



Know when to hold-em!
 Know when to fold-em!
 Know where to set stops!
 Know when to run!
 Never count your portfolio
 Until the sells are done..

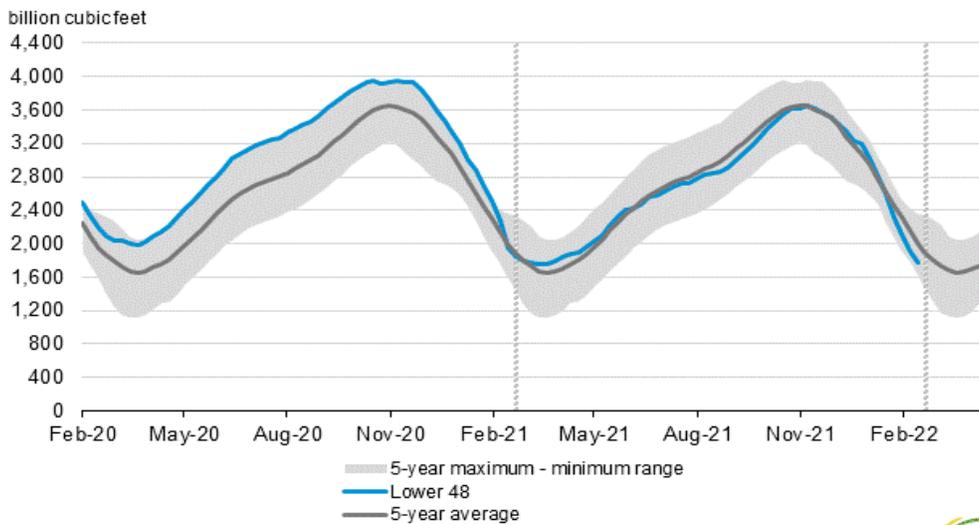
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There has been a number of factors come together making a very bullish outlook for Oil and more so for Natural Gas. I refrain from picking gas stocks approaching spring/summer because gas prices usually come down and the stocks are often soft. This year is different with low storage levels that have to be rebuilt and the war in Ukraine. Storage levels are at the lowest level in the past 2 years and looks like they could bottom out at a very low 1,200. There is [major snow storms predicted](#) in the NE states where most gas is used.

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration



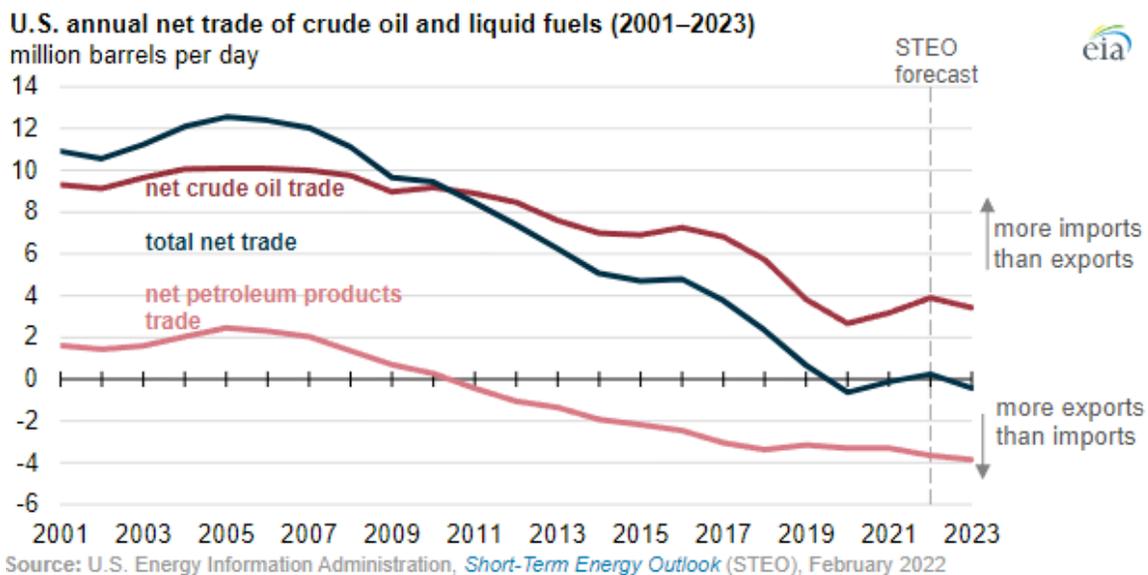
Above is gas storage as of February 18th and the Eastern US is still in very cold weather. This weather map shot on Saturday morning shows a cold front pushing far south. Storage below 1,200 is possible.



[The EIA reports](#) that crude oil prices have risen steadily since mid-2020 as result 6 consecutive qtrs. of draw downs on global oil inventories, which averaged 1.8 million barrels per day (b/d) from the third quarter of 2020 (3Q20) through the end of 2021. They estimate that global oil inventories fell further in January and that commercial inventories in the OECD ended the month at 2.68 billion barrels, which is the lowest level since mid-2014. The recent events in the Ukraine ensure another quarter of falling inventories. War is unpredictable but one thing for certain is it consumes a lot of fuel (oil). It is unknown if supplies will be affected and at this point the West seems reluctant to sanction Russia's oil and gas because Europe could freeze in the dark.

