Condensed Consolidated Interim Financial Statements of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2019 and 2018

(unaudited)

(Canadian Dollars)

($000s of Canadian Dollars)	**March 31, 2019**	**December 31, 2018**
Assets		
Current assets		
Cash and cash equivalents	$ 1,911	$ 2,334
Accounts receivable and other	2,745	13,744
Prepaid expenses and deposits	391	300
Derivative assets (Note 10)	97	332
Assets held for sale (Note 12)	1,608	-
	6,752	16,710
Derivative assets (Note 10)	60	20
Property, plant and equipment (Note 4)	34,417	38,199
Right-of-use assets (Note 5)	1,023	-
Total assets	$ 42,252	$ 54,929
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	7,393	8,052
Current portion of lease liabilities (Note 5)	399	-
Bank loan (Note 7)	-	21,009
Derivative liabilities (Note 10)	218	166
Liabilities related to assets held for sale (Note 12)	1,090	-
	9,100	29,227
Long-term Liabilities		
Derivative liabilities (Note 10)	22	51
Bank loan (Note 7)	10,022	-
Lease liabilities (Note 5)	632	-
Decommissioning provisions (Note 6)	5,305	6,740
Total liabilities	25,081	36,018
Shareholders' equity (Note 8)		
Share capital	33,860	33,860
Warrants	1,195	1,195
Contributed surplus	3,883	3,883
Deficit	(21,786)	(20,089)
Accumulated other comprehensive income	19	62
	17,171	18,911
Total liabilities and shareholders' equity	$ 42,252	$ 54,929

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

($000s of Canadian Dollars, except for per share amounts)	Three months ended March 31, 2019	2018
Revenues		
Petroleum and natural gas revenue (Note 11)	$ 4,424	$ -
Royalties	(816)	-
	3,608	-
Expenses		
Production and operating	1,613	-
Transportation	305	-
Depletion, depreciation and amortization (Notes 4 & 5)	1,032	-
Impairment (Note 4)	725	-
Loss on derivatives (Note 10)	360	-
Gain on dispositions (Note 4)	(133)	-
Finance	253	-
General and administrative	962	-
Transaction costs	165	-
	5,282	-
Net loss from continuing operations	(1,674)	-
Net loss from discontinued operations (Note 12)	(23)	(110)
Total net loss for the period	(1,697)	(110)
Currency translation adjustment	(43)	-
Comprehensive loss for the period	$ (1,740)	$ (110)
Basic and diluted (Note 9)		
Continuing operations	$ (0.01)	$ -
Discontinued operations	0.00	(0.00)
Net loss per share	$ (0.01)	$ (0.00)

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

($000s of Canadian Dollars, except share amounts)	Common Shares	Shareholders' Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity
Balance, December 31, 2017	24,246,973	$ 15,923	$ -	$ 3,883	$ (17,394)	$ -	$ 2,412
Net Loss	-	-	-	-	(110)	-	(110)
Balance, March 31, 2018	24,246,973	$ 15,923	$ -	$ 3,883	$ (17,504)	$ -	$ 2,302
Balance, December 31, 2018	204,356,973	$ 33,860	$ 1,195	$ 3,883	$ (20,089)	$ 62	$ 18,911
Net Loss	-	-	-	-	(1,697)	-	(1,697)
Other Comprehensive Income	-	-	-	-	-	(43)	(43)
Balance, March 31, 2019	204,356,973	$ 33,860	$ 1,195	$ 3,883	$ (21,786)	$ 19	$ 17,171

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

	Three months ended March 31, 2019	2018
($000s of Canadian Dollars)		
Operating activities		
Total net loss for the period	$ (1,697)	$ (110)
Changes in non-cash items:		
Depletion, depreciation and amortization (Notes 4 & 5)	1,071	86
Impairment (Note 4)	725	-
Gain on dispositions (Note 4)	(133)	-
Net finance expense	259	5
Unrealized loss on derivatives (Note 10)	214	-
Decommissioning provisions (Note 6)	-	(3)
Changes in non-cash working capital	(784)	41
Net cash (used) by operating activities	(345)	19
Investing activities		
Capital expenditures (Note 4)	(522)	-
Changes in non-cash working capital	448	(13)
Net cash (used) / provided by investing activities	(74)	(13)
Financing activities		
Repayment of bank loan	(10,504)	-
Payment of interest	(231)	-
Finance lease payments	(105)	-
Changes in non-cash working capital	10,867	-
Net cash provided by financing activities	27	-
Net increase in cash and cash equivalents	(392)	6
Effect of foreign exchange rate changes	(31)	-
Cash and cash equivalents, beginning of period	2,334	919
Cash and cash equivalents, end of period	$ 1,911	$ 925

