

Condensed Consolidated Interim Financial Statements of
SOUTHERN ENERGY CORP.

For the three months ended March 31, 2022 and 2021

(unaudited)

(US Dollars)

SOUTHERN ENERGY CORP.



Condensed Consolidated Interim Statement of Financial Position (unaudited)

(\$000s of US Dollars)	March 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 6,555	\$ 9,622
Accounts receivable and other	2,553	2,532
Prepaid expenses and deposits	550	422
Derivative assets (Note 9)	-	46
	9,658	12,622
Property, plant and equipment (Note 3)	38,553	33,242
Right-of-use assets	323	348
Total assets	\$ 48,534	\$ 46,212
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	5,173	3,367
Royalties payable (Note 10)	4,569	4,480
Current portion of lease liabilities	126	128
Current portion of long-term debt (Note 5)	1,445	1,183
Derivative liabilities (Note 9)	3,471	632
	14,784	9,790
Long-term liabilities		
Convertible debentures (Note 6)	6,313	6,185
Long-term debt (Note 5)	1,669	2,429
Lease liabilities	213	233
Decommissioning provisions (Note 4)	3,582	3,762
Total liabilities	26,561	22,399
Shareholders' equity (Note 7)		
Share capital	40,994	41,018
Equity component of convertible debenture	497	497
Warrants (Note 7)	2,716	2,723
Contributed surplus	4,184	4,144
Deficit	(25,749)	(23,894)
Accumulated other comprehensive income	(669)	(675)
	21,973	23,813
Total liabilities and shareholders' equity	\$ 48,534	\$ 46,212

(See accompanying Notes to the Condensed Consolidated Interim Financial Statements)

SOUTHERN ENERGY CORP.



Condensed Consolidated Interim Statement of Loss and Comprehensive Loss (unaudited)

(\$000s of US Dollars, except for per share amounts)	Three months ended March 31,	
	2022	2021 (Note 14)
Revenues		
Petroleum and natural gas revenue (Note 11)	\$ 5,925	\$ 3,857
Royalties	(1,201)	(784)
	<u>4,724</u>	<u>3,073</u>
Expenses		
Production and operating	1,378	1,156
Transportation	39	46
Depletion, depreciation and amortization (Note 3)	1,050	1,008
Loss on derivatives (Note 9)	3,013	146
Gain on dispositions (Note 3)	(398)	-
Financing (Note 12)	424	481
General and administrative	937	682
Share-based compensation (Note 7)	40	35
Transaction costs	-	69
Loss on foreign exchange	96	81
	<u>6,579</u>	<u>3,704</u>
Total net loss for the period	(1,855)	(631)
Currency translation adjustment	6	10
Comprehensive loss for the period	<u>\$ (1,849)</u>	<u>\$ (621)</u>
Net loss per common share (Note 8)		
Basic	\$ (0.02)	\$ (0.02)
Diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

(See accompanying Notes to the Condensed Consolidated Interim Financial Statements)

SOUTHERN ENERGY CORP.



Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (unaudited)

(\$000s of US Dollars, except share amounts)	Common Shares	Shareholders' Capital	Equity Component of Convertible Debentures	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance, December 31, 2020	27,596,303	\$ 29,271	\$ 497	\$ 1,100	\$ 3,944	\$(33,987)	\$ (582)	\$ 243
Share-based compensation	-	-	-	-	35	-	-	35
Net Loss	-	-	-	-	-	(631)	-	(631)
Other Comprehensive Income	-	-	-	-	-	-	10	10
Balance, March 31, 2021	27,596,303	\$ 29,271	\$ 497	\$ 1,100	\$ 3,979	\$(34,618)	\$ (572)	\$ (343)
Balance, December 31, 2021	78,121,858	\$ 41,018	\$ 497	\$ 2,723	\$ 4,144	\$(23,894)	\$ (675)	\$ 23,813
Shares issued, net	78,125	(24)	-	(7)	-	-	-	(31)
Share-based compensation	-	-	-	-	40	-	-	40
Net Loss	-	-	-	-	-	(1,855)	-	(1,855)
Other Comprehensive Income	-	-	-	-	-	-	6	6
Balance, March 31, 2022	78,199,983	\$ 40,994	\$ 497	\$ 2,716	\$ 4,184	\$(25,749)	\$ (669)	\$ 21,973

