones *now.*

In her epic speech, Rep. Kaptur's key point was that America needed to take our energy policy no less seriously than it did the Space Program back when…or the Marshall Plan at the end of World War 2. Obviously, we have not done this for the most part. I *will* give the unsung Trump team from his presidency at the Department of Energy credit they are due, in that—under Secretaries Rick Perry and then Dan Brouillette—*some* effort at crafting a longer-term game plan was being made under their "all of the above" mantra to support any and all ideas/energy sources that made sense. At least they had an understanding that *the ever-growing demand side* of all things energy cannot be ignored but must be met with sufficient supply, the best technology, the best (and yes, most environmentally friendly as possible) choices, etc.



For that, dear reader, is where a sound, far-sighted energy policy must start: driven by the need as a first matter to deal with the chart you see at right. Using the terminology "Energy Transition" is really a misnomer: world-wide we have an ever-increasing Energy *Addition*. A few billion people on Planet Earth are looking to industrialize; or at least to be able to have basics of light, electricity, heat/cooling, etc. Even in the developed world, demand for *everything* energy—transportation included—continues to rise.

But almost across the board, our "leaders" have set us back where just about everything is concerned, save for the relatively better picture of an increasingly "crash" program to reinvigorate our domestic nuclear energy industry. Elsewhere, even when it comes to the E.V. industry that was President Biden's cornerstone, it is in disarray in the U.S. as one auto maker after another either abandons or trims plans. As I'll be explaining in another of my Special Issues shortly following this one (on commodities more broadly, including battery metals and where the E.V. and related industries are *now*,) Biden's and others' wish lists and mandates RE: E.V. manufacturing and take-up have never been accompanies by workable game plans of permitting/developing the needed mines and other parts of the supply chain.

So as overall demand/activity for transportation sets new records every year, the industry in North America, at least, has already gone as far as possible via subsidies and discretionary purchases. And as many of the manufacturers of them have pointed out they are all pretty much stuck until the ingredients are in more ample and less costly supply.

"We can't wait to give you our NEW Green economy! We just need to finish wrecking the old one first..."

This undergirds what was already the case as you saw in the above chart: that even though "renewables" of various forms will continue to see modest gains globally in the years ahead, **so, too, will demand for fossil fuels.** The U.S. Energy Information Administration has projected that *even coal* will be seeing demand increase! (See https://www.naturalgasintel.com/world-energy-demand-including-oil-and-gas-rising-to-2050-eia-says/.)

Supplying all this energy safely, reliably and with less of a harmful footprint where the environment is concerned is a task both exciting…*and daunting*. When you consider the *many trillions* of dollars that will be spent on all this. . .as well, on the **infrastructure** to build, move and "fire" **the modern and efficient Green Economy**. . .the many ways we will try to mitigate **the climate fallout** from what will STILL be that growing **appetite for power**. . .the ingredients have come together for the biggest transformation to the global economy since The Industrial Revolution. It hasn't started well in America, as I'll explain as we go along. But in the end, if all…even most…of what is hoped for by the average citizen to come about *does*, we will have a more efficient, prosperous, more sustainable and cleaner world. *And properly positioned investors will rack up generational wealth gains*.

OIL: KEY ASPECTS OF THE SUPPLY AND DEMAND PICTURE

SHALE "BOOM"…NOW A PLATEAU…AND THEN (?)

It may seem a strange place to start; but one of the most important items to get our heads around has to do with **the early U.S. shale boom and then *bust* that occurred in a couple different stages over the last near-decade now.**

And that is because between this issue and the policy ones I discuss just below, the cause of supply keeping up with demand—all else being equal—will be *hindered* going forward.

It needs to be remembered here that what led to the initial boom and seeming salad days of the early shale plays was the incredible accumulation of *debt*. For a stretch in the early-mid 2010's the U.S. energy industry was behaving as the U.S. mortgage and housing market had several years prior (and as China has operated **since.)** This "boom" in production thanks to the latest technological and engineering advances to recover more oil and gas became the latest big cause for some on Wall Street (who obviously had not learned he lesson from the mortgage and real estate bust not long prior) who couldn't shovel money into the industry fast enough.


Shale oil

There will be blood

The ingenuity of America's shale industry is admirable, the state of its finances awful

Jul 4th 2015 | From the print edition Timekeeper Like 1.1k Tweet 96

WALL STREET loves a good scrap almost as much as the wildcatters who drill for oil do. No wonder that the fight over the finances of America's shale-oil industry has turned nasty. In one corner are shortsellers, including David Einhorn, a hedge-fund manager whose scalps include Lehman Brothers. They argue that "fracking"—the business of blasting oil out of rocks using water, sand and chemicals—is a bottomless pit into which too much cash has been thrown.

From *The Economist*

From https://www.macrotrends.net/

The result was predictably much the same as happened to real estate, et al: oversupply, an epic bust and numerous bankruptcies. Likewise, as time has gone on, the current market for oil also has better reflected meeting demand without the artificial, debt-inspired overproduction and oversupply of the past.

At an energy conference I was at this past winter in Miami (featuring a couple expert "macro" speakers on the industry as well as one of my recommended companies, Prairie Operating Company, which you'll learn about farther along) **among the several BIG eye openers was a presentation by the renowned Scott Tinker.** Among other things, Tinker is the State Geologist of Texas, Director of the Bureau of Economic Geology and Chairman of the Switch Energy Alliance (at https://switchon.org/.)

Tinker has been featured globally in academia and media of all kinds as one of the most sound, balanced and realistic voices for how we must meet the needs of energy worldwide in the decades ahead.

His is *exactly* the kind of voice Rep. Kaptur had in mind. If you have never heard Tinker—and want a *real-world* understanding of energy as opposed to a political or ideological one—I *strongly* urge you to get to know him and his work.

For present purposes, Tinker pointed out in our meeting that of the ten biggest shale basins in the U.S., *seven of them* are peaking or have already rolled over. As with other commodities mankind reaps from the earth, the easy and inexpensive "low hanging fruit" is already largely *gone*. Going forward, the industry is going to require a much higher threshold price for oil to have any interest in even maintaining recent production levels; and this is ever more true as inflation of energy companies' costs across the board has been at work. So—referring to both the above chart as well as some comments farther along about Saudi Arabia's priorities—expect that a price in the $80/barrel neighborhood for W.T.I. will be around the usual *bottom* in the future.

Given that 60% of present oil and gas production in the U.S. is from shale basins this all does not bode well for the recent record production in the U.S. to be sustained. Tinker (and others I follow) have warned that this last surge higher in output—largely as delayed well completions from the COVID downturn a few years back have been completed and exploited—is set to reverse somewhat. All else being equal (and with little more of the nation's Strategic Petroleum Reserve to sell any longer) this is set to keep the market on the "tight" side for the foreseeable future.

With everyone pretty much having learned the lessons of the past near-decade as to what oversupply and abuse of debt can do to things, you can bet going forward that the industry won't be meeting phantom "demand." A far stricter financial discipline is at work.


U.S. Crude Production To Decline In 2024 As Shale Activity Stalls

By Alex Kimani - Apr 11, 2024, 7:00 PM CDT

- High decline rates for shale wells usually set in soon after commissioning.
- The U.S. oil rig count is currently 20% below its post-pandemic peak after flatlining for the past six months.
- The EIA agrees with StanChart's assessment and has predicted that production will continue to fall in the second and third quarters of 2024 before rebounding in 2025.

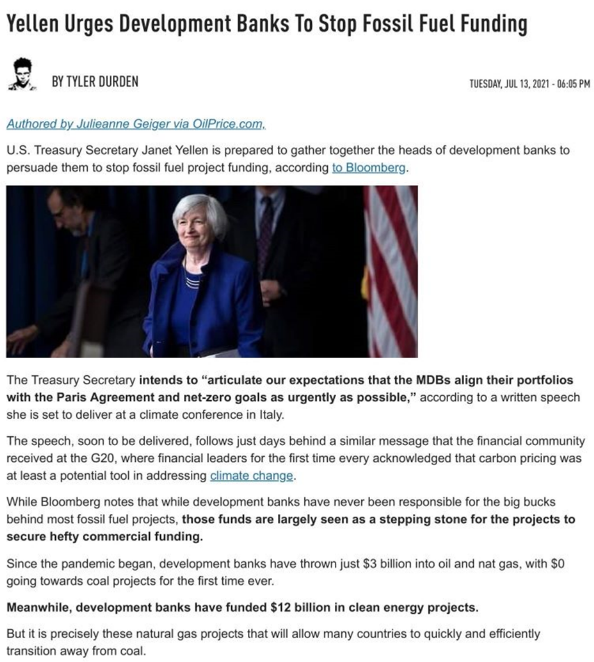
From https://oilprice.com/

For more on this, check out https://oilprice.com/Energy/Crude-Oil/Is-US-Shale-Production-Finally-Nearing-Its-Peak.html and https://www.bloomberg.com/news/articles/2023-08-15/shale-wells-losing-oil-output-faster-than-expected-study-says?sref=AqatjHHy.

POLICY IMPEDIMENTS

I call things as I see them when it comes to politics; and I can tell you that—during the presidency of Donald Trump—I actually lost a few subscribers along the way when I was highly critical of some of *his* policies. So when it comes to politics and politicians, I remind folks that I am "an equal opportunity pisser-offer." I am all about *issues* and being on the right side of them *where America and Americans are concerned* whether those advocating for what I believe call themselves a Republican, a Democrat *or a hamster.*

That said, however, it isn't possible to intelligently discuss the fate before us at present when it comes to energy without highlighting the wrong-headed (and I'm being kind here) Biden policies. *Even before* the proxy war with Russia got underway a bit over two years ago as that country invaded Ukraine, the Biden Administration set the stage for the first phase of our new energy crisis. Of course—as gasoline and diesel prices soared to new records last summer and natural gas at one point to its highest in over a decade—the president harangued energy companies for their "greed," their obscene profits and their lack of patriotism. He also had the gall to berate them for their not producing enough *even after he said he wanted to drive them all out of business*.



Yellen Urges Development Banks To Stop Fossil Fuel Funding

BY TYLER DURDEN

TUESDAY, JUL 13, 2021 - 06:05 PM

Authored by Julieanne Geiger via OilPrice.com,

U.S. Treasury Secretary Janet Yellen is prepared to gather together the heads of development banks to persuade them to stop fossil fuel project funding, according to Bloomberg.

The Treasury Secretary **intends to "articulate our expectations that the MDBs align their portfolios with the Paris Agreement and net-zero goals as urgently as possible,"** according to a written speech she is set to deliver at a climate conference in Italy.

The speech, soon to be delivered, follows just days behind a similar message that the financial community received at the G20, where financial leaders for the first time every acknowledged that carbon pricing was at least a potential tool in addressing climate change.

While Bloomberg notes that while development banks have never been responsible for the big bucks behind most fossil fuel projects, **those funds are largely seen as a stepping stone for the projects to secure hefty commercial funding.**

Since the pandemic began, development banks have thrown just $3 billion into oil and nat gas, with $0 going towards coal projects for the first time ever.