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

1. Reporting Entity and Nature of Operations

Southern Energy Corp. (“Southern” or “Company”) (formerly Standard Exploration Ltd. (“Standard”)) is an oil and natural gas exploration and production company. Southern has a primary focus on developing conventional and unconventional natural gas and light oil resources in the Southeast Gulf States of Mississippi, Alabama and Louisiana. On November 13, 2018, Standard announced and subsequently closed on December 19, 2018, a definitive reorganization and investment agreement with a new management team and board of directors in addition to a non-brokered private placement (collectively, the “Recapitalization”). Concurrent with the Recapitalization the Company closed the acquisition of Gulf Pine Energy Partners, LP (“Gulf Pine”).

On December 31, 2018, Southern completed a consolidation of the Common Shares on the basis of one post-consolidated Common Share for every five pre-consolidated Common Shares. On January 2, 2019 Southern changed its name from "Standard Exploration Ltd." to "Southern Energy Corp." and on January 7, 2019, the Common Shares commenced trading on the TSX Venture Exchange (“TSXV”) under the new name and new trading symbol "SOU". All information related to issued and outstanding common shares, stock options and warrants, has been restated to reflect the share consolidation for all periods present.

Southern’s head office is located in Calgary, Alberta, Canada. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 28, 2019.

2. Basis of preparation

The condensed consolidated 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 (DE), Southern Energy Operating, LLC, Southern Energy CMS, 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 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 financial statements use the accounting policies which the Company applied in its annual consolidated financial statements for the year ended December 31, 2018, 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, 2018, which are available on SEDAR at www.sedar.com or on Southern’s website at www.southernenergy.ca. These Condensed Consolidated Financial Statements are presented in Canadian dollars. All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

The Company’s presentation and functional currency is the Canadian dollar. The functional currency of the Company’s United States (“US”) subsidiaries is the US dollar, and its results and balance sheet items are translated to Canadian dollars for the purposes of these consolidated financial statements, in accordance with the Company’s foreign currency translation accounting policy.

3. Change in Accounting Policies:

Assets held for sale and discontinued operations

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are tested for impairment prior to transfer and measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the profit or loss in the period measured. Non-current assets and disposal groups held for sale are presented in current assets and liabilities on the statement of financial position.

Individual non-current assets or disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held-for-sale. The results of discontinued operations are shown separately in the consolidated statements of operations with comparative figures restated. Detailed disclosure of revenue, expenses and net earnings (loss) are disclosed in the notes. Cash flows and comparative figures are disclosed in Note 12.

Amendments to IFRS 3 "Business Combinations" – Definition of a Business ("IFRS 3")

Southern elected to early adopt the amendments to IFRS 3 effective January 1, 2019, which will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the application of the acquisition method. The Company retrospectively adopted the amendments to IFRS 3, which did not result in any adjustments to the prior issued financial statements.

Adoption of IFRS 16 — Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognized the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption, Southern elected to use the following practical expedients permitted under the standard:

- Account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of a lower dollar value (less than $5 thousand); and
- Recognize lease liabilities at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at

Amounts in ($000s of Canadian Dollars), except for per share amounts

January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on date of transition.

As a result of the adoption of IFRS 16 as at January 1, 2019, Southern recorded a current lease liability of $405 thousand and a long-term lease liability of $714 thousand with an associated Right-of-Use Asset of $1.1 million. The difference in operating lease commitments disclosed as at December 31, 2018 and lease liabilities recognised in the statement of financial position at January 1, 2019 is primarily due to the discounting of the future lease payments using Southern's incremental borrowing rate.