(See accompanying Notes to the Condensed Consolidated Interim Financial Statements)

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Condensed Consolidated Interim Statement of Cash Flows (unaudited)



(\$000s of US Dollars)	Three months ended March 31,	
	2022	2021 (Note 14)
Operating activities		
Total net loss for the period	\$ (1,855)	\$ (631)
Changes in non-cash items:		
Depletion, depreciation and amortization (Note 3)	1,050	1,008
Net finance expense	424	481
Unrealized loss on derivatives (Note 9)	2,885	37
Unrealized loss on foreign exchange	88	81
Gain on dispositions	(398)	-
Share-based compensation (Note 7)	40	35
Decommissioning provisions liabilities settled (Note 4)	(15)	-
Changes in non-cash working capital	(630)	(153)
Net cash provided by operating activities	1,589	858
Investing activities		
Capital expenditures	(6,872)	(57)
Proceeds from dispositions	759	107
Changes in non-cash working capital	2,128	(80)
Net cash used by investing activities	(3,985)	(30)
Financing activities		
Share issuance costs	(50)	-
Exercise of warrants	19	-
Paydown of long-term debt (Note 5)	(596)	(450)
Payment of interest	(128)	(207)
Finance lease payments	(36)	(85)
Transaction costs on debt refinance	(3)	-
Changes in non-cash working capital	116	183
Net cash used by financing activities	(678)	(559)
Net increase (decrease) in cash and cash equivalents	(3,074)	269
Effect of foreign exchange rate changes	7	4
Cash and cash equivalents, beginning of period	9,622	910
Cash and cash equivalents, end of period	\$ 6,555	\$ 1,183

(See accompanying Notes to the Condensed Consolidated Interim Financial Statements)

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Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
Amounts in (\$000s of US Dollars), except for per share amounts

1. Reporting Entity and Nature of Operations

Southern Energy Corp. (“Southern” or “Company”) is an oil and natural gas exploration and production company. 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.

On December 22, 2021, the Company completed the consolidation of the common shares (“Common Shares”) on the basis of one post-consolidated Common Share for every eight pre-consolidation Common Shares (the “Consolidation”). The number of Common Shares, purchase warrants, units and share based rewards have been adjusted retrospectively to reflect the 8:1 share consolidation.

Southern’s head office is located in Calgary, Alberta, Canada. Southern trades on the TSX Venture Exchange (“TSXV”) under the trading symbol “SOU” and on the AIM market of the London Stock Exchange plc (“AIM”) under the trading symbol “SOUC”. The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 26, 2022.

2. Basis of Presentation

a) Principles of Reporting and Consolidation

The condensed consolidated interim financial statements of Southern include the accounts of all domestic and foreign subsidiaries. Wholly-owned subsidiaries included in the Company’s accounts include Southern Energy Corp., Southern Energy Corp (Delaware), Southern Energy Operating, LLC, Southern Energy CMS, LLC, Southern Energy LA, LLC, Southern Energy BWB, LLC and Southern Energy SO, LLC. Southern accounts for joint operations by recognizing the Company’s share of assets, liabilities, income and expenses. All intercompany balances and transactions have been eliminated.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements use the accounting policies which the Company applied in its annual consolidated financial statements for the year ended December 31, 2021, with the exception of the changes in accounting policies described below. These condensed consolidated interim financial statements should be read in conjunction with Southern’s consolidated financial statements for the year ended December 31, 2021, which are available on SEDAR at www.sedar.com or on Southern’s website at www.southernenergycorp.com. These condensed consolidated interim financial statements are presented in United States dollars (“US dollars”). All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

The Company’s presentation currency is the US dollar. The functional currency of the parent company is the Canadian dollar, and its results and balance sheet items are translated to US dollars for the purposes of these condensed consolidated interim financial statements, in accordance with the Company’s foreign currency translation accounting policy. The functional currency of the Company’s foreign subsidiaries is the US dollar.