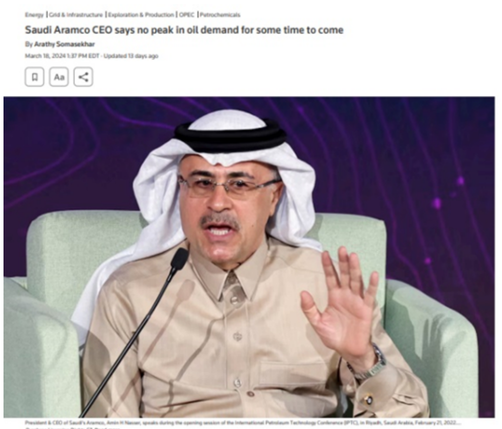
Meanwhile, development banks have funded $12 billion in clean energy projects.

But it is precisely these natural gas projects that will allow many countries to quickly and efficiently transition away from coal.

But all this is just as Biden and his allies had planned; they simply haven't wanted to take responsibility for the results. *Candidate* Biden overtly ran on, in part, a promise to drive the fossil fuel industry into extinction. He chose former Federal Reserve Chairwoman Janet Yellen to be Treasury Secretary chiefly due to her own game plan and promise to use the financial system as a weapon against "Old energy": discouraging new investment in such companies, marginalizing and financially penalizing entities that *did* invest in them, etc. (I wrote a separate piece just on this a while back discussing Yellen's agenda and more, still archived on our site at https://www.nationalinvestor.com/biden-and-yellen-at-cross-purposes-on-energy-or-are-they/. Among other things it will remind you about a LOT of the Biden/Yellen agenda here that most have already unfortunately forgotten.)

Running for re-election, President Biden just announced a cutoff of any *new* activity/leases (see https://www.npr.org/2024/04/20/1246085825/biden-restricts-alaska-oil-gas-leasing-reserve) in Alaska's vast National Petroleum Reserve-Alaska. This is on top of a flurry of measures made known late last year (see https://www.eenews.net/articles/biden-regulatory-plan-set-to-shake-up-energy-sector/) *most all of which will serve to keep new development hamstrung…current production tight…and costs high.*

NEW INVESTMENT IS THUS SUFFERING



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Saudi Aramco CEO says no peak in oil demand for some time to come

By Arathy Somasekhar

March 18, 2024 1:37 PM EDT · Updated 13 days ago

President & CEO of Saudi's Aramco, Amin H Nasser, speaks during the opening session of the International Petroleum Technology Conference (IPTC), in Riyadh, Saudi Arabia, February 21, 2022...

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At last month's big energy industry and policy gathering in Houston, Texas, Saudi Aramaco's C.E.O. Amin Nasser stressed that the energy industry *globally* has not committed nearly enough new investment to meet demand growth in the coming years (see https://www.reuters.com/business/energy/ceraweek-saudi-aramco-ceo-argues-re-set-energy-transition-timetables-2024-03-18/.) During a panel interview, Nasser is reported to have said, "In the real world, the current transition strategy is visibly failing on most fronts as it collides" with reality. Nasser continued on to say that a "transition strategy reset is urgently needed" and that the “world should focus more on reducing emissions from oil and gas in addition to renewables.” Nasser said, “We should phase in new energy sources and technologies *when they are genuinely ready, economically competitive and with the right infrastructure*.” (*Emphasis* added.)

He also seconded, at CERA Week and elsewhere (and in the Reuters article linked above) that with global demand rising to ever-newer records (104 million barrels/day this year) nations need to foster much more investment for *still-needed* oil production especially. As Scott Tinker referenced above, Nasser—whose country has a very ambitious and focused game plan for renewable energy as well—is trying to get the world to deal with *reality* now: and is among those warning of far more acute energy shortages to come in the next several years if NEW development is not fostered when it is still needed (see also https://www.cnn.com/2023/10/02/energy/opec-dangerous-lack-oil-investment-oil-prices/.)

In addition to the above factors negatively impacting development, keep in mind as well that several encouraging M&A transactions of the last few years—while they have ratified investors' bullishness—have *added* to shortfalls of new investment. Various acquisitions have most always resulted in the combined company spending less on new exploration/development than the two separate companies had prior.

AMERICA IS INCREASINGLY A FOLLOWER RATHER THAN A LEADER

There was a time when America had some economic *and even occasionally moral* clout to compel other players in the global energy market to do *our* bidding.

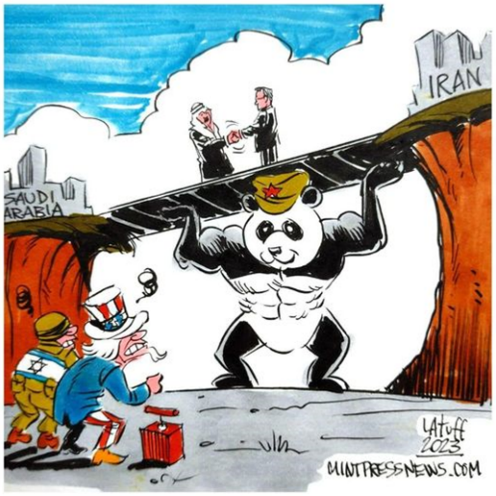
Those days are pretty much over with.

To be fair, it was *well before* the advent of The Biden Administration that the global trend toward a multi-polar world got underway. I have covered this in countless ways and forums for several years now; and will continue to. Yet there is no denying that events of the last few years have vastly accelerated all this; and among myriad other consequences, it has resulted in an increasingly double-minded and reactionary U.S. flailing away at trying to remain “King of the Hill.” Largely *unsuccessfully*.

Saudi Arabia—pretty much the only major global oil producer with any present meaningful spare production capacity—has been driven into the arms of Russia, China et al when it comes to priorities. And even if they wanted to “help” Biden-Harris 2024's cause, in any case, their many *domestic* priorities require a floor in the $80/barrel neighborhood to keep things funded and avoid any kind of public sector deficits.

Ironically, Russia has *benefitted* in its public accounts from the various western sanctions placed on it over the last two-plus years now. The U.S.-led effort to put a lid on how much *others* can pay for

Russian oil was a laughingstock *when it started* for those who understood the geopolitical/economic changing of the guard already underway. Everyone else has figured out this empty gesture since; even some in Europe who have hypocritically continued to buy some Russian refined products and LNG *despite* the sanctions and *despite* the U.S. sabotaging Russian LNG shipments.



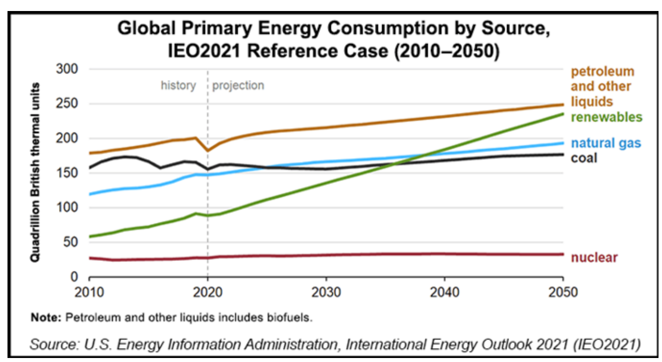
Whatever moral underpinnings the U.S. once had with its dictates to others have been completely done away with of late. You cannot (as President Biden has done only in recent DAYS) tell Venezuela hat it will be hindered from selling oil until it gets its politics correct…but at the same time, allow for Iran even after recent events to keep selling crude oil, *now at a six year-high rate*.

The rest of the world sees all this and is moving even faster to a regimen where other countries do business with one another…sans the dying petrodollar…and let America bluster all it wants to.

RESURGENT DEMAND FOR PRETTY MUCH *EVERYTHING*

I need to repeat this link here (https://www.reuters.com/business/energy/ceraweek-saudi-aramco-ceo-argues-re-set-energy-transition-timetables-2024-03-18/) as it in my opinion helps answer the disconnect between various forecasters as to *the demand side* for oil in the coming years.

One of the items discussed has to do with the disparate views of oil demand going forward between—specifically—The Biden Administration and the International Energy Agency, or I.E.A., on the one hand and the Saudis/O.P.E.C. on the other. The former, via D.O.E. Secretary Jennifer Granholm's quote, still claimed to think *as recently as last month* that peak demand will come by about 2030, in part as Biden Administration targets for total E.V. production are *somehow* still met. Saudi Aramco's Nasser essentially says, "Fat chance."

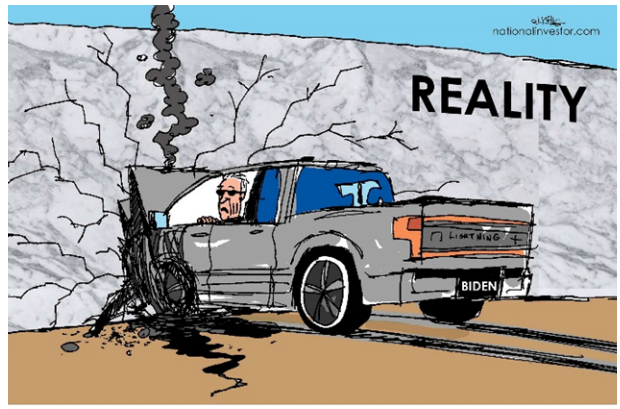


Nasser *already had* the better of the argument before recent months saw the E.V. story in the U.S. hit the rocks. With the recent travails of The Biden Administration's signature, vaunted new industry, there's no longer any question of that. **By far and away, the world's largest oil consumer wants little to do with E.V.'s when the necessary inputs have NOT been seen to in order to make them more affordable and viable.** Thus, the chart at right has recently been underscored, as America will stick with the internal combustion engine as its overwhelming, primary transportation of choice for individuals for as far ahead as you want to look. (**NOTE**: As I'll be explaining in another Special Issue just following this, I still *do* see a future for electrification of vehicles—albeit more hybrids in the mix—once adults are back in charge of energy policy and said industry finally has what it needs in the areas of raw materials, infrastructure and the like; but for now we've gone as far in the U.S., anyway, as we can with subsidies and such to support an industry that wasn't put together properly in the first place.)

Understand, too, that on net, global demand for fossil fuels of all kinds is going to see its greatest percentage increases *from developing nations*. Sure, where it's viable renewable energy sources will comprise bigger pieces of the total. But as Scott Tinker in his work (and others, to be sure) have pointed out, fossil fuels *remain* the best way to give still-emerging populations at least the minimum in terms of transportation, electricity, heating and cooling to finally achieve a bare minimum of what *we* have long since taken for granted.

Sec. Granholm (who I believe, deep down, really knows better) can delude herself and others if she wants to. ***But the longer we all pretend that this administration's pie-in-the-sky world it promised can happen, the worse the next rounds of energy crises, shortages and the like will be.***

"Wow, This sucker's fast!"