This is exemplified by energy issues in the US. Refiners can't keep up with demand as [Oilprice.com reports](#). *"Inventories of refined products are now near historic lows—and given the refining maintenance season that will soon be upon Asia and Europe, it doesn't look that those historical lows are going to ease substantially."*

EIA expects U.S. petroleum trade to shift toward net imports during 2022



The EIA projects the US will be importing oil now and this is coming at a time when economies are opening up with retracting Covid-19 restrictions. It looks to me that we are going to have the perfect storm for very high energy prices. After high heating bills we should prepare for record prices at the pumps this summer. A very good way to offset this is to make some extra dollars with Oil&Gas stocks.

Comstock Resources NY:CRK

Recent Price – US\$8.30

52 week trading range - \$4.67 to \$11.33

Shares outstanding 232.9 million

Comstock Resources is a leading natural gas producer with operations focused on the development of the Haynesville shale in North Louisiana and East Texas. I like the stock at current prices for a number of reasons. It is recently over sold and under valued compared to peers. They have a very low cost structure and a large low risk drill inventory that will propel strong growth in 2022.

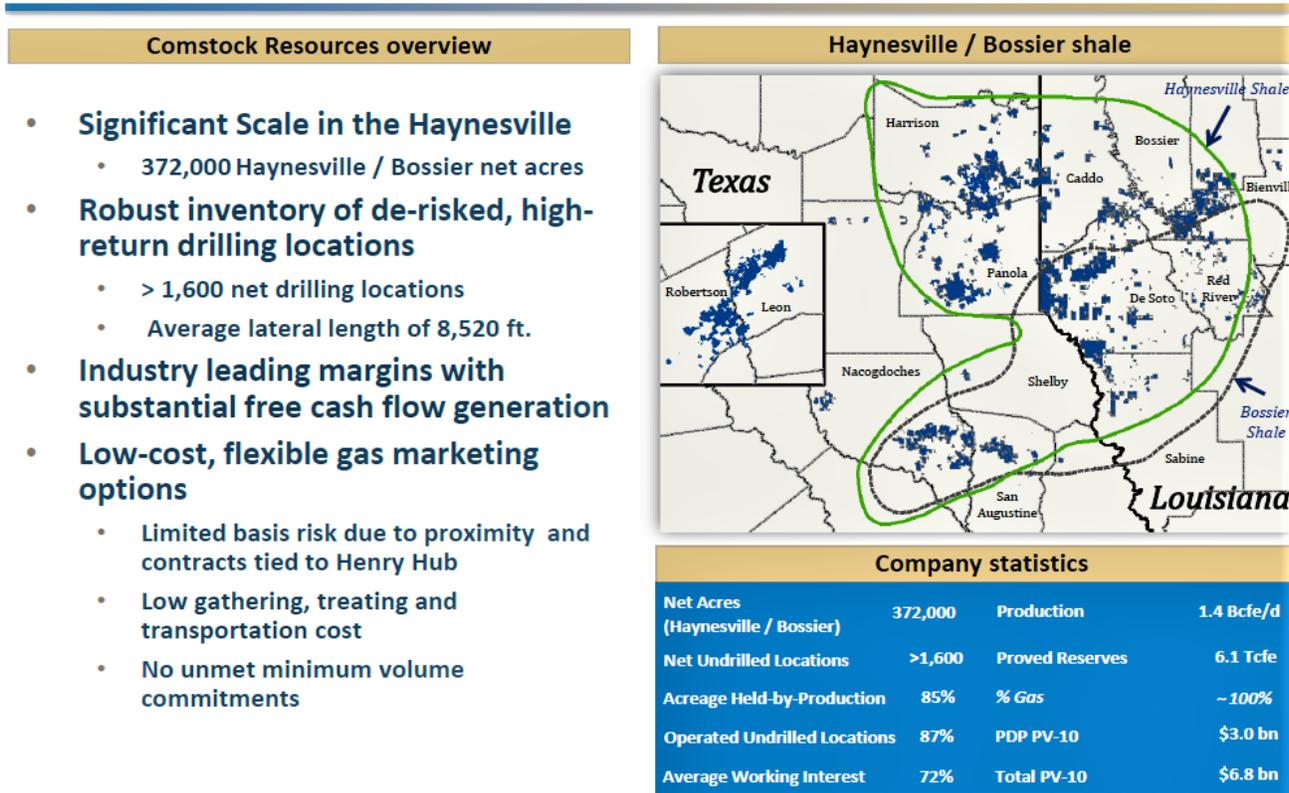
Highlights:

- Basin leader in the Haynesville, a premier natural gas basin with geographical proximity to Gulf Coast and attractive price differentials;
- Best-in-class capital efficiency with industry leading margins and return on capital employed;
- ~2,000 high-return drilling locations in the Haynesville and Bossier shales to support successful drilling program;
- Recent financings significantly increased financial liquidity to \$900+ million, lowered cash interest costs and extended debt maturities;
- Strategic relationship with [Jerry Jones](#) (Dallas Cowboys owner), the company's largest shareholder, whose investment to date in Comstock totals \$1.1 billion;
- Stock price is trading at low cash flow multiples and not pricing in higher average gas prices I expect in 2022.

