Condensed Consolidated Interim Financial Statements of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2021 and 2020

(unaudited)

(Canadian Dollars)

SOUTHERN ENERGY CORP.

Condensed Consolidated Interim Statement of Financial Position (unaudited)

($000s of Canadian Dollars)	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 1,488	$ 1,158
Accounts receivable and other	2,130	2,143
Prepaid expenses and deposits	376	304
Derivative assets (Note 9)	-	8
	3,994	3,613
Property, plant and equipment (Note 3)	32,644	34,682
Right-of-use assets	256	352
Total assets	$ 36,894	$ 38,647
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,404	2,241
Royalties payable (Note 11)	5,492	5,555
Current portion of lease liabilities	279	381
Bank debt (Note 5)	16,033	16,779
Derivative liabilities (Note 9)	501	473
	24,709	25,429
Long-term liabilities		
Convertible debentures (Note 6)	7,605	7,468
Decommissioning provisions (Note 4)	5,011	5,439
Total liabilities	37,325	38,336
Shareholders' equity (Note 7)		
Share capital	35,441	35,441
Equity component of convertible debenture (Note 6)	665	665
Warrants	1,195	1,195
Contributed surplus	4,421	4,377
Deficit	(43,070)	(42,272)
Accumulated other comprehensive income	917	905
	(431)	311
Total liabilities and shareholders' equity	$ 36,894	$ 38,647

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

($000s of Canadian Dollars, except for per share amounts)	Three months ended March 31, 2021	2020
Revenues		
Petroleum and natural gas sales (Note 12)	$ 4,883	$ 3,397
Royalties	(992)	(691)
	3,891	2,706
Expenses		
Production and operating	1,463	1,655
Transportation	58	42
Depletion, depreciation and amortization (Note 3)	1,276	1,325
Impairment (Note 3)	-	10,400
Loss (gain) on derivatives (Note 9)	185	(1,587)
Financing (Note 13)	610	527
General and administrative	863	918
Share-based compensation (Note 7)	44	99
Transaction costs	87	-
Loss (gain) on foreign exchange	103	(457)
	4,689	12,922
Total net loss for the period	(798)	(10,216)
Currency translation adjustment	12	1,105
Comprehensive loss for the period	**$ (786)**	**$ (9,111)**
Basic and diluted net loss per share (Note 8)	**$ (0.00)**	**$ (0.05)**

(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 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, 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
Balance, December 31, 2020	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,377	$(42,272)	$ 905	$ 311
Share-based compensation	-	-	-	-	44	-	-	44
Net Loss	-	-	-	-	-	(798)	-	(798)
Other Comprehensive Income	-	-	-	-	-	-	12	12
Balance, March 31, 2021	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,421	$(43,070)	$ 917	$ (431)

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

($000s of Canadian Dollars)	Three months ended March 31, 2021	2020
Operating activities		
Total net loss for the period	$ (798)	$ (10,216)
Changes in non-cash items:		
Depletion, depreciation and amortization (Note 3)	1,276	1,325
Impairment (Note 3)	-	10,400
Net finance expense	610	527
Unrealized loss (gain) on derivatives (Note 9)	47	(1,002)
Unrealized loss (gain) on foreign exchange	103	(457)
Share-based compensation (Note 7)	44	99
Decommissioning provisions liabilities settled (Note 4)	-	1
Changes in non-cash working capital	(193)	246
Net cash provided by operating activities	1,089	923
Investing activities		
Capital expenditures	(72)	(46)
Proceeds from divestitures	135	-
Changes in non-cash working capital	(100)	(152)
Net cash used by investing activities	(37)	(198)
Financing activities		
Advance of bank debt (Note 5)	-	720
Paydown of bank debt (Note 5)	(571)	(720)
Payment of interest	(262)	(244)
Finance lease payments	(107)	(104)
Changes in non-cash working capital	230	(20)
Net cash used by financing activities	(710)	(368)
Net increase (decrease) in cash and cash equivalents	342	357
Effect of foreign exchange rate changes	(12)	51
Cash and cash equivalents, beginning of period	1,158	424
Cash and cash equivalents, end of period	$ 1,488	$ 832

(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 acquiring and developing conventional natural gas and light oil resources in the Southeast Gulf States of Mississippi, Louisiana, and East Texas.

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 25, 2021.

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, 2020, 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, 2020, 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.

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.

At March 31, 2021, Southern had current liabilities that exceeded its current assets by $20.7 million, including $16.0 million of bank debt, that was classified as a current liability at March 31, 2021.

Southern made the following debt repayments to the Senior Secured Credit Facility (the "Credit Facility") subsequent to March 31, 2021:

Date of repayment	**(US$000s)**	**($000s)**
April 7, 2021	100	126
Balance as at April 30, 2021	**$ 12,650**	**$ 15,549**

On April 30, 2021, Southern Energy Corp. (Delaware) closed a transaction to retire the existing Credit Facility with a cash settlement payment of US$8.0 million, plus accrued interest. The US$8.0 million settlement was financed through a new senior secured term loan of up to US$8.5 million (the "New Facility") and gross proceeds from a non-brokered private placement of $5.5 million (see Note 7 "*Shareholders' Equity*" for more information).