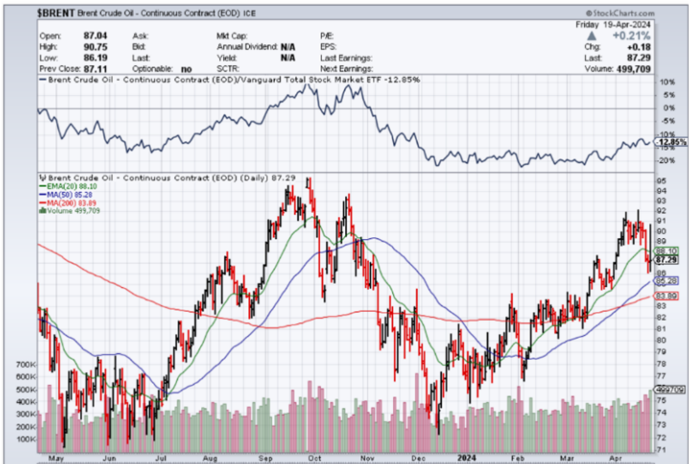
"Didn't I say I was against walls!?"

The notoriously Pollyannish I.E.A. has, as usual, had to recently upgrade its forecasts to allow for less supply and greater ongoing demand in the U.S. Likewise, the Energy Information Administration or *E.I.A.* (see https://www.eia.gov/outlooks/steo/ on this less ideological and more data-driven agency as oppose to the I.E.A.) has raised its near-term price projections for Brent oil to $89/barrel for the near term due to its having to raise all the way through 2025 its assessment of oil *demand*. But even they, hoping for some relief by 2025 "as O.P.E.C. cuts expire," think things could see *some* relief on that front.

Summing it all up, as my friend Phil Flynn (of Price Futures Group in Chicago, a regular *Fox Business News* contributor) put it recently, "…(hoped-for) OPEC cuts or no OPEC cuts, what this report tells you is that the only spare oil production capacity of note in the world is in the OPEC cartel. What that means is that traders' buffer against supply shocks in a world where global demand is going to be at record highs has to be at one of the lowest levels in history. That increases the possibility of sudden and violent price spikes if we see a major outage or disruption…" (**NOTE**: I highly recommend Flynn's *free* daily energy missives: go to https://blog.pricegroup.com/category/phil-flynn-energy/.)

The E.I.A. seemed to acknowledge in the end, though, that further revisions to its view would more likely than not be *higher* on the price front. They say, "Stronger demand growth than our forecast would reduce global stocks and raise oil prices, just as less demand growth would increase global stocks and reduce prices." *"Well, duh!" as a typical teenager might say*. Given that E.I.A. also had to recently raise their gasoline price forecast as well by $0.20 a gallon for June, July and August from their last estimate as they forecast driving activity—measured by vehicle miles traveled (VMT)—will increase to *all-time highs* in the United States during 2024 and into 2025, seems like more revisions might be coming!

OIL: <u>BUT</u> STILL A TWO-SIDED RISK TO PRICES, NEAR-TERM



Adding up all the preceding and it's hard not to be bullish on energy going forward, especially since (as I'll discuss further below a bit) "Old Energy" as a sector is *still very cheap* relative to other market sectors. Its rally so far in 2024—as that of the oil price chronicled at left—has started to reflect the favorable long-term supply/demand picture I've given you the key points of, though.

None the less, there are a lot of moving parts and a few potential one-off "wild cards" that we need to discuss now. Historically one of the most volatile commodity markets at key economic turning points—or sometimes in reaction to external events—crude oil could easily turn more volatile again due to one or more reasons.

A DOLLAR SPIKE / MARKET UPHEAVAL / *SUDDEN* RECESSION SIGNALS

By far, the biggest *downside* risk to what is an otherwise bullish picture has to do with the potential for a significant change in attitude where "outside markets" are concerned. We *may* have had a whiff of that in just recent days (specifically the week of April 15, right before this report's release) **when the oil price wobbled following Fed chairman Jerome Powell finally admitting that his central bank will *not* be lowering interest rates anytime soon.** That in turn caused both an added spurt higher in interest rates *and in the U.S. Dollar Index*.

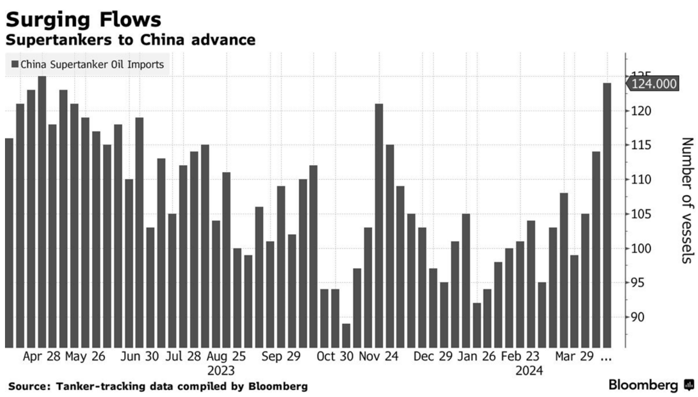
The latter in particular has been making new 2024 highs, breaking key resistance levels recently as I have reported elsewhere. No matter the continued purported strength of U.S. economic statistics, *all this* would be undermined if the dollar's rise against key currencies started taking on more of a life of its own especially if that were accompanies by a major new "risk off" impetus of some kind on the part of traders.

I am by no means predicting this; and my base case continues to be, as to the big picture, that "slow, dull ache" of The Great Stagflation. **But if a major market or economic shock were to occur, the crude oil price (and equities, of course) would no doubt suffer**.

The most extreme example of how this has affected oil particularly in the past came months prior to and just after the 2008 financial debacle. In less than a year's time, crude oil went from around $140/barrel to well under $40/barrel; *and this was mostly a function of oil being sold/shorted following leveraged bets to the upside*. Indeed, as with everything else at that time—even gold, briefly—traders were often *forced* to sell stocks, commodities and the like to get liquid. This was often to cover short dollar positions, as the greenback screamed higher for a time as everyone ran for the exits.

Given the positively changed fundamental picture for oil these days, it would take a massive financial debacle of some kind to lead to similar declines. Instead, I suspect that we'll see things flat line for a while and/or become choppier near-term as the markets digest the reinstated "higher for longer" message from the Fed, interest rates stay elevated, etc.

CHINA'S NEAR-TERM HEALTH



As you see at left, this year has seen a re-acceleration of China's crude oil imports; a growing volume again that has been one of the several demand-side factors leading to 2024's oil rally. *This curiously comes, however, as China's economy continues to be bogged down by its world-leading pile of bad debts.*

It's been well-covered of late that China has also been buying huge amounts of gold once again; a key factor in the yellow metal's 2024 race to new nominal all-time highs despite still-scant interest from Western investors. Likewise, other commodities have benefitted from what appears to observers to be an especially aggressive "stocking up" campaign of late. *The question some are asking, though, is on what looming event are they stocking up in anticipation of*?

Given all the financial/debt issues China continues to try to manage (I have written extensively about them in *The National Investor* for some time now, as many of you reading this already know) I think there is some validity to those looking for **a near-term devaluation of China's currency**. Such a thing for commodities markets would definitely be preferable to a deflationary implosion in China; but it could mean that, after the buying spurt of late for oil and other commodities, Chinese demand wanes somewhat. *Of course, I'll have an eye on this as always and will be advising our Members as to what moves we should make in our portfolios if/when the time comes.*

GEOPOLITICAL ISSUES OF VARIOUS KINDS IMPACTING SUPPLY/DEMAND

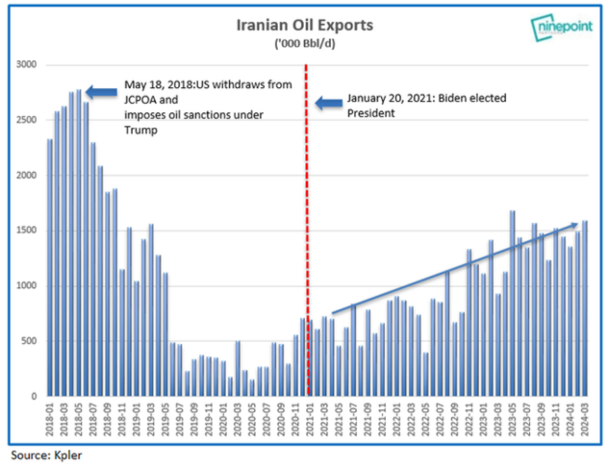
* With the cause of a settlement/peace over Ukraine losing out to ever more military spending and death, the odds are going to be *rising* anew of **supply disruptions of energy coming out of Russia**. Recently (see right) a Ukraine attack focused on a Russian refinery. More such actions are possible as the effort on the part of some to prolong if not widen this proxy war continues to win out.

Earlier this week, these shocking images were shot as a very unusual Ukrainian drone — a pilotless Cessna loaded with explosives — slammed into Russia's third biggest oil refinery more than 800 miles from the front lines.

The refinery, which processes 150,000 barrels of crude per day, sits in the heart of the Tatarstan region — approximately 500 miles east of Moscow.

* The Biden Administration just announced it was **reimposing sanctions on Venezuela**, hindering its ability to export oil (Gee, you'd think it was *Venezuela* that was guilty of all kinds of mayhem in the Middle East!) The gripe, once more (see https://www.politico.com/news/2024/04/17/biden-oil-sanctions-venezuela-00152821) is that Venezuela's President Maduro is (*don't laugh*!) attempting to fix his own upcoming election, in part by keeping popular opposition candidates off the ballot.

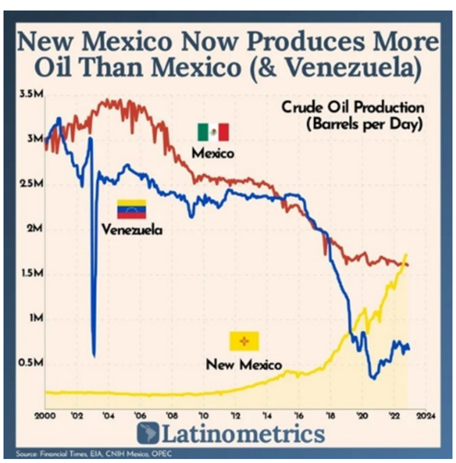
* **Iran**, on the other hand—adding to a trend during The Biden Administration's roll back of Trump-era sanctions against it—**just saw its oil exports hit a fresh six-year high**.



Having already made hash of the situation that had at least been bottled up by the Abraham Accords fostered by his predecessor, Biden has no stomach to do much more than bluster where Iran is concerned. Plus, he needs some greater oil production from some place, so as not to make gas prices in the U.S. any worse than they already are.

There purportedly *is* some mechanism in the "foreign aid" (i.e.—military spending, war mongering and *graft*) legislation passed by the U.S. House on April 20 to allow for renewed sanctions on Iranian oil exports and parties who participate/benefit from their enabling. *However, it gives Biden unilateral decision-making powers to "waive" them, which he will likely do.*

* **Shipping disruptions** – By appearances at the moment, it looks as if the threat to oil shipments in/around the Middle East is back to simmering, from boiling not long ago. If the uneasy truce holds that seems to be in play right now between Israel and Iran, that should remove a bit, at least, of what's left in the "risk premium" for oil.