This slide from [their presentation](#) provides a good over view.



A Leading Haynesville Operator



[Comstock sold their Balken assets](#) for \$154 million which was mainly oil so production is now about 99% natural gas. [Fourth qtr., results show](#) production increased 12% to 1,348 MMcfe per day (99% natural gas). Comstock's production cost per Mcfe in the fourth quarter was \$0.67 per Mcfe, which was comprised of \$0.28 for gathering and transportation costs, \$0.21 for lease operating costs, \$0.10 for production and other taxes and \$0.08 for cash general and administrative expenses.

Their costs are very low compared to peers and their Haynesville acreage is close to the Henry Hub so they get good gas prices. Furthermore they have a large, over 1,600 net drilling locations. The wells in this field are very robust and come on strong at their start. According to their presentation on page four, they drilled 64 gross wells in 2021 with average initial production of 23 Mmcfe per day

Financial

Last statements show \$30.6 million in cash and long term debt of \$2.6 billion. Their large cash flow is funding operations and paying down debt. Comstock paid down \$190 million in debt during Q4. They refinanced \$2 billion of senior notes in March and June 2021 saving \$47.9 million in cash interest payments per year and extending senior notes weighted average maturity by 3 years

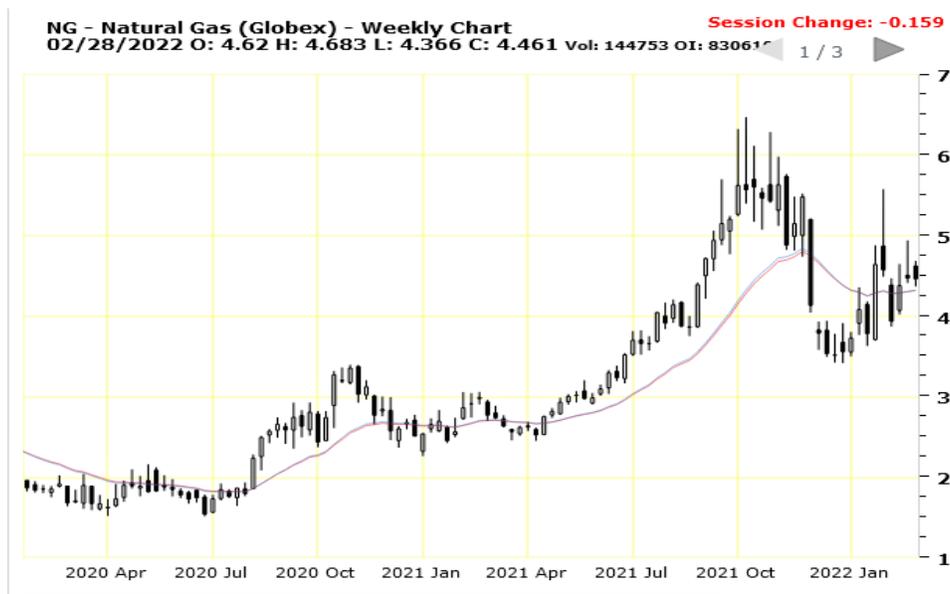
Summary

A great snapshot of their growth from a slide in their presentation.

2021 Financial Results



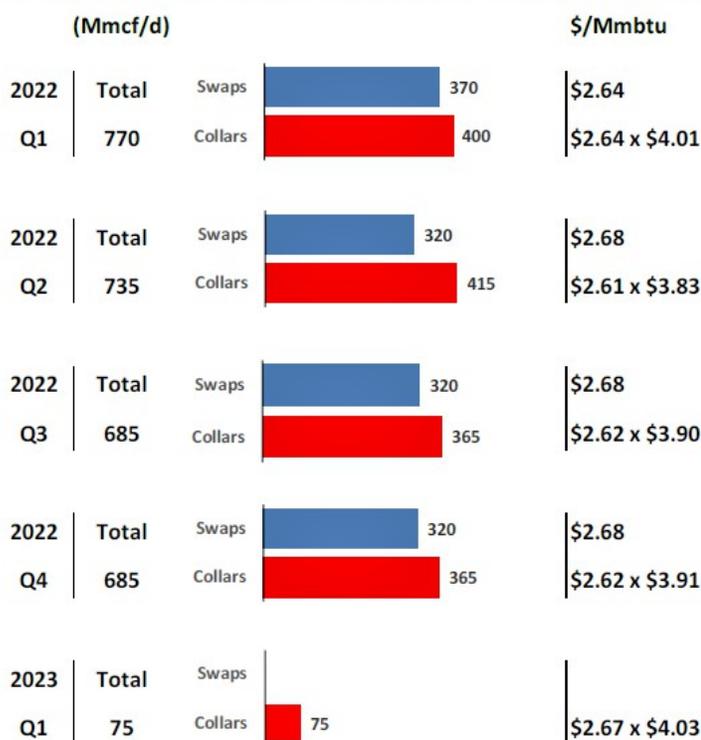
I expect Comstock will see fairly flat production in the first half of 2022 and then ramping up 10% to 20% in the 2nd half. Cash flow and earnings jumped in 2021, mainly because of strong gas prices from September to December. I expect strong gas prices throughout 2022 with a conservative average of \$3.50 to \$4.00.



