Southern
ENERGY

Condensed Consolidated Interim Financial Statements of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2020 and 2019

(unaudited)

(Canadian Dollars)

NOTICE OF DISCLOSURE OF NO AUDITOR REVIEW

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

SOUTHERN ENERGY CORP.

Condensed Consolidated Interim Statement of Financial Position (unaudited)

($000s of Canadian Dollars)	March 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 832	$ 424
Accounts receivable	1,428	2,399
Prepaid expenses and deposits	552	371
Derivative assets (Note 10)	2,064	819
	4,876	4,013
Derivative assets (Note 10)	117	120
Property, plant and equipment (Note 3)	36,750	44,308
Right-of-use assets (Note 4)	639	735
Total assets	$ 42,382	$ 49,176
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,019	2,650
Royalties payable (Note 12)	6,154	5,589
Current portion of lease liabilities (Note 4)	377	382
Bank debt (Note 6)	19,862	-
Derivative liabilities (Note 10)	179	105
	28,591	8,726
Long-term liabilities		
Derivative liabilities (Note 10)	49	14
Convertible debentures (Note 7)	6,764	6,648
Lease liabilities (Note 4)	293	381
Bank debt (Note 6)	-	18,183
Decommissioning provisions (Note 5)	5,749	5,276
Total liabilities	41,446	39,228
Shareholders' equity (Note 8)		
Share capital	35,441	35,441
Equity component of convertible debenture (Note 7)	665	665
Warrants	1,195	1,195
Contributed surplus	4,194	4,095
Deficit	(41,178)	(30,962)
Accumulated other comprehensive income (loss)	619	(486)
	936	9,948
Total liabilities and shareholders' equity	$ 42,382	$ 49,176

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

($000s of Canadian Dollars, except for per share amounts)	Three months ended March 31, 2020	2019
Revenues		
Petroleum and natural gas sales (Note 13)	$ 3,397	$ 4,252
Royalties	(691)	(861)
	2,706	3,391
Expenses		
Production and operating	1,655	1,612
Transportation	42	89
Depletion, depreciation and amortization (Note 3 & 4)	1,325	1,032
Impairment (Note 3)	10,400	725
(Gain) loss on derivatives (Note 10)	(1,587)	360
Gain on dispositions	-	(133)
Financing (Note 14)	527	253
General and administrative	918	962
Share-based compensation (Note 8)	99	-
Transaction costs	-	165
Gain on foreign exchange	(457)	-
	12,922	5,065
Net loss from continuing operations	(10,216)	(1,674)
Net loss from discontinued operations (Note 15)	-	(23)
Total net loss for the period	(10,216)	(1,697)
Currency translation adjustment	1,105	(43)
Comprehensive loss for the period	**$ (9,111)**	**$ (1,740)**
Basic and diluted loss (Note 9)		
Continuing operations	$ (0.05)	$ (0.01)
Discontinued operations	0.00	(0.00)
Net loss per share	**$ (0.05)**	**$ (0.01)**

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

($000s of Canadian 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, 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
Balance, December 31, 2019	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,095	$(30,962)	$ (486)	$ 9,948
Share-based compensation	-	-	-	-	99	-	-	99
Net Loss	-	-	-	-	-	(10,216)	-	(10,216)
Other Comprehensive Income	-	-	-	-	-	-	1,105	1,105
Balance, March 31, 2020	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,194	$(41,178)	$ 619	$ 936

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

($000s of Canadian Dollars)	Three months ended March 31, 2020	2019
Operating activities		
Total net loss for the period	$ (10,216)	$ (1,697)
Changes in non-cash items:		
Depletion, depreciation and amortization (Note 3 & 4)	1,325	1,071
Impairment (Note 3)	10,400	725
Gain on dispositions	-	(133)
Net finance expense	527	259
Unrealized (gain) loss on derivatives (Note 10)	(1,002)	214
Unrealized gain on foreign exchange	(457)	-
Share-based compensation (Note 8)	99	-
Decommissioning provisions liabilities settled (Note 5)	1	-
Changes in non-cash working capital	246	(784)
Net cash provided (used) by operating activities	923	(345)
Investing activities		
Capital expenditures	(46)	(522)
Changes in non-cash working capital	(152)	448
Net cash used by investing activities	(198)	(74)
Financing activities		
Paydown of bank debt (Note 6)	-	(10,504)
Payment of interest	(244)	(231)
Finance lease payments (Note 4)	(104)	(105)
Changes in non-cash working capital	(20)	10,867
Net cash (used) provided by financing activities	(368)	27
Net increase (decrease) in cash and cash equivalents	357	(392)
Effect of foreign exchange rate changes	51	(31)
Cash and cash equivalents, beginning of period	424	2,334
Cash and cash equivalents, end of period	$ 832	$ 1,911

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

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 developing conventional natural gas and light oil resources in the Southeast Gulf States of Mississippi and Alabama.