* **No rebound in Mexican oil production?** – Little discussed amid all the above and other "sexier" stories for oil/geopolitics junkies, an opportunity may be lost *again* soon for a turnaround in the now-two decade decline in Mexico's oil production.

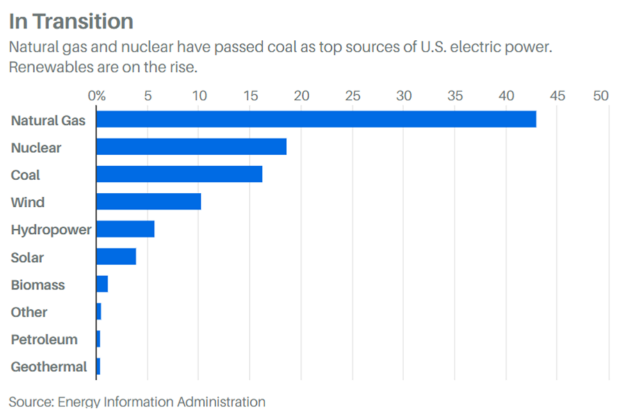
Most recently, the overall halving of that oil-rich country's output was even more self-inflicted by President Andres Manuel Lopez Obrador ("AMLO".) Initially, among other things, he set out to rebuild production *and keep it in country* so that all of Mexico's needs were met by domestic production. *But trying to do all this through a bureaucratically top-heavy state oil company, PEMEX, and shunning private markets rendered the whole experiment an overall failure*.

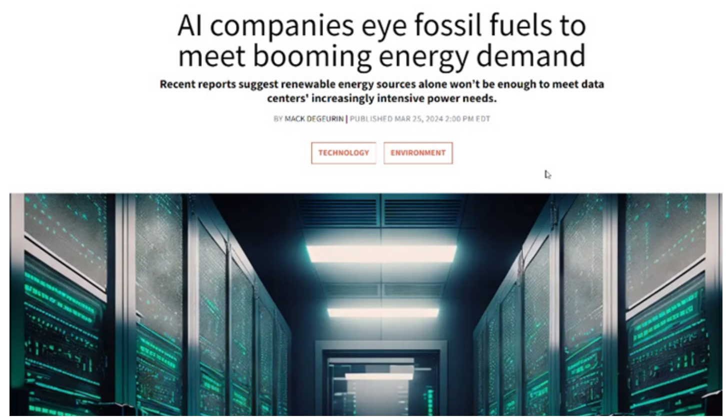
Mexico will elect a new president in several weeks; if the polls are to be believed, it will be an AMLO protégé, Claudia Sheinbaum. While she is reportedly more free market-oriented in *some* respects, on energy policy she has suggested **she will *not* be looking to increase oil production**, but instead focus on meeting Mexico's energy gap via "renewables." Thus—as with Venezuela—politics and ideology (with some bass-ackwards top-down idiocy mixed in) will keep oil production less than it could be.

NATURAL GAS: RENEWED DARKNESS BEFORE A NEW DAWN

Oil's *gains* of late have resulted in more *pain* for natural gas. The recent record level of U.S. oil production brings with it, of course, more natgas as a by-product; and for a second consecutive year, Old Man Winter pretty much failed to show up in much of North America, (albeit for a very late attempt at some bluster in some places!) So once more, the market in North America has been suffering from oversupply.

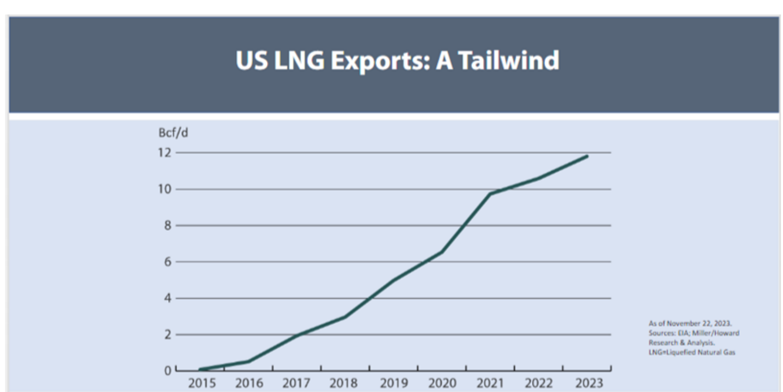
None the less, key reasons remain—*and are more glaring now, given a recent 30-year low in the price of natural gas*—why this recently-shunned commodity might be akin to uranium before its price increased five-fold from its lows of over two years ago.



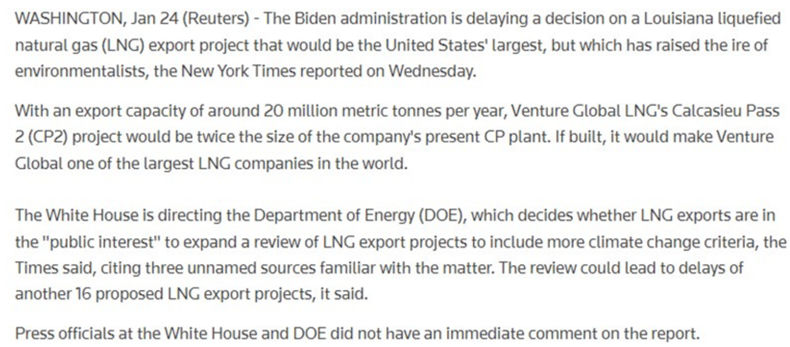


Demand here is set to continue to *soar* in the years ahead; and this mostly to the benefit of U.S. and Canadian producers who have among the most abundant and (currently) cheap resources of anybody. Only nuclear energy will benefit, net, as much as natural gas especially as electricity needs to power new data centers—for A.I. and other uses—strains supplies (and credulity!) in the years to come.

At the recent Cera Week for the industry in Houston, attendees were dismissing the recent low natgas price (and correctly, I.M.O., pointing to it as a great buying opportunity) **in part due to looming new LNG exports and the demand for that gas**; see https://finance.yahoo.com/news/ceraweek-us-gas-producers-shrug-154113745.html. For Canada (which will soon begin filling the pipeline in earnest that will feed the soon-to-be-launched new LNG Canada export terminal in British Columbia; see https://www.lngcanada.ca/) its opportunity to meet burgeoning needs in Asia and elsewhere is near at hand. And for the U.S., the potential still exists to sell even more, adding to the surge in LNG exports already (chiefly from facilities on the U.S. Gulf Coast) benefitting customers overseas *and U.S. energy companies.*



Part **of the recent dour sentiment toward natgas owes to January's announcement by the Biden Administration to halt the granting of any new construction and related permits to new LNG export facilities and for related infrastructure**; see https://www.foxbusiness.com/politics/business-groups-from-us-europe-and-japan-push-back-on-biden-lng-permit-pause. Among other things, this seemed to be a retreat on Biden's promise to add 5 bcf/day (billion cubic feet) to America's LNG exports by 2023, ostensibly to replace Russian gas to Europe.



WASHINGTON, Jan 24 (Reuters) - The Biden administration is delaying a decision on a Louisiana liquefied natural gas (LNG) export project that would be the United States' largest, but which has raised the ire of environmentalists, the New York Times reported on Wednesday.

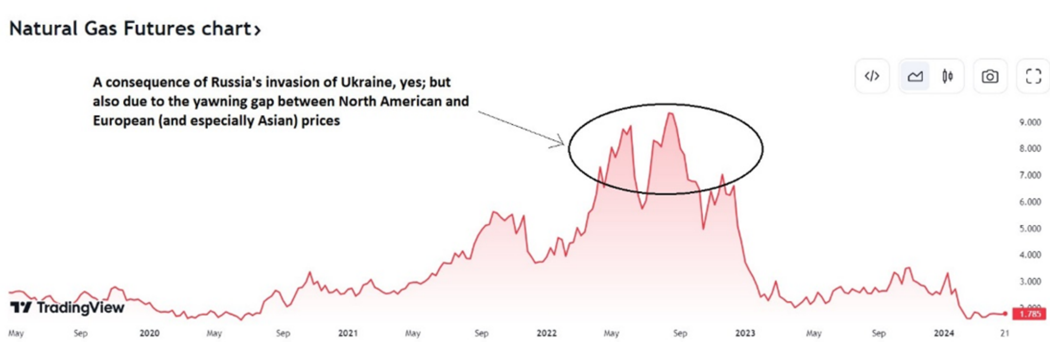
With an export capacity of around 20 million metric tonnes per year, Venture Global LNG's Calcasieu Pass 2 (CP2) project would be twice the size of the company's present CP plant. If built, it would make Venture Global one of the largest LNG companies in the world.

The White House is directing the Department of Energy (DOE), which decides whether LNG exports are in the "public interest" to expand a review of LNG export projects to include more climate change criteria, the Times said, citing three unnamed sources familiar with the matter. The review could lead to delays of another 16 proposed LNG export projects, it said.

Press officials at the White House and DOE did not have an immediate comment on the report.

In my view, this and all the partisan handwringing has made more of the decision than it arguably should. Again, it concerns *new* projects; at the current trajectory, another 3-5 bcf/day of exports is already baked into the cake *and unaffected* by what is a political posturing decision. Still, it does show the scatter-shot decision making process of the president and his crew; in this case, to appease environmentalists who refuse to understand that natural gas is the best, cheapest, most abundant *and cleanest* present *major* source of fuel for electricity needs. That's why the game plan continues, where it logistically can, to replace old coal-fired utilities with natgas-fired ones.

So, while the perception around this issue has exacerbated an already-bearish mood around natural gas, I think we've seen the worst. **Among other things, some stand-alone natural gas production in the U.S. and Canada both has been shut in until prices recover**. The negative weather discount to the price from winter should shortly give way—if current patterns persist—to heightened cooling demand from utilities. Add in the likelihood of shale oil production declining a bit near term, and that as well will remove some gas from the equation, also helping to firm the price up.



From https://tradingeconomics.com/.

The natural gas price could double from its present lows and still be dirt-cheap compared to the rest of the world. I think an evening-out of a presently amply supplied market will start that process. Longer-term, meeting ever-increasing domestic demand (in the U.S. especially) as well as overseas appetites for LNG shipments **will see North American prices *pulled up again* as a part of meeting the demand in Europe and Asia as well.** This is one commodity that can be bought the most aggressively right now, I.M.O., notwithstanding the overall near-term potential pitfalls articulated above.

OH, CANADA! – SWEET SPOT FOR U.S. INVESTORS

As you can clearly tell from all the preceding, I am uber-bullish on "Old Energy." And this is even after some market-beating returns over the last two-plus years or so. **But a "sub-theme of sorts here that will be especially of benefit to U.S. investors will be to buy Canadian energy in various forms**. Indeed, it is one of my most attractive themes of anything to do with commodities going forward!

