

Southern Energy Corp. Announces Second Quarter 2023 Financial Results and Provides Gwinville Operational Update

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CALGARY, August 18, 2023 - [Southern Energy Corp.](#) ("Southern" or the "Company") (TSXV:SOU)(AIM:SOUC)(OTCQX:SOUTF), an established producer with natural gas and light oil assets in Mississippi, announces its second quarter financial and operating results for the three and six months ended June 30, 2023. Selected financial and operational information is outlined below and should be read in conjunction with the Company's unaudited consolidated financial statements (the "Financial Statements") and related management's discussion and analysis (the "MD&A") for the three and six months ended June 30, 2023, which are available on the Company's website at www.southernenergycorp.com and have been filed under the Company's profile on SEDAR+ at www.sedarplus.ca.

All figures referred to in this news release are denominated in U.S. dollars, unless otherwise noted.

SECOND QUARTER 2023 HIGHLIGHTS

- Generated \$0.2 million of adjusted funds flow from operations¹ in Q2 2023, excluding \$0.5 million of one-time transaction costs and general and administrative costs
- Net loss of \$3.8 million in Q2 2023 (\$0.03 net loss per share basic and diluted), compared to net earnings of \$2.8 million in Q2 2022
- Petroleum and natural gas sales of \$3.7 million in Q2 2023 and \$8.9 million for the six months ended June 30, 2023
- On June 1, 2023, Southern completed a strategic and highly synergistic acquisition in Gwinville of approximately 400 boe/d (99% natural gas) for cash consideration of \$3.2 million (the "Gwinville Acquisition")
- Q2 2023 average production of 15,907² Mcfe/d (2,651 boe/d) (96% natural gas), an increase of 12% from Q2 2022. Current field sales production is approximately 2,900 boe/d (96% natural gas), with four new horizontal wellbores awaiting completion operations. Once Southern commits to completing these two padsites, it is expected that all four wells could be on production within approximately eight weeks
- Average realized natural gas and oil prices for Q2 2023 of \$2.18/Mcf and \$72.83/bbl compared to \$7.53/Mcf and \$109.01/bbl in Q2 2022. The current NYMEX strip price forecast for the remainder of 2023 is averaging approximately \$3.10/MMBtu, a 47% increase compared to the benchmark price in Q2 2023

Ian Atkinson, President and Chief Executive Officer of Southern, commented:

"Our focus for Q2 2023 was primarily on completing and integrating the Gwinville Acquisition. We have started and will continue, to maximize operational synergies of the assets, as well as position the Company for the return to growth as commodity prices continue to improve. In addition to considerable synergistic value and high-quality drilling inventory, the Gwinville Acquisition provides Southern with access to sell gas into the Florida Gas Transmission system where, similar to Transco Zone 4, we are realizing continuous premium pricing to the NYMEX natural gas price. As the warm summer temperatures in the southern U.S. have elevated natural gas power demand and we now head into a period of slowing production growth due to lack of capital spending by the industry and incremental demand from additional LNG export capacity, we are encouraged by the outlook of supply and demand dynamics for U.S. natural gas. Southern is well positioned to capitalize on natural gas prices with production behind pipe which can be brought on stream in a short time frame.

We remain committed to reaching our goal of 25,000 boe/d and continue to assess opportunities to grow inorganically further building shareholder value as commodity prices continue to recover to a point where we plan to re-launch our organic growth program."

Financial Highlights

Three months ended June 30, Six months ended June 30,

(000s,
except
\$2023
per
share)Petroleum
and
gas
salesNet
(loss)
earningsNet
(loss)
earnings
per
shareBasic
(0.03)

2022 2023 2022

Fully
diluted
(0.03)Adjusted
funds
flow
from
operations
(1)Adjusted
funds
flow
from
operations
per
share
(1)Basic
(0.00)Fully
diluted
(0.00)Capital
expenditures
and
acquisitionsWeighted
average
shares
outstandingBasic
139,039Fully
diluted
139,039As
at
period
endBasic
common
shares
outstanding

