

Condensed Consolidated Interim Financial Statements of  
**SOUTHERN ENERGY CORP.**

For the three and six months ended June 30, 2022 and 2021

(unaudited)

(US Dollars)

# SOUTHERN ENERGY CORP.



Condensed Consolidated Interim Statement of Financial Position (unaudited)

(\$000s of US Dollars)	June 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,465	\$ 9,622
Accounts receivable and other	5,804	2,532
Prepaid expenses and deposits	571	422
Derivative assets (Note 9)	122	46
	10,962	12,622
Property, plant and equipment (Note 3)	47,101	33,242
Right-of-use assets	284	348
Total assets	\$ 58,347	\$ 46,212
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	8,674	3,367
Royalties payable (Note 10)	4,609	4,480
Current portion of lease liabilities	119	128
Current portion of long-term debt (Note 5)	2,842	1,183
Derivative liabilities (Note 9)	2,769	632
	19,013	9,790
Long-term liabilities		
Convertible debentures (Note 6)	3,383	6,185
Long-term debt (Note 5)	3,215	2,429
Lease liabilities	180	233
Decommissioning provisions (Note 4)	3,235	3,762
Total liabilities	29,026	22,399
Shareholders' equity (Note 7)		
Share capital	46,167	41,018
Equity component of convertible debenture	263	497
Warrants (Note 7)	2,263	2,723
Contributed surplus	4,222	4,144
Deficit	(22,911)	(23,894)
Accumulated other comprehensive income	(683)	(675)
	29,321	23,813
Total liabilities and shareholders' equity	\$ 58,347	\$ 46,212

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

# SOUTHERN ENERGY CORP.



Condensed Consolidated Interim Statement of Earnings & Comprehensive Income (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
		(Note 14)		(Note 14)
(\$000s of US Dollars, except for per share amounts)				
<b>Revenues</b>				
Petroleum and natural gas revenue (Note 11)	\$ 10,311	\$ 3,736	\$ 16,236	\$ 7,593
Royalties	(2,100)	(755)	(3,301)	(1,539)
	8,211	2,981	12,935	6,054
<b>Expenses</b>				
Production and operating	1,511	1,177	2,889	2,333
Transportation	32	47	71	93
Depletion, depreciation and amortization (Note 3)	1,227	961	2,277	1,969
Loss on derivatives (Note 9)	1,208	910	4,221	1,056
Gain on dispositions (Note 3)	-	(189)	(398)	(189)
Financing (Note 12)	412	482	836	963
Gain on debt retirement	-	(4,543)	-	(4,543)
General and administrative	1,070	646	2,007	1,328
Share-based compensation (Note 7)	38	34	78	69
Transaction costs	58	322	58	391
(Gain) loss on foreign exchange	(183)	35	(87)	116
	5,373	(118)	11,952	3,586
<b>Total net earnings for the period</b>	2,838	3,099	983	2,468
Currency translation adjustment	(14)	(45)	(8)	(35)
<b>Comprehensive income for the period</b>	\$ 2,824	\$ 3,054	\$ 975	\$ 2,433
<b>Net earnings per common share (Note 8)</b>				
Basic	\$ 0.03	\$ 0.08	\$ 0.01	\$ 0.07
Diluted	\$ 0.03	\$ 0.06	\$ 0.01	\$ 0.06

# SOUTHERN ENERGY CORP.



## Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (unaudited)

(\$000s of US 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, 2020	27,596,303	\$ 29,271	\$ 497	\$ 1,100	\$ 3,944	\$(33,987)	\$ (582)	\$ 243
Shares issued, net	17,078,125	2,531	-	-	-	-	-	2,531
Warrants issued	-	-	-	2,074	-	-	-	2,074
Share-based compensation	-	-	-	-	69	-	-	69
Net earnings	-	-	-	-	-	2,468	-	2,468
Other comprehensive loss	-	-	-	-	-	-	(35)	(35)
Balance, June 30, 2021	44,674,428	\$ 31,802	\$ 497	\$ 3,174	\$ 4,013	\$(31,519)	\$ (617)	\$ 7,350
Balance, December 31, 2021	78,121,858	\$ 41,018	\$ 497	\$ 2,723	\$ 4,144	\$(23,894)	\$ (675)	\$ 23,813
Shares issued, net	11,415,000	5,149	(234)	(460)	-	-	-	4,455
Share-based compensation	-	-	-	-	78	-	-	78
Net earnings	-	-	-	-	-	983	-	983
Other comprehensive income	-	-	-	-	-	-	(8)	(8)
Balance, June 30, 2022	89,536,858	\$ 46,167	\$ 263	\$ 2,263	\$ 4,222	\$(22,911)	\$ (683)	\$ 29,321