Southern's head office is located in Calgary, Alberta, Canada. Southern trades on the TSX Venture Exchange ("TSXV") under the trading symbol "SOU". The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 26, 2020.

2. Basis of Presentation and Going Concern

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 (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 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, 2019, 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, 2019, 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 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 condensed consolidated interim financial statements, in accordance with the Company's foreign currency translation accounting policy.

In Q4 2019, Southern adjusted how the transportation expenses were being recorded as the majority of the petroleum and natural gas production was and continues to be sold at the wellhead. This adjustment resulted in lower transportation expenses offset by lower petroleum and natural gas revenues and higher royalty expenses. Prior quarters have been restated for comparison purposes. There was no impact to the net loss or comprehensive loss for the comparative periods as a result of these adjustments.

b) Going Concern

The Company prepared the condensed consolidated interim financial statements on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business as they become due. Accordingly, the condensed consolidated interim financial statements have been prepared on a historical cost basis, except certain financial instruments, which are measured at fair value.

Due to the current low commodity price environment and COVID-19 pandemic, Southern is currently reviewing all options to improve the financial strength of the Corporation. The Company implemented cost saving measures to reduce corporate salaries by 20%, field salaries by 10%, and eliminate all non-essential business expenditures. In addition to the cost saving measures noted, Southern will further manage liquidity by evaluating additional opportunities to reduce both operating and capital field expenditures, unwinding of in the money derivative contracts, sale of non-core oil and gas assets and looking for alternative sources of financing.

As at March 31, 2020, Southern had a working capital deficiency of $5.4 million, excluding derivative assets and liabilities, the current portion of the lease liability, and the US$14 million ($19.9 million) drawn on its Senior Secured Bank Credit Facility ("Credit Facility"), that was classified as a current liability at March 31, 2020 (see Note 6 "*Bank Debt*" for more information). Given the volatility in commodity prices, the ongoing COVID-19 pandemic and the previously announced downtime at the Mechanicsburg field, at the end of Q1 2020 Southern was not compliant with the leverage ratio covenant of its Credit Facility, but has obtained a written waiver from its lenders for non-compliance for the period ended March 31, 2020 (see Note 6 "*Bank Debt*" for more information). Southern is currently receiving the cooperation of its lending institution with respect to the Company's covenant breach under the Credit Facility, and Management believes that an agreement will be reached such that Southern will be in good standing under the Credit Facility on a go-forward basis. However, there can be no assurance that Southern's lender will waive any further breaches of the Credit Facility or that Southern will be able to arrange alternative financing (if needed) on terms satisfactory to the Company or at all. This material uncertainty may cast significant doubt with respect to the ability of the Company to continue as a going concern.

These condensed consolidated interim financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

c) Use of Estimates

Impact of COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the effectiveness of interventions by governments and central banks. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

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

A full list of the key sources of management judgements and estimation uncertainty can be found in the Company's Annual Consolidated Financial Statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the interim condensed consolidated financial statements, particularly related to the following key source of estimation uncertainty:

Recoverable Amounts

Determining the recoverable amount of a cash-generating unit ("CGU") requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices.

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 Assets	Other	Total
Net book value as at December 31, 2019	**$ 44,304**	**$ 4**	**$ 44,308**
Additions	46	-	**46**
Depletion and depreciation	(1,229)	-	**(1,229)**
Impairment	(10,400)	-	**(10,400)**
Effect of foreign exchange rate changes	4,025	-	**4,025**
Net book value as at March 31, 2020	**$ 36,746**	**$ 4**	**$ 36,750**

Depletion and depreciation

For the three months ended March 31, 2020, the Company recorded depletion expense of $1.2 million. In the calculation of depletion expense an estimated $36.7 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, 2020, Southern viewed the significant decrease in oil prices in March 2020 and Southern's market capitalization below the net assets of the Company as indications of impairment. Southern estimated the recoverable amount of all CGUs at March 31, 2020. Southern determined that the carrying value of the Central Mississippi ("CMS") CGU and the Smackover ("SO") CGU exceeded its recoverable amount. A non-cash impairment charge of $10.4 million was recorded in the condensed consolidated interim statements of loss and comprehensive loss.