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Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
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b) Presentation and Functional Currency

In the fourth quarter of 2021, the Company elected to change its presentation currency from Canadian dollars to US dollars. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other similar publicly traded businesses in the oil and gas industry. In making this voluntary change to the US dollar presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new US dollar presentation currency. For the 2021 comparative balances prior to Q4 2021, assets and liabilities have been translated into the presentation currency (US dollars) at the rate of exchange prevailing at the reporting date and shareholders equity using the exchange rate at the date of transactions. The statements of Earnings (Loss) and Comprehensive Income (Loss) were translated at the average exchange rates for the reporting period, or at the exchange rates prevailing at the date of transactions if the individual transaction was material. Exchange differences arising on translation were taken to the foreign currency translation reserve in shareholders' equity. See Note 14 "Change in Presentation Currency" for more information on the impact of the change in presentation currency.

c) Recently Announced Accounting Pronouncements

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

Southern adopted the amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets effective January 1, 2022. The amendments clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. On adoption of this amendment, there is no impact to the Company's consolidated financial statements

3. Property, Plant and Equipment

The following table presents the reconciliation of the beginning and ending amounts of our PP&E balances including accumulated depletion, depreciation, amortization and impairment:

	Oil and Natural Gas		Total
	Assets	Other	
Net book value as at December 31, 2021	\$ 33,195	\$ 47	\$ 33,242
Additions	6,887	3	6,890
Dispositions	(366)	-	(366)
Change in decommissioning provision (Note 4)	(193)	-	(193)
Depletion, depreciation and amortization	(1,016)	(4)	(1,020)
Net book value as at March 31, 2022	\$ 38,507	\$ 46	\$ 38,553

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Additions

For the three months ended March 31, 2022, Southern incurred \$6.9 million of capital additions related to the Central Mississippi CGU (“CMS CGU”).

Dispositions

On February 1, 2022, Southern disposed of all its properties in the Smackover CGU (“SO CGU”) for net proceeds of \$0.8 million. Southern recorded a gain on sale of \$0.4 million related to the disposition.

Depletion and depreciation

For the three months ended March 31, 2022, the Company recorded depletion expense of \$1.0 million. In the calculation of depletion expense an estimated \$78.9 million of future development costs associated with the proven plus probable reserves were included.

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the CGUs that comprise oil and natural gas properties. At March 31, 2022, Southern did not identify any indicators of impairment for any of its CGUs.

4. Decommissioning Provisions

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of legal obligations associated with the retirement of property, plant and equipment:

		Total
Balance as at December 31, 2021	\$	3,762
Liabilities incurred		18
Liabilities settled		(15)
Changes in estimates		(193)
Accretion expense		15
Property disposal		(5)
Balance as at March 31, 2022	\$	3,582
Long term liability	\$	3,582

The Company’s decommissioning provisions result from its ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning provision is estimated based on the Company’s net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provision, is approximately \$5.0 million at March 31, 2022 (\$4.3 million at December 31, 2021), which was inflated using a rate of 2.4% (December 31, 2021 – 2.3%) and discounted using a risk-free interest rate of 2.3% at March 31, 2022 (December 31, 2021 – 1.5%).

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5. Long-term Debt

Southern had the following long-term debt obligations outstanding as at the dates indicated:

	As at Mar 31, 2022	As at Dec 31, 2021
Current Portion senior secured term loan	\$ 1,845	\$ 1,582
Long-term portion of the senior secured term loan	2,103	2,961
Unamortized transaction costs	(834)	(931)
Total Long-Term Debt	\$ 3,114	\$ 3,612

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing senior secured term loan (“Credit Facility”) at March 31, 2022. The Credit Facility is comprised of Tranche A of \$5.5 million that was advanced at closing on April 30, 2021 and Tranche B of \$4.5 million (\$0.5 million drawn at March 31, 2022) with an availability until June 30, 2022. Interest on the Credit Facility is 12% per annum, paid monthly in arrears on the last day of the month. The Credit Facility is secured against the oil and gas properties of Southern and matures on April 30, 2024. As at March 31, 2022, Southern had \$3.9 million drawn on the Credit Facility.

The Credit Facility includes a monthly repayment of the principal amount outstanding computed as the sum of: (a) outstanding amount multiplied by 1/A, where A equals the number of whole or part months remaining to the maturity date plus 12 months; and (b) on the last day of the second month following each fiscal quarter, the amount by which 50% of positive free cash flow (“FCF”) (as described below) for the respective fiscal quarter. FCF is calculated as Earnings Before Interest, Taxes, Depreciation, Amortization, and Impairment, and costs related to the AIM admission (“EBITDAX”), less the aggregate of the Credit Facility principal and interest payments.

