

Southern Energy Corp. Announces Q1 2020 Financial and Operating Results

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CALGARY, May 26, 2020 - [Southern Energy Corp.](#) ("Southern" or the "Company") (SOU: TSXV), an established natural gas and oil producer with U.S.-based assets, today released financial and operating results for the three months ended March 31, 2020. Southern's unaudited condensed consolidated interim financial statements (the "Financial Statements") and related management's discussion and analysis (the "MD&A") for the three months ended March 31, 2020 are available on the Company's website at www.southernenergycorp.com and have been filed on SEDAR. All figures referred to in this news release are denominated in Canadian dollars, unless otherwise noted.

First Quarter 2020 Highlights

- Despite a 42% drop in commodity price, Southern generated \$0.7 million of adjusted funds flow from operations¹, a 54% increase compared to \$0.4 million in Q1/19, primarily due to higher production volumes and lower per unit royalty and production, operating and transportation costs year-over-year, offset by lower realized prices.
- Production averaged 12,781 Mcfe/d (92% natural gas) during Q1/20, a 36% increase over Q1/19, primarily due to the additional volumes brought online from a strategic acquisition in 2019. The increase was partially offset by previously announced downtime at the Mechanicsburg field which led to approximately 3,300 Mcfe/d (80% natural gas) being shut-in during the period. Production resumption from Mechanicsburg is expected in June 2020.
- Cost management remains a high priority for Southern, evidenced by production and operating costs declining by 26% to \$1.42/Mcfe in Q1/20 and the reduction of head office salaries by 20%, field salaries by 10%, and the elimination of all non-essential business expenditures.
- Exiting Q1/20, Southern had positive working capital¹ of \$0.8 million, excluding royalties payable, and has demonstrated the ability to generate excess adjusted funds flow from operations¹ even in low commodity price environments, which can be directed to service the Company's credit facility.
- Realized oil and natural gas prices in Q1/20 averaged \$59.91/bbl and \$2.38/Mcf, respectively, compared to the Edmonton par benchmark price of \$51.34/bbl and the AECO daily index price of \$2.03/Mcf, reflecting the benefit of pricing at U.S. sales hubs which currently trade at a premium to Canadian benchmark prices.
- Operating netbacks¹ averaged \$1.37/Mcfe in Q1/20 compared to \$1.83/Mcfe in Q1 2019, having decreased as a result of lower realized prices in the period offset by lower per unit royalty and production, operating and transportation costs, and a realized gain on derivatives.
- Capital expenditures of \$46 thousand in the period were directed to maintenance capital on existing operations and were fully funded by excess adjusted funds flow from operations¹.
- During Q1/20, Southern was able to maintain an average outstanding debt balance of US\$14.0 million despite the challenging economic climate and volatile commodity prices, which contributed to net debt¹ of \$33.3 million at quarter end. The increase over the previous quarter (Dec. 31/19 - \$31.3 million) was primarily due to a weakening of the Canadian dollar against the US dollar which affects the Company's U.S. dollar denominated debt.
- With negative impacts to crude oil and natural gas prices due to macro-level events in the period, the Company's net earnings for Q1/20 were affected which resulted in a non-cash impairment charge of \$10.4 million being recorded in the condensed consolidated interim statements of loss and comprehensive loss. Future positive revisions to forecasted natural gas and crude oil prices could result in a reversal to the non-cash impairment provision. Had Southern not recorded the impairment, the Company's net income would have been \$200 thousand.

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

"In light of COVID-19 and the resultant economic impacts, we have prioritized the health and safety of stakeholders while also focusing on stringent cost control measures to effectively manage through these unprecedented conditions," said Ian Atkinson, Southern's President & CEO. "Our seasoned team has experience navigating economic downturns and our cost reduction actions, including compensation adjustments, are designed to strengthen the balance sheet and support the Company's long-term financial

health. With Southern's high-quality assets and low 12% decline rate, our fully funded capital expenditures for the rest of 2020 are expected to maintain production levels and enhance our position as we emerge into a commodity price recovery."

Response to COVID-19

In response to the COVID-19 pandemic, the Company's main priority continues to be maintaining the health, safety and security of all stakeholders, including employees, contractors, partners and the residents of its operating areas and communities. The Company rapidly implemented its response plans and protocols to protect the health and safety of all stakeholders, and in mid-March, established work from home protocols for all head office employees in Calgary. Southern's advanced technology infrastructure that was in place prior to the pandemic led to a seamless transition to remote working conditions with minimal productivity impact.