4. 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 Assets	Other	Total
Net book value as at December 31, 2018	**$ 38,199**	**-**	**$ 38,199**
Additions	522	-	522
Dispositions	(344)	-	(344)
Change in decommissioning provision (Note 7)	96	-	96
Depletion and depreciation	(975)	-	(975)
Impairment	(725)	-	(725)
Effect of foreign exchange rate changes	(748)	-	(748)
Transfers to assets held for sale	(1,608)	-	(1,608)
Net book value as at March 31, 2019	**$ 34,417**	**$ -**	**$ 34,417**

Depletion and depreciation

For the three months ended March 31, 2019, the Company recorded depletion expense of $936 thousand relating to the US assets and $39 thousand relating to the Canadian assets. In the calculation of depletion expense an estimated $42.4 million of future development costs associated with the proven plus probable reserves were included for the US assets and nil for the Canadian assets.

Canadian Disposition

On March 29, 2019, Southern entered into a Purchase and Sale Agreement to sell all of its Canadian oil and natural gas assets for $0.64 million, prior to customary purchase price adjustments. The disposition closed on May 2, 2019.

The Canadian assets have been classified as held for sale and recorded at the lesser of their carrying amount and their fair value based on the observed selling price, less customary purchase price adjustments. Southern recorded an impairment of $725 thousand for the Canadian assets at March 31, 2019.

Amounts in ($000s of Canadian Dollars), except for per share amounts

Non-core Disposition

On February 1, 2019, Southern disposed of a minor non-core property in its Central Mississippi (“CMS”) CGU. There was no cash exchanged in the transaction, however the royalty payables balance of US$112 thousand ($147 thousand) related to the assets was transferred to the purchaser.

Impairment

At March 31, 2019, Southern did not identify any indicators of impairment for any of its US CGUs.

5. Right-of-Use Assets and Lease Liabilities

Right-of-use Assets

The following table presents the reconciliation of the beginning and ending amounts of our ROU balances including accumulated depreciation:

		Total
Carrying value as at January 1, 2019 (Note 3)	**$**	**1,119**
Depreciation		(96)
Carrying value as at March 31, 2019	**$**	**1,023**

Lease Liabilities

Southern had the following lease obligations outstanding as at the dates indicated:

		Total
As at January 1, 2019 (Note 3)	**$**	**1,119**
Interest expense		17
Lease payments		(105)
As at March 31, 2019	**$**	**1,031**
Less: Current portion		399
Lease liability	$	632

The Company has lease liabilities for contracts related to office space. The lease labilities were discounted using the Company’s incremental borrowing rate at January 1, 2019 of 6.0%.

6. Decommissioning Provisions

The Company’s decommissioning provisions result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. 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 $7.1 million at March 31, 2019, which have been discounted using a risk-free interest rate of 2.4% at March 31, 2019. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 28 years into the future and will be funded from general corporate resources at the time of abandonment.

Amounts in ($000s of Canadian Dollars), except for per share amounts

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, 2018	**$**	**6,740**
Changes in estimates		96
Property disposal		(330)
Accretion expense		11
Transfers of liabilities related to assets held for sale		(1,090)
Effect of foreign exchange rate changes		(122)
Balance as at March 31, 2019	**$**	**5,305**
Long term liability	**$**	**5,305**

7. Credit Facility

Southern had the following Credit Facility obligations outstanding as at the dates indicated:

		As at Mar 31, 2019		As at Dec 31, 2018
Current Portion Senior Secured Bank Credit Facility	$	-	$	21,009
Long Term Portion Senior Secured Bank Credit Facility		10,022		-
Total Credit Facility	**$**	**10,022**	**$**	**21,009**

On March 1, 2019, Southern entered into a third amendment (the "Amendment") to the credit agreement (the "Credit Agreement") between Gulf Pine and Texas Capital Bank, National Association providing Gulf Pine with a US$150 million senior secured credit facility (the "Senior Secured Credit Facility"). The Amendment included the assignment of the Credit Agreement from Gulf Pine to Southern Energy Corporation (Delaware) (the "Borrower"), replacement of "GAAP" with "IFRS" with respect to the covenant calculations and a borrowing base reduction from US$16.0 million ($21.8 million) to US$12.5 million ($17.1 million). The February 1, 2021, maturity date of the Credit Agreement remained the same with the execution of the Third Amendment.

Interest on borrowings under the Senior Secured Credit Facility is determined by reference to the London Interbank Offered Rate ("LIBOR") plus a margin that ranges from 2.50% to 3.50%. Southern pays a commitment fee of 0.50% on the undrawn borrowing base. During the three months ended March 31, 2019, the effective interest rate, excluding commitment and other fees, was 5.54%.