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

The Company estimated the recoverable amounts as fair value less costs of disposal, using the net present value of the cash flows from proved developed producing oil and gas reserves of each CGU, and a 10% discount rate. The proved developed producing oil and gas reserves were based on reserves estimated by Southern's independent reserves evaluator at December 31, 2019, and revised price estimates at March 31, 2020.

The following table details the forward pricing used in estimating the recoverable amounts of Southern's CGUs at March 31, 2020:

Period Ending	West Texas Intermediate ($US/bbl)	Henry Hub ($US/MMBtu)	FX (USD/CAD)
12-31-2020	30.00	2.08	0.710
12-31-2021	41.18	2.54	0.731
12-31-2022	49.88	2.79	0.751
12-31-2023	55.87	2.92	0.760
12-31-2024	57.98	2.99	0.761
12-31-2025	59.22	3.05	0.763
12-31-2026	60.39	3.11	0.763
12-31-2027	61.60	3.18	0.763
12-31-2028	62.84	3.24	0.763
12-31-2029	64.09	3.30	0.763

Thereafter, WTI and HH prices escalated 2 percent on January 1 of each year and FX rates held constant at 0.763

Changes in any of the key judgements, such as a revision in reserves, changes in forecast commodity prices, foreign exchange rates, capital or operating costs would impact the estimated recoverable amount. As at March 31, 2020, a 1% increase in the assumed discount rate would reduce the estimated recoverable amount by $0.8 million while a 5% decrease change in commodity price forecasts would reduce the estimated recoverable amount by $2.2 million.

4. 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 December 31, 2019	**$**	**735**
Depreciation		(96)
Carrying value as at March 31, 2020	**$**	**639**

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

Lease Liabilities

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

		Total
As at December 31, 2019	**$**	**763**
Interest expense		11
Lease payments		(104)
As at March 31, 2020	**$**	**670**

At March 31, 2020, Southern had future commitments relating to lease liabilities as follows:

		Total
Less than 1 year	$	418
1 – 3 years		279
Total undiscounted future lease payments	$	697
Amounts representing interest		(27)
Present value of net lease payments	$	670
Less current portion of lease liabilities		(377)
Non-current portion of lease liabilities	**$**	**293**

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%.

5. 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, 2019	**$**	**5,276**
Liabilities settled		1
Accretion expense		(6)
Effect of foreign exchange rate changes		478
Balance as at March 31, 2020	**$**	**5,749**
Long term liability	**$**	**5,749**

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 $6.9 million at March 31, 2020 ($6.2 million at December 31, 2019), which have been discounted using a risk-free interest rate of 1.9% at March 31, 2020 (1.7% to 1.9% at December 31, 2019).

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

6. Bank Debt

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

	As at Mar 31, 2020	As at Dec 31, 2019
Current Portion Senior Secured Bank Credit Facility	$ 19,862	$ -
Long Term Portion Senior Secured Bank Credit Facility	-	18,183
Total Bank Debt	**$ 19,862**	**$ 18,183**

As at March 31, 2020, Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, continued to hold the existing Senior Secured Credit Facility (the "Credit Facility"). The Credit Facility is secured against the oil and gas properties of Southern. The borrowing base for the Credit Facility is reviewed semi-annually. Southern has the ability to request two additional redeterminations each year, at its sole election. The maturity date of the Credit Facility is February 1, 2021. As this maturity is less than twelve months from March 31, 2020, the outstanding bank debt has been classified under current liabilities.

Interest on borrowings under the Credit Facility is determined by reference to the London Interbank Offered Rate ("LIBOR") plus a margin that ranges from 2.5% to 3.5%. Southern pays a commitment fee of 0.5% on the undrawn borrowing base. During the three months ended March 31, 2020, the effective interest rate, excluding commitment and other fees, was 5.1%.

The financial covenants of the Credit Facility, calculated quarterly, include covenants which relate to a maximum leverage ratio (Debt / Bank EBITDAX), minimum interest coverage ratio (Bank EBITDAX / Cash Interest) and minimum current ratio (Current Assets / Current Liabilities).

As at March 31, 2020, Southern was not compliant with the leverage ratio covenant of the Credit Facility, but has obtained a written waiver from its lenders for non-compliance for the period ended March 31, 2020. See Note 2 "*Basis of Presentation and Going Concern – Going Concern*", for further details. At December 31, 2019, Southern was in compliance with all financial covenants of the Credit Facility.