Upon closing of the New Facility on April 30, 2021, Southern's outstanding first lien debt balance was reduced from US$12.7 million ($15.5 million) to US$5.5 million ($6.8 million). See Note 5 "*Bank Debt*" for more information.

Southern will continue to prioritize the deleveraging of the balance sheet through utilizing excess cash flow to repay the outstanding debt balance. Southern continues to manage liquidity by evaluating additional opportunities to reduce both operating and capital field expenditures, sale of non-core oil and natural gas assets, and looking for alternative sources of financing. There is no certainty that Southern will raise financing or generate sufficient cash flow to repay its debt obligations as they come due. 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, 2020. 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 extreme volatility 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, 2020	**$ 34,664**	**$ 18**	**$ 34,682**
Additions	72	-	72
Dispositions	(135)	-	(135)
Change in decommissioning provision (Note 4)	(375)	-	(375)
Depletion, depreciation and amortization	(1,179)	(1)	(1,180)
Effect of foreign exchange rate changes	(420)	-	(420)
Net book value as at March 31, 2021	**$ 32,627**	**$ 17**	**$ 32,644**

Depletion and depreciation

For the three months ended March 31, 2021, the Company recorded depletion expense of $1.2 million. In the calculation of depletion expense an estimated $36.4 million of future development costs associated with the proven plus probable reserves were included.

Impairment

At March 31, 2021, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

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

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, 2020	**$ 5,439**
Changes in estimates	(375)
Accretion expense	13
Effect of foreign exchange rate changes	(66)
Balance as at March 31, 2021	**$ 5,011**
Long term liability	**$ 5,011**

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 $5.8 million at March 31, 2021 ($5.9 million at December 31, 2020), which have been discounted using a risk-free interest rate of 1.8% at March 31, 2021 (1.0% at December 31, 2020).

5. Bank Debt

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

	As at Mar 31, 2021	As at Dec 31, 2020
Current Portion Senior Secured Bank Credit Facility	$ 16,033	$ 16,806
Unamortized transaction costs	-	(27)
Total Bank Debt	**$ 16,033**	**$ 16,779**

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at March 31, 2021. The Credit Facility is secured against the oil and gas properties of Southern. At March 31, 2021, Southern had US$12.8 million ($16.0 million) drawn on the Credit Facility, which has been paid down by US$100 thousand ($126 thousand) subsequent to March 31, 2021, as described above in Note 2 *"Going Concern"*.

On February 1, 2021, Southern entered into the third amendment (the "Third Amendment") to the Amended and Restated Credit Agreement (the "Amended Credit Agreement"). The Third Amendment extended the maturity of both the conforming borrowing base facility (the "Conforming Facility") and non-confirming borrowing base facility (the "Non-Conforming Facility") from February 1, 2021 to February 12, 2021.

Effective February 12, 2021, Southern entered into the fourth amendment to the Amended Credit Agreement (the "Fourth Amendment"). The Fourth Amendment included: (a) a waiver for the noncompliance of the leverage ratio financial covenant as at December 31, 2020; and (b) an extension of the maturity of the Conforming and Non-Conforming Facilities to April 30, 2021.

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

Interest on borrowings under the Credit Facility is determined by reference to the Eurodollar Rate, and includes a minimum rate of 1.0%, plus a margin that ranges from 4.5% to 5.5%. During the three months ended March 31, 2021, the effective interest rate, excluding commitment and other fees, was 6.5%.

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).

Below are the financial covenant calculations based on the Amended Credit Agreement for March 31, 2021:

Financial covenant	**Limit**	**As at Mar 31, 2021**	**As at Dec 31, 2020**
Leverage ratio (Debt / Bank EBITDAX)	Maximum 4.00	3.77	4.72
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 2.75	4.95	4.26
Current ratio (Current Assets / Current Liabilities)	Minimum 1.00	1.64	1.63

The financial covenants include financial measures defined within the Amended Credit Agreement that are not defined under IFRS. These financial measures are defined by the Amended Credit 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, the current portion of the lease liability, royalties payable balances greater than one year and the current bank debt.

As at March 31, 2021, Southern was in compliance with the above covenants. As at December 31, 2020, Southern was not in compliance with the leverage ratio covenant of its Credit Facility but has obtained a written waiver for non-compliance for the period ended December 31, 2020.