Beset for some time now by poor market sentiment due to (again) a government that hasn't exactly been a friend to *its* energy industry, Canadian companies for the longest time were *really* in the doghouse with investors. If you think the bear market for a while in the U.S. was bad for energy (in and around the one big trough year of 2016) it was far worse in Canada where negative pricing was in existence on and off for not only natural gas *but even for some oil*. All told it was a mess for an industry that is a far larger contributor to Canada's national finances than is the case in the U.S.; see https://www.canadianenergycentre.ca/755-billion-the-energy-sectors-revenue-contribution-to-canadian-governments-2000-2021/.

Here too, however, things have been moving in the right direction for a Canadian energy industry that had an even deeper hole to start crawling out of. As in the U.S., those companies that survived have learned a renewed capital discipline and are leaner and meaner than ever (and you'll meet *two* of them from our list specifically a bit below.)

Indeed, I will be *even more* energetically in the days ahead be augmenting our recommendations in Canadian energy. We'll be in good *and smart* company: seeing how still relatively out of favor they are compared to even U.S. peers, some big players and big pockets are shopping; see https://www.reuters.com/business/energy/cheaper-canadian-oil-gas-valuations-lure-potential-us-buyers-north-2023-11-02/.

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Cheaper Canadian oil and gas valuations lure potential US buyers north

By Nia Williams and Maiya Keidan

November 2, 2023 9:26 AM EDT · Updated 6 months ago

By most key metrics, U.S. energy companies are still woefully undervalued compared to the broad stock market. At the end of 2023, for instance, energy stocks' valuation made up well less than 5% of the total market cap of the S&P 500. *Yet those same companies accounted for an impressive 12+% of the total net earnings of the companies in that Index.*

And the chasm between financial performance and market recognition is that much greater in the Canadian energy sector. Comparing apples to apples, similar energy companies in Canada are priced at a substantial discount to U.S. peers.

At present, and thanks to the value of the Canadian dollar versus the U.S. currency of late, this discount becomes ever more glaring when you consider **how it is presently turbo-charging Canadian companies' finances that much more.** As you see just below, it recently took about C$1.37 where the

"Loonie" is concerned to buy a U.S. dollar; the flip side, being that the Loonie is worth nearly one-third less than its greenback counterpart.

Yet for Canadian companies, this means that they pay most or all of their local costs in their own cheaper currency…*but receive U.S. dollars for the product they are producing.*

From https://www.xe.com/currencycharts/

So at present—not that Canadian companies in this space aren't one of the most compelling, fundamentally-sound bargains *period*, but they are that much more so for U.S. investors buying their very cheap (I.M.O.) shares at an even bigger discount given our stronger currency in the U.S.

And if that isn't enough…

Notwithstanding its present strength against most key "rivals" save for the surprisingly strong Mexican peso (I've discussed the reasons for that specifically in a couple recent interviews) I see the U.S. dollar peaking sooner rather than later once the Federal Reserve is essentially *forced* to relent and begin cutting interest rates anew *no matter what the inflation statistics are*. **That—as I have discussed elsewhere and will continue to in the near term—will be as big a signal as any that the unfolding secular bull market for most ALL commodities is about to go into another gear.**

As you will soon be reading elsewhere specifically in a separate issue discussing this in particular, one of the outcomes of what I see unfolding over the next few years will be that so-called "commodity currencies" will have a time in the sun in their own right. Historically, this chiefly referred to the Loonie and the Australian dollar primarily; two established nations that have commodities as a disproportionately large portion of their total national economic output. This time around, they will be joined by some of the emerging nations that have both large commodity-related industries and newfound clout in the world via BRICS affiliations and otherwise.

So again—for U.S. investors—if I am correct, getting into the better companies and even ETFs in Canadian E&P companies today especially gives you:

* A company(ies) with even greater fundamentals, trading at a discount to similar U.S. peers,

* Companies swimming in money in relative terms these days, given they are paying their overhead with Loonies but getting U.S. dollars for their production and

* Down the road when the Loonie moves back to parity against the U.S. currency (my expectation *and prediction* in the next few years) ***you as a U.S. investor will be getting a bonus of sorts as the share price of the company(ies) you own will appreciate by a third or so due to this alone***.

* But that won't mean that you are giving back the operational synergies companies presently enjoy due to the stronger U.S. dollar. In the world I see the considerably higher U.S. dollar price for oil and

natural gas will mitigate what Canadian companies "lose" themselves in the exchange rate.

So, in addition to the few companies on my list already that are domiciled and operating in "the 51st State," I'll be adding more long the way!

For those who want to roll up their sleeves and get an even more Canada-centric look at that country's energy industry, I suggest checking out Eric Nuttall of Toronto, Ontario-based Ninepoint Partners; see https://www.ninepoint.com/about-ninepoint/leadership/investment-team/ninepoint/eric-nuttall/.

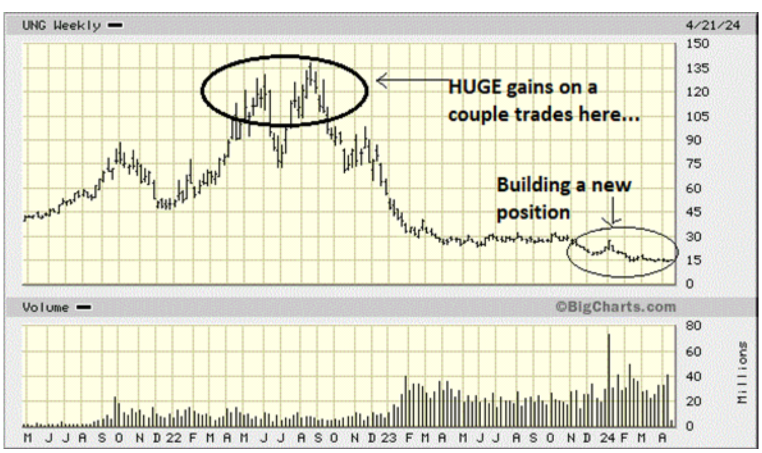
HOW TO "PLAY" ALL THIS

It's more than a cliche that investors should have "a well-rounded and diversified portfolio." It's a necessity if you want to stay out of trouble!

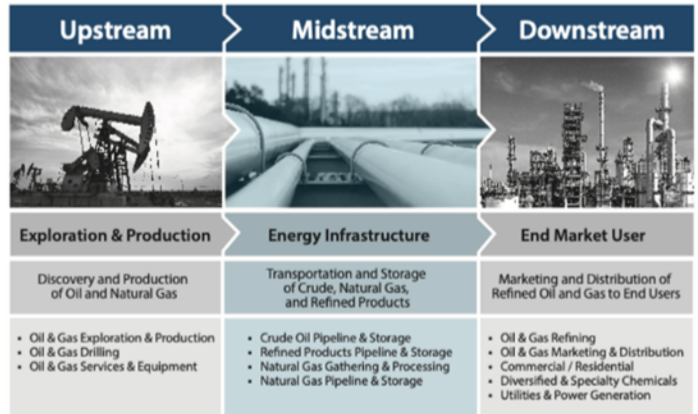
My approach at *The National Investor* has always been to diversify and have an asset allocation model as well which fits the times and macro picture as best as I see them. At the highest level, this starts with a *net* long allocation to the overall stock market which reflects the health (or lack thereof) of the broad market. Though I do not end this newsletter advocate or recommend Day trading or anything close, from time to time I do advise changing our mix depending on how I see *opportunity and risk alike* in the market.

Likewise, what net allocations we do have to stocks is more heavily informed than many others' approaches by what specific sectors I believe represent the best value and opportunity; and with low or—at least, acceptable—risk. **As this is written, when you tally up everything "Old Energy" represents the biggest weighting in my recommended portfolio.** That is a change from a few months ago when the **uranium** space held that top position; but between taking a fair bit of our profits of the last couple of years out of the uranium space and adding more to Old Energy, those positions have reversed *for now*. (And FWIW, **precious metals** are about neck-and-neck with uranium right now.)

The *specifics* of how I advocate investing in energy, as well as my broader allocation strategies, likewise stress diversification and balancing risk/reward. Of late, the behavior in the markets of oil vs. natural gas have been quite divergent; so too with stocks that develop. Produce or are otherwise involved with them. So, these days, where natural gas is concerned specifically, we have limited ourselves to rebuilding an exposure to **The U.S. Natural Gas Fund (NYSEArca-UNG)**, a "plain vanilla" E.T.F. focused on the commodity itself.

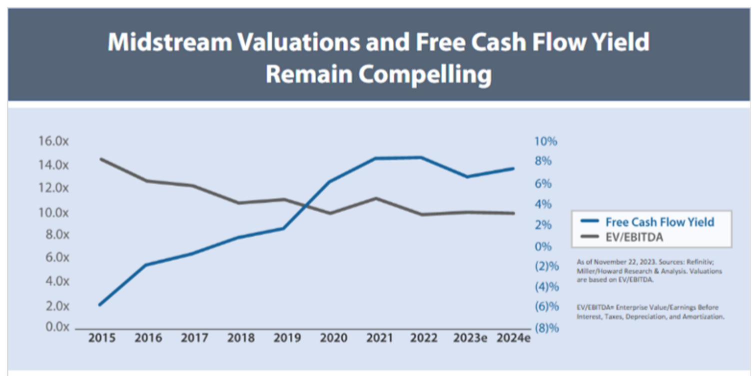


During 2022—when natural gas spiked and gyrated for a while due to the proxy war with Russia getting underway and the associated supply issues, etc.—a couple well-timed trades into and out of UNG (and at the time the leverage natgas ETF also, the ProShares Ultra Bloomberg Natural Gas Fund, or "BOIL") added about 5% to our *overall* total return for the year. Since then, thins have been ugly; *but in recent months we've modestly started rebuilding a position in UNG.* I'm anticipating getting a bit more adventuresome here, too, before long.



The best and most reliable returns for conservative and more adventurous investors alike have come from, generally speaking, *midstream companies*. As the graphic nearby generally explains, these are the companies that are the "transportation," or go-between, of energy from the explorers/developers to the end user; pipelines, gathering and processing companies and the like.

On paper, such companies are relatively less risky than the other ends of the supply "food chain." They don't have the exploration, cost and extent of the economic sensitivity as do the E&P companies especially; some describe them as "toll collectors" who are paid simply to transport raw/refined energy products from Point A to Point B and receive money for that.



Nevertheless, back during that shale oil debt-driven idiocy I discussed earlier, even midstream companies built up too quickly on debt. That led to hard times, dividend cuts, curtailed expansion plans and a lot more including—as with E&P companies—a major jolt of reality forcing a renewed capital discipline on everyone. Today, as the chart just above shows, these midstream companies by and large are minting money: their valuations are far more reasonable, debt levels greatly reduced and cash flows are uber-healthy.

