Condensed Consolidated Interim Financial Statements of

SOUTHERN ENERGY CORP.

For the three and nine months ended September 30, 2021 and 2020

(unaudited)

(Canadian Dollars)

($000s of Canadian Dollars)	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 1,382	$ 1,158
Accounts receivable and other	2,945	2,143
Prepaid expenses and deposits	541	304
Derivative assets (Note 10)	77	8
	4,945	3,613
Property, plant and equipment (Note 3)	41,678	34,682
Right-of-use assets (Note 4)	479	352
Total assets	$ 47,102	$ 38,647
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	3,479	2,241
Royalties payable (Note 12)	5,598	5,555
Current portion of lease liabilities (Note 4)	167	381
Current portion of long-term debt (Note 6)	1,709	16,779
Derivative liabilities (Note 10)	3,738	473
	14,691	25,429
Long-term liabilities		
Derivative liabilities (Note 10)	426	-
Convertible debentures (Note 7)	7,794	7,468
Long-term debt (Note 6)	3,683	-
Lease liabilities (Note 4)	322	-
Decommissioning provisions (Note 5)	4,951	5,439
Total liabilities	31,867	38,336
Shareholders' equity (Note 8)		
Share capital	38,885	35,441
Equity component of convertible debenture (Note 7)	665	665
Warrants (Note 8)	3,743	1,195
Contributed surplus	4,481	4,377
Deficit	(33,613)	(42,272)
Accumulated other comprehensive income	1,074	905
	15,235	311
Total liabilities and shareholders' equity	$ 47,102	$ 38,647

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

($000s of Canadian Dollars, except for per share amounts)	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenues				
Petroleum and natural gas revenue (Note 13)	$ 6,550	$ 3,537	$ 16,022	$ 9,412
Royalties	(1,329)	(702)	(3,248)	(1,915)
	5,221	2,835	12,774	7,497
Expenses				
Production and operating	1,647	1,453	4,555	4,455
Transportation	58	80	174	145
Depletion, depreciation and amortization (Note 3)	1,165	1,254	3,621	3,708
Impairment (recovery), net (Note 3)	(9,950)	-	(9,950)	10,400
Loss (gain) on derivatives (Note 10)	3,572	1,297	4,874	(296)
Gain on dispositions (Note 3)	-	-	(232)	(338)
Financing (Note 14)	573	641	1,775	1,656
Gain on debt retirement	-	-	(5,679)	-
General and administrative	862	861	2,518	2,546
Share-based compensation	18	46	104	237
Transaction costs	1,948	-	2,430	-
(Gain) loss on foreign exchange	(221)	161	(75)	29
	(328)	5,793	4,115	22,542
Total net earnings (loss) for the period	5,549	(2,958)	8,659	(15,045)
Currency translation adjustment	224	27	169	1,187
Comprehensive income (loss) for the period	$ 5,773	$ (2,931)	$ 8,828	$(13,858)
Net earnings (loss) per common share (Note 9)				
Basic	$ 0.02	$ (0.01)	$ 0.03	$ (0.07)
Diluted	$ 0.01	$ (0.01)	$ 0.02	$ (0.07)

(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	-	-	-	-	237	-	-	237
Net Loss	-	-	-	-	-	(15,045)	-	(15,045)
Other Comprehensive Income	-	-	-	-	-	-	1,187	1,187
Balance, September 30, 2020	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,332	$(46,007)	$ 701	$ (3,673)
Balance, December 31, 2020	220,770,279	$ 35,441	$ 665	$ 1,195	$ 4,377	$(42,272)	$ 905	$ 311
Shares issued, net	140,526,775	3,444	-	-	-	-	-	3,444
Warrants issued	-	-	-	2,548	-	-	-	2,548
Share-based compensation	-	-	-	-	104	-	-	104
Net income	-	-	-	-	-	8,659	-	8,659
Other Comprehensive Income	-	-	-	-	-	-	169	169
Balance, September 30, 2021	361,297,054	$ 38,885	$ 665	$ 3,743	$ 4,481	$(33,613)	$ 1,074	$ 15,235

