Experience, low-risk drilling inventory and strategic access helps Southern Energy raise US $31 million

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I always like a story where a hard-working, knowledgeable management team sets its nose to the grindstone to try and eke out a decent return for shareholders, and then almost overnight the world changes and you're one of the hottest stocks out there. Often times it has to do with finding something unexpected with the drill bit that changes the fortunes of the company. However, in this case, it was a commodity price that had languished for years but in the last six months has almost doubled. I'm talking about Henry Hub natural gas prices and if you look back a few weeks it hit a peak of 150% over where it started the year. The Sprott Physical Uranium Trust (TSX: U.UN) wishes it could have that kind of influence on prices. Unfortunately, it was a much larger event that has impacted natural gas prices, along with plenty of other commodities.

Source: StockCharts.com

Even though almost every natural gas leveraged company has seen a great run, the additional bonus for Southern Energy Corp. (TSXV: SOU) is the location of its assets. As a natural gas exploration and production company with its primary focus on acquiring and developing conventional natural gas and light oil resources in the southeast Gulf States of Mississippi, Louisiana, and East Texas, it's close to most of the U.S. LNG export capacity (even after the Freeport LNG facility, which provides about 20% of US LNG processing, tried to blow itself up). Albeit the Freeport LNG explosion actually caused U.S. gas prices to fall from their lofty heights as a result of 2 bcf/d or a little over 2% of demand for U.S. natural gas having been abruptly eliminated. Nevertheless, as the rest of the world becomes a little less stable, being close to export infrastructure should ultimately be a good thing, in my opinion.

For Southern, its assets in Mississippi are characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern's mission is to build a socially responsible and environmentally conscious natural gas and light oil company in the Southeast Gulf States. In these areas, Southern has access to major pipelines, significant Company-owned infrastructure, year-round access to drill, and the ability to shift focus between natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk.

Another factor that will mitigate corporate risk is the recently announced successful completion of a [US$31 million equity financing](), of which US$12.5 million came from strong demand in the U.K. Another indication that Europe is worried about its natural gas supply and Southern is located in a great place to help support that demand. Net proceeds of the Offering will primarily be used to accelerate the initiation of a continuous organic drilling program at [Gwinville](), where the Company operates and owns an average 96.7% working interest in approximately 12,000 acres. The Gwinville property represents about 53% of the company's Proved plus Probable (2P) reserves, and approximately 23% of Southern's 2021 average production.

At the end of Q1, corporate production stood at 11,515 Mcfe/d of

92% natural gas. Although I would anticipate production to start moving higher as Southern rig released two (2.0 net) wells of the three well program at Gwinville in Q1 2022 with the third well rig released in April 2022. In May 2022, completion operations began on the three-well horizontal padsite. The first well to begin flowback following the stimulation was the GH 19-3 #3 well, which came on-line on May 25, 2022. The GH 19-3 #2 and GH 19-3 #4 wells are expected to be on-line shortly, and the Company is looking forward to providing initial production results in the coming weeks. This may not have a lot of impact on Q2 results but it certainly sets the table for Q3.

The recently completed capital raise by Southern puts the Company on solid footing to start expanding production and take advantage of the best natural gas prices in over a decade. Production assets are ideally located for maximizing corporate netbacks and an experienced and successful management team, with a history of creating shareholder value together, bodes well for the future of Southern Energy. Subsequent to the closing of the latest share issuance (expected July 7th) the Company will have a market cap of roughly C$105 million (based on yesterday's closing price) and US$31 million to try and make that market cap grow.

Russia's War, Supply Chain Turmoil and What It Means to

You

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What a week! Last Thursday, Russia invaded Ukraine. Then this week global supply chains went crazy, with skyrocketing price moves and a global-scale sense of worry about where it all leads.

I won’t dwell on war news, meaning stories and imagery from front lines. It’s tragic and painful to witness, and no doubt you follow events.

But definitely, it’s worth discussing the economic impacts of the war. In particular, consider the almost immediate commercial isolation of Russia that’s now taking shape with a wide array of sanctions on Russia’s government, her banks, businesses and people.

This is an entirely new page for the world economy. And what’s happening is not as easy as just saying, “Russia is bad so let’s punish her.” Sad to say, though, that’s where much thinking across the world is focused. Do something. Make it fast. Think about it later.