\$ 10,311 \$ 8,930 \$ 16,236

2,838 (4,887) 983

(0.04) 0.01

0.03 (0.04) 0.01

3,590 1,379 5,824

0.04 0.01 0.07

0.04 0.01 0.06

10,104 40,184 16,976

83,302 138,816 80,742

101,011 138,816 91,796

89,537 139,041 89,537

Total assets	104,075	58,347	104,075	58,347
Non-current liabilities	20,961	10,013	20,961	10,013
Net				
dpb(26,158) (1)		\$ (12,814)	\$ (26,158)	\$ (12,814)

Note:

1. See "Reader Advisories - Specified Financial Measures".

Gwinville Development Update

As previously reported in the Company's announcement on May 30, 2023, the Company concluded operations on the latest drilling campaign which included seven new horizontal wells into three separate productive horizons from three distinct padsites in the Gwinville Field. The program added three Upper Selma Chalk wells, two Lower Selma Chalk wells and two City Bank wells. The drilling campaign was initially planned for 13 horizontal wells, but the Company paused the capital program in response to the weaker natural gas pricing that has persisted throughout Q2 2023. Of the seven wells that were drilled, only the three wells from the 18-10 padsite were completed with the other four wells (two on the 14-06 pad and two on the 13-13 pad) remaining as uncompleted, waiting on more supportive natural gas prices.

The four wells that are awaiting completion include the first two Lower Selma Chalk laterals, along with the second City Bank lateral and one of the Upper Selma Chalk laterals. These four wells are some of Southern's longest laterals to-date. They were drilled with an average lateral length of approximately 5,400 ft and were steered within the high-graded intervals for an average of 95% of the wellbore length. The two padsites can be brought on production within a matter of weeks once completion operations are resumed. At current strip pricing, Southern will consider commencing completion operations in Q4 2023.

The Company continues to flow back its first City Bank horizontal well at Gwinville 18-10 #1, with load fluid recovery of approximately 20%. The well was brought on-line in late February 2023 with gas rates increasing to approximately 600 Mcf/d and having remained flat for the past few months. The Company believes that the most plausible explanation for the lower than expected gas rate is due to fracture communication with an offset well which had previously been produced from the deeper Tuscaloosa formation from the 1940'-1960's. It is expected that production will remain flat and/or increase as more load fluid is recovered and bottom hole pressure can be decreased, and that the overall recovery from the well should not be materially impacted. In future operations in City Bank horizontal wells, Southern will likely choose to create a buffer zone around the vintage abandoned Tuscaloosa wells by eliminating proximal frac stages to avoid any potential communication. The Company is very excited to complete the 13-13 City Bank horizontal well where it does not foresee any of these potential issues.

Remediation plans for the 18-10 #3 Upper Selma Chalk well that experienced a mechanical integrity issue with the production casing during completion operations have been finalized and services contracted to commence operations in late Q3 2023. The 18-10 #3 well was drilled to a total lateral length of 5,091 ft, achieved 80% of the lateral placed in the targeted porosity zone and was successfully completed in 44 stages prior to the mechanical issue.

Gwinville Acquisition Integration

Southern has been very successful in quickly integrating the acquired assets in Gwinville over the first few months following closing of the transaction on June 1, 2023. Immediate cost savings in the form of labour and supervision redundancies, as well as reduced maintenance contracts have been realized. Southern is currently in the process of installing the necessary pipeline infrastructure to consolidate the two gathering systems, allowing the Company to run one central compressor station versus the five that were running before the transaction. These synergies will not only remove costly rental compression and allow us to monetize spare owned compressors but will also eliminate approximately 250 Mcf/d of fuel gas and associated emissions and add this gas directly to sales volumes. The Company expects this field work to be completed by the end of Q3 2023.

The Company plans to workover a number of acquired wellbores that have significant upside production potential, also expected to be completed by the end of Q3 2023.

Additionally, marketing arrangements assumed from the previous operator have given Southern access to the Florida Gas Transmission Zone #3 that was not previously available. During Q3 2023, Southern has thus far been able to sell as much as 4,000 MMBtu/d into the system, which has had an average premium to Henry Hub/NYMEX over that period of approximately \$0.40 - \$0.60/MMBtu. The Company will continue to maximize our exposure to this sales delivery point as much as possible to optimize our field netbacks.