With my view that these kinds of companies still have a lot of room to the upside no matter the health of the overall stock market, I advocated last fall that we get heavier into midstream companies. On top of a few individual such names—paced by Energy Transfer Partners, L.P. (NYSE-ET) which has provided us with more than a 120% total return in just a few years' time—we took a broader sector position again in the **Alerian MLP ETF (NYSEArca-AMLP).** A basket of midstream/pipeline companies, it currently yields about 7.4%. As with many of the underlying companies within its "basket" (including ET) AMLP's distribution has been working its way higher in recent quarters and the underlying financials/macro situation suggest that strong double-digit total returns are likely to continue for the foreseeable future as long as the stock market can avoid a *major* debacle that would hit most everyone/everything, at least for a while.

Increasing exposure of late as well to the broader E&P universe, I also recently advised taking a renewed, healthy position in the **Direxion Daily Energy Bull 2X Shares (NYSEArca-ERX).** It is my favorite allocation vehicle for when I think energy is especially attractive; but this kind of modestly leveraged ETF by and large should be viewed not for long-term holders, but for occasional (months at a time) *trades*.

And once again, to date, it's done well for us as it has in the past. But this is one I would advise selling once again, for a while, if I was of a mind that the overall stock market was going to deteriorate meaningfully; *especially if the reasons would be likely to take even energy with everything else.*

S&P 500 Energy Sector ETF ($XLE) vs. NVIDIA ($NVDA)			
Ticker	Name	Market Cap ($Billions) As of 2/9/24	Net Income (TTM, $Billions)
XOM	Exxon Mobil Corp	404	36
CVX	Chevron Corp	280	21
COP	ConocoPhillips	131	11
SLB	Schlumberger Ltd	67	4
EOG	EOG Resources Inc	65	8
PSX	Phillips 66	63	7
MPC	Marathon Petroleum Corp	63	10
PXD	Pioneer Natural Resources Co	53	5
OXY	Occidental Petroleum Corp	50	5
VLO	Valero Energy Corp	49	9
HES	Hess Corp	44	1
WMB	Williams Companies Inc	41	3
OKE	ONEOK Inc	40	2
KMI	Kinder Morgan Inc	37	2
HAL	Halliburton Co	31	3
BKR	Baker Hughes Co	29	2
FANG	Diamondback Energy Inc	27	3
DVN	Devon Energy Corp	27	4
TRGP	Targa Resources Corp	19	1
CTRA	Coterra Energy Inc	18	2
EQT	EQT Corp	14	3
MRO	Marathon Oil Corp	13	2
APA	APA Corp	9	2
Energy Sector Totals ($XLE)		1574	147
Nvidia ($NVDA)		1782	19
CREATIVE PLANNING			@CharlieBilello

Such a period where we would trade back out of some of the ETF-type exposure especially to preserve gains would NOT mean that my *long-term* view has changed. As you see in the chart at left seconding the broader statistics I shared with you earlier on Old Energy's *ongoing* undervaluation versus the rest of the market, this is a sector that will remain a key focus for us as far into the future as we care to look.

By and large, *longer-term* positions in energy are best, I.M.O., in *individual companies* with the most compelling, unique stories. For the average investor, such positions will augment a more conservative underlying strategy where most of your exposure to these areas is via ETFs. Others who are even more bullish/adventuresome than me often go wholly into individual companies. *To each his (or her) own*.

Frankly—as I am looking over my shoulder wondering if we still might before the year is over get at least somewhat of a repeat of 2022's environment for the broader market—I have been slower to add more individual names for the longer term than I would like. **BUT the GOOD news is that there are still a great many companies out there in the small-mid size range in the U.S. and Canada alike that I see as CHEAP.** Following, I'll finish up with a real treat for you: *three* such companies on my present recommended list which I am very bullish on for the longer term. They are:

Enterprise Group (TSX-E; OTCQB-ETOLF)

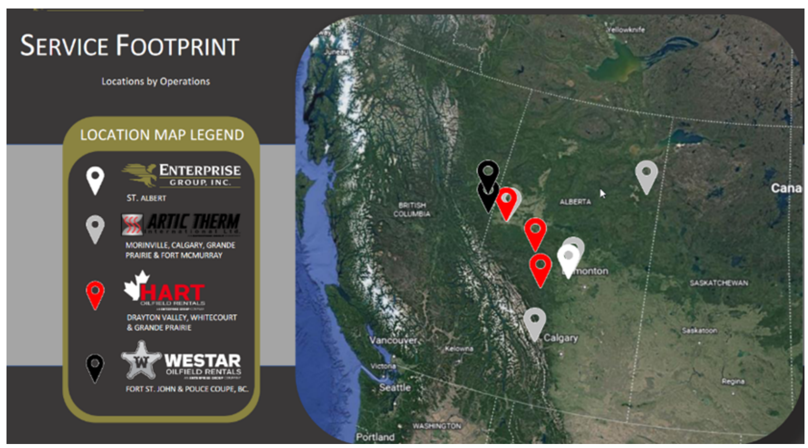
Prairie Operating Company (NASD-PROP)

InPlay Oil Corp. (TSXV-IPO; OTCQX-IPOOF)

ENTERPRISE GROUP (TSX-E; OTCQB-ETOLF) – A SERVICE COMPANY BENEFITTING FROM CANADA'S RESURGENCE

During those *very* lean years of the bear market in Canada's energy industry—which, as I alluded to earlier, claimed many more victims than was the case even in the U.S.—St. Albert, Alberta-based Enterprise Group managed to weather the storm. Along the way it downsized; in part, selling (at considerable profits, thankfully!) a couple divisions in broader engineering and construction, to focus that much more on protecting its more energy-specific service providers.

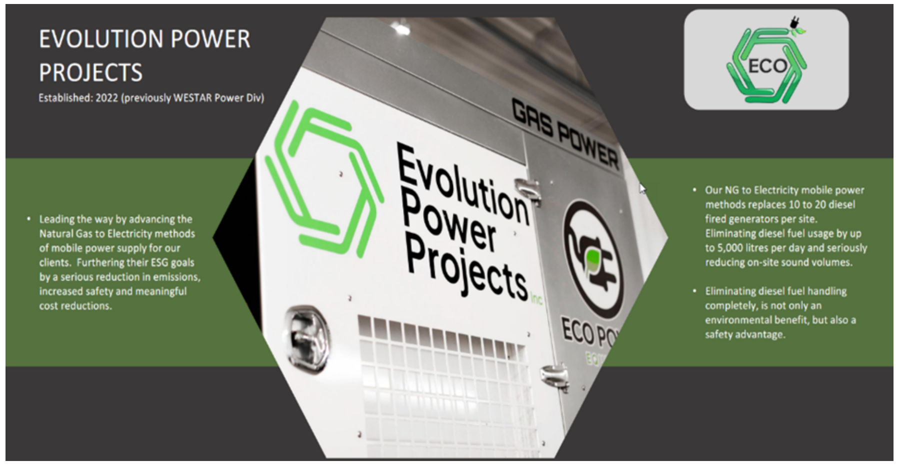
Today—as Senior Vice President Des O'Kell recounted in a discussion we had some months back (see https://www.youtube.com/watch?v=D56pzz6tUsw)--a company for so long tasked with surviving is now *thriving*. Happily for our paid Members who followed my advice to load up on Enterprise during the darkest days, **the company's share price has now risen about *six-fold* from its bottom a few years ago.** Financially, the company is as solid as ever. And with its leading presence in a couple key respects and with so many former rivals having died off during the bear market, Enterprise is poised to add much further to its recent successes.



The company has solidified its role in western Canada's energy industry as **a leading infrastructure and logistics provider to companies producing energy.** You can see its "service footprint" at right in an uber-rich area for oil, natural gas and NGLs (natural gas liquids) in Alberta and into eastern British Columbia.

In these remote areas—where for half or so of a typical year the conditions are the most frigid and challenging—**Enterprise through its various divisions sets up a veritable *community* for its customers:** office buildings, command and control centers, the administrative office buildings, communication towers, power systems and the like. As you peruse the web site (at https://enterprisegrp.ca/) of Enterprise, the technology of its Arctic Therm division especially jumps out. It provides *flameless heating*; and has been in brisk demand especially as new energy pipelines have been constructed.

In January, the company announced (at https://enterprisegrp.ca/2024/01/04/enterprise-group-subsidiary-awarded-heating-project-for-the-construction-of-oil-sands-pipeline/) that it had won a contract to provide this service to a major oil sands producer as it replaces a pipeline. Previously, Arctic Therm was brought on as well for the construction of some of the pipeline for the LNG Canada Project; and that pipeline is slated to start having gas fill it in the coming months ahead of the inauguration of the country's biggest-ever export effort.



Enterprise's newest offering is perhaps its most disruptive in the industry: Evolution Power Projects (https://evolutionpower.ca/). **This company has reinvented the way the power part of the equation to all these remote sites works**. Instead of as in the past using huge, expensive, dirty and smelly diesel fuel and generators to power these sites, EPP uses natural gas to generate electricity.

Notably, in addition to all the more obvious benefits of cost savings, safety and the rest, Enterprise customers who use EPP's systems are better able to meet government-mandated targets for carbon emission reductions. ***This benefit together with the rest has increased business for the company given that it presently has no competitors that do what it does.***

This particular first mover advantage for Enterprise's newest division is *some* of the icing on the cake recently to a company that—contrary to several years ago—is enjoying the first fruits of Canada's energy comeback. In a recent update that O'Kell and C.E.O. Len Jaroszuk gave, they commented how brisk business has become with, now, even small to mid-sized producers "raising their heads" again to join major developers/producers. At the same time there are fewer companies providing the things Enterprise does—given that many went extinct—this means that the highest levels of demand *in years* translates into more business *and pricing power*.

	2020	2021	2022	2023
Revenue	15,520,105	18,732,335	26,892,249	35,501,501
Gross Margin	3,778,147	4,982,731	10,879,928	15,501,969
EBITDA	2,085,177	2,962,020	8,149,223	13,285,880
Earnings / Share	-0.10	-0.05	0.05	0.12

As you see in the table at left, this big turnaround has led to profound benefits for Enterprise's financial condition, bottom line *and shareholders*. The last four years have seen more than a doubling of revenue (set in 2024 to rise at 25% or so again) and the turning of a C10 cents/sh loss into the C12 cents/sh *net income* posted in 2023 (for all the moving parts, see https://enterprisegrp.ca/2024/03/07/enterprise-group-announces-results-for-fourth-quarter-and-full-year-2023/).