Comstock has about 50% of production hedged but it is not as bad as it sounds. As you can see from their presentation slide below, only about 23% is hedged as swaps at \$2.64 to \$2.68. The other 27% is with collars and where gas prices are, they will likely get the top of their collars at \$3.83 to \$4.01. Therefore they will get very good prices for over 75% of their production.

Hedging Program

Comstock has ~50% of its oil and gas production hedged in 2022



Cash flow is a good way to value oil&gas stocks because that cash flow can fund their drilling and expansion. In good markets oil&gas companies will sell at between 5 and 10 times cash flow. Although the sector has a nice rebound, it is still dragging it's feet on good valuation and a long way from high valuation. The sector is still under owned.

Comstock went from just under \$521 million cash flow last year to \$908 million for 2021 which is about \$3.91 per share. Sticking with what I think is a conservative number of \$5.00 per share cash flow for 2022, the stock is currently trading at 1.66 times my expected cash flow for 2022. A more reasonable valuation would be 4 times cash flow (\$5 X4) \$20 per share.

On the chart, the stock responded very well to the rise in gas prices that started in September 2021, but I believe the sell off from October highs was over done. There is a nice wedge pattern that should see an upside break out. First significant resistance is around \$9.30



Earthstone Energy NY:ESTE

Recent Price - US\$12.80

52 week trading range \$6.44 to \$15.26

Shares outstanding 85.1 million (fully diluted with Class B shares) 139.1 million after acquisitions.

EnCap Investments LP ("EnCap") owns 47%

Walburg Pincus (Chisholm principal) 19%

Earthstone will issue approx. 54 million shares for the Foreland, Chisholm and Bighorn acquisitions.

Earthstone is a growth-oriented energy company with primary assets located in the Midland Basin of west Texas and the Eagle Ford trend of south Texas. Their production mix is about 43% oil and the rest natural gas and gas liquids. I like Earthstone because of strong up and coming growth from acquisitions. The market is not doing a good job of pricing in these acquisitions.