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

# SOUTHERN ENERGY CORP.



Condensed Consolidated Interim Statement of Cash Flows (unaudited)

(\$000s of US Dollars)	Three months ended June 30,		Six months ended June 30,	
	2022	2021 (Note 14)	2022	2021 (Note 14)
<b>Operating activities</b>				
Total net earnings for the period	\$ 2,838	\$ 3,099	\$ 983	\$ 2,468
Changes in non-cash items:				
Depletion, depreciation and amortization (Note 3)	1,227	961	2,277	1,969
Gain on dispositions (Note 3)	-	(189)	(398)	(189)
Financing expense	412	482	836	963
Gain on debt retirement	-	(4,543)	-	(4,543)
Unrealized (gain) loss on derivatives (Note 9)	(740)	729	2,145	766
Unrealized loss (gain) on foreign exchange	(185)	35	(97)	116
Share-based compensation (Note 7)	38	34	78	69
Decommissioning provisions liabilities settled (Note 4)	(8)	-	(23)	-
Changes in non-cash working capital	(1,666)	(166)	(2,296)	(319)
Net cash provided by operating activities	1,916	442	3,505	1,300
<b>Investing activities</b>				
Capital expenditures	(10,104)	(36)	(16,976)	(93)
Proceeds from dispositions (Note 3)	-	79	759	186
Changes in non-cash working capital	2,360	33	4,488	(47)
Net cash (used) provided by investing activities	(7,744)	76	(11,729)	46
<b>Financing activities</b>				
Proceeds from share issuances, net	1,697	4,014	1,666	4,014
Paydown of long-term debt (Note 5)	(1,144)	(8,334)	(1,740)	(8,784)
Draw on credit facility (Note 5)	4,000	5,500	4,000	5,500
Payment of interest	(511)	(309)	(639)	(516)
Finance lease payments	(49)	(68)	(85)	(153)
Transaction costs on debt refinance	-	(650)	(3)	(650)
Changes in non-cash working capital	(240)	(222)	(124)	(39)
Net cash provided (used) by financing activities	3,753	(69)	3,075	(628)
Net (decrease) increase in cash and cash equivalents	(2,075)	449	(5,149)	718
Effect of foreign exchange rate changes	(15)	6	(8)	10
Cash and cash equivalents, beginning of period	6,555	1,183	9,622	910
Cash and cash equivalents, end of period	\$ 4,465	\$ 1,638	\$ 4,465	\$ 1,638

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

## SOUTHERN ENERGY CORP.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
Amounts in (\$000s of US Dollars), except for per share amounts

---

### 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.

On December 22, 2021, the Company completed the consolidation of the common shares (“Common Shares”) on the basis of one post-consolidated Common Share for every eight pre-consolidation Common Shares (the “Consolidation”). The number of Common Shares, purchase warrants, units and share based rewards have been adjusted retrospectively to reflect the 8:1 share consolidation.

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 plc (“AIM”) under the trading symbol “SOUC”. The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 22, 2022.

### 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., Southern Energy Corp (Delaware), Southern Energy Operating, LLC, Southern Energy CMS, LLC, Southern Energy LA, LLC and Southern Energy BWB, 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, 2021, 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, 2021, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) or on Southern’s website at [www.southernenergycorp.com](http://www.southernenergycorp.com). These condensed consolidated interim financial statements are presented in United States dollars (“US dollars”). All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

The Company’s presentation currency is the US dollar. The functional currency of the parent company is the Canadian dollar, and its results and balance sheet items are translated to US dollars for the purposes of these condensed consolidated interim financial statements, in accordance with the Company’s foreign currency translation accounting policy. The functional currency of the Company’s foreign subsidiaries is the US dollar.

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

**b) Presentation and Functional Currency**

In the fourth quarter of 2021, the Company elected to change its presentation currency from Canadian dollars to US dollars. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other similar publicly traded businesses in the oil and gas industry. In making this voluntary change to the US dollar presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new US dollar presentation currency. For the 2021 comparative balances prior to Q4 2021, assets and liabilities have been translated into the presentation currency (US dollars) at the rate of exchange prevailing at the reporting date and shareholders equity using the exchange rate at the date of transactions. The Condensed Consolidated Interim Statement of Earnings and Comprehensive Income were translated at the average exchange rates for the reporting period, or at the exchange rates prevailing at the date of transactions if the individual transaction was material. Exchange differences arising on translation were taken to the foreign currency translation reserve in shareholders' equity. See Note 14 "Change in Presentation Currency" for more information on the impact of the change in presentation currency.

