

# Southern Energy Corp. Announces Q1 2019 Financial and Operating Results

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CALGARY, May 29, 2019 - [Southern Energy Corp.](#) ("Southern" or the "Company") (SOU: TSXV), a U.S.-focused, growth oil and natural gas producer, is pleased to release its financial and operating results for the three months ended March 31, 2019. Southern's unaudited condensed consolidated financial statements and related management's discussion and analysis for the three months ended March 31, 2019 are available on the Company's website at [www.southernenergy.ca](http://www.southernenergy.ca) and filed on SEDAR. All figures referred to in this news release are denominated in Canadian dollars, unless otherwise noted.

## FIRST QUARTER 2019 HIGHLIGHTS

- Q1 2019 represents Southern's first full quarter of operations focused on consolidating high-quality, robust-netback oil and natural gas assets in underexploited basins in Mississippi, Alabama and Louisiana (the "Southeast Gulf Coast") which attract some of the best commodity pricing in the U.S.
- Production from the Company's U.S. assets averaged 1,562 boe/d (13% oil & liquids) during Q1, the first full quarter of operations with Southern's new management team and strategy.
- Southern's Q1 2019 realized oil and natural gas prices averaged \$79.20/bbl and \$4.21/Mcf, respectively, reflecting a mix of pricing at U.S. sales hubs, which currently trade at a premium to Canadian benchmark prices. The Company's U.S. netbacks<sup>(1)</sup> for the period averaged \$10.97/boe, contributing to positive adjusted funds flow from operations<sup>(1)</sup> of \$1.2 million.
- Capital expenditures totaled \$0.5 million for the first quarter, with over half directed to preparations for the drilling of the Gwinville horizontal well planned for later in the year, as well as investing in geological data and facility and wellsite equipment.
- As at March 31, 2019, Southern had a US\$12.5 million (\$16.7 million) borrowing base which was 40% undrawn.

## HIGHLIGHTS SUBSEQUENT TO QUARTER END

- On April 25, 2019, the Company entered into an agreement to acquire high-quality and low-decline (less than 5% annual production growth) oil and natural gas assets in Mississippi (the "Assets") with control of strategic facilities and infrastructure for \$22.0 million (US\$16.5 million net of customary purchase price adjustments, "Acquisition"). Upon completion of the Acquisition, which is anticipated on or about June 7, 2019, Southern's production is expected to exceed 2,550 boe/d (10% oil & liquids), representing a 63% increase over the Company's current U.S. production.
- On May 2, 2019 the Company closed the sale of all remaining Canadian oil and natural gas assets for \$0.64 million (US\$0.5 million net of customary purchase price adjustments), firmly positioning Southern as a pure-play U.S. exploration and production company.
- Southern set May 10, 2019 as the date of record ("Record Date") for the previously announced rights offering (the "Offering"), which could raise gross proceeds of up to \$5.1 million. Holders of Southern common shares ("Common Shares") on the Record Date will receive one right (a "Right") per Common Share held, and four Rights will entitle the holder to purchase one new Common Share at a price of \$0.10 per Common Share prior to 4:00 pm MST on June 7, 2019.
- On May 23, 2019, Southern entered into an agreement with a syndicate of agents (the "Agents") pursuant to which the Agents have agreed to offer for sale to the public, on a best-efforts basis, up to 8,000 8% unsecured convertible debentures (the "Debentures") at a price of \$1,000 per Debenture with an over-allotment option that could increase aggregate gross proceeds to \$9.2 million (the "Convertible Debenture Financing"). The Convertible Debenture Financing is expected to concurrent with the Acquisition on or about June 7, 2019.

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See  
"Non-IFRS  
Measures"

#### Statement from the CEO

"The significant work undertaken through the first quarter of 2019 and year-to-date was pivotal in establishing Southern as a pure-play, high-growth U.S. exploration and production company, committed to executing a returns-focused strategy in the Southeast Gulf States," said Ian Atkinson, Southern's President & CEO. "With the strategic acquisition of assets that are highly complementary to our existing Mississippi operations, combined with the sale of our remaining Canadian assets, we have positioned Southern to increase production by over 65%, while leveraging production optimization and netback improvement opportunities to enhance corporate cash flow."

#### Financial Highlights

	Three months ended	
FINANCIAL (in thousands, except per share & share data)	March 31, 2019	March 31, 2018
Oil and natural gas revenue	\$ 4,424	\$ -
Net loss	(1,697)	(110)
Per share &ndash; basic & diluted	(0.01)	(0.00)
Adjusted funds flow from operations <sup>(1)</sup>	439	(19)
Capital expenditures	522	-
Net debt <sup>(1)</sup>	11,850	-
Common shares outstanding		
Weighted average &ndash; basic & diluted	204,357	24,247