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

($000s of Canadian Dollars)	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Operating activities				
Total net earnings (loss) for the period	$ 5,549	$ (2,958)	$ 8,659	$(15,045)
Changes in non-cash items:				
Depletion, depreciation and amortization (Note 3)	1,165	1,254	3,621	3,708
Impairment (recovery), net (Note 3)	(9,950)	-	(9,950)	10,400
Gain on dispositions (Note 3)	-	-	(232)	(338)
Financing expense	573	641	1,775	1,656
Gain on debt retirement	-	-	(5,679)	-
Unrealized loss on derivatives (Note 10)	2,633	1,992	3,575	1,917
Unrealized (gain) loss on foreign exchange	(221)	161	(75)	29
Share-based compensation	18	46	104	237
Decommissioning provisions liabilities settled (Note 5)	(31)	(6)	(31)	(7)
Changes in non-cash working capital	385	(444)	(14)	(828)
Net cash provided by operating activities	121	686	1,753	1,729
Investing activities				
Capital expenditures	(900)	(78)	(1,016)	(119)
Proceeds from divestitures (Note 3)	-	-	232	338
Changes in non-cash working capital	635	(1)	576	(97)
Net cash (used) provided by investing activities	(265)	(79)	(208)	122
Financing activities				
Proceeds from share issuances, net	-	-	4,931	-
Repayment of bank debt (Note 6)	(690)	(599)	(11,499)	(599)
Draw on credit facility (Note 6)	628	-	7,385	-
Payment of interest	(222)	(377)	(863)	(1,145)
Finance lease payments	(46)	(73)	(237)	(258)
Transaction costs on debt refinance	(22)	-	(820)	-
Changes in non-cash working capital	(191)	274	(236)	582
Net cash used by financing activities	(543)	(775)	(1,339)	(1,420)
Net increase in cash and cash equivalents	(687)	(168)	206	431
Effect of foreign exchange rate changes	39	(25)	18	(15)
Cash and cash equivalents, beginning of period	2,030	1,033	1,158	424
Cash and cash equivalents, end of period	$ 1,382	$ 840	$ 1,382	$ 840

(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 November 29, 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, Southern Energy LA, 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. 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. Southern notes that forecasting the timing of a full and sustainable economic recovery is challenging with the outlook on crude oil demand significantly dependent on the status of COVID-19 virus variants, vaccine effectiveness and vaccine rollout and changes in social and travel restrictions. Benchmark crude oil pricing has increased during 2021 as the OPEC+ alliance has largely maintained production restrictions with the backdrop of global economic recovery, but the potential for volatility in crude oil demand and supply remains.

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	1,010	6	1,016
Dispositions	(179)	-	(179)
Change in decommissioning provision (Note 5)	(350)	-	(350)
Depletion, depreciation and amortization	(3,429)	(3)	(3,432)
Impairment recovery	9,950	-	9,950
Effect of foreign exchange rate changes	(9)	-	(9)
Net book value as at September 30, 2021	**$ 41,657**	**$ 21**	**$ 41,678**

Additions

In Q3 2021, Southern incurred $0.9 million on a series of well recompletions and workovers in the Central Mississippi ("CMS") CGU. The capital program has resulted in the addition of approximately 1,250 Mcfe/d (208 boe/d comprised of 39 bbl/d light and medium crude oil, 2 bbl/d NGLs and 1,000 mcf/d conventional natural gas).

Depletion and depreciation

For the nine months ended September 30, 2021, the Company recorded depletion expense of $3.4 million. In the calculation of depletion expense an estimated $35.7 million of future development costs associated with the proven plus probable reserves were included.

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

Impairment

At September 30, 2021, Southern viewed the increase in the forward benchmark commodity prices as an indication of impairment reversal. Southern estimated the recoverable amount of all CGUs at September 30, 2021. Southern determined that the recoverable amounts of the CMS and Smackover ("SO") CGUs exceeded their carrying values. A non-cash impairment recovery of $9.9 million related to the CMS CGU and $0.1 million related to the SO CGU was recorded in the condensed consolidated interim statements of earnings (loss) and comprehensive earnings (loss).