**c) Recently Announced Accounting Pronouncements**

*Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*

Southern adopted the amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets effective January 1, 2022. The amendments clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. On adoption of this amendment, there is no impact to the Company's condensed consolidated interim financial statements

**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		Total
	Assets	Other	
<b>Net book value as at December 31, 2021</b>	<b>\$ 33,195</b>	<b>\$ 47</b>	<b>\$ 33,242</b>
Additions	16,811	183	16,994
Dispositions	(366)	-	(366)
Change in decommissioning provision (Note 4)	(552)	-	(552)
Depletion, depreciation and amortization	(2,201)	(16)	(2,217)
<b>Net book value as at June 30, 2022</b>	<b>\$ 46,887</b>	<b>\$ 214</b>	<b>\$ 47,101</b>

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

*Additions*

For the three and six months ended June 30, 2022, Southern incurred \$9.9 million and \$16.8 million of capital additions, respectively, related to the Central Mississippi CGU (“CMS CGU”).

*Dispositions*

On February 1, 2022, Southern disposed of all its properties in the Smackover CGU (“SO CGU”) for net proceeds of \$0.8 million. Southern recorded a gain on sale of \$0.4 million related to the disposition.

*Depletion and depreciation*

For the six months ended June 30, 2022, the Company recorded depletion expense of \$1.2 million. In the calculation of depletion expense an estimated \$65.8 million of future development costs associated with the proven plus probable reserves were included.

*Impairment*

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the CGUs that comprise oil and natural gas properties. At June 30, 2022, Southern did not identify any indicators of impairment for any of its CGUs.

**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:

		<b>Total</b>
<b>Balance as at December 31, 2021</b>	<b>\$</b>	<b>3,762</b>
Liabilities incurred		18
Liabilities settled		(23)
Changes in estimates		(552)
Accretion expense		35
Property disposal		(5)
<b>Balance as at June 30, 2022</b>	<b>\$</b>	<b>3,235</b>
<b>Long term liability</b>		<b>3,235</b>

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 \$5.0 million at June 30, 2022 (\$4.3 million at December 31, 2021), which was inflated using a rate of 2.4% (December 31, 2021 – 2.3%) and discounted using a risk-free interest rate of 3.0% at June 30, 2022 (December 31, 2021 – 1.5%).



## SOUTHERN ENERGY CORP.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

### 5. Long-term Debt

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

	<b>As at Jun 30, 2022</b>	<b>As at Dec 31, 2021</b>
Current Portion senior secured term loan	\$ 3,249	\$ 1,582
Long-term portion of the senior secured term loan	3,554	2,961
Unamortized transaction costs	(746)	(931)
<b>Total Long-Term Debt</b>	<b>\$ 6,057</b>	<b>\$ 3,612</b>

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing senior secured term loan (“Credit Facility”) at June 30, 2022. The Credit Facility is comprised of Tranche A of \$5.5 million that was advanced at closing on April 30, 2021 and Tranche B of \$4.5 million (\$4.5 million drawn at June 30, 2022) with an availability until June 30, 2022. Interest on the Credit Facility is 12% per annum, paid monthly in arrears on the last day of the month. The Credit Facility is secured against the oil and gas properties of Southern and matures on April 30, 2024. As at June 30, 2022, Southern had \$6.8 million drawn on the Credit Facility.

The Credit Facility includes a monthly repayment of the principal amount outstanding 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, and costs related to the AIM admission (“EBITDAX”), less the aggregate of the Credit Facility principal and interest payments.

In Q2 2022, the Company entered into amending agreements to the Credit Facility:

- on April 8, 2022 to increase Tranche B to \$4.5 million and extend the availability to June 30, 2022 from April 30, 2022; and
- on May 2, 2022 to increase flexibility in payment of interest of the convertible debentures.

