

Southern Energy Corp. Announces Q2 2020 Financial and Operating Results

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CALGARY, Aug. 27, 2020 - [Southern Energy Corp.](#) ("Southern" or the "Company") (TSXV: SOU), an established natural gas and oil producer with U.S.-based assets, today released financial and operating results for the three and six months ended June 30, 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 and six months ended June 30, 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.

Second Quarter 2020 Highlights

- Generated adjusted funds flow from operations¹ totalling \$0.8 million in Q2 2020 and \$1.4 million in the first six months of 2020, reflecting increases of 80% and 67% over the same periods of 2019, respectively, primarily due to higher production volumes year-over-year and lower per unit production and operating costs, offset by lower realized prices.
- Production averaged 11,798 Mcfe/d (94% natural gas) during Q2 2020, an 18% increase over the same period in 2019 and was 25% higher in the first half of 2020 relative to the first half of 2019. Volume increases are primarily due to a strategic acquisition in 2019, partially offset by third party downtime experienced at the Company's Mechanicsburg field. Operations at Mechanicsburg resumed June 12, 2020 with current production of approximately 3,450 Mcfe/d (88% natural gas).
- Southern continued to drive down production and operating costs to \$1.25/Mcfe in Q2 2020, a decrease of 27% over Q2 2019 and 12% over the previous quarter due to streamlining business and operational processes and the optimization of field equipment and well setups.
- General and administrative ("G&A") costs were reduced in Q2 2020 and the first six months of 2020 by 36% and 22%, respectively, compared to the same periods in 2019, reflecting the Company's efforts to protect its financial position, including compensation reductions implemented in early 2020.
- Operating netbacks¹ averaged \$1.42/Mcfe in Q2 2020 and \$1.40/Mcfe for the first six months of 2020, reflecting lower realized prices offset by lower per unit costs and a realized gain on derivatives, which demonstrates the value of Southern's strong hedge position in maintaining positive cash flow despite extreme volatility in commodity prices.
- Capital expenditures were nil during the period and net proceeds of \$338 thousand were received on the disposition of a fully depleted non-core Canadian royalty asset.
- As at June 30, 2020, Southern had positive working capital¹ of \$1.3 million, excluding royalty payables and bank debt, and has demonstrated the ability to generate excess adjusted funds flow from operations¹ even in low commodity price environments, which can be directed to reduce balances on the Company's credit facility.
- Southern's sales benchmark for oil and natural gas prices for Q2 2020 averaged \$39.81/bbl and \$2.43/MMbtu, respectively, compared to the Edmonton par benchmark price of \$29.84/bbl and the AECO daily index price of \$1.95/MMbtu, demonstrating the benefit of pricing at US sales hubs that currently trade at a premium to Canadian benchmark prices.
- Southern continues to utilize free cash flow¹ to repay debt and as a result, currently has an outstanding bank debt balance of US\$13.7 million.

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

"While enduring unprecedented commodity price volatility, our team rapidly responded, implementing new cost saving measures, streamlining expenses both in the field and corporately and effectively managing the shut-in of our Mechanicsburg asset," said Ian Atkinson, Southern's President & CEO. "With our high-quality asset base featuring a very low 12% base decline rate, Southern has the operational agility to strategically manage through a demanding environment."

Consistent with its strategy, Southern has continued to monitor the potential for opportunistic acquisitions

during the recent volatility and weakness in commodity prices. Exiting the second quarter, the forward curve for natural gas has shown significant structural improvement while crude oil prices have stabilized. As such, Southern believes there may be opportunities to execute accretive asset acquisitions at attractive valuations, capturing the upside of a recovering commodity price market, and ultimately enhance the asset base, grow production volumes, and drive increased cash flows.

Active Response to Challenging Environment

Southern remains committed to protecting the health, safety and security of all stakeholders, including employees, contractors, partners and the residents of its operating areas and communities. The Company continues to implement new protocols to ensure a healthy working environment and offers employees the option to work remotely wherever possible. Management is actively monitoring all COVID-19 updates from the Mississippi Secretary of State and is committed to following the guidance of healthcare experts as operations adjust. Due to the dedication by the Company's staff in following recommended social distancing measures, Southern is pleased to report that it has not had any lost time as a result of COVID-19.

