

Southern Energy Corp. Announces Q4 and Year End 2019 Financial and Operating Results

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CALGARY, May 4, 2020 - [Southern Energy Corp.](#) ("Southern" or the "Company") (SOU: TSXV), an established natural oil producer with U.S.-based assets, today released financial and operating results for the fourth quarter and year ended December 31, 2019. Southern's audited consolidated financial statements (the "Financial Statements") and related management discussion and analysis (the "MD&A") for the fourth quarter and year ended December 31, 2019 are available on the Company's website at <http://www.southernenergycorp.com> and have been filed on SEDAR at www.sedar.com. All figures referred to in this news release are denominated in Canadian dollars, unless otherwise noted.

The year ended December 31, 2019 represents Southern's first full year of operations focused on building a socially responsible and environmentally conscious company targeting the acquisition and development of underexploited, low-decline natural gas and light oil assets in the U.S. Gulf Coast states. The Company's ability to shift focus between natural gas or crude oil development as commodity prices fluctuate helps to mitigate risk and is expected to provide strategic benefit in the current changing environment.

2019 HIGHLIGHTS

- Southern high-graded and streamlined its asset base with the strategic acquisition of high-quality, low-decline assets in 2019, including control of strategic facilities and infrastructure complementary to the Company's existing Mississippi River operations (the "Acquisition"). In May 2019, Southern divested of all remaining Canadian oil and natural gas assets for \$2.4 million, solidifying its position as a pure-play U.S. exploration and production company.
- Production in Q4 2019 averaged 15,313 Mcfe/d (90% natural gas) and 12,656 Mcfe/d (89% natural gas) for full year 2019. Had the Acquisition closed on January 1, 2019, total production for 2019 is estimated to have averaged approximately 15,300 Mcfe/d, in line with Q4 2019 production levels, highlighting the low-decline nature of Southern's assets.¹
- Adjusted funds flow from operations² in Q4 and full year 2019 totaled \$1.4 million and \$3.4 million, respectively, on a pro-forma basis, full year adjusted funds flow from operations² would have been \$5.3 million using an Acquisition date of January 1, 2019.¹
- Excess adjusted funds flow from operations² generated during the second half of the year were used to repay US bank debt (\$2.4 million) on the Company's credit facility (the "Credit Facility"), further demonstrating Southern's commitment to strengthening its balance sheet and enhancing financial flexibility.
- Operating netbacks² during Q4 and full year 2019 averaged \$1.91/Mcfe and \$1.82/Mcfe, respectively, reflecting the impact of higher pricing at U.S. sales hubs, which currently trade at a premium to Canadian benchmark prices and benefit from selling into U.S. markets. Realized prices for Southern's natural gas and oil in 2019 averaged \$3.22/Mcf and \$77.00/bbl, respectively.
- In June 2019, Southern closed a rights offering for net proceeds of \$1.9 million, followed by a convertible debenture financing which raised \$7.3 million, which was used to partially fund the Acquisition.
- Southern's disciplined approach to allocating capital and controlling costs in 2019 resulted in exploration and development capital expenditures of \$1.6 million, net of acquisitions, and a reduction in operating expenses of approximately \$1.2 million through the second half of the year due to streamlining field operations on the Acquisition assets.
- Year-end 2019 working interest reserves of 37.9 Bcfe PDP (PV10 \$40.2MM), 68.2 Bcfe Total Proved (PV10 \$65.0MM), 76.8 Bcfe Total Proved Plus Probable (PV10 \$75.3MM), representing reserve-life indices of 7.5, 13.5 and 15.2 years, respectively.
- At December 31, 2019, Southern had positive working capital of \$0.5 million excluding the royalty payables and US bank debt of \$18.2 million drawn on the Credit Facility.

¹ See "Pro Forma Information" under "Reader Advisory" below.

² See "Non-IFRS Measures" under "Reader Advisory" below.

"Our goal for 2020 will be to continue driving down costs across our existing asset base and seeking opportunities, such as accretive acquisitions, that enable Southern to reduce debt and strengthen our balance sheet," said Ian Atkinson, Southern's President & CEO. "Given the current commodity price environment, we believe that pursuing acquisition targets offers superior rates of return relative to drilling, and we will continue to focus on identifying high-quality assets that can be consolidated within our existing portfolio, and potentially establishing a new core position within the U.S. Southeast Gulf States."

