Southern Energy Corp. Announces Q3 2019 Financial and Operating Results

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CALGARY, Nov. 28, 2019 - Southern Energy Corp. ("Southern" or the "Company") (SOU: TSXV), an established natural gas and oil producer with U.S.-based assets, today released its financial and operating results for the three and nine months ended September 30, 2019. Southern's unaudited condensed consolidated financial statements (the "Financial Statements") and related management's discussion and analysis (the "MD&A") for the three and nine months ended September 30, 2019 are available on the Company's website at http://www.southernenergy.ca/ and filed on SEDAR. All figures referred to in this news release are denominated in Canadian dollars, unless otherwise noted.

THIRD QUARTER 2019 HIGHLIGHTS

- Achieved record production averaging 15,832 Mcfe/d (91% natural gas) during Q3 2019 and 11,880 Mcfe/d (88% natural gas) for the first nine months of 2019, including the successful addition of 900 Mcfe/d due to costless well optimizations performed on the high-quality, low-decline Mississippi assets that were acquired by the Company in late Q2 2019 (the "Acquisition").
- Operating netbacks[1] averaged $1.64/Mcfe in Q3 2019 and $1.78/Mcfe for the first nine months of 2019, driving positive adjusted funds flow from operations1 of $1.1 million and $2.0 million, respectively. Operating netbacks[1] in the quarter were supported by production and operating cost savings totaling $0.42/Mcfe, or a 25% improvement over Q2 2019, directly related to operational synergies realized as a result of the Acquisition.
- Realized prices for natural gas and oil in Q3 2019 averaged $2.81/Mcf and $81.41/bbl, respectively, as a direct result of premium pricing at U.S. sales hubs, which currently trade at a premium to Canadian benchmark prices and benefit producers selling into U.S. markets.
- Capital expenditures through Q3 2019 totaled $0.1 million, primarily directed to facility and wellsite equipment upgrades associated with the Acquisition.
- Cost reduction efforts continued as Southern drove down operating expenses in Q3 2019 by approximately $24 thousand per month through streamlined field operations and negotiated a $0.36/Mcf transportation cost reduction on approximately two thirds of the production gained through the Acquisition.
- Directed excess adjusted funds flow from operations[1] to voluntarily repay $0.7 million on the Company's credit facility (the "Credit Facility") in Q3 2019, with an additional $0.4 million repaid subsequent to quarter end, further demonstrating Southern's commitment to strengthening its balance sheet and enhancing financial flexibility.
- Subsequent to September 30, 2019, as part of the semi-annual borrowing base review, the Company's subsidiary Southern Energy Corp. (Delaware), a wholly-owned subsidiary of the Corporation entered into an amendment to the Credit Facility adjusting the borrowing base to US$15.0 million ($19.9 million). Beginning January 1, 2020, the borrowing base will be reduced monthly by US$250 thousand ($330 thousand) until the completion of the next borrowing base review scheduled for March 1, 2020. As of November 27, 2019, Southern had US$14.7 million ($19.5 million) drawn on the Credit Facility.
- Subsequent to September 30, 2019, Southern entered into commodity derivative contracts for 1,000 MMBtu/d from January 1, 2020 to March 31, 2020 at US$2.70/MMBtu and 50 bbls/d for calendar 2020 at US$55.25/bbl.

[1] See "Non-IFRS Measures" under "Reader Advisory" below.

"Financial discipline, cost control and long-term sustainability continue to be priorities for Southern into Q4 and to set the stage for 2020," said Ian Atkinson, Southern's President & CEO. "Given Southern's high-quality asset base with low annual production decline rates, our maintenance capital requirements are minimal, allowing us to internally fund capital expenditures while reducing debt and seeking to maximize operating cash flow."

Financial & Operating Highlights

	Three months ended		Nine months ended	
	September 30		September 30	
FINANCIAL	2019	2018	2019	2018
(000s, except $ per share)				
Oil and natural gas revenue	$ 5,340	$ -	$ 14,147	$ -
Net loss	(1,081)	-	(3,109)	-
Per share – basic & diluted	(0.00)	-	(0.01)	-
Total net loss	(1,081)	(134)	(3,086)	(327)
Adjusted funds flow from operations[1]	1,143	(29)	2,000	(29)
Capital expenditures	595	-	22,754	-
Net debt[1]	32,130	-	32,130	-
Common Shares outstanding				
Weighted average – basic & diluted	223,770	24,247	223,770	24,247

Notes:

1. See "Non-IFRS Measures".
2. See "Reader Advisory".

	Three months ended		Nine months ended	
	September 30		September 30	
OPERATING	2019	2018	2019	2018
Sales volumes				
Crude Oil (Bbl/d)	198	-	180	-
Natural Gas (Mcf/d)	14,440	-	10,439	-
NGLs (Bbl/d)	34	-	39	-
Production from continuing operations	15,832	-	11,753	-
Production from discontinued operations	-	295	127	282
Total production (Mcfe/d)	15,832	295	11,880	282
Percentage of natural gas	91%	-	89%	-

Average realized prices				
Crude Oil ($/Bbl)	$ 81.41	$ -	$ 83.31	$ -
Natural Gas ($/Mcf)	2.81	-	3.36	-
NGLs ($/Bbl)	39.32	-	44.14	-
Combined ($/Mcfe)	$ 3.67	$ -	$ 4.41	$ -
Operating Netback ($/Mcfe)[1]				
Revenue	$ 3.67	$ -	4.41	$ -
Royalties	(0.69)	-	(0.82)	-
Realized gain / (loss) on derivatives	0.19	-	0.06	-
Production and operating costs	(1.29)	-	(1.57)	-
Transportation expense	(0.24)	-	(0.30)	-
Operating netback ($/Mcfe)[1]	$ 1.64	$ -	$ 1.78	$ -
Operating netback % of revenue	45%	-	40%	-

Notes:

1. See "Non-IFRS Measures".
2. See "Reader Advisory".

Outlook

For the remainder of 2019, Southern plans to execute a disciplined and conservative capital program totaling $0.3 million focused on maintaining stable production volumes. As a result of the preparatory work completed earlier this year, the Company is ideally positioned to quickly advance its Gwinville drilling program when commodity prices and the broader operating environment are supportive. As the Gwinville land is held by production, there are no expiry issues pertaining to the well. The Company will continue to monitor current and forward commodity prices and assess its own financial capabilities before electing to proceed with any additional drilling as part of its growth and development program.

For the balance of 2019, close to 30% of Southern's budgeted natural gas production is hedged at an average price of US$2.84/Mcf with additional hedges layered on through 2020 and 2021 at $2.64/Mcf and $2.58/Mcf respectively, positioning the Company to withstand further commodity price volatility.

Southern thanks all of its shareholders, employees and other stakeholders for their ongoing support through these challenging market conditions.

Southern's Annual General and Special Meeting will be held on December 11, 2019 at 9:00 am Calgary-time in the Devonian Gardens Event Room – 400, 317 – 7th Avenue SW, Calgary, Alberta Canada T2P 2M5.

About Southern Energy Corp.

Southern Energy Corp. is an oil and natural gas exploration and production company. Southern has a primary focus on acquiring and developing conventional light oil and natural gas resources in the southeast Gulf States of Mississippi and Alabama. Our management team has a long and successful history working together and have created significant shareholder value through accretive acquisitions, optimization of existing oil and natural gas fields and the utilization of horizontal drilling and multi-staged fracture completion techniques.

READER ADVISORY

MCFE Disclosure. Natural gas liquids volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent ("Mcfe") using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (Mcf) are converted to barrels of oil equivalent ("boe") using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Mcfe and boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf may be misleading as an indication of value.

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 the Company's asset base, future production levels, costs/debt reducing activities, its capital program for Q4 2019 and its Gwinville drilling program.

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Southern, including the timing of and success of future drilling, development and completion activities, the performance of existing wells, the performance of new wells, the availability and performance of facilities and pipelines, the geological characteristics of Southern's properties, the characteristics of the its assets, the successful integration of the Acquisition assets into Southern's operations, the successful application of drilling, completion and seismic technology, benefits of current commodity pricing hedging arrangements, 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.

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 provides certain financial measures that do not have a standardized meaning prescribed by IFRS. These non-IFRS financial measures may not be comparable to similar measures presented by other issuers. Adjusted funds flow from operations, net debt and operating netback are not recognized measures under IFRS. Management believes that in addition to net income (loss), adjusted funds flow from operations and operating netback are useful supplemental measures that demonstrates the Company's ability to generate the cash necessary to repay debt or fund future capital investment. Investors are cautioned, however, that this measure should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indication of Southern's performance. Southern's method of calculating these measures may differ from other companies and accordingly, they may not be comparable to measures used by other companies. Adjusted funds flow from operations is calculated based on cash flow from operative activities before changes in non-cash working capital and cash decommissioning expenditures. Net debt is defined as long-term debt plus working capital surplus or deficit. Operating netback equals total oil and natural gas sales less royalties, production taxes, operating expenses, transportation costs and realized gain / (loss) on derivatives. Please refer to the MD&A for additional information relating to non-IFRS measures, which is available on the Company's website at www.southernenergycorp.com and filed on SEDAR.

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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