

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

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 7<sup>th</sup>) 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.