Financial & Operating Highlights

	Three months ended Year ended			
	December 31		December 31	
FINANCIAL	2019	2018	2019	2018
(000s, except \$ per share)				
Oil and natural gas revenue	\$ 5,525	\$ 806	\$ 19,129	\$ 806
Net loss from continuing operations	(7,787)	(2,160)	(10,896)	(2,160)
Per share – basic & diluted	(0.03)	(0.05)	(0.05)	(0.07)
Total net loss	(7,787)	(2,368)	(10,873)	(2,695)
Adjusted funds flow from operations ¹	1,437	(1,374)	3,437	(1,403)
Capital expenditures	189	1	22,943	1
Net debt ¹	31,297	12,683	31,297	12,683
Common Shares outstanding				
Weighted average – basic & diluted	223,770	47,740	215,201	30,168

Notes:

1 See "Non-IFRS Measures" under "Reader Advisory", below

OPERATING	Three months ended Year ended			
	December 31		December 31	
	2019	2018	2019	2018
Sales volumes				
Crude Oil (Bbl/d)	217	25	190	6
Natural Gas (Mcf/d)	13,783	1,058	11,282	267
NGLs (Bbl/d)	38	4	39	1
Production from continuing operations (Mcfe/d)	15,313	1,232	12,656	309
Production from discontinued operations (Mcfe/d)	-	288	95	283
Total production (Mcfe/d)	15,313	1,520	12,751	592
Percentage of natural gas	90%	86%	89%	86%
Average realized prices				
Crude Oil (\$/Bbl)	\$ 74.73	\$ -	\$ 77.23	\$ -
Natural Gas (\$/Mcf)	3.08	-	3.22	-
NGLs (\$/Bbl)	35.47	-	34.98	-
Combined (\$/Mcfe)	\$ 3.92	\$ -	\$ 4.14	\$ -
Operating Netback (\$/Mcfe) ¹				
Revenue	\$ 3.92	\$ 7.11	\$ 4.14	\$ 7.11
Royalties	(0.78)	(1.31)	(0.84)	(1.31)
Realized gain / (loss) on derivatives	0.08	(0.98)	0.07	(0.98)
Production and operating costs	(1.25)	(2.34)	(1.47)	(2.34)
Transportation expense	(0.06)	(0.26)	(0.08)	(0.26)
Operating netback (\$/Mcfe) ¹	\$ 1.91	\$ 2.22	\$ 1.82	\$ 2.22
Operating netback % of revenue	49%	31%	44%	31%

Notes:

1 See "Non-IFRS Measures" under "Reader Advisory", below

Outlook

Subsequent to year end, significant challenges to Southern's business resulted from the extreme volatility in commodity prices and the global COVID-19 pandemic. These challenges have accelerated through the first quarter of 2020 and continued into the second quarter. During this time of uncertainty, Southern has prioritized the health and safety of its personnel while ensuring business continuity. Last year, Southern completed the transition to a pure-play, U.S. oil and natural gas producer. This coming year, supported by its existing low-decline asset base, the Company intends to be active on the acquisition front, with a sharp focus

on reducing debt and bolstering the balance sheet. Southern's planned capital program of \$0.5 million for 2020 is designed to maintain production levels, while generating excess adjusted funds flow that can be allocated to debt repayment.

As part of its risk management strategy, the Company has secured fixed price hedges on 6,000 Mcf/d of natural gas production of (which represents approximately 45% of its current volumes) at an average price of US\$2.55/Mcf. In addition, Southern has entered into a buy-back swap for 75 bbls/d of oil production where Southern will pay a fixed price of WTI US\$26.11/bbl. This transaction enables Southern to lock in a hedge gain of US\$543 thousand for the remainder of 2020 on the two existing oil fixed price swaps. Southern has also hedged close to 35% of Southern's currently budgeted 2021 natural gas production is hedged at an average price of US\$2.45/Mcf through December 2021, positioning the Company to weather further commodity price volatility. We expect that with the increase in structural demand for natural gas in the United States, coupled with the lack of capital spending on supply additions through drilling for dry gas or associated gas, the scales will tip in the favour of stronger gas prices for the next decade.