In the field, the Company has also implemented new social distancing protocols, including the application of stringent cleaning procedures, limiting the number of people with access to the field office and utilizing virtual alternatives to in-person meetings with suppliers. The Company has also amplified its per unit cost reduction efforts to offset the impact of COVID-19 related pricing volatility. Southern is pleased to confirm that the Company has not realized any lost time to date as a result of the pandemic. Southern will continue to closely monitor the development of COVID-19 and is prepared to take additional precautionary measures depending on the guidance of government and healthcare authorities.

Operationally, Southern has shut-in approximately 20 bbls/d of some minor oil producing properties where netbacks are uneconomic in the current environment, and where resuming production will not impact future reservoir performance. In addition, the Company has elected to utilize well site storage tanks for oil where possible, rather than selling the oil into the currently depressed market. These initiatives are designed to maximize operating netbacks and preserve the future value of the Company's oil reserves.

Financial & Operating Highlights

	Three months ended	
	March 31	
FINANCIAL		
(000s, except \$ per share)	2020	2019
Oil and natural gas revenue	\$ 3,397	\$ 4,252
Net loss from continuing operations	(10,216)	(1,674)
Per share – basic & diluted	(0.05)	(0.01)
Total net loss	(10,216)	(1,697)
Adjusted funds flow from operations ¹	676	439
Capital expenditures, excluding business combinations ⁴⁶		522
Net debt ¹	33,292	11,850
Common Shares outstanding		
Weighted average – basic & diluted	220,770	204,357
OPERATING		
Sales volumes		

Crude Oil (Bbl/d)	144,	164
NGLs (Bbl/d)	22	45
Natural Gas (Mcf/d)	11,785	8,119
Production from continuing operations (Mcfe/d)	12,781	9,373
Production from discontinued operations (Mcfe/d)	-	276
Total production (Mcfe/d)	12,781	9,649
Percentage of natural gas	92%	87%
Average realized prices		
Crude Oil (\$/Bbl)	\$ 59.91	\$ 74.86
NGLs (\$/Bbl)	29.97	36.05
Natural Gas (\$/Mcf)	2.38	4.11
Combined (\$/Mcfe)	\$ 2.92	\$ 5.04
Operating Netback (\$/Mcfe) ¹		
Revenue	\$ 2.92	\$ 5.04
Royalties	(0.59)	(1.02)
Production and operating costs	(1.42)	(1.91)
Transportation expense	(0.04)	(0.11)
Notes:		
Realized gain / (loss) on derivatives	0.50	(0.17)
1. See "Non-IFRS Measures" under "Reader Advisory" below.		
Operating netback (\$/Mcfe) ¹	\$ 1.37	\$ 1.83
Outlook		
Operating netback % of revenue	47%	36%

Due to the unprecedented market volatility caused by COVID-19, the Company intends to maintain a disciplined and conservative capital expenditure program for the balance of the year, to protect the balance sheet as well as preserve value. Southern's previously announced capital program of \$0.5 million for 2020 remains in place and, as a result of the Company's very low 12% corporate decline rate, is anticipated to sustain production levels and generate excess adjusted funds flow at current price levels that can be allocated to debt repayment. The Company continues to explore further liquidity management measures such as unwinding in-the-money derivative contracts, potential sales of non-core oil and gas assets and reviewing alternative sources of financing. In addition, Southern will closely monitor the macro operating and pricing environment and may consider further financial or operational adjustments should volatility persist.

To support stability and mitigate risk, the Company has secured fixed price hedges on 6,000 Mcf/d of natural gas production, representing approximately 50% of current production 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, under which the Company 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. The Company has close to 45% of its budgeted 2021 natural gas production hedged at an average price of US\$2.45/Mcf through December 2021, positioning Southern well to weather further commodity price volatility. The Company's management team anticipates that the increase in structural demand for natural gas in the United States, combined with the lack of capital spending on supply additions through drilling for dry gas or associated gas, will encourage stronger gas prices for both the coming year as well as for the longer term.

Southern thanks all of its shareholders, employees and other stakeholders for their ongoing support through these challenging 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 ("Mcf") 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, resuming production at the Mechanicsburg field, future commodities prices and the Company's capital program for 2020.

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 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, negative effects of the current COVID-19 pandemic, 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, 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, operating netback, working capital and net debt are not recognized measures under IFRS. 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. 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 an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices. Management monitors working capital and net debt as part of its capital structure in order to fund current operations and future growth of the Company.. 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. Working capital is calculated as current assets less current liabilities, removing current derivative assets/liabilities, the current portion of bank debt, and the current portion of lease liabilities. 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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