Effective December 30, 2021, Southern entered into the first amendment to the Credit Facility (the “First Amendment”). The First Amendment included: (a) an extension to the availability of Tranche B from December 31, 2021 to April 30, 2022; and (b) the exclusion of transaction costs related to the August AIM admission from the calculation of EBITDAX.

On April 8, 2022, Southern entered into the second amendment to the Credit Facility (the “Second Amendment”). The Second Amendment includes an increase of Tranche B to \$4.5 million (\$4.0 million available to borrow) and extension of the availability to June 30, 2022.

Below are the financial covenant calculations for the Credit Facility for March 31, 2022 and December 31, 2021:

Financial covenant	Limit	As at	As at
		Mar 31, 2022	Dec 31, 2021
Asset Coverage ratio	Minimum 2.00	9.95	6.55
Debt Service Coverage ratio	Minimum 1.25	2.16	1.73

The asset coverage ratio (“ACR”) of at least 2:1 is calculated as the ratio of the net present value of proved developed producing oil and gas properties as determined by an independent qualified engineer, using a

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price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the Credit Facility.

The debt service coverage ratio (“DSCR”) of greater than 1:25:1 is the ratio of EBITDAX to scheduled principal payments and interest expense.

As at March 31, 2022, Southern was in compliance with the above covenants.

6. Convertible Debentures

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2021	8,389	\$ 6,185	\$ 497
Accretion of discount	-	38	-
Effect of foreign exchange rate changes	-	90	-
Balance at March 31, 2022	8,389	\$ 6,313	\$ 497

Subsequent to March 31, 2022, 3,371,250 Common Shares were issued to satisfy the convertible debenture conversion rights of 2,697 convertible debenture at a price of CAD\$0.80 per Common Share.

7. Shareholders’ Equity

Share Capital

The authorized share capital of the Company consists of an unlimited number of voting Common Shares and an unlimited number of preferred shares.

The following table reflects the Company’s outstanding Common Shares at March 31, 2022 and December 31, 2021:

	Number of Shares	Share Capital
Balance as at December 31, 2021	78,121,858	\$ 41,018
Issuance of common shares to satisfy unit warrant exercise	78,125	26
Share issuance costs	-	(50)
Balance as at March 31, 2022	78,199,983	\$ 40,994

Subsequent to March 31, 2022, 3,245,312 Common Shares were issued related to the exercise of Common Share purchase warrants (“Unit Warrant”) at a price of CAD\$0.32 from the April 2021 non-brokered private placement for proceeds of CAD\$1.0 million.

Warrants

As at March 31, 2022, 2,413,333 performance-based Common Share purchase warrants (“Performance Warrants”) had vested as the 20-day volume weighted average trading price (“Market Price”) of the Common Shares had exceeded CAD\$1.20.

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On April 21, 2022, an amendment was adopted by the Board to the acceleration provisions of the 7,240,000 Performance Warrants issued in 2018. Pursuant to such amendment, the Performance Warrants vest and become exercisable as to one-third upon the Market Price equaling or exceeding CAD\$1.20, an additional one-third upon the Market Price equaling or exceeding CAD\$1.35 and a final one-third upon the Market Price equaling or exceeding CAD\$1.50. In addition, in the event the Market Price equals or exceeds CAD\$1.65, each Performance Warrant shall be exercisable for 1.5 Common Shares, provided that, at the time of exercise in respect of the additional 0.5 of a Common Share per Performance Warrant, the Common Shares are listed on the facilities of a recognized stock exchange (other than the TSXV) or the Common Shares are acquired for cash or for the securities of a company listed on a recognized stock exchange (other than the TSXV). These acceleration thresholds were previously set at CAD\$1.20, CAD\$1.60, CAD\$2.00, and CAD\$3.20, respectively, prior to the amendments that were adopted by the Board.