Three months ended		
OPERATING	March 31, 2019	March 31, 2018
<b>Sales volumes</b>		
Crude Oil (Bbl/d)	164	-
Natural gas (Mcf/d)	8,119	-
NGLs (Bbl/d)	45	-
Production from continuing operations (boe/d)	1,562	-
Production from discontinued operations (boe/d)	46	43
Barrels of oil equivalent (Boe/d) <sup>(2)</sup>	1,608	43
<b>Average realized prices</b>		
Crude Oil (\$/Bbl)	\$ 9.20	-
Natural gas (\$/Mcf)	4.21	-
NGLs (\$/Bbl)	44.69	-
Barrels of oil equivalent (\$/Boe)	\$ 1.47	-
<b>Operating netback (\$/Boe)<sup>(1)</sup></b>		
Revenue	\$ 1.47	-
Royalties	(5.81)	-
Realized loss on derivatives	(1.04)	-
Production and operating costs	(11.48)	-
Transportation expense	(2.17)	-
Operating netback <sup>(1)</sup>	\$ 0.97	-

**Notes:**

(1) See "Non-IFRS Measures".

(2) See "Reader Advisory".

**About Southern Energy Corp.**

Southern Energy Corp. is an oil and natural gas exploration and production company. Southern has a primary focus on developing conventional and unconventional light oil and natural gas resources in the Southeast Gulf States. Our management team has extensive experience with developing assets through the utilization of horizontal drilling and multi-staged fracture completion techniques. We have a long and

successful history of working together as a team and have created significant shareholder value through high quality engineering and geoscience work.

[www.southernenergy.ca](http://www.southernenergy.ca)

#### READER ADVISORY

**BOE Disclosure.** The term barrels of oil equivalent ("Boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet per barrel (6mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All Boe conversions in the report are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.

**Forward Looking Statements.** Certain information included in this press release constitutes forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this press release may include, but is not limited to, statements concerning timing of the Acquisition, payment of the purchase price in respect of the Acquisition, expected production and increases in corporate cash flow related to the Acquisition, expected number of future drilling locations related to the Acquisition, the anticipated closing date of the Convertible Debenture Financing, the use of proceeds from the Convertible Debenture Financing, completion and timing of, and expected proceeds from, the Rights Offering, timing and completion of drilling of a Gwinville horizontal well, future production levels, decline rates, future operational and technical synergies resulting from the Acquisition, future cash flows, future balance sheet flexibility and future acquisition opportunities.

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Southern, including expectations and assumptions concerning the receipt of all approvals and satisfaction of all conditions to the completion of the Acquisition and the Convertible Debenture Financing, the timing of and success of future drilling, development and completion activities, the performance of existing wells, the performance of new wells (including the proposed Gwinville horizontal well), the availability and performance of facilities and pipelines, the geological characteristics of Southern's properties, the characteristics of the Assets, the successful integration of the Assets into Southern's operations, the successful application of drilling, completion and seismic technology, prevailing weather conditions, prevailing legislation affecting the oil and gas industry, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements, the availability of capital, labour and services, the creditworthiness of industry partners and the ability to source and complete asset acquisitions.

Although Southern believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Southern can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), constraint in the availability of services, commodity price and exchange rate fluctuations, changes in legislation impacting the oil and gas industry, adverse weather or break-up conditions and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. These and other risks are set out in more detail in Southern's Annual Information Form for the year ended December 31, 2018, which is available on SEDAR.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information, but which may prove to be incorrect. Although Southern believes that the expectations reflected in its forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because Southern can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this press release, assumptions have been made regarding and are implicit in, among other things, the timely receipt of any required regulatory approvals and the satisfaction of all conditions to the completion of the Acquisition and

the Convertible Debenture Financing. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

The forward-looking information contained in this press release is made as of the date hereof and Southern undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward-looking information contained in this press release is expressly qualified by this cautionary statement.

**Future Oriented Financial Information:** Any financial outlook or future oriented financial information in this press release, as defined by applicable securities legislation, has been approved by management of Southern. Readers are cautioned that any such future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein. The Company and its management believe that the prospective financial information has been prepared on a reasonable basis, reflecting management's best estimates and judgments, and represent, to the best of management's knowledge and opinion, the Company's expected course of action. However, because this information is highly subjective, it should not be relied on as necessarily indicative of future activities or results.

**Non-IFRS Measures.** This press release contains certain financial measures commonly used in the oil and natural gas industry, such as adjusted funds flow from operations, operating netback, corporate cash flow and net debt. These terms are not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these non-IFRS measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The non-IFRS measures referred to and provided in this press release, and the manner in which they are reconciled to IFRS financial measures, are discussed in the MD&A (available on SEDAR). These non-IFRS measures provide additional information that management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities. Management uses adjusted funds flow from operations as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Management considers operating netback to be an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices. Operating netback equals total petroleum and natural gas sales less royalties, production and severance tax and operating costs calculated on a Boe basis.

Using the Company's commodity price forecast, Management considers corporate cash flow an important measure to evaluate the Company's performance, as it demonstrates corporate lever profitability. Corporate cash flow equals total petroleum and natural gas sales less royalties, operating cost, interest and general

and administrative expenses. Management monitors net debt as part of its capital structure in order to fund current operations and future growth of the Company.

**Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.**

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