As described above in Note 2 "*Going Concern*", on April 30, 2021, Southern entered into the New Facility, which is secured against the oil and gas properties of Southern. Details of the New Facility include:

- Tranche A: US$5.5 million at closing
- Tranche B: US$3.0 million available up to December 31, 2021, in multiple advances of no less than US$500 thousand each
- Maturity of 36 months from closing date
- Interest of 12% per annum, paid monthly in arrears on the last day of the month

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

- Issued 41,250,000 warrants equivalent to 30% of Tranche A with an exercise price of $0.05 per share and an expiry date on the earlier of: (a) a liquidity event resulting in the sale of Southern Energy Corp. (Delaware); or (b) the maturity date of the New Facility
- Beginning on May 31, 2021, repayments of the principal amount outstanding under the New Facility will be 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 (“EBITDAX”), less the aggregate of the New Facility principal and interest payments
- Beginning June 30, 2021 and as at each quarter-end thereafter, financial covenant calculation related to an asset coverage ratio ("ACR") of at least 2:1. ACR 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 price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the New Facility
- Beginning September 30, 2021, and for each quarter-end thereafter, Southern Energy Corp. (Delaware) shall maintain a total debt service coverage ratio ("DSCR") of greater than 1.25:1. DSCR is the ratio of EBITDAX to scheduled principal payments and interest expense

6. Convertible Debentures

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2020	8,389	$ 7,468	$ 665
Accretion of discount	-	137	-
Balance at March 31, 2021	**8,389**	**$ 7,605**	**$ 665**

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, 2021 and December 31, 2020:

	Number of Shares	**Share Capital**
Balance as at December 31, 2020	220,770,279	$ 35,441
Balance as at March 31, 2021	**220,770,279**	**$ 35,441**

On April 30, 2021, Southern completed a non-brokered private placement of 136.6 million units of the Company (the “Units”) at a price of $0.04 per Unit, for aggregate gross proceeds of $5.5 million (the “Private Placement”). Each Unit is comprised of one Common Share and one Common Share purchase warrant (a “Unit Warrant”). See Note 2 “*Going Concern*” for information on the use of proceeds.

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

Warrants

As at March 31, 2021, 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, 2021 and December 31, 2020:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2020	19,400,000	$ 0.10
Balance at March 31, 2021	**19,400,000**	**$ 0.10**

	Outstanding and Exercisable	
Exercise price	Number of stock options	Weighted average remaining life (years)
$ 0.10	19,400,000	3.2
$ 0.10	**19,400,000**	**3.2**

Southern recognized $44 thousand of share-based compensation expense relating to stock options during the three months ended March 31, 2021 ($99 thousand – March 31, 2020).

8. Loss Per Share

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

	Three months ended March 31, 2021	2020
Net loss	$ (798)	$ (10,216)
Basic and diluted – weighted average number of shares	220,770,279	220,770,279
Net loss per weighted average basic and diluted shares	$ (0.00)	$ (0.05)

The calculation of diluted loss per share for the three months ended March 31, 2021 and 2020 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.

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

Southern had the following commodity derivative contracts in place as at March 31, 2021:

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

Financial Derivative Contracts Financial Statement Recognition

The Company's financial instruments that were accounted for at fair value as of March 31, 2021 and December 31, 2020 are presented below. The classification within the fair value hierarchy for these financial instruments is Level 2.

Comprised of:	**As at Mar 31, 2021**	**As at Dec 31, 2020**
Current derivative asset	$ -	$ 8
Current derivative liability	(501)	(473)
Net fair value of contracts, end of period	**$ (501)**	**$ (465)**

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, 2021	**2020**
Realized loss (gain) on derivatives	$ 138	$ (585)
Unrealized loss (gain) on derivatives	47	(1,002)
Loss (gain) on derivative instruments	**$ 185**	**$ (1,587)**

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, 2021 or December 31, 2020.

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, 2021, Southern has not entered any foreign exchange derivative contracts or fixed interest rate contracts. As at March 31, 2021, a 10% change in future commodity prices applied against these contracts would have a $0.5 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 Credit Facility. For the three months ended March 31, 2021, 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 $40 thousand.

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

10. 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 difficult to estimate future impacts of the COVID-19 pandemic, Southern will continue to take a cautionary approach to future expenditures in order to ensure capital preservation.

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.

11. Royalties Payable

As at March 31, 2021, Southern had $5.5 million ($5.6 million at December 31, 2020) 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 royalty payable account is made up of balances due to approximately 5,400 royalty holders with over 97% 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, 2021, Southern removed $5.5 million (December 31, 2020 - $5.6 million) in royalty liabilities as they pertain to balances prior to March 31, 2020 (prior to December 31, 2019).

12. 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	**2021**	**2020**
Crude oil	$ 981	$ 785
Natural gas liquids	81	60
Natural gas	3,821	2,552
Total Oil and Natural Gas Sales	**$ 4,883**	**$ 3,397**

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

13. Financing

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

	Three months ended March 31, 2021	2020
Bank debt interest	$ 262	$ 244
Convertible debentures interest	165	162
Accretion	178	110
Interest on lease obligations	5	11
Total Financing Expenses	**$ 610**	**$ 527**