Stock Option Plan

The following table reflects the Company's outstanding common stock options at March 31, 2022 and December 31, 2021:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2021	3,628,125	\$ 0.71
Balance at March 31, 2022	3,628,125	\$ 0.71

The following table summarizes information regarding stock options outstanding at March 31, 2022:

	Number of options outstanding (000s)	Weighted average remaining terms (years)	Weighted average exercise price for options outstanding (\$CAD/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable (\$CAD/share)
Exercise Price (\$CAD/share)					
\$0.56 - \$0.80	3,628	3.1	\$0.71	1,943	\$0.74

Southern recognized \$40 thousand of share-based compensation expense relating to stock options during the three months ended March 31, 2022 (\$35 thousand – March 31, 2021).

8. Loss Per Share

The following table presents the Company's net loss per share:

	Three months ended March 31, 2022	2021
Net loss	\$ (1,855)	\$ (631)
Basic and diluted - weighted average common shares outstanding	78,152,712	27,596,303
Net loss per share basic and diluted	\$ (0.02)	\$ (0.02)

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The calculation of diluted loss per share for the three months ended March 31, 2022 and 2021 excludes the effect of all outstanding share options, warrants and convertible debentures as they are anti-dilutive.

9. Financial Instruments and Financial Risk Management

Financial Derivative Contracts

Southern utilizes oil and natural gas derivative contracts to mitigate its exposure to commodity price risk associated with future oil and natural gas production. Typical derivative contracts could consist of options, in the form of price floors, collars or three-way collars and fixed-price swaps. The derivative financial instruments are recorded on the condensed consolidated interim statement of financial position as either an asset or a liability measured at fair value. Southern does not apply hedge accounting to its commodity derivative contracts; accordingly, changes in the fair value of these instruments are recognized in the condensed consolidated interim statement of loss and comprehensive loss in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2022:

Natural Gas	Volume	Pricing
<i>Fixed Price Swap</i>		
April 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH \$3.100/MMBtu
April 1, 2022 – December 31, 2022	2,000 MMBtu/d	NYMEX – HH \$4.610/MMBtu

Subsequent to March 31, 2022, Southern entered into the following derivative contract:

Natural Gas	Volume	Pricing
<i>Costless Collar</i>		
November 1, 2022 – March 31, 2023	2,000 MMBtu/d	NYMEX – HH \$3.50 - \$20.00/MMBtu

Financial Derivative Contracts Financial Statement Recognition

The Company's financial instruments that were accounted for at fair value as of March 31, 2022 and December 31, 2021 are presented below. The classification within the fair value hierarchy for these financial instruments is Level 2.

	As at Mar 31, 2022	As at Dec 31, 2021
Comprised of:		
Current derivative asset	\$ -	\$ 46
Current derivative liability	(3,471)	(632)
Net fair value of contracts, end of period	\$ (3,471)	\$ (586)

Below is a reconciliation of the loss on derivatives from the condensed consolidated interim statement of loss and comprehensive loss:

	Three months ended March 31, 2022	2021
Realized loss on derivatives	\$ 128	\$ 109
Unrealized loss on derivatives	2,885	37
Loss on derivative instruments	\$ 3,013	\$ 146

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Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of the Company's cash and cash equivalents and accounts receivable and the positive fair value of any financial derivatives represent the maximum credit exposure.

Cash and cash equivalents

The Company manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivable

Substantially all of the Company's accounts receivable are due from purchasers of the Company's petroleum and natural gas production, joint interest partners and government agencies, and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Company believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Southern had no provision for doubtful accounts as at March 31, 2022 or December 31, 2021.

Liquidity Risk

Liquidity risk arises through excess financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient capital in order to meet its current and future liquidity requirements. The financial liabilities in the statement of financial position consist of accounts payable, royalties payable, lease liabilities, financial derivative liabilities, convertible debentures and the senior secured term loan. Strategies to manage liquidity include, having adequate sources of financing available through its Credit Facilities, estimating future cash flows generated from operations based on reasonable production and pricing assumptions, adding additional commodity derivative contracts, reducing capital spending and utilizing equity to settle interest payments on Convertible Debentures. Southern may also consider sale of non-core oil and gas assets along with alternative sources of financing.

Market Risk

Market risk is the risk that changes in market prices relating to currency, commodity prices and interest rates will affect the Company's net earnings, future cash flows, the value of financial instruments, or the

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fair value of its asset and liabilities. The object of market risk management is to manage and control market risk exposure within acceptable parameters.