Amounts in ($000s of Canadian Dollars), except for per share amounts

As at March 31, 2019, the Senior Secured Credit Facility was subject to the following financial covenants, calculated quarterly:

Financial covenant	Limit	As at Mar 31, 2019	As at Dec 31, 2018
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.5	2.5	4.1
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 3.0	3.4	4.2
Current ratio (Current Assets / Current Liabilities)	Minimum 1.0	1.6	2.1

The financial covenants include financial measures defined within the credit facility agreement that are not defined under IFRS. These financial measures are defined by the credit facility agreement as follows:

- Debt includes only the credit facility drawings at the period end
- Bank EBITDAX is defined as Earnings before Interest, Taxes, Depreciation, Depletion, Amortization, Exploration Expenses and other non-cash charges such as, Impairment, Unrealized (gain) / loss on derivatives, Stock-based compensation and Foreign exchange (gain) / loss
- Current Assets is calculated by taking the total current assets from the consolidated statement of financial position less the current derivative asset and adding the unused portion of the available credit facility
- Current Liabilities is calculated by taking the total current liabilities from the consolidated statement of financial position less the current derivative liability and the current portion of the lease liability
- The twelve-month trailing covenant calculation for Bank EBITDAX and Cash Interest uses the consolidated results of Southern starting from December 19, 2018 and the results of Gulf Pine for trailing periods beginning from April 1, 2018 to December 19, 2018

As at March 31, 2019, the Borrower was in compliance with the above covenants. As at December 31, 2018, the Borrower was not in compliance with the leverage ratio covenant of the Senior Secured Credit Facility. As such, all outstanding debt as at December 31, 2018 was classified under current liabilities. The Borrower has obtained written waivers for non-compliance for the period ended December 31, 2018.

As at March 31, 2019, the borrowing base was US$12.5 million ($16.7 million) and Southern had US$7.5 million ($10.0 million) drawn.

8. 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.

Amounts in ($000s of Canadian Dollars), except for per share amounts

The following table reflects the Company's outstanding Common Shares at March 31, 2019 and December 31, 2018:

	Number of Shares	Share Capital
Balance as at December 31, 2018	204,356,973	$ 33,860
Balance as at March 31, 2019	**204,356,973**	**$ 33,860**

On December 19, 2018, Southern completed a non-brokered private placement of 122,190,000 common shares of the Company (the "Common Shares") at a price of $0.10 per Common Share and 57,920,000 units of the Company (the "Recap Units") at a price of $0.10 per Recap Unit, for aggregate gross proceeds of $18.0 million (the "Private Placement"). Each Recap Unit is comprised of one Common Share and one performance-based Common Share purchase warrant (a "Recap Warrant"). The Transaction closed on the same day.

Warrants

The Company issued 57,920,000 Recap Warrants in conjunction with the December 19, 2018 Private Placement. The Recap Warrants vest and become exercisable as to one-third upon the 20-day volume weighted average trading price of the Common Shares (the "Market Price") equaling or exceeding $0.15, an additional one-third upon the Market Price equaling or exceeding $0.20 and a final one-third upon the Market Price equaling or exceeding $0.25. In addition, in the event the Market Price equals or exceeds $0.40, each Recap 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 Recap Warrant, the Common Shares are listed on the facilities of a recognized stock exchange (other than the TSXV), the Common Shares are acquired for cash or for the securities of a company listed on a recognized stock exchange (other than the TSXV). As at March 31, 2019, 19,306,667 Recap Warrants had vested as the Market Price had exceeded $0.15.

9. Loss Per Share

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

	Three months ended March 31, 2019	2018
Loss from:		
Continuing operations	$ (1,674)	$ -
Discontinued operations	(23)	(110)
Net loss	$ (1,697)	$ (110)
Basic and diluted – weighted average number of shares	204,356,973	24,246,973
Basic and diluted loss per share from:		
Continuing operations	$ (0.01)	$ -
Discontinued operations	0.00	(0.00)
Net loss per share	$ (0.01)	$ (0.00)

Amounts in ($000s of Canadian Dollars), except for per share amounts

The calculation of diluted loss per share for the three months ended March 31, 2019 excluded 57,920,000 performance warrants (three months ended March 31, 2018 – nil performance warrants and 8,500,000 stock options) as they were anti-dilutive.