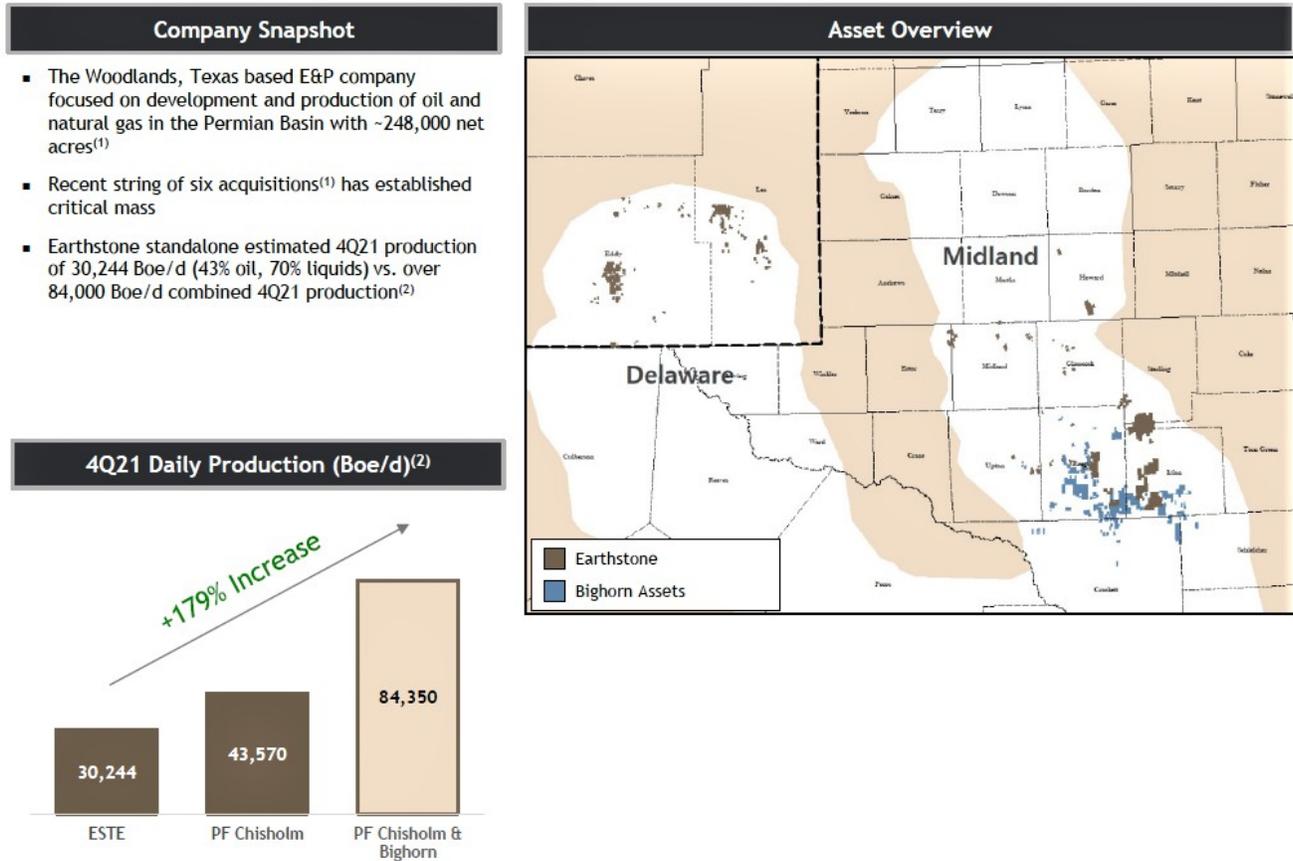
Highlights

- Earthstone announced 4 large acquisition deals with the final 2 closing this year;
- Chisholm acquisition closed February 15th and Bighorn acquisition closes Q2 2022;
- Earthstone produced 15,276 boepd in 2020 increasing to 72,000 - 80,000 boepd by year end 2022;
- \$228.6M (2.77/share) cash flow end of 2021 to over 700 million (over \$5/share) in 2022.

- [MarketWatch reports](#) Earthstone trading at half of book value.

This slide from [their presentation](#) is a good overview.

Company Overview



(1) Includes impact of pending Bighorn Acquisition.

(2) Reflects 4Q21 Earthstone estimated sales volumes; combined production includes Earthstone estimates of combined Chisholm and Bighorn three-stream production for 4Q21.

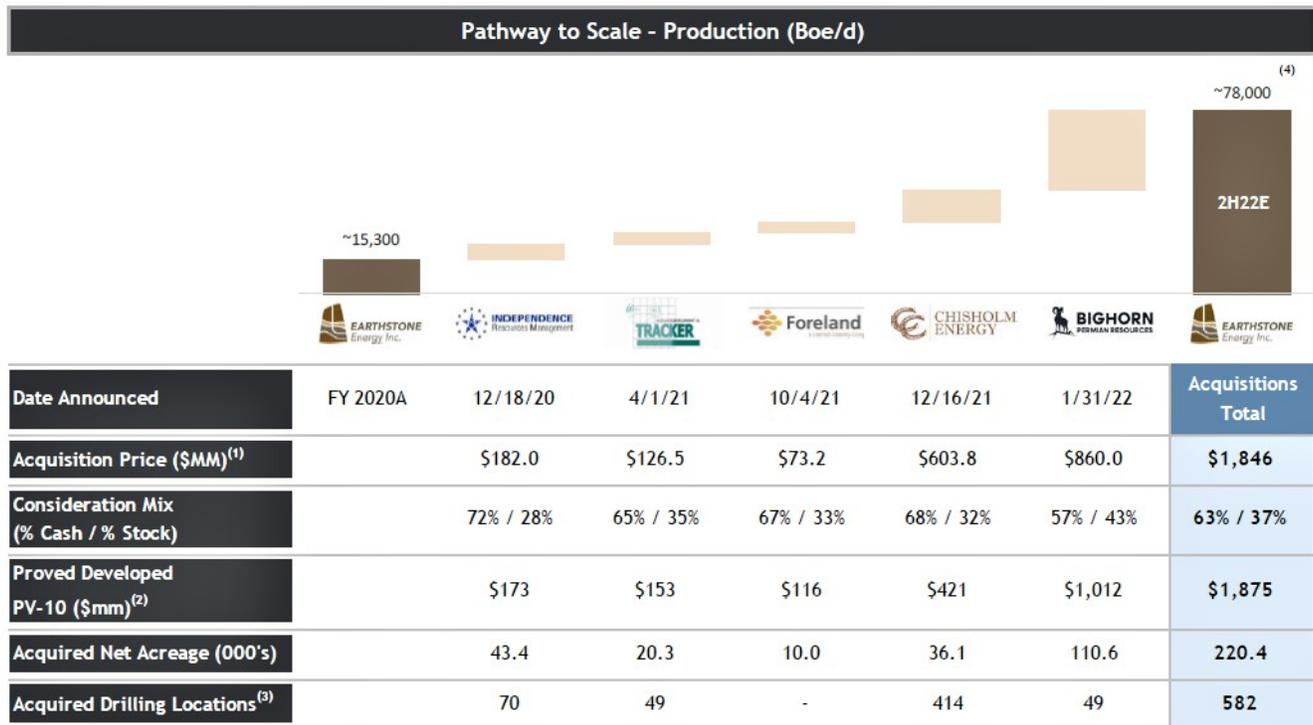
Earthstone [has estimated](#) its oil and gas sales volumes for the fourth quarter of 2021 to be approximately 2.78 MMBoe or an average of approximately 30,244 Boepd (43% oil). For the year ended December 31, 2021, the Company estimates its annual sales volumes grew 62% to approximately 9.06 MMBoe, or an average of approximately 24,809 Boepd (48% oil) compared to 15,276 Boepd (57% oil) reported for 2020. The Company also announced its year-end 2021 SEC total estimated proved reserves of approximately 147.6 MMBoe and \$2.0 billion of PV-10. Incorporating the closing of the Chisholm Acquisition and the pending Bighorn Acquisition and utilizing NYMEX strip pricing, total reserves as of year-end were 330.2 MMBoe and \$3.9 billion of PV-10.