Another way to say it is that Russia is a major, global-scale source of key energy and industrial resources. These range from products straight from the well like crude oil and natural gas, to refined hydrocarbons like gasoline, diesel and chemicals. Plus, Russia produces a vast array of industrially critical elements, again ranging from ores and concentrates to highly refined and processed alloys.

For example, as Russian sanctions kicked into play over the past few days the price of oil pulled up into a strong climb, with Brent Crude hitting $114 per barrel at one point. This reflects market uncertainty over future access to Russian exports. Meanwhile, one sees stories of tanker-loads of Russian oil going "no bid" because traders are uncertain about the legality of even making an offer. It'll sort out, more or less. But for now, it's a serious mess.

Other important commodities with a Russia-trade angle are also rising in price. Wheat futures are soaring to two-decade highs, according to market tracking services. And lumber futures are up sharply as well, reflecting concern over diminishing Russian supply.

Other materials rising in price include aerospace-grade aluminum, now at record levels according to a market follower with whom I spoke earlier. Meanwhile, a significant fraction of the world's aerospace grade titanium – about 60% by some calculations – comes from Russia.

Or consider spot prices for other widely used, critical industrial elements like copper, nickel and uranium. All have a strong Russia supply angle, and all are at 10-year highs, per trading data.

You get the picture, right? Literally, overnight, anti-Russia sanctions have created uncertainty over future supplies of key energy resources and metals.

Meanwhile, share prices for important Russian producers have collapsed. Consider just two key companies in the Russian investment space, gas producer **Gazprom (OTC: OGZPY)** and metals producer **Norilsk Nickel (OTC: NILSY)**. Both companies' share prices have tumbled in recent days, as you can see here:

Is there an investment angle? Well, the possibilities are many and depend on your risk tolerance.

For the truly bold, the collapse of Russian share prices creates a contrarian setup. If you are aggressive, and perhaps a bit crazy, feel free to wade into the selloff and buy shares of Norilsk and Gazprom. Of course, we don't yet know what will happen as events unfold, so the "buy low" idea could also lead to even more losses, of not a complete wipeout. You've been warned.

Or frame it this way: Russia now has a very significant level of what's called "war risk" in everything that has to do with its investment climate. Perhaps there's an upside in the not-too-distant future, but for now the entire space is a very dangerous place to be for most investors.

The safer investment idea is to focus on U.S. and Canadian names that work in the resource space that's affected by Russian sanctions. Of course, there are many names out there ranging from small exploration plays to large and mighty companies.

For example, let's look at nickel. Large nickel producers include Brazilian play **Vale (NYSE: VALE)**, as well as Swiss-based **Glencore (OTC: GLNCY)** and Australia's **BHP Group Ltd. (NYSE: BHP)**. These names have global operations and everything you would want in a major player. If customers need nickel and cannot obtain it from Russia and Norilsk, they can buy it from these other guys.

On the much smaller, exploration side, though, my strongest play is a Canadian junior operating in Montana, called **Group Ten Metals Inc.** **(TSXV: PGE | OTCQB: PGEZF)**. This company is relatively early stage in its efforts, but with significant progress on the books. The play is focused within the well-regarded Stillwater District, where the company holds a massive land package. Exploration has already revealed extensive mineralization in copper, nickel, platinum, palladium, rhodium, gold, silver and even chrome. It’s a superb asset (I’ve visited the site and seen the mineralization), with strong technical and management talent.

It’s also worth noting that Group Ten holds lands directly adjacent to Sibanye-Stillwater, Ltd. (NYSE: SBSW), currently producing minerals in the region. This situation makes it more likely that Group Ten can eventually obtain necessary mining permits and move towards development and production.

To sum up, we can’t do anything about the tragic war in Ukraine. Meanwhile, the anti-Russia sanctions are a massive, international phenomenon, again out of our hands. But already these dynamics have set up severe supply chain issues, all based on just a few days of history being made. And more disruptions are, no doubt, in the pipeline as events unfold and politics play out.

Finally, looking ahead the world is not simply on a glide path to a new version of the Cold War. No, Western nations are on the path to a “Commodity War” scenario, firmly embedded inside the looming political, economic and perhaps military confrontations. In this sense, holding real assets – including ores in the ground – is critical to your investment future.

On that note, I rest my case.

That’s all for now… Thank you for reading.

Best wishes…

Byron W. King