On August 19, 2022, Southern entered into a non-binding term sheet with its current lender in respect to the Credit Facility which proposes, among other amendments, an increase of \$25 million to Tranche B of the Credit Facility, with a maximum draw of \$10.0 million in any rolling sixty day period, and an extension of the commitment period and maturity of the Credit Facility to September 30, 2023 and August 31, 2025 for Tranche A and Tranche B, respectively. In addition, quarterly FCF repayments that were 50% of the previous quarter FCF are now replaced by a quarterly FCF grid whereby quarterly repayments are X% of the preceding quarter where X equal to 50% if ACR (as defined below) is < 3.0x or DSCR (as defined below) is < 1.4x; or X equal to 0% if ACR is > 5.0x and DSCR > 1.7x; otherwise 25%.<sup>3</sup> A standby fee of 1.0% per annum on any undrawn Tranche B amounts.

## SOUTHERN ENERGY CORP.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

Below are the financial covenant calculations for the Credit Facility for June 30, 2022 and December 31, 2021:

Financial covenant	Limit	As at	As at
		Jun 30, 2022	Dec 31, 2021
Asset Coverage ratio	Minimum 2.00	10.39	6.55
Debt Service Coverage ratio	Minimum 1.25	2.39	1.73

The asset coverage ratio (“ACR”) of at least 2:1 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 Credit Facility.

The debt service coverage ratio (“DSCR”) of greater than 1:25:1 is the ratio of EBITDAX to scheduled principal payments and interest expense.

As at June 30, 2022, Southern was in compliance with the above covenants.

### 6. Convertible Debentures

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2021	8,389	\$ 6,185	\$ 497
Conversion of debentures	(3,792)	(2,789)	(234)
Accretion of discount	-	74	-
Effect of foreign exchange rate changes	-	(87)	-
<b>Balance at June 30, 2022</b>	<b>4,597</b>	<b>\$ 3,383</b>	<b>\$ 263</b>

During the six months ending June 30, 2022, 4.7 million Common Shares were issued to satisfy the convertible debenture rights of 3,792 convertible debentures at a price of CAD\$0.80 per Common Share.

### 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.

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

The following table reflects the Company's outstanding Common Shares at June 30, 2022 and December 31, 2021:

	<b>Number of Shares</b>	<b>Share Capital</b>
Balance as at December 31, 2021	78,121,858	\$ 41,018
Issuance of common shares to satisfy unit warrant exercise	5,425,000	1,710
Issuance of common shares to satisfy conversion of convertible debentures	4,740,000	3,023
Issuance of common shares to satisfy bonus warrant exercise	1,250,000	490
Share issuance costs	-	(74)
<b>Balance as at June 30, 2022</b>	<b>89,536,858</b>	<b>\$ 46,167</b>

Subsequent to June 30, 2022, Southern closed an equity financing on July 7, 2022, raising aggregate gross proceeds of \$31.0 million through the issuance of a total of 46,371,927 Common Shares (the "Offering"), of which \$17.5 million was raised pursuant to a bought deal prospectus offering of 26.1 million Common Shares at a price of CAD\$0.87 per Common Share and the remaining \$13.5 million was raised pursuant to an accelerated bookbuild of 20.3 million Common Shares at a price of 54.5 pence per Common Share.

*Warrants*

As at June 30, 2022, 5,587,500 Unit Warrants had been exercised at a price of CAD\$0.32 for proceeds of CAD\$1.8 million. There are 11,490,625 remaining Unit Warrants with an expiry date of April 30, 2023.

As at June 30, 2022, 1,250,000 purchase warrants ("Bonus Warrant") issued with the closing of the Credit Facility in April 2021 were exercised at a price of CAD\$0.40 for proceeds of CAD\$0.5 million. There are 3,906,250 remaining Bonus Warrants with 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 Credit Facility.

As at June 30, 2022, 2,413,333 performance-based Common Share purchase warrants ("Performance Warrants") had vested as the 20-day volume weighted average trading price ("Market Price") of the Common Shares had exceeded CAD\$1.20. The Performance Warrants have an exercise price of CAD\$0.80.

On April 21, 2022, an amendment was adopted by the Board to the acceleration provisions of the 7,240,000 Performance Warrants issued in 2018. Pursuant to such amendment, the Performance Warrants vest and become exercisable as to one-third upon the Market Price equaling or exceeding CAD\$1.20, an additional one-third upon the Market Price equaling or exceeding CAD\$1.35 and a final one-third upon the Market Price equaling or exceeding CAD\$1.50. In addition, in the event the Market Price equals or exceeds CAD\$1.65, each Performance Warrant shall be exercisable for 1.5 Common Shares, provided that, at the time of exercise in respect of the additional 0.5 of a Common Share per Performance Warrant, the Common Shares are listed on the facilities of a recognized stock exchange (other than the TSXV) or the Common Shares are acquired for cash or for the securities of a company listed on a recognized stock exchange (other than the TSXV). These acceleration thresholds were previously set at CAD\$1.20, CAD\$1.60, CAD\$2.00, and CAD\$3.20, respectively, prior to the amendments that were adopted by the Board.