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 7% discount rate (equivalent to 10% pre-tax), based on reserves estimated by Southern's independent reserves evaluator at April 1, 2021, and updated by the Company's internal reserves evaluator to September 30, 2021 for production, production and operating costs, royalty costs, and price estimates.

The following table details the forward pricing used in estimating the recoverable amounts of Southern's CGUs at September 30, 2021:

Period Ending	West Texas Intermediate ($US/bbl)	Henry Hub ($US/MMBtu)	FX (USD/CAD)
12-31-2021	73.38	5.30	0.796
12-31-2022	69.83	4.21	0.799
12-31-2023	66.43	3.43	0.800
12-31-2024	63.76	3.18	0.800
12-31-2025	65.05	3.24	0.800
12-31-2026	66.34	3.30	0.800
12-31-2027	67.67	3.38	0.800
12-31-2028	69.03	3.44	0.800
12-31-2029	70.41	3.51	0.800
12-31-2030	71.82	3.58	0.800

Thereafter, WTI and HH prices escalated 2 percent on January 1 of each year and FX rates held constant at 0.800

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. The table below shows the estimated impact of a 1% increase in the assumed discount rate or a 5% decrease in commodity price forecasts to the estimated recoverable amounts as at September 30, 2021:

CGU	**1% increase in discount rate**	**5% decrease in commodity forecast**
Central Mississippi	$ (1,118)	$ (3,812)
Smackover	(8)	(42)

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	**$**	**352**
Additions		530
Depreciation		(217)
Terminations		(186)
Carrying value as at September 30, 2021	**$**	**479**

Lease Liabilities

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

		Total
As at December 31, 2020	**$**	**381**
Additions		530
Terminations		(213)
Interest expense		28
Lease payments		(237)
As at September 30, 2021	**$**	**489**

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

		Total
Less than 1 year	$	184
1 – 5 years		399
Total undiscounted future lease payments	$	583
Amounts representing interest		(94)
Present value of net lease payments	$	489
Less current portion of lease liabilities		(167)
Non-current portion of lease liabilities	**$**	**322**

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	(350)
Liabilities settled	(31)
Accretion expense	53
Effect of foreign exchange rate changes	(18)
Balance as at September 30, 2021	**$ 4,951**
Long term liability	**$ 4,951**

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 $5.6 million at September 30, 2021 ($5.9 million at December 31, 2020), which have been discounted using a risk-free interest rate of 1.5% at September 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 Sep 30, 2021	As at Dec 31, 2020
Old Facility	$ -	$ 16,806
Current portion of senior secured term loan	2,195	-
Long-term portion of senior secured term loan	4,453	-
Unamortized transaction costs	(1,256)	(27)
Total Long-Term Debt	**$ 5,392**	**$ 16,779**

The New Facility is secured against the oil and gas properties of Southern. At September 30, 2021, Southern had US$5.2 million ($6.6 million) drawn on the New Facility. Details of the New Facility include:

- Tranche A: US$5.5 million at closing

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- 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
- Issued 41,250,000 non-transferable common share ("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 September 30, 2021, Southern recorded $203 thousand in interest related to the New Facility.

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

Financial covenant	**Limit**	**As at Sep 30, 2021**	**As at Dec 31, 2020**
Asset Coverage ratio	Minimum 2.00	5.20	N/A
Debt Service Coverage ratio	Minimum 1.25	1.87	N/A

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

7. Convertible Debentures

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2020	8,389	$ 7,468	$ 665
Accretion of discount	-	326	-
Balance at September 30, 2021	**8,389**	**$ 7,794**	**$ 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 September 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
Issuance of common shares to settle convertible debenture interest (Note 7)	3,901,775	335
Balance as at September 30, 2021	**361,297,054**	**$ 38,885**

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").