Outlook

Southern has four high-impact, uncompleted wells ("DUCs") that can be quickly completed and brought online through Southern's 100% owned equipment at higher natural gas prices, greatly improving per Mcfe operating expenses, expected in Q4 2023. This will allow Southern to react quickly to changing commodity prices to maximize returns. Additionally, The Company currently has \$11.5 million of unused capacity on its senior secured term loan (the "Credit Facility"), which can be utilized to complete the DUCs at supportive natural gas prices.

As part of its risk management and sustainability strategy, Southern continuously monitors both the price of NYMEX as well as the basis differentials in order to mitigate some of volatility of natural gas prices. Southern's current commodity hedge program includes:

- Fixed basis swap on 1,000 MMBtu/d at a \$0.32/MMBtu premium to NYMEX from April 1, 2023 to October 31, 2023
- Fixed price swap on 1,000 MMBtu/d at a price of \$3.88/MMBtu from January 1, 2024 to December 31, 2025
- Costless collar on 2,000 MMBtu/d with a floor of \$3.00/MMBtu and a ceiling of \$3.98/MMBtu from September 1, 2023 through March 31, 2024

Southern will continue to monitor NYMEX prices and the basis differential prices and is prepared to hedge additional volumes in a tactical manner going forward.

Southern thanks all of its stakeholders for their ongoing support and looks forward to providing future updates on operational activities and continuing to create shareholder value.

Qualified Person's Statement

Gary McMurren, Chief Operating Officer, who has over 22 years of relevant experience in the oil industry, has approved the technical information contained in this announcement. Mr. McMurren is registered as a Professional Engineer with the Association of Professional Engineers and Geoscientists of Alberta and received a Bachelor of Science degree in Chemical Engineering (with distinction) from the University of Alberta.

For further information about Southern, please visit our website at www.southernenergycorp.com or contact:

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About Southern Energy Corp.

[Southern Energy Corp.](#) is a natural gas exploration and production company characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to premium commodity pricing in North America. Southern has a primary focus on acquiring and developing conventional natural gas and light oil resources in the southeast Gulf States of Mississippi, Louisiana, and East Texas. 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 re-development strategies utilizing 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.

Throughout this press release, "crude oil" or "oil" refers to light and medium crude oil product types as defined by National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). References to "NGLs" throughout this press release comprise pentane, butane, propane, and ethane, being all NGLs as defined by NI 51-101. References to "natural gas" throughout this press release refers to conventional natural gas as defined by NI 51-101.

Unit Cost Calculation. For the purpose of calculating unit costs, natural gas volumes have been converted to a boe using six thousand cubic feet equal to one barrel unless otherwise stated. A boe conversion ratio of 6:1 is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms with NI 51-101. Boe may be misleading, particularly if used in isolation.

Abbreviations. Please see below for a list of abbreviations used in this press release.

bbl barrels
bbl/d barrels per day
boe barrels of oil
boe/d barrels of oil per day
Mcf thousand cubic feet
Mcf/d thousand cubic feet per day
MMcf million cubic feet
MMcf/d million cubic feet per day

Mcfe thousand cubic feet equivalent

Mcfe/d thousand cubic feet equivalent per day

MMBtu million British thermal units
MMBtu/d million British thermal units per day
NYMEX New York Mercantile Exchange