Financial covenant	**Limit**	**As at Mar 31, 2020**	**As at Dec 31, 2019**
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.5	4.0	3.3
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 3.0	4.2	4.9
Current ratio (Current Assets / Current Liabilities)	Minimum 1.0	1.3	1.4

The financial covenants include financial measures defined within the Credit Facility that are not defined under IFRS. These financial measures are defined by the Credit Facility as follows:

- Debt includes only the Credit Facility drawings at the period end;

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

- 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, the current portion of the lease liability, royalties payable balances greater than one year and the current bank debt.

Southern is currently receiving the cooperation of its lending institution with respect to the Company's covenant breach under the Credit Facility, and Management believes that an agreement will be reached such that Southern will be in good standing under the Credit Facility on a go-forward basis. See Note 2 "*Basis of Presentation and Going Concern – Going Concern*", for further details.

As at March 31, 2020, the borrowing base was US$14.3 million ($20.2 million) and Southern had US$14.0 million ($19.9 million) drawn.

7. Convertible Debentures

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2019	8,069	$ 6,648	$ 665
Accretion of discount	-	116	-
Balance at March 31, 2020	**8,069**	**$ 6,764**	**$ 665**

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.

The following table reflects the Company's outstanding Common Shares at March 31, 2020 and December 31, 2019:

	Number of Shares	**Share Capital**
Balance as at December 31, 2019	220,770,279	$ 35,441
Balance as at March 31, 2020	**220,770,279**	**$ 35,441**

On January 23, 2020, 3,000,000 of the Common Shares subscribed to in the Private Placement were redeemed by the Company. At December 31, 2019, Southern had reflected the redemption within shareholder's equity.

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

Warrants

As at March 31, 2020, 19,306,667 performance-based Common Share purchase warrants ("Recap Warrants") had vested as the 20-day volume weighted average trading price ("Market Price") of the Common Shares had exceeded $0.15.

Stock Option Plan

The following table reflects the Company's outstanding common stock options at March 31, 2020 and December 31, 2019:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2019	19,400,000	$ 0.10
Balance at March 31, 2020	**19,400,000**	**$ 0.10**

	Outstanding and Exercisable	
Exercise price	**Number of stock options**	**Weighted average remaining life (years)**
$ 0.10	19,400,000	4.2
$ 0.10	**19,400,000**	**4.2**

Southern recognized $99 thousand of share-based compensation expense relating to stock options during the three months ended March 31, 2020 ($nil – March 31, 2019).

9. Loss Per Share

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

	Three months ended March 31, 2020	2019
Loss from:		
Continuing operations	$ (10,216)	$ (1,674)
Discontinued operations	-	(23)
Net loss	$ (10,216)	$ (1,697)
Basic and diluted – weighted average number of shares	220,770,279	204,356,973
Basic and diluted loss per share from:		
Continuing operations	$ (0.05)	$ (0.01)
Discontinued operations	0.00	(0.00)
Net loss per share	$ (0.05)	$ (0.01)

The calculation of diluted loss per share for the three months ended March 31, 2020 and 2019 excludes the effect of all outstanding share options and warrants as they are anti-dilutive.

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

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 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, 2020:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
April 1, 2020 – December 31, 2020	1,000 MMBtu/d	NYMEX – HH $2.600/MMBtu
April 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.748/MMBtu
April 1, 2020 – December 31, 2020	2,000 MMBtu/d	NYMEX – HH $2.575/MMBtu
April 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.253/MMBtu
January 1, 2021 – December 31, 2021	1,500 MMBtu/d	NYMEX – HH $2.575/MMBtu
January 1, 2021 – December 31, 2021	3,600 MMBtu/d	NYMEX – HH $2.402/MMBtu

Crude Oil	Volume	Pricing (US$)
Fixed Price Swap		
April 1, 2020 – December 31, 2020	50 bbl/d	WTI $55.25/bbl
April 1, 2020 – December 31, 2020	25 bbl/d	WTI $56.45/bbl

Hedging update

Subsequent to March 31, 2020, Southern entered into the following commodity derivative contracts:

Crude Oil	Volume	Pricing (US$)
Fixed Price Swap		
May 1, 2020 – December 31, 2020	75 bbl/d	WTI $26.11/bbl

On April 27, 2020, Southern entered a buy-back swap for 75 Bbl/d of oil where Southern will pay a fixed price of WTI US$26.11/Bbl. This transaction enables Southern to lock in a hedge gain of US$543 thousand for the remainder of 2020 on the two oil fixed price swaps above.