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

On November 24, 2021, Southern closed an equity financing for aggregate gross proceeds of $12.7 million through the issuance of a total of 254.3 million Common Shares (the "Offering"), of which $6.7 million was raised pursuant to a private placement of 135.1 million Common Shares to UK investors at a price of 2.94 pence per Common Share and the remaining $6.0 million was raised pursuant to a short form prospectus offering of 119.2 million Common Shares at a price of $0.05 per Common Share.

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

Subsequent to September 30, 2021, Southern has issued 1.3 million new Common Shares in the Company to satisfy the exercise of Unit Warrants for proceeds of $0.1 million. As of the date of this report, there are 135.3 million Unit Warrants outstanding.

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.

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 September 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 September 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 September 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	2.7
$ 0.10	**19,400,000**	**2.7**

Southern recognized $104 thousand of share-based compensation expense relating to stock options during the nine months ended September 30, 2021 ($237 thousand – September 30, 2020).

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On October 7, 2021, pursuant to the Company's Stock Option Plan, an aggregate of 11,425,000 stock options to purchase Common Shares of the Company were granted to directors, officers and employees of Southern. The stock options expire five years from the date of grant and are exercisable at a price of $0.07 per Common Share. The stock options vest as to one third on the grant date and one third on each of the first and second anniversaries of the grant date.

9. Earnings (Loss) Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Net earnings (loss)	$ 5,549	$ (2,958)	$ 8,659	$ (15,045)
Basic - weighted average common shares outstanding	360,703,306	220,770,279	298,455,127	220,770,279
Dilutive effect of warrants and convertible debentures	156,846,305	-	100,714,242	-
Diluted – weighted average common shares outstanding	517,549,611	220,770,279	399,169,369	220,770,279
Net earnings (loss) per share, basic	$ 0.02	$ (0.01)	$ 0.03	$ (0.07)
Net earnings (loss) per share, diluted	$ 0.01	$ (0.01)	$ 0.02	$ (0.07)

The calculation of diluted earnings per share for the three and nine months ended September 30, 2021, include the effect of the Unit Warrants, Bonus Warrants issued as part of the New Facility and convertible debentures, but exclude stock 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.

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

Southern had the following commodity derivative contracts in place as at September 30, 2021:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
October 1, 2021 – December 31, 2021	1,500 MMBtu/d	NYMEX – HH $2.575/MMBtu
October 1, 2021 – December 31, 2021	3,600 MMBtu/d	NYMEX – HH $2.402/MMBtu
October 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 September 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 Sep 30, 2021**	**As at Dec 31, 2020**
Current derivative asset	$ 77	$ 8
Current derivative liability	(3,738)	(473)
Non-current derivative liability	(426)	-
Net fair value of contracts, end of period	**$ (4,087)**	**$ (465)**

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2021	**2020**	**2021**	**2020**
Realized loss (gain) on derivatives	$ 939	$ (695)	$ 1,299	$ (2,213)
Unrealized loss (gain) on derivatives	2,633	1,992	3,575	1,917
Loss (gain) on derivative instruments	**$ 3,572**	**$ 1,297**	**$ 4,874**	**$ (296)**

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 September 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 September 30, 2021, Southern has not entered any foreign exchange derivative contracts or fixed interest rate contracts. As at September 30, 2021, a 10% change in future commodity prices applied against these contracts would have a $1.2 million impact on net income.

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

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.

12. Royalties Payable

As at September 30, 2021, Southern had $5.6 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.

13. Oil and Natural Gas Sales

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

	Three months ended September 30,		Nine months ended September 30,	
Commodity sales from production, by product	**2021**	**2020**	**2021**	**2020**
Crude oil	$ 1,172	$ 709	$ 3,136	$ 1,923
Natural gas liquids	124	45	321	112
Natural gas	5,254	2,783	12,565	7,377
Total Revenue	**$ 6,550**	**$ 3,537**	**$ 16,022**	**$ 9,412**

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 September 30,		Nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Bank debt interest	$ 203	$ 196	$ 641	$ 641
Convertible debentures interest	169	163	502	484
Accretion	186	273	604	501
Interest on lease obligations	15	9	28	30
Total Financing Expenses	**$ 573**	**$ 641**	**$ 1,775**	**$ 1,656**