To partially mitigate exposure to commodity price risk, Southern entered into various financial derivative instruments. The instruments currently outstanding are described above. As at March 31, 2022, Southern has not entered any foreign exchange derivative contracts or fixed interest rate contracts. As at March 31, 2022, a 10% change in future commodity prices applied against these contracts would have a \$0.9 million impact on net income.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rates. This risk is mitigated as the Credit Facility has a fixed interest rate.

10. Royalties Payable

As at March 31, 2022, Southern had \$4.6 million (\$4.5 million at December 31, 2021) of non-interest bearing royalty payables related to unresolved title or ownership issues. The royalty payable account is made up of balances due to approximately 5,000 royalty holders with over 95% of the balances outstanding for greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

11. Oil and Natural Gas Sales

The following table presents Southern's oil and natural gas sales disaggregated by revenue source:

Commodity sales from production, by product	Three months ended March 31,	
	2022	2021
Crude oil	\$ 1,191	\$ 775
Natural gas liquids	86	64
Natural gas	4,648	3,018
Total Oil and Natural Gas Sales	\$ 5,925	\$ 3,857

12. Financing

The following table presents a breakdown of Southern's financing expenses:

	Three months ended March 31,	
	2022	2021
Long-term debt interest	\$ 128	\$ 207
Convertible debentures interest	131	130
Accretion	154	140
Interest on lease obligations	11	4
Total Financing Expenses	\$ 424	\$ 481

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13. Capital Risk Management

The Company monitors its capital based on projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company's management and approved by or reviewed with the Company's Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt or equity financing is impacted by external conditions, including future commodity prices and global economic conditions. The Company continually monitors business conditions including changes in economic conditions, the risk of its drilling programs, forecasted commodity prices, and potential corporate or asset acquisitions.

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14. Change in Presentation Currency

The impact of the change in presentation currency (see Note 2 “Basis of Presentation – Presentation and Functional Currency” for more information) on the condensed consolidated interim financial statements is as follows:

Restated Condensed Consolidated Interim Statement of Loss and Comprehensive Loss:

(\$000s, except for per share amounts)	Three months ended March 31, 2021 (CAD)	Three months ended March 31, 2021 (Restated)
Revenues		
Petroleum and natural gas revenue	\$ 4,883	\$ 3,857
Royalties	(992)	(784)
	3,891	3,073
Expenses		
Production and operating	1,463	1,156
Transportation	58	46
Depletion, depreciation and amortization	1,276	1,008
Loss on derivatives	185	146
Financing	610	481
General and administrative	863	682
Share-based compensation	44	35
Transaction costs	87	69
Loss on foreign exchange	103	81
	4,689	3,704
Total net earnings (loss) for the period	(798)	(631)
Currency translation adjustment	12	10
Comprehensive income (loss) for the period	\$ (786)	\$ (621)
Net earnings (loss) per common share		
Basic	\$ (0.03)	\$ (0.02)
Diluted	\$ (0.03)	\$ (0.02)

SOUTHERN ENERGY CORP.



Notes to the Condensed Consolidated Interim Financial Statements (unaudited)
 Amounts in (\$000s of US Dollars), except for per share amounts

Restated Condensed Consolidated Interim Statement of Cash Flows:

	Three months ended March 31, 2021 (CAD)	Three months ended March 31, 2021 (Restated)
Operating activities		
Total net loss for the period	\$ (798)	\$ (631)
Changes in non-cash items:		
Depletion, depreciation and amortization	1,276	1,008
Financing expense	610	481
Unrealized loss on derivatives	47	37
Unrealized loss on foreign exchange	103	81
Share-based compensation	44	35
Changes in non-cash working capital	(193)	(153)
Net cash provided by operating activities	1,089	858
Investing activities		
Capital expenditures	(72)	(57)
Proceeds from dispositions	135	107
Changes in non-cash working capital	(100)	(80)
Net cash (used) provided by investing activities	(37)	(30)
Financing activities		
Paydown of long-term debt	(571)	(450)
Payment of interest	(262)	(207)
Finance lease payments	(107)	(85)
Changes in non-cash working capital	230	183
Net cash (used) provided by financing activities	(710)	(559)
Net increase in cash and cash equivalents	342	269
Effect of foreign exchange rate changes	(12)	4
Cash and cash equivalents, beginning of period	1,158	910
Cash and cash equivalents, end of period	\$ 1,488	\$ 1,183