Consistent with Southern's commitment to financial discipline, cost controls and long-term sustainability, the Company recently implemented cost-saving measures in response to COVID-19 and weakened commodity prices. These measures will result in a 20% reduction in corporate salaries, a 10% reduction in field salaries and the elimination of all non-essential business expenditures. Additional cost reduction initiatives include the ongoing evaluation of opportunities to reduce operating and capital costs, unwinding of "in-the-money" derivative contracts, selling non-core oil and gas assets and pursuing potential alternative financing sources. Southern believes that with its low-decline asset base which offers meaningful torque to commodity price upside, and its low capital and operating cost structure, the Company is well positioned to benefit from a strengthening in commodity prices.

In March 2020, Southern was informed by its third-party pipeline and gathering services provider for the Mechanicsburg assets that an operational event caused the pipeline company to direct all suppliers to suspend deliveries into the pipeline for an indeterminate period of time. The pipeline company declared this to be a force majeure event and had advised it was working to rectify the situation. The temporary shut-in of the Mechanicsburg impacted approximately 550 boe/d (80% natural gas). Southern has been informed by the pipeline and gathering services provider that the situation will be resolved, and production is expected to resume in June 2020.

As part of the March 1, 2020 bank redetermination, Southern will enter into a sixth amendment (the "Sixth Amendment") to the credit agreement. The Sixth Amendment outlines the total borrowing base of US\$14.0M which is currently fully drawn. Tranche A of US\$8.5M conforms to the existing Credit Facility, except for a minimum interest rate of 4.5%, while Tranche B of US\$5.5M is non-conforming. Tranche B carries the same effective interest rate as Tranche A, and a cash flow repayment mechanism. Beginning on May 26, 2020 and continuing on the 26th day of every month until the July 2020 redetermination, any available cash balance in excess of US\$0.4M held with the lender will be utilized to paydown the owing balance on Tranche B. The hedging requirements will be increased to 80% of projected PDP volumes on a rolling 24 months and 50% of projected PDP volumes for months 25 to 36. There will be non-financial covenants added, primarily related to additional financial reporting. The Sixth Amendment also sets the next redetermination on July 1, 2020.

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

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.

Abbreviations

bbls barrels

bbls/d barrels per day

boe barrels of oil equivalent

Mboe thousands barrels of oil equivalent

Mcf thousand cubic feet

Mcf/d thousand cubic feet per day

Mcfe thousand cubic feet equivalent

Mcfe/d thousand cubic feet equivalent per day

IFRS International Financial Reporting Standards as issued by the International Accounting Standards Board

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 2020, the ability to source and complete asset acquisitions, the future demand for natural gas and prices thereof.

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 its assets, 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, 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, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures and deterioration in general economic conditions due to, among other things, the actions of oil and gas producing countries and the impact of COVID-19. These and other risks are set out in more detail in Southern's Annual Information Form for the year ended December 31, 2019.

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 demonstrate the Company's ability to generate the cash necessary to repay debt or fund future capital investment. Investors are cautioned, however, that these measures 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.

Pro Forma Information. This press release includes certain pro forma information combining the Company's results from the twelve months ended December 31, 2019 with results from the Acquisition assets for the same period. Management believes that reviewing the Company's operating results by combining actual and pro forma results including the Acquisition is useful in reaching conclusions regarding the overall operating performance of the Company, as the Acquisition closed on June 14, 2019 and contributed less than half a year of results to the Financial Statements for the year ended December 31, 2019. The pro forma information contained herein includes adjustments as if the Acquisition had occurred on January 1, 2019, including ~~Contract~~ ~~Consultants~~ for the effects of acquisition accounting but do not include adjustments for costs related to ~~Contract~~ ~~Consultants~~ integration activities, cost savings or synergies that might be achieved by combining assets. The sources of these pro forma results are the Financial Statements combined with the internal, unaudited financial information of the Acquisition assets for the same period. These pro forma financial measures are not specified, defined or determined under IFRS accounting rules. Pro forma amounts to be presented are not necessarily indicative of what the Company's results would have been had we operated the Acquisition assets since January 1, 2019, nor will the historical pro forma amounts necessarily be indicative of future results. For more information, see [Non-IFRS Measures](#).

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