Condensed Consolidated Interim Financial Statements of

SOUTHERN ENERGY CORP.

For the three and six months ended June 30, 2021 and 2020

(unaudited)

(Canadian Dollars)

($000s of Canadian Dollars)	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 2,030	$ 1,158
Accounts receivable and other	2,097	2,143
Prepaid expenses and deposits	498	304
Derivative assets (Note 10)	-	8
	4,625	3,613
Property, plant and equipment (Note 3)	31,115	34,682
Right-of-use assets (Note 4)	517	352
Total assets	$ 36,257	$ 38,647
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,080	2,241
Royalties payable (Note 12)	5,343	5,555
Current portion of lease liabilities (Note 4)	172	381
Current portion of long-term debt (Note 6)	1,444	16,779
Derivative liabilities (Note 10)	1,394	473
	10,433	25,429
Long-term liabilities		
Convertible debentures (Note 7)	7,748	7,468
Long-term debt (Note 6)	3,763	-
Lease liabilities (Note 4)	348	-
Decommissioning provisions (Note 5)	4,856	5,439
Total liabilities	27,148	38,336
Shareholders' equity (Note 8)		
Share capital	38,550	35,441
Equity component of convertible debenture (Note 7)	665	665
Warrants	3,743	1,195
Contributed surplus	4,463	4,377
Deficit	(39,162)	(42,272)
Accumulated other comprehensive income	850	905
	9,109	311
Total liabilities and shareholders' equity	$ 36,257	$ 38,647

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

($000s of Canadian Dollars, except for per share amounts)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenues				
Petroleum and natural gas revenue (Note 13)	$ 4,589	$ 2,478	$ 9,472	$5,875
Royalties	(927)	(522)	(1,919)	(1,213)
	3,662	1,956	7,553	4,662
Expenses				
Production and operating	1,445	1,347	2,908	3,002
Transportation	58	23	116	65
Depletion, depreciation and amortization (Note 3)	1,180	1,129	2,456	2,454
Impairment (Note 3)	-	-	-	10,400
Loss (gain) on derivatives (Note 10)	1,117	(6)	1,302	(1,593)
Gain on dispositions (Note 3)	(232)	(338)	(232)	(338)
Financing (Note 14)	592	488	1,202	1,015
Gain on debt retirement	(5,679)	-	(5,679)	-
General and administrative	793	767	1,656	1,685
Share-based compensation	42	92	86	191
Transaction costs	395	-	482	-
Loss (gain) on foreign exchange	43	325	146	(132)
	(246)	3,827	4,443	16,749
Total net earnings (loss) for the period	3,908	(1,871)	3,110	(12,087)
Currency translation adjustment	(67)	55	(55)	1,160
Comprehensive income (loss) for the period	$ 3,841	$ (1,816)	$ 3,055	$ 10,927)
Net earnings (loss) per common share (Note 9)				
Basic	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)
Diluted	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)

(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, 2019	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,095	$(30,962)	$ (486)	$ 9,948
Share-based compensation	-	-	-	-	191	-	-	191
Net Loss	-	-	-	-	-	(12,087)	-	(12,087)
Other Comprehensive Income	-	-	-	-	-	-	1,160	1,160
Balance, June 30, 2020	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,286	$(43,049)	$ 674	$ (788)
Balance, December 31, 2020	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,377	$(42,272)	$ 905	$ 311
Shares issued, net	136,625,000	3,109	-	-	-	-	-	3,109
Warrants issued	-	-	-	2,548	-	-	-	2,548
Share-based compensation	-	-	-	-	86	-	-	86
Net income	-	-	-	-	-	3,110	-	3,110
Other Comprehensive Loss	-	-	-	-	-	-	(55)	(55)
Balance, June 30, 2021	357,395,279	$ 38,550	$ 665	$ 3,743	$ 4,463	$(39,162)	$ 850	$ 9,109

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

SOUTHERN ENERGY CORP.