The Company's 2022 capital budget of \$410-440 million assumes a four-rig program consisting of two rigs operating in the Midland Basin and two rigs operating in the Delaware Basin. This program is expected to result in the spudding of 60 gross / 47.6 net operated wells and bringing 58 gross / 48.3 net operated wells online at Midland and spudding 20 gross / 4.1 net non-operated wells and bringing 19 gross / 4.2 net non-operated wells online at Delaware in 2022.

These 2 slide from their presentation are a good picture of their acquisition growth.

Acquisitions Have Transformed Earthstone in 2021-22

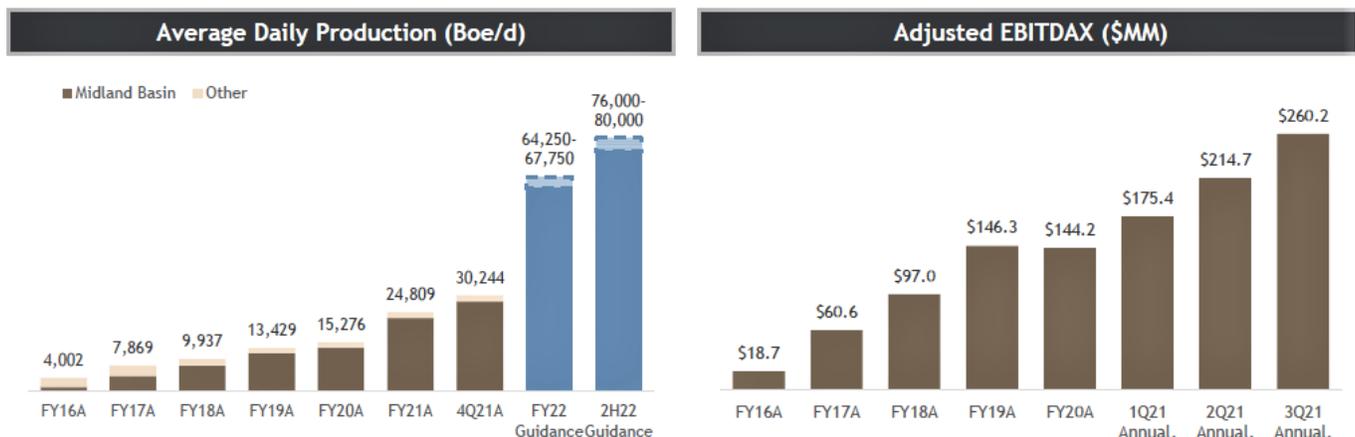
- Earthstone production base up >400% vs. 2020 pending Bighorn Acquisition
- Mature base production profile and high quality inventory enables moderate production growth at ~50% reinvestment rate



Note: See Appendix for footnotes.

Permian Basin Growth Story

- Since entering the Permian Basin in 2016, Earthstone has substantially increased production and decreased per unit cash expenses, resulting in increased Adjusted EBITDAX, while maintaining low leverage and preserving financial flexibility



Financial

As of December 31, 2021, Earthstone had \$4 million in cash and \$320 million of long-term debt outstanding under their Credit Facility with a borrowing base of \$650 million. With the \$330 million of undrawn borrowing base capacity and \$4 million in cash, Earthstone had total liquidity of approximately \$334 million. Subsequent to year-end, Earthstone closed on its previously announced Chisholm Acquisition. When adjusted to include the additional borrowings to fund the actual cash consideration due at the closing of the Chisholm Acquisition, Earthstone had an estimated \$4 million in cash and \$604 million of debt outstanding under their Credit Facility with a borrowing base of \$825 million. With the \$221 million of undrawn borrowing base capacity and \$4 million in cash, Earthstone had total liquidity of approximately \$225 million on a combined basis.

For the 9 months ended September 30, 2021 Earthstone had net cash flow of \$147.3 million. With the strong oil and gas prices in Q4 2021, we can safely assume \$215 million cash flow for 2021 total. Earthstone estimates that cash flow will increase by \$480 to \$520 million in 2022 with the Chisholm and Bighorn acquisitions. Lets pick the middle and go with \$500 million for a total in 2022 of \$715 million net cash flow.