Supporting both the company's overall finances and shareholders—and reflecting its own confidence in the future—management has tightened up the share count ever more in the last few years. Since it started its Normal Course Issuer Bid to repurchase its own stock from time to time, a full 20% of shares have been retired. *Led by Jaroszuk, management and insiders own about 35% of the company.*

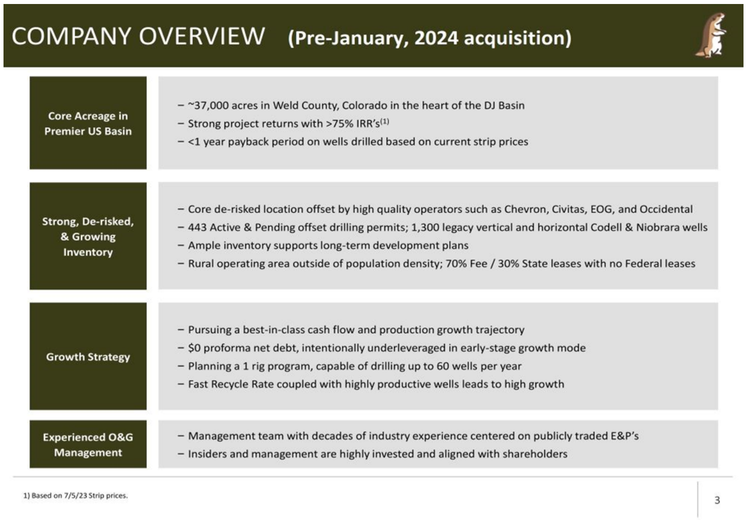
A more solid turnaround story in energy—and one *still* largely unknown to the markets, by and large—will be hard for you to find. **But things are slated to get even bigger and better.** The company announced just a few days ago (see https://enterprisegrp.ca/2024/04/16/enterprise-group-announces-agreement-to-expand-and-further-develop-its-business-in-collaboration-with-treaty-8-first-nation-and-its-economic-development-entity/) that it has entered a Memorandum of Understanding (MOU) outlining a business relationship within the Treaty 8 Territory. Specifically, quoting the release, "Evolution Power Projects Inc. (hereinafter referred to as "Company"), a wholly owned subsidiary of Enterprise, a leading provider of mobile low emission power solutions, and associated site infrastructure, and an Economic Development Company (hereinafter referred to as "Development Co"), a subsidiary of a prominent Treaty 8 First Nation, have entered into an MOU to collaborate on various projects and opportunities within the Treaty 8 Territory…"

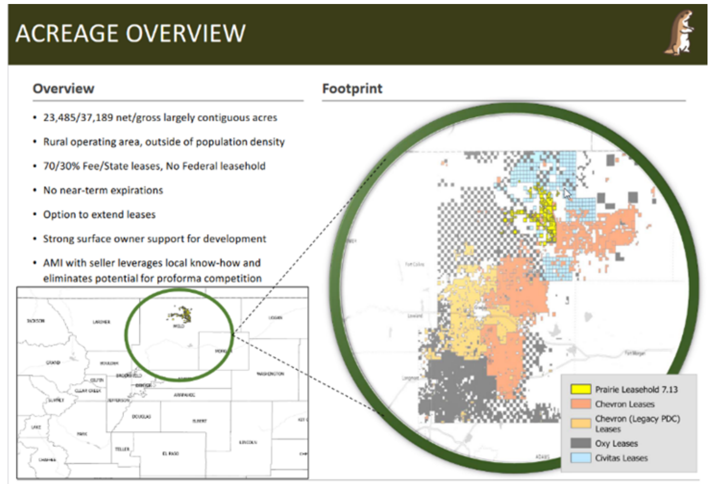
In the near future, I'll be doing a follow-up video interview/update with management to share more of the back story and details. Suffice it to say for present purposes that, now, this local First Nations support/partnership further solidifies EPP's specific and Enterprise's broader bona fides in its industry; and augurs well for the future. And on top of even all this, I suspect to see in the coming months a resurgent Enterprise make some new accretive acquisitions, adding to its growth and underscoring my contention that its current share price (*still*, believe it or not, a bit below its book value!) REMAINS compelling for long-term investors.

PRAIRIE OPERATING COMPANY (NASD-PROP)—EXPLOITING A "SWEET SPOT" TO BUILD A NEW U.S. OIL PRODUCER

There have been a lot of consequences of the U.S. energy industry *in a mere decade* going from such an attractive and popular place for capital (too much so, as discussed earlier RE: the shale boom and bust) to, more recently, an industry equated at times with tobacco, gambling and other vices. Between this, large companies pulling in their horns somewhat and smaller operators finding something else to do, this has led to a fair number of small- to mid-sized properties being orphaned.

Enter Prairie Operating Company, led by its C.E.O. Ed Kovalik. As he expertly explained in a couple recent video interviews with Yours truly (see https://www.youtube.com/watch?v=GVivei6nTiA for a broad overview from back in February, and likewise https://www.youtube.com/watch?v=P9bN1ITsKdY where Kovalik gave an update) this career energy industry investor and executive has, in short order, gone from folding some initial properties into a small OTC-listed company to, since then, taking Prairie onto the Nasdaq (where he is at center in the nearby photo celebrating Prairie's "graduation" to the Nasdaq late in 2023, ringing the closing bell with investors and management at that exchange back in early March.)





Kovalik and his team have focused on what is known as the Denver-Julesburg Basin; specifically an area in northern Colorado that already has a history of (mostly) oil production, but where Chevron and other players in recent years de-emphasized activities in favor of larger projects elsewhere. Thus, Prairie in a two-step process last year, acquired a then-total of some 37,000 acres in Weld County, Nevada that met what Kovalik described in the first of our above-linked videos as *his multi-step litmus test for an acquisition*:

1. It's an "oily" package of ground (they are big believers in oil, especially with this "sweet spot" of somewhat neglected *and inexpensive* oil projects that can be acquired)

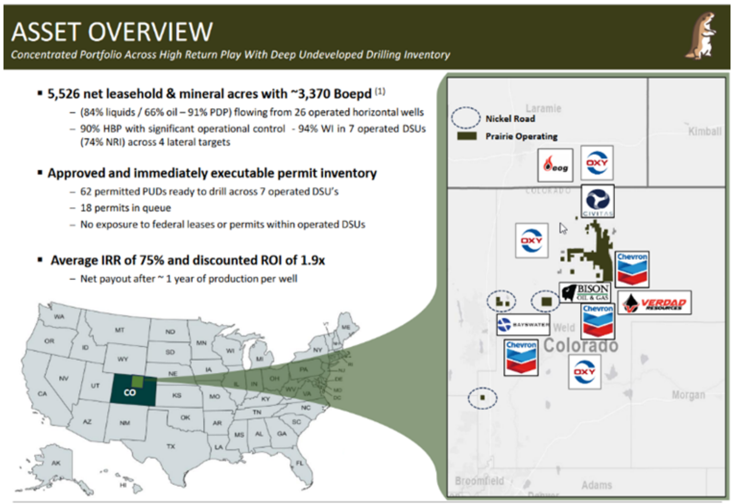
2. They wanted something that was proven, with past successful development *but—notably—where more modern horizontal drilling and related recovery technologies have not yet been fully utilized,*

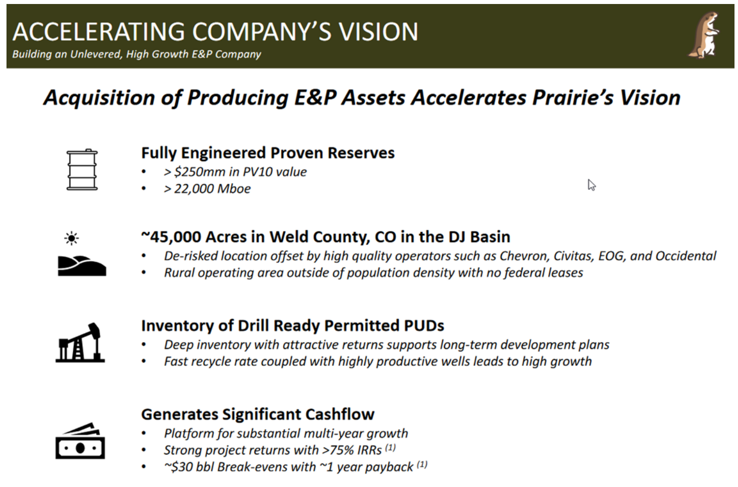
3. Something *big enough* to warrant being in a public company vehicle as well as to give ample "running room" to develop the fields anew and eventually the cash flow that will come from them.

4. Good infrastructure: access, utilities, pipeline/gathering take-away, etc.

Back on March 14, (see https://www.prairieopco.com/press-release?i=132061) Prairie announced that it had received approval from the Colorado Energy and Carbon Management Commission for its Genesis I Oil & Gas Development Plan. Combined with a "bolt-on" acquisition announced back in February (see https://www.prairieopco.com/press-release?i=130656) of additional ground with some drill pads already permitted, Prairie now has 80 approved wells in its inventory for 2024 *and hopes to soon commence more aggressive development activity and then production*.

At present, Prairie is working toward closing its most substantial acquisition announced back on January 11: this of the significant and presently-producing assets held by privately-owned Nickel Road Operating LLC (see https://www.prairieopco.com/press-release?i=130132.) As

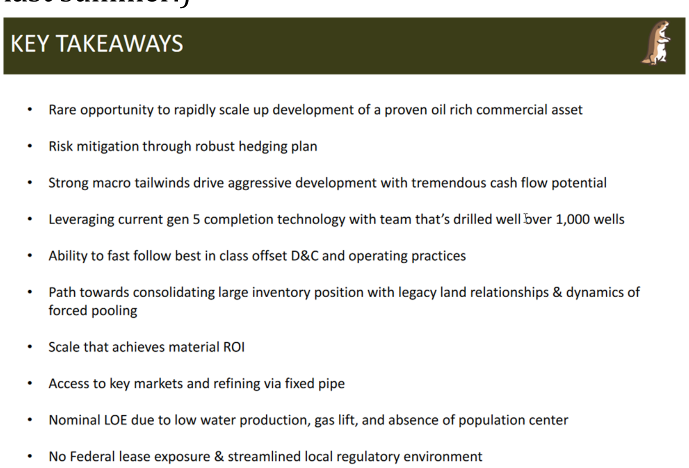




you will see, including on the nearby graphic, this expands Prairie's footprint in the D-J Basin and—in this instance—will add, once closed, *proven reserves* estimated at 22.2 million barrels of oil equivalent (MMboe) *and $254 million in PV-10 value.*

The transaction will add over 5,500 net leasehold acres to the company's area total ***and*** **another 62 fully permitted proven undeveloped ("PUD") drilling locations.**

Among Prairie's attractions to Yours truly—besides its ability to have marshalled capital, great, seasoned management and an ability to find good projects at great prices—has been **its being *downright evangelical* in its desire to develop still-needed "Old Energy" for Americans.** Kovalik—whose own knowledge of the global energy industry, not just America's, is as informed as anyone's—has given a platform to similar sound experts such as the previously-mentioned Scott Tinker (who now serves on Prairie's Advisory Board), Alex Epstein (a provocative advocate especially for younger audiences on **the global necessity and *benefits* of fossil fuels**; check him out at https://alexepstein.com/) and others. I had the privilege of listening to both men earlier this year at Prairie's "Energy Independence Investor Summit" down in Miami. Among still others, former Texas Governor and Trump Department of Energy Secretary Rick Perry has also been public in support of Prairie's mission (at right, with Kovalik at an event last summer.)