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	Three months ended June 30,		Six months ended June 30,	
($000s of Canadian Dollars)	2021	2020	2021	2020
Operating activities				
Total net earnings (loss) for the period	$ 3,908	$ (1,871)	$ 3,110	$ (12,087)
Changes in non-cash items:				
Depletion, depreciation and amortization (Note 3)	1,180	1,129	2,456	2,454
Impairment (Note 3)	-	-	-	10,400
Gain on dispositions (Note 3)	(232)	(338)	(232)	(338)
Financing expense	592	488	1,202	1,015
Gain on debt retirement	(5,679)	-	(5,679)	-
Unrealized loss (gain) on derivatives (Note 10)	895	927	942	(75)
Unrealized loss (gain) on foreign exchange	43	325	146	(132)
Share-based compensation	42	92	86	191
Decommissioning provisions liabilities settled (Note 5)	-	(2)	-	(1)
Changes in non-cash working capital	(206)	(630)	(399)	(384)
Net cash provided by operating activities	543	120	1,632	1,043
Investing activities				
Capital expenditures	(44)	5	(116)	(41)
Proceeds from divestitures (Note 3)	97	338	232	338
Changes in non-cash working capital	41	56	(59)	(96)
Net cash provided by investing activities	94	399	57	201
Financing activities				
Proceeds from share issuances, net	4,931	-	4,931	-
Repayment of bank debt (Note 6)	(10,238)	-	(10,809)	-
Draw on credit facility (Note 6)	6,757	-	6,757	-
Payment of interest	(379)	(524)	(641)	(768)
Finance lease payments	(84)	(81)	(191)	(185)
Transaction costs on debt refinance	(798)	-	(798)	-
Changes in non-cash working capital	(275)	328	(45)	308
Net cash provided (used) by financing activities	(86)	(277)	(796)	(645)
Net increase in cash and cash equivalents	551	242	893	599
Effect of foreign exchange rate changes	(9)	(41)	(21)	10
Cash and cash equivalents, beginning of period	1,488	832	1,158	424
Cash and cash equivalents, end of period	$ 2,030	$ 1,033	$ 2,030	$ 1,033

(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" and on the AIM market of the London Stock Exchange ("AIM") under the trading symbol "SOUC". The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 20, 2021.

2. Basis of Presentation

a) Principles of Reporting and Consolidation

The condensed consolidated interim financial statements of Southern include the accounts of all domestic and foreign subsidiaries. Wholly-owned subsidiaries included in the Company's accounts include Southern Energy Corp (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) Use of Estimates

Impact of COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. COVID-19 continues to impact worldwide demand for crude oil and therefore global commodity markets.

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

Price volatility remains largely due to market sensitivity to COVID-19 related new including vaccine breakthroughs and rollouts, and the resurgence of COVID-19 cases and developing variants of concern.

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	110	6	116
Dispositions	(179)	-	(179)
Change in decommissioning provision (Note 5)	43	-	43
Depletion, depreciation and amortization	(2,301)	(3)	(2,304)
Effect of foreign exchange rate changes	(1,243)	-	(1,243)
Net book value as at June 30, 2021	**$ 31,094**	**$ 21**	**$ 31,115**

Depletion and depreciation

For the six months ended June 30, 2021, the Company recorded depletion expense of $2.3 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 June 30, 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. 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, 2020	**$**	**352**
Additions		530
Depreciation		(179)
Terminations		(186)
Carrying value as at June 30, 2021	**$**	**517**

Lease Liabilities

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

		Total
As at December 31, 2020	**$**	**381**
Additions		530
Terminations		(213)
Interest expense		13
Lease payments		(191)
As at June 30, 2021	**$**	**520**

At June 30, 2021, Southern had future commitments relating to lease liabilities as follows:

		Total
Less than 1 year	$	184
1 – 5 years		445
Total undiscounted future lease payments	$	629
Amounts representing interest		(109)
Present value of net lease payments	$	520
Less current portion of lease liabilities		(172)
Non-current portion of lease liabilities	**$**	**(348)**

On June 1, 2021, Southern entered into a new office space lease for a term of 3.5 years. As part of the execution of the new lease, the old office lease that was set to expire on November 29, 2021 was terminated. The new office lease liability is being discounted using the Company's incremental borrowing rate of 12.0%.

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

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, 2020	**$**	**5,439**
Dispositions		(142)
Changes in estimates		(298)
Accretion expense		34
Effect of foreign exchange rate changes		(177)
Balance as at June 30, 2021	**$**	**4,856**
Long term liability	**$**	**4,856**

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 $5.5 million at June 30, 2021 ($5.9 million at December 31, 2020), which have been discounted using a risk-free interest rate of 1.5% at June 30, 2021 (1.0% at December 31, 2020).