10. 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 Consolidated 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 Consolidated Statement of Loss and Comprehensive Loss in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2019:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
April 1, 2019 – December 31, 2019	3,900 MMBtu/d	NYMEX – HH $2.840/MMBtu
January 1, 2020 – December 31, 2020	1,000 MMBtu/d	NYMEX – HH $2.600/MMBtu
January 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.748/MMBtu

Crude Oil	Volume	Pricing (US$)
Fixed Price Swap		
April 1, 2019 – December 31, 2019	50 bbl/d	WTI $55.25/bbl

Financial Derivative Contracts Financial Statement Recognition

The Company's financial instruments that were accounted for at fair value as of March 31, 2019 and December 31, 2018 are presented below. The classification within the fair value hierarchy for these financial instruments is Level 2.

Comprised of:	**As at Mar 31, 2019**	**As at Dec 31, 2018**
Current derivative asset	$ 97	$ 332
Current derivative liability	(218)	(166)
Non-current derivative asset	60	20
Non-current derivative liability	(22)	(51)
Net fair value of contracts, end of period	**$ (83)**	**$ 135**

Amounts in ($000s of Canadian Dollars), except for per share amounts

Below is a reconciliation of the loss on derivatives from the Consolidated Statements of Loss and Comprehensive Loss:

	Three months ended March 31,	
	2019	**2018**
Realized loss on derivatives	$ 146	$ -
Unrealized loss on derivatives	214	-
Loss on derivative instruments	**$ 360**	**$ -**

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 and other

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, 2019 or December 31, 2018. During the three months ended March 31, 2019, three third party purchasers each marketed more than 10% of the Company’s oil and natural gas revenue.

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, financial derivative liability and the senior secured credit facility.

Amounts in ($000s of Canadian Dollars), except for per share amounts

At March 31, 2019 and December 31, 2018, the estimated liability relating to the fair value of the Southern common shares and reimbursement of estimated legal fees offered to Canadian Energy Exploration Inc. ("CEEI"), a shareholder who exercised dissent rights relating to the Company's acquisition of CEEI shares in 2012 included in accounts payable and accrued liabilities is $30 thousand.

On March 20, 2019, the shareholder filed an application in the court of Queen's Bench of Alberta to compel the Company to make an offer to pay a monetary amount considered to be fair value for the Common Shares held. The Company and its legal counsel are in the process of resolving the matter through the courts.

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 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 enters into various financial derivative instruments. The instruments currently outstanding are described above. As at March 31, 2019, Southern has not entered into any foreign exchange derivative contracts or fixed interest rate contracts. As at March 31, 2019, a 10% change in future commodity prices applied against these contracts would have a $0.6 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. The Company's interest rate risk arises from its floating rate senior loan. The impact of a 5% increase in the interest rate associated with the senior loan would increase net loss by approximately $0.2 million for the three months ended March 31, 2019.

11. Oil and Natural Gas Sales

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

	Three months ended March 31,	
Commodity sales from production, by product	**2019**	**2018**
Crude oil	$ 1,169	$ -
Natural gas liquids	181	-
Natural gas	3,074	-
Total Revenue from Continuing Operations	**$ 4,424**	**$ -**

12. Assets Held for Sale and Discontinued Operations

At March 31, 2019, the Company reclassified the Alberta CGU and the remaining Canadian segment's associated assets and liabilities as held for sale. The results of operations from the Canadian segment have been reported as a discontinued operation.

Amounts in ($000s of Canadian Dollars), except for per share amounts

Assets and Liabilities Held for Sale

The Alberta CGU assets were classified as held for sale and recorded at the lesser of their carrying amount and their fair value less cost to sell (Note 4). The Alberta CGU and the remaining Canadian segment's associated decommissioning liabilities were classified to liabilities related to assets held for sale.