Operational Update

On June 12, 2020, Southern resumed production from its Mechanicsburg assets, which had been shut-in due to a third-party pipeline force majeure event since March 2020 (see March 26, 2020 press release for additional information). The assets are currently producing approximately 3,450 Mcfe/d (88% natural gas) and the resumption of production materially improves Southern's sustainability as the volumes represent approximately 25% of current corporate volumes.

Financial & Operating Highlights

	Three months ended June 30, Six months ended June 30,			
(000s, except \$ per share)	2020	2019	2020	2019
Petroleum and natural gas sales	\$ 2,478	\$ 4,207	\$ 5,875	\$ 8,459
Net loss from continuing operations	(1,871)	(354)	(12,087)	(2,028)
Net loss per share from continuing operations				
Per share ⁽¹⁾	(0.01)	(0.00)	(0.05)	(0.01)
Total net loss	(1,871)	(308)	(12,087)	(2,005)
Total net loss per share				
Per share ⁽¹⁾	(0.01)	(0.00)	(0.05)	(0.01)
Adjusted funds flow from operations ⁽²⁾	752	418	1,428	857
Per share ⁽¹⁾	0.00	0.00	0.01	0.00
Capital expenditures, excluding business combinations ⁽⁵⁾		21,637	41	22,159
Weighted average shares outstanding				
Basic	220,770	208,624	220,770	206,502
Fully diluted	220,770	208,624	220,770	206,502
As at period end				
Common shares outstanding				
Basic	220,770	223,770	220,770	223,770
Fully diluted	220,770	223,770	220,770	223,770
Total assets	39,351	60,669	39,351	60,669
Non-current liabilities	12,621	12,667	12,621	12,667
Net debt ⁽²⁾	\$ 31,659	\$ 31,491	\$ 31,659	\$ 31,491

Notes:

(1) Basic and fully diluted weighted average shares outstanding.

(2) See "Reader Advisories – Non-IFRS Measures".

Outlook

To protect against prolonged market volatility, the Company has entered into fixed price hedges to increase stability and mitigate risk. Southern has fixed price hedges on production of 6,000 Mcf/d of natural gas, representing approximately 50% of current production, at an average price of US\$2.55/Mcf through the end of 2020. On April 27, 2020, Southern entered into a buy-back swap for 75 Bbl/d of oil production. When combined with the Company's two existing oil swaps, Southern will realize proceeds of US\$68 thousand per month for the remainder of 2020. In 2021, the Company has secured fixed prices on approximately 45% of its budgeted 2021 natural gas production at an average price of US\$2.45/Mcf through December 2021.

Natural gas pricing has been challenged in 2020, primarily due to strong supply growth from the associated

natural gas in the Permian combined with weaker global LNG demand. However, this has started to change due to the demand destruction of oil caused by COVID-19 and the large reduction in rig counts resulting from lower oil prices. Southern believes the decrease in new wells being drilled should be beneficial to natural gas prices over the medium to long term. This has been evident as the calendar 2021 strip pricing for Henry Hub is currently trading at an average of US\$2.90/MMBtu. Towards the end of Q2 2020, oil prices have begun to stabilize due to rapidly dropping drilling rig counts, supply curtailments from OPEC and non-OPEC countries, and increased oil demand as economies begin some easing of mandated lockdowns. The June WTI oil price was US\$38.31/bbl compared to the year to date low of US\$17.08/bbl (April).

For the remainder of 2020, the Company intends to continue its flexible and cautious approach to capital spending, with \$0.3 million planned in capital expenditures for the last six months of the year, which is expected to be directed to sustaining production given its very low 12% corporate decline rate and will be funded through excess adjusted funds flow from operations¹. Southern plans to direct any incremental excess adjusted funds flow from operations¹ to the repayment of balances drawn on the Company's credit facility. Management will continue to actively monitor the operating and pricing environment and will assess further financial or operational adjustments if suitable.

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.

www.southernenergycorp.com

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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 and the Company's capital program for the second half of 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, net debt and free cash flow 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 and free cash flow as key measures 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. Free cash flow is defined as cash flows from operating activities, plus discretionary cash generated by the Company from other activities (if any), less lease payments and net capital expenditures. 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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