6. Long-term Debt

On April 30, 2021, Southern Energy Corporation (Delaware) closed a transaction to retire the existing senior secured credit facility (the "Old Facility") with a cash settlement payment of US$8.0 million ($9.8 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 ($10.4 million) (the "New Facility") and gross proceeds from a non-brokered private placement of $5.5 million (see Note 8 "*Shareholders' Equity*" for more information).

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

	As at Jun 30, 2021	As at Dec 31, 2020
Old Facility	$ -	$ 16,806
Current portion of senior secured term loan	1,910	-
Long-term portion of senior secured term loan	4,617	-
Unamortized transaction costs	(1,320)	(27)
Total Long-Term Debt	**$ 5,207**	**$ 16,779**

The New Facility is secured against the oil and gas properties of Southern. At June 30, 2021, Southern had US$5.3 million ($6.5 million) drawn on the New Facility. 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
- Matures on April 30, 2024
- 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 non-transferable common share purchase warrants (each, a "Bonus Warrant") 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 Corporation (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 Corporation (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

As described above, interest on borrowings under the New Facility is 12.0% per annum, paid monthly in arrears on the last day of the month. During the three months ending June 30, 2021, Southern recorded $135 thousand in interest related to the New Facility.

Below are the financial covenant calculations on the New Facility for June 30, 2021:

Financial covenant	**Limit**	**As at Jun 30, 2021**	**As at Dec 31, 2020**
Asset Coverage ratio	Minimum 2.00	4.01	N/A
Debt Service Coverage ratio	Minimum 1.25	N/A	N/A

As at June 30, 2021, Southern was in compliance with the above financial covenants.

The current outstanding balance on the New Facility is $7.0 million (US$5.6 million), which includes a draw from Tranche B of $0.6 million (US$0.5 million) on August 16, 2021, to fund a planned capital program.

7. Convertible Debentures

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2020	8,389	$ 7,468	$ 665
Accretion of discount	-	280	-
Balance at June 30, 2021	**8,389**	**$ 7,748**	**$ 665**

On June 28, 2021, Southern received an extraordinary resolution from the holders of its convertible debentures (the "Debentures") approving certain amendments to the Debenture Indenture entered into between the Company and the trustee dated June 14, 2019. On June 30, 2021, the Company and the trustee entered into a First Supplemental Indenture effecting such amendments to the terms of the Debentures, being:

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

- An extension of the maturity date of the Debentures by two years to June 30, 2024
- A decrease of the conversion price for the Debentures from $0.125 to $0.10
- Allowing the Company to satisfy its obligation to pay interest on the Debentures by, among other things, delivering freely tradeable Common Shares in the capital of the Company to the Trustee for distribution directly to the Debenture holders as a payment in-kind of accrued interest on the Debentures

On July 14, 2021, the accrued interest payment due on June 30, 2021, was settled in-kind through the issuance of 3,901,775 Common Shares. The number of Common Shares was based on a 20-day volume weighted average trading price ("Market Price") of the Common Shares as of June 30, 2021.

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 June 30, 2021 and December 31, 2020:

	Number of Shares	Share Capital
Balance as at December 31, 2020	220,770,279	$ 35,441
Issuance of common shares by private placement, net of issue costs	136,625,000	3,109
Balance as at June 30, 2021	**357,395,279**	**$ 38,550**

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").

Warrants

On April 30, 2021, the Company issued 136.6 million Unit Warrants in conjunction with the Private Placement. Each Unit Warrant entitles the holder to purchase one Common Share at a price of $0.04 for a period of two years following the date of issuance.

The Company used the fair value method to account for the Unit Warrants. The estimated fair value of Unit Warrants was determined using the binomial option pricing model, with a volatility of 52%. In Q2 2021, Southern recorded $1.8 million to Shareholders' Equity relating to the Unit Warrants.

On April 30, 2021, as part of the New Facility (see Note 6 "*Long-term Debt*" for more information) the Company issued 41,250,000 Bonus Warrants. Each Bonus Warrant entitles the holder to purchase one Common Share at a price of $0.05 for a period of three years following the date of issuance.