I estimate cash flow per share by year end 2022 is ($\$715\text{M}/139.1\text{M shares}$) \$5.14. This is a high growth story and should get a higher multiple of at least 6. That works out to \$30.84, so will make a target of an even \$31. Furthermore the stock is trading well below book value. On the chart, there is a nice uptrend since the break above \$4.00 in late 2020. The recent pull back and bounce off the support area provides a nice entry level.



There are call option on Comstock and Earthstone with pretty low premiums. I like the Comstock **January 2023 \$7.00 Call around \$2.65**. It is \$1.30 in the money so a premium of just \$1.35

With Earthstone, probably the best is the **July \$12.50 Call around \$2.50**

***** Updates *****

Zonte Metals **TSXV:ZON**
Entry Price - \$0.15

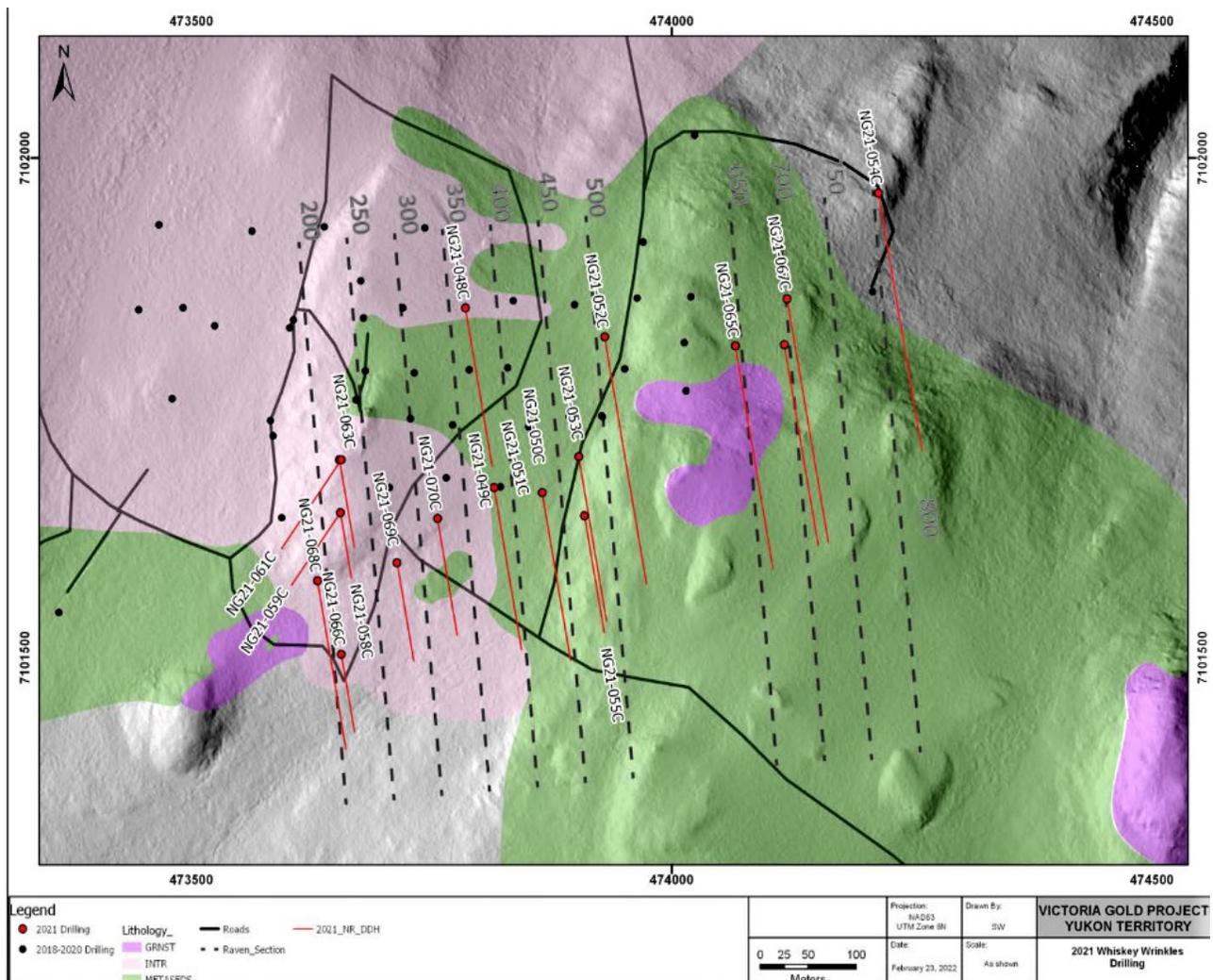
Recent Price - \$0.195
Opinion – strong buy under \$0.20

Victoria Gold **TSX:VGCX**
Entry Price - \$18.35

Recent Price - \$16.06
Opinion - buy

Victoria Gold released more drill results for their Raven project next to Zonte's border. Highlighted assay results from 19 Raven holes follow:

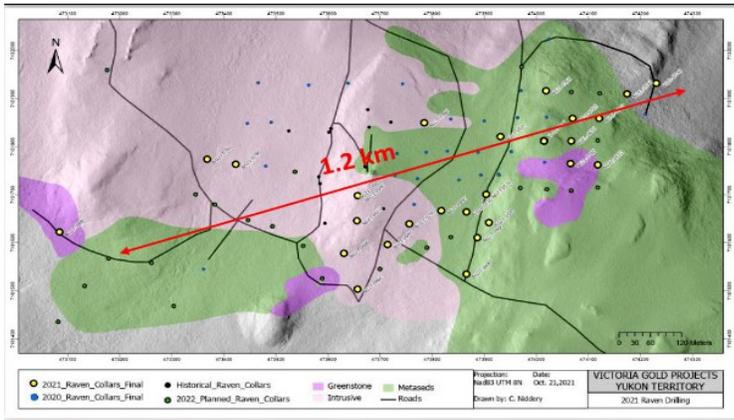
- 1.25 grams per tonne gold over 70 m from 245 m in NG21-067C;
- 1.67 g/t Au over 13.5 m from 97.7 m in NG21-050C;
- 1.01 g/t Au over 21.1 m from 155.8 m in NG21-055C;
- 1.74 g/t Au over 15.1 m from 92.4 m in NG21-061C;
- 1.49 g/t Au over 21 m of from 286.7 m in NG21-062C.



Note the 3 drill holes on the right that are substantially closer to Zonte's border than previous drill holes (black dots). They look to be about 250 meters closer and the best intersect is one of these closer holes, 67C with 1.25 g/t over 70 meters. They reported nothing for 54C so I assume that was a miss. They reported 19 holes so there are 14 more to come, and those might be even closer to Zonte's border.

In the bottom right of the graphic is the portion of Zonte's Pluton that pushes onto Victoria Gold's border. I just wonder if they poked a couple drill holes there and are keeping results close to the chest. This next graphic below from Victoria Gold's web site shows Raven and it is open to the west and to the east heading towards Zonte's McConnells Jest.

Exploration – Raven



2022 Program

- Budget - \$20M
- 25,000 meters of drilling
- Construction of Atco type camp
- Resource/reserve estimate
- EA baseline data collection
- Enter Yukon EA pre-screening process
- Preliminary Economic Assessment

This is great news for Victoria Gold because they could have another multi-million ounce discovery here that looks like it will continue on Zonte's property. **What is so nice for Zonte is that Victoria Gold is doing the work for them and increasing the value of McConnells Jest. The market has not caught on to this yet, but it is just a matter of time, maybe when Victoria Gold is drilling right at Zonte's border.** As you can see, Victoria Gold has a lot more drilling at Raven for 2022.



The chart shows a nice up trend of higher lows and the current price is near resistance around \$17.00

Aztec Minerals TSXV:AZT
Entry Price - \$0.40

Recent Price - \$0.28
Opinion - buy

Aztec is getting better drill hits than Victoria Gold, mostly because they are much longer like 88.4 meters of 1.1 g/t gold, including 54.88 meters of 1.56 g/t and 167.2 meters of 1.002 g/t. However, junior explorers are still getting little respect in this market.

Aztec's chief executive officer, Simon Dyakowski, commented: *"After an approximate four-year drilling hiatus at Cervantes, our initial California zone drill results in 2022 have not disappointed. The first hole at California zone, where we are targeting potential open pit heap leachable gold mineralization, has returned strong grades over broad widths and has further expanded the gold mineralized zone, still open to the north."*

California zone drill highlights from February 16 and 23 press releases.

Drill Hole	From m	To m	Interval m*	Au gpt	Comments
CAL22-001	22.86	111.3	88.41	1.1	230 Az, -60
Including	22.86	77.74	54.88	1.56	
	30.49	45.73	15.24	3.962	
	30.49	36.57	6.08	7.44	
CAL22-002	0	108.2	108.2	0.374	225 Az, -60
CAL22-003	45.7	91.5	45.7	0.451	233 Az, -60
Including	60.9	74.7	13.7	0.868	
CAL22-004	0	167.2	167.2	1.002	236 AZ, -59
Including	131.1	155.5	24.4	4.247	

The Aztec-Kootenay JV has now completed its Phase 2 Reverse circulation (RC) program of 26 holes, totaling 4,649 metres at the **Cervantes Property**. Drilling commenced in December 2021. The first four RC drill holes were completed to test the previously undrilled Purisima East target, where high grade gold mineralization was sampled in a glory hole along the southern margin of a small felsic intrusion with coincident geochemical and geophysical anomalies. Preliminary gold assays in these four holes exhibit anomalous but sub-economic gold grades. The single drill holes at Jasper and California North found mineralized quartz feldspar porphyry with results pending.

The stock did have pretty decent move on the news, but needs to break resistance and close over \$0.36. Perhaps further drill results will do the trick. Regardless, there is not much downside here and before long this junior mining market will turn around. **Gold is up \$25 today and looks to break the \$1925 resistance, but the TSX Venture index just tested again recent lows around 810.**



I do own some Comstock, CRK

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