As at March 31, 2019	Plant, Property & Equipment	Decommissioning Liabilities
Canadian assets	$ 1,608	$ 1,090

Results of Discontinued Operations

	Three months ended March 31, 2019	2018
Revenues		
Petroleum and natural gas revenue	$ 219	$ 188
Royalties	(29)	(24)
	190	164
Expenses		
Production and operating	51	53
Transportation	16	11
Exploration evaluation	1	9
Depletion, depreciation and amortization	39	86
Finance	6	2
General and administrative	100	113
	213	274
Net loss from discontinued operations	**$ (23)**	**$ (110)**

Cash Flows from Discontinued Operations

	Three months ended March 31, 2019	2018
Cash from (used in) operating activities	$ (43)	$ 19
Cash from (used in) investing activities	-	(13)
Cash from financing activities	-	-
Net Cash Flows	**$ (43)**	**$ 6**

13. Subsequent Events

Asset Acquisition

On April 25, 2019, Southern entered into an agreement with an arm's length private company to acquire assets in the State of Mississippi for cash consideration of US$16.5 million ($22.0 million), subject to customary adjustments (the "Acquisition"). The Acquisition has an expected closing date of June 7, 2019 (the "Closing Date").

Rights Offering

On April 25, 2019, Southern announced that the date of record ("Record Date") for the previously announced rights offering (the "Rights Offering") to the holders of Common Shares will be May 10, 2019. Under the Rights Offering, Canadian residents and shareholders of record on the Record Date (the "Eligible Holders") receive one transferable right (a "Right") for every Common Share held. Four Rights will entitle the Eligible Holder to purchase one Common Share at a price of $0.10 per Common Share until the Rights expire at 4:00 p.m. (Calgary time) on June 7, 2019. There is no additional subscription privilege and no standby commitment in respect of the Rights Offering. The completion of the Rights Offering is not subject to Southern receiving any minimum amount of subscriptions from Eligible Holders.

Debenture Financing

On May 23, 2019, in connection with and to fund the Acquisition, Southern entered into an agreement with a syndicate of agents (the "Agents"), pursuant to which the Agents have agreed to offer for sale to the public, on a best efforts basis, up to 8,000 convertible debentures (the "Debentures") of Southern at a price of $1,000 per Debenture for aggregate gross proceeds of up to $8.0 million (the "Debenture Financing").

The Debentures will have a coupon of 8.00% per annum, and a conversion price of $0.125 per Common Share. The Company has granted the Agents an over-allotment option to offer for sale up to an additional $1.2 million aggregate principal amount of the Debentures, on the same terms, exercisable in whole or in part at any time up to 48 hours prior to the Closing Date. The Debentures will be issued pursuant to a debenture indenture (the "Indenture") to be dated as of the Closing Date.

The Debentures will mature and be repayable on June 30, 2022 (the "Maturity Date") and will accrue interest at the rate of 8.00% per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date"), with the first such payment to be made December 31, 2019. The Debentures will be repaid in cash at maturity, subject to earlier redemption by the Company as described below.

At the holder's option, the Debentures will be convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, or (ii) if called for redemption, the date specified for redemption by the Company, at a conversion price of $0.125 per Common Share, subject to adjustment in certain events. This represents a conversion rate of approximately 8,000 Common Shares for each $1,000 principal amount of Debentures, subject to the operation of certain anti-dilution provisions expected to be contained in the Indenture. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the last Interest Payment Date prior to the date of conversion to the date of conversion. In addition to the foregoing, in the event of a change of control of the Company, subject to certain terms and conditions, holders of Debentures will be entitled to convert their Debentures and, subject to certain limitations, receive, in addition to the number of Common Shares they would otherwise be entitled to receive, an additional number of Common Shares per $1,000 principal amount of Debentures.

The Debentures will be direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the Senior Secured Credit Facility, and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

The Debentures will not be redeemable by the Company prior to June 30, 2020. On or after June 30, 2020 and prior to June 30, 2021, the Debentures will be redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 105% of their principal amount plus accrued and unpaid interest, if any. On or after June 30, 2021 and prior to the Maturity Date, the Debentures will be redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 102.5% of their principal amount plus accrued and unpaid interest, if any.

The Debentures will be offered for sale to purchasers in (i) all of the provinces of Canada pursuant to available private placement exemptions and such other international jurisdictions as mutually agreed to by the Agents and the Company, and (ii) the United States on a private placement basis pursuant to exemptions from the registration requirements of U.S. securities laws. The securities issued and sold in the Debenture Financing will be subject to a four month hold period under applicable securities legislation. The Debenture Financing is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities. The net proceeds of the Debenture Financing will be used to fund the Acquisition and is expected to close concurrently with the Acquisition (i.e. the Closing Date).