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

The Company used the fair value method to account for the Bonus Warrants. The estimated fair value of Bonus Warrants was determined using the binomial option pricing model, with a volatility of 46%. In Q2 2021, Southern recognized $0.7 million of long-term debt transaction costs that will be amortized over the life of the New Facility relating to the Bonus Warrants.

As at June 30, 2021, 19,306,667 performance-based Common Share purchase warrants ("Recap Warrants") had vested as the 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 June 30, 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 June 30, 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	3.0
$ 0.10	**19,400,000**	**3.0**

Southern recognized $86 thousand of share-based compensation expense relating to stock options during the six months ended June 30, 2021 ($191 thousand – June 30, 2020).

9. Earnings (Loss) Per Share

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

	Three months ended June 30,		**Six months ended June 30,**	
	2021	**2020**	**2021**	**2020**
Net earnings (loss)	$ 3,908	$ (1,871)	$ 3,110	$ (12,087)
Basic - weighted average common shares outstanding	312,354,070	220,770,279	266,815,169	220,770,279
Dilutive effect of warrants and convertible debentures	127,191,344	-	95,065,561	-
Diluted – weighted average common shares outstanding	439,545,414	220,770,279	361,880,730	220,770,279
Net earnings (loss) per share, basic	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)
Net earnings (loss) per share, diluted	$ 0.01	$ (0.01)	$ 0.01	$ (0.05)

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

The calculation of diluted earnings per share for the three and six months ended June 30, 2021, include the effect of the Unit Warrants, Bonus Warrants issued as part of the New Facility and convertible debentures, but exclude options and the Recap Warrants as they are 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 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 June 30, 2021:

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

Subsequent to June 30, 2021, Southern entered into the following commodity derivative contracts:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
August 1, 2021 – October 31, 2021	1,000 MMBtu/d	NYMEX – HH $3.940/MMBtu
April 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.100/MMBtu
Costless Collar		
November 1, 2021 – December 31, 2021	1,000 MMBtu/d	NYMEX – HH $3.50 - $5.10/MMBtu
January 1, 2022 – March 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.50 - $5.10/MMBtu

Financial Derivative Contracts Financial Statement Recognition

The Company's financial instruments that were accounted for at fair value as of June 30, 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 Jun 31, 2021**	**As at Dec 31, 2020**
Current derivative asset	$ -	$ 8
Current derivative liability	(1,394)	(473)
Net fair value of contracts, end of period	**$ (1,394)**	**$ (465)**

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

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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Realized loss (gain) on derivatives	$ 222	$ (933)	$ 360	$ (1,518)
Unrealized loss (gain) on derivatives	895	927	942	(75)
Loss (gain) on derivative instruments	**$ 1,117**	**$ (6)**	**$ 1,302**	**$ (1,593)**

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 June 30, 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 term loan. Strategies to manage liquidity include, having adequate sources of financing available through its Credit Facilities, estimating future cash flows generated from operations based on reasonable production and pricing assumptions, adding additional commodity derivative contracts, 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 June 30, 2021, Southern has not entered any foreign exchange derivative contracts or fixed interest rate contracts. As at June 30, 2021, a 10% change in future commodity prices applied against these contracts would have a $0.4 million impact on net income.

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

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 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.

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

12. Royalties Payable

As at June 30, 2021, Southern had $5.3 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 5,700 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.

13. Oil and Natural Gas Sales

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

	Three months ended June 30,		Six months ended June 30,	
Commodity sales from production, by product	**2021**	**2020**	**2021**	**2020**
Crude oil	$ 983	$ 429	$ 1,964	$ 1,214
Natural gas liquids	116	7	197	67
Natural gas	3,490	2,042	7,311	4,594
Total Revenue from Continuing Operations	**$ 4,589**	**$ 2,478**	**$ 9,472**	**$ 5,875**

14. Financing

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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Bank debt interest	$ 176	$ 201	$ 438	$ 445
Convertible debentures interest	168	160	333	322
Accretion	240	117	418	227
Interest on lease obligations	8	10	13	21
Total Financing Expenses from Continuing Operations	**$ 592**	**$ 488**	**$ 1,202**	**$ 1,015**

15. Subsequent Events

On August 10, 2021, Southern was admitted to the AIM market of the London Stock Exchange plc and the Company's Common Shares began trading on August 10, 2021, under the symbol "SOUC".