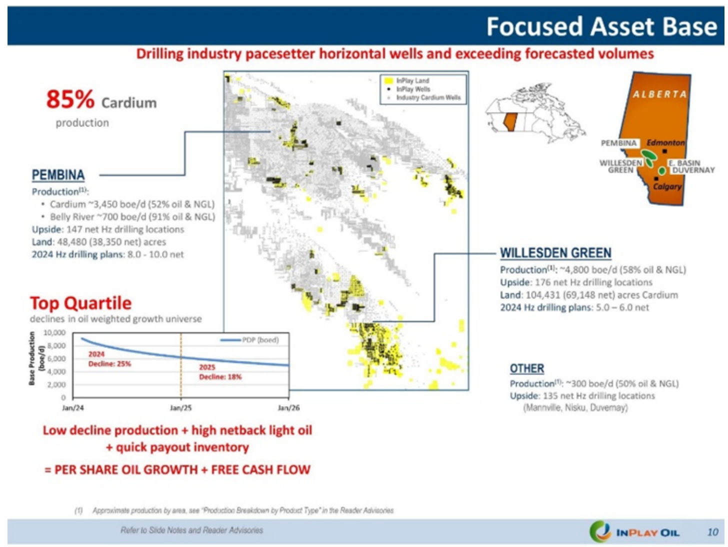


I believe that Prairie is poised to benefit big-time once it starts development and production, as larger and more mature/exploited fields start to roll over. As with so many other commodity-related stories I have been sharing with our Members for a while, Prairie's knack for being able to find those assets in the "sweet spot" between large and *too*-small ones (and at what Kovalik, in our above-linked discussions, pointed out have been at astonishingly reasonable prices) bodes well for the future!

INPLAY OIL CORP. (TSXV-IPO; OTCQX-IPOOF) – THE EPITOME OF A CANADIAN ENERGY FINANCIAL POWERHOUSE

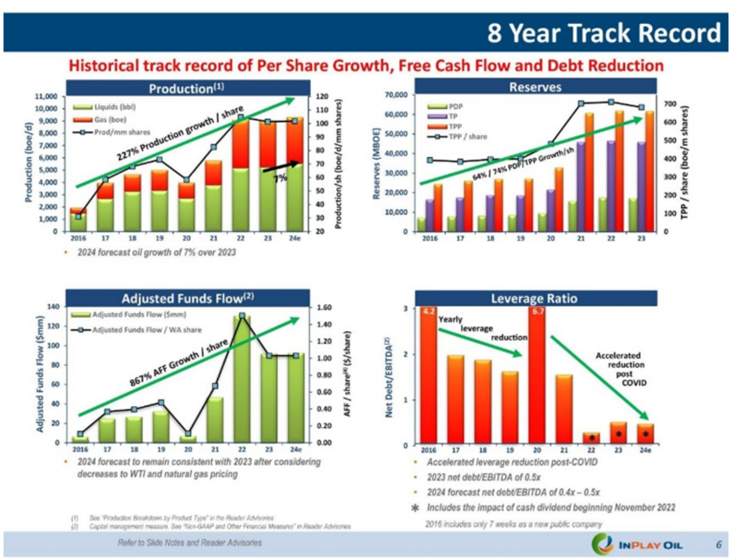
Like Enterprise Group above, InPlay Oil has seen a massive run of success in its operational and financial performance over the last few years, as you'll learn a bit below. **Among other attributes, IPO shares trade for a bit less than seven times 2023's net earnings *and* sport a BIG, well-covered dividend yield of well *over* 7%.** Yet unlike Enterprise, InPlay has yet to have investors wake up to its performance; and unable to "take" this any longer, I added IPO to my recommended list last fall after having had my latest opportunity to sit down with C.E.O. Doug Bartole.

InPlay's operational focus as you see at right is in southern Alberta. In a fresh interview I did of Bartole recently, he went through in considerable detail the ways in which he bought most of InPlay's assets at opportune times and prices and has since grown their production to more than double their prior rates (check out https://www.youtube.com/watch?v=lMviCEegP5k for the conversation and details.)



The company is focused primarily on the Cardium Formation within the well-defined Pembina and Willesden Green pools. The Belly River Formation also provides an additional light oil development opportunity while an emerging exploration play in the Duvernay Formation holds potential to add significant value in the future.

Bartole believes that light oil—though it hasn't usually been the "headline" story for Canadian production, that being the heavier (*much* heavier in the case of the tar sands to the north) oil in most areas—is where InPlay's best revenue opportunities lie. This year, he's told me, about 90% of overall company revenue will be its light oil production. This light oil has a ready market and—since it is not a major part of production for the overall area—there is a plenty of transportation capacity and a quick turnaround from the well to a pipeline, etc.



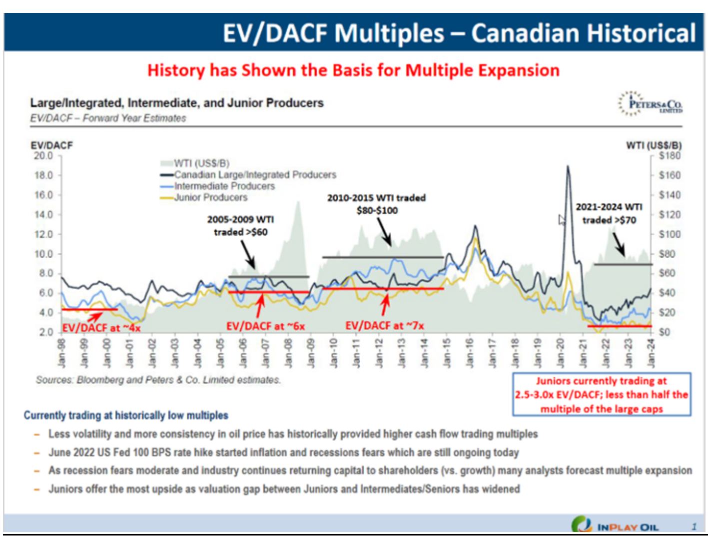
As you see at left, the company's metrics have all pretty much been going where an investor would want to see them. In its eight years as a public entity, production has much more than doubled…reserves have increased…cash flows have *soared*…and—the metric I think Bartole is most proud of—the company's net debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) has *plunged*. InPlay's 0.5x net debt to EBITDA, in fact, stacks up favorably against companies of most *any* size.

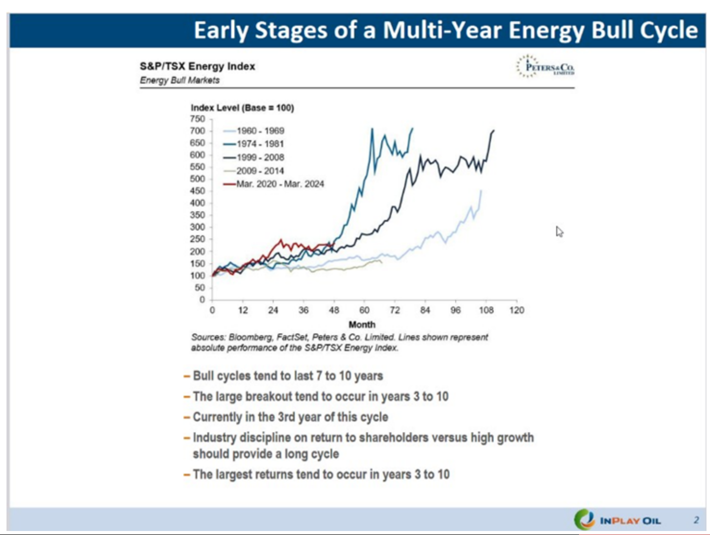
All that culminated at 2023's end with the uber-impressive numbers you see in the table at the right, condensing the full year's detailed report (which I encourage you to parse at https://money.tmx.com/quote/IPO/news/4567124237980259/InPlay_Oil_Corp_Announces_2023_Financial_Operating_and_Reserves_Results.) This is what Bartole meant, of course, in our recent discussion in "just running a good business." Canada has been forced, too, as in the U.S. to shun growth for growth's sake; everyone seems to have learned their lesson from the 2015-2016 episodes and the COVID aftershocks. Now, it's all about viable growth supported by demand, financial discipline *and return to shareholders.*

One of Bartole's (and my) favorite graphics these days is the one you see lower left. As is generally the case where share prices of companies producing other commodities are concerned, markets will generally fix a premium valuation on the largest-cap and best-known companies. "Juniors"—even those likewise with strong *and even better in some cases* financial metrics, a category I would put InPlay in—usually don't get quite as well treated in the market; *but eventually they do respond*.

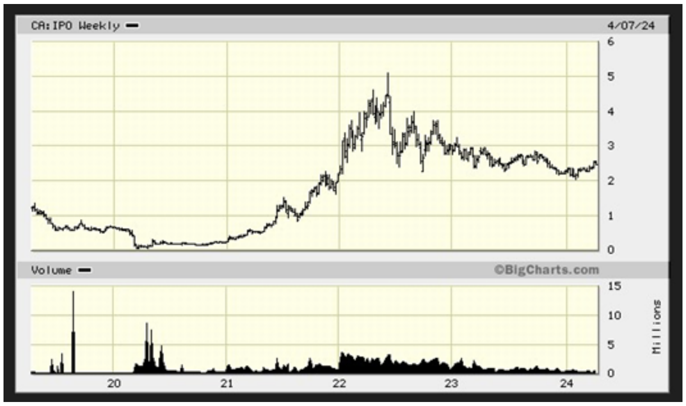
The aberration right now as you see is that the valuation level for juniors (the red horizontal line, noting the moving yellow line of juniors) is *much* farther below the black line (large integrated producers) than usual. In short, the upturn for everyone else has yet to "drag" juniors higher…*yet*.

It's the chart on the right below, as well, that even more so informs the story with InPlay as I see





things; *and frankly, makes the case for bigger moves yet to come in Old Energy more broadly*. As you will hear Doug and I discuss in our video (and as I recently pointed out will be the case with more commodities generally in the years ahead, as we have already begun to see in spades with ones like uranium; *that* discussion is at https://www.youtube.com/watch?v=Fvd0y3YYoAg) there is usually one common denominator in past bull cycles for energy. *And that is, the biggest gains in share prices/market valuations don't come about immediately.* Once enough evidence is in (and the early, smart investors have already scored the initial gains) the rest of the investing public finds the story hard to ignore.



I have a very high confidence level that we will only have to wait *months*...rather than more years...for this to positively affect InPlay Oil. We have before us a company *still* growing its reserves and production...its revenues, net earnings and more. Its financial strength—evidenced in part by one of the highest dividend yields among its peers—is hard to ignore; ***so, too, is it hard to ignore that the company's break-up value is more in the neighborhood of C$6.00/share, more than double its share price!*** Granted, 2022's pop was in sympathy to the Russia-Ukraine mess; but that IPO shares are half today of what they were then—*and after so much more operational and financial success*—renders them a no-brainer, I.M.O.

Learn more still at https://www.inplayoil.com/

If you have not already done so, be sure to go to https://www.nationalinvestor.com/ and

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