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

Financial Derivative Contracts Financial Statement Recognition

The Company's financial instruments that were accounted for at fair value as of March 31, 2020 and December 31, 2019 are presented below. The classification within the fair value hierarchy for these financial instruments is Level 2.

Comprised of:	As at Mar 31, 2020	As at Dec 31, 2019
Current derivative asset	$ 2,064	$ 819
Current derivative liability	(179)	(105)
Non-current derivative asset	117	120
Non-current derivative liability	(49)	(14)
Net fair value of contracts, end of period	**$ 1,953**	**$ 820**

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, 2020	2019
Realized (gain) loss on derivatives	$ (585)	$ 146
Unrealized (gain) loss on derivatives	(1,002)	214
(Gain) loss on derivative instruments	**$ (1,587)**	**$ 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

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, 2020 or December 31, 2019. During the three months ended March 31, 2020, four 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, royalties payable, lease liabilities, financial derivative liabilities, convertible debentures and the senior secured credit facility. 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, and reducing capital spending. 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 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, 2020, Southern has not entered any foreign exchange derivative contracts or fixed interest rate contracts. As at March 31, 2020, a 10% change in future commodity prices applied against these contracts would have a $1.2 million impact on net income. At March 31, 2020, the Canadian dollar to US dollar foreign exchange rate was 1.4187 (December 31, 2019 – 1.2988).

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 Credit Facility. For the three months ended March 31, 2020, the Company did not enter any interest rate derivative contracts. The impact of a 1% increase in the interest rate associated with the Credit Facility would increase net loss by approximately $50 thousand.

11. Capital Risk Management

The current challenging economic climate, due to the COVID-19 pandemic and volatile commodity prices, may lead to further adverse changes in cash flows, working capital levels and debt balances, which may also have a direct impact on the Company's operating result and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. While it is too early to know all of the impacts of the COVID-19 pandemic, Southern has taken a cautionary approach to future expenditures in order to ensure capital preservation.

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

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information. The Company's directors are responsible for overseeing this process. The Company considers its capital structure to include working capital.

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.

12. Royalties Payable

As at March 31, 2020, Southern had $6.2 million ($5.6 million at December 31, 2019) of non-interest bearing royalty payables related to unresolved title or ownership issues not expected to be settled within the operating cycle unless claimants demand repayment and provide proof of ownership. The increase was primarily due to the stronger US dollar at March 31, 2020 compared to December 31, 2019. The royalty payable account is made up of balances due to approximately 5,000 royalty holders with over 96% of the balances outstanding for greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments. For the calculation of the Current Ratio covenant as at March 31, 2020, Southern removed $5.7 million (December 31, 2019 - $5.1 million) in royalty liabilities as they pertain to balances prior to March 31, 2019.

13. 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	**2020**	**2019**
Crude oil	$ 785	$ 1,105
Natural gas liquids	60	146
Natural gas	2,552	3,001
Total Revenue from Continuing Operations	**$ 3,397**	**$ 4,252**

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

14. Financing

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

	Three months ended March 31, 2020	2019
Bank debt interest	$ 244	$ 231
Convertible debentures interest	162	-
Accretion of convertible debentures	116	-
Accretion of decommissioning obligations (Note 5)	(6)	5
Interest on lease obligations	11	17
Total Financing Expenses	**$ 527**	**$ 253**

15. Discontinued Operations

On May 2, 2019, Southern disposed of all of its Canadian oil and natural gas assets for $0.5 million. The results of operations from the Canadian segment have been reported as a discontinued operation.

Results of Discontinued Operations

	Three months ended March 31, 2020	2019
Revenues		
Petroleum and natural gas revenue	$ -	$ 219
Royalties	-	(29)
	-	190
Expenses		
Production and operating	-	51
Transportation	-	16
Exploration evaluation	-	1
Depletion, depreciation and amortization	-	39
Finance	-	6
General and administrative	-	100
	-	213
Net loss from discontinued operations	**$ -**	**$ (23)**

Cash Flows from Discontinued Operations

	Three months ended March 31, 2020	2019
Cash used in operating activities	$ -	$ (43)
Cash from investing activities	-	-
Cash from financing activities	-	-
Net Cash Flows	**$ -**	**$ (43)**