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", "budget", "continue", "evaluate", "forecast", "may", "will", "can", "target" "potential", "result", "could", "should" 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 including the development of the Company's assets, oil and natural gas production levels, including the objective of achieving production of 25,000 boe/d, the Company's capital budget, expectations regarding material reserves, anticipated operational results in 2023 including, but not limited to, capital expenditures and drilling plans, expectations regarding commodity prices, the performance characteristics of the Company's oil and natural gas properties, successful integration of the assets acquired through the Gwinville Acquisition, the Company's hedging strategy, the ability of the Company to achieve drilling success consistent with management's expectations, the Company's expectations regarding completion of wellbores and DUCs and timing thereof, the sources of funding for the Company's activities, the effect of market conditions and the COVID-19 pandemic on the Company's performance, expectations regarding the use of proceeds from all sources, including the Company's credit facilities, the availability and renewal of the Credit Facility and future amendments thereto, future organic and inorganic growth and acquisition opportunities within the resource market, and costs/debt reducing activities. Statements relating to "reserves" and "recovery" are also deemed to be forward- looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Southern, including, but not limited to, 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 drilling rigs, facilities and pipelines, the geological characteristics of Southern's properties, the characteristics of the Company's assets, including the assets acquired pursuant to the Gwinville Acquisition, the successful integration of recently acquired assets into the Company's operations, the successful application of drilling, completion and seismic technology, the benefits of current commodity pricing hedging arrangements, Southern's ability to enter into future derivative contracts on acceptable terms, Southern's ability to secure financing on acceptable terms, prevailing weather conditions, prevailing legislation, as well as regulatory and licensing requirements, affecting the oil and gas industry, the Company's ability to obtain all requisite permits and licences, prevailing commodity prices, price volatility, price differentials and the actual prices received for the Company's products, royalty regimes and exchange rates, the impact of inflation on costs, the application of regulatory and licensing requirements, the Company's ability to obtain all requisite permits and licences, the availability of capital, labour and services, the creditworthiness of industry partners, the Company's ability to source and complete asset acquisitions, and the Company's ability to execute its plans and strategies.

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, regulatory risks, and health, safety and environmental risks), constraint in the availability of labour, supplies, or services, the impact of COVID-19 and variant strains of the virus, commodity price and exchange rate fluctuations, geo-political risks, political and economic instability abroad, wars (including the Russo-Ukrainian War), hostilities, civil insurrections, inflationary risks including potential increases to operating and capital costs, 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. The Russo-Ukrainian War is particularly noteworthy, as this conflict has the potential to disrupt the global supply of oil and gas, and its full impact remains uncertain. These and other risks are set out in more detail in Southern's MD&A and annual information form for the year ended December 31, 2022, which are available on the Company's website at www.southernenergycorp.com and filed under the Company's profile on

SEDAR+ at www.sedarplus.ca.

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. This press release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Southern's prospective results of operations, cash flow, adjusted funds flow, capital expenditures, net debt, and payout of wells, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this document was approved by management as of the date of this document and was provided for the purpose of providing further information about Southern's future business operations. Southern and its management believe that FOFI 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 results. Southern disclaims any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein. Changes in forecast commodity prices, differences in the timing of capital expenditures, and variances in average production estimates can have a significant impact on the key performance measures included in Southern's guidance. The Company's actual results may differ materially from these estimates.

Specified Financial Measures. This press release provides various financial measures that do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS"), including non-IFRS financial measures, non-IFRS financial ratios and capital management measures. These specified financial measures may not be comparable to similar measures presented by other issuers. 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, adjusted working capital and net debt are not recognized measures under IFRS. Readers are cautioned that these specified financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. These specified financial 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. Please see below for a brief overview of all specified financial measures used in this release and refer to the Company's MD&A for additional information relating to specified financial measures, which is available on the Company's website at www.southernenergycorp.com and filed under the Company's profile on SEDAR+ at www.sedarplus.ca.

"Adjusted Funds Flow from Operations" (non-IFRS financial measure) is calculated based on cash flow from operative activities before changes in non-cash working capital and cash decommissioning expenditures. 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.

"Adjusted Funds Flow from Operations per Share" (non-IFRS financial measure) is calculated by dividing Adjusted Funds Flow from Operations by the number of Southern shares issued and outstanding.

"Positive Net Cash (Net Debt)" (capital management measure) is monitored by management, along with adjusted working capital, as part of its capital structure in order to fund current operations and future growth of the Company. Net debt is defined as long-term debt plus adjusted working capital surplus or deficit. Adjusted 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.

Neither the 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.

¹ See "Reader Advisory - Specified Financial Measures"

² Comprised of 102 bbl/d light and medium crude oil, 14 bbl/d NGLs and 15,211 Mcf/d conventional natural

gas

SOURCE: [Southern Energy Corp.](#)

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