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

*Share Awards Incentive Plan*

The following table reflects the Company's outstanding common stock options at June 30, 2022 and December 31, 2021:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2021	3,628,125	\$ 0.71
<b>Balance at June 30, 2022</b>	<b>3,628,125</b>	<b>\$ 0.71</b>

The following table summarizes information regarding stock options outstanding at June 30, 2022:

Exercise Price (\$CAD/share)	Number of options outstanding (000s)	Weighted average remaining terms (years)	Weighted average exercise price for options outstanding (\$CAD/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable (\$CAD/share)
<b>\$0.56 - \$0.80</b>	<b>3,628</b>	<b>2.9</b>	<b>\$0.71</b>	<b>2,676</b>	<b>\$0.76</b>

Southern recognized \$78 thousand of share-based compensation expense relating to stock options during the six months ended June 30, 2022 (\$69 thousand – June 30, 2021).

**8. Earnings Per Share**

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net earnings	\$ 2,838	\$ 3,099	\$ 983	\$ 2,468
Dilutive impact of convertible debentures	72	192	-	373
Diluted net earnings	\$ 2,910	\$ 3,291	\$ 983	\$ 2,841
Basic - weighted average common shares outstanding	83,302,459	39,044,259	80,741,811	33,351,896
Dilutive effect of warrants and convertible debentures	17,708,398	15,898,918	11,054,438	11,883,195
Diluted – weighted average common shares outstanding	101,010,857	54,943,177	91,796,249	45,235,091
Net earnings per share, basic	\$ 0.03	\$ 0.08	\$ 0.01	\$ 0.07
Net earnings per share, diluted	\$ 0.03	\$ 0.06	\$ 0.01	\$ 0.06

The calculation of diluted earnings per share for the three months ended June 30, 2022, include the effect of the Unit Warrants, Bonus Warrants issued as part of the Credit Facility, options, Performance Warrants and the convertible debentures.

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

The calculation of diluted earnings per share for the six months ended June 30, 2022, include the effect of the Unit Warrants, Bonus Warrants issued as part of the Credit Facility, options and the Performance Warrants, but excludes the effect of the 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.

Southern had the following commodity derivative contracts in place as at June 30, 2022:

Natural Gas	Volume	Pricing
<i>Fixed Price Swap</i>		
July 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH \$3.100/MMBtu
July 1, 2022 – December 31, 2022	2,000 MMBtu/d	NYMEX – HH \$4.610/MMBtu
<i>Costless Collar</i>		
November 1, 2022 – March 31, 2023	2,000 MMBtu/d	NYMEX – HH \$3.50 - \$20.00/MMBtu
<i>Fixed Basis Swap</i>		
July 1, 2022 – July 31, 2022	8,000 MMBtu/d	NYMEX – HH + \$0.575/MMBtu
August 1, 2022 – September 30, 2022	8,000 MMBtu/d	NYMEX – HH + \$0.480/MMBtu
October 1, 2022 – December 31, 2022	8,000 MMBtu/d	NYMEX – HH + \$0.270/MMBtu

On June 28, 2022, Southern entered into a foreign currency put option on GBP10,000,000 with a strike price of 1.22 USD/GBP and premium of \$85 thousand with an expiration date of July 6, 2022.

***Financial Derivative Contracts Financial Statement Recognition***

The Company's financial instruments that were accounted for at fair value as of June 30, 2022 and December 31, 2021 are presented below. The classification within the fair value hierarchy for these financial instruments is Level 2.

Comprised of:	As at Jun 30, 2022	As at Dec 31, 2021
Current derivative asset	\$ 122	\$ 46
Current derivative liability	(2,769)	(632)
<b>Net fair value of contracts, end of period</b>	<b>\$ (2,647)</b>	<b>\$ (586)</b>

## SOUTHERN ENERGY CORP.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Realized loss on derivatives	\$ 1,948	\$ 181	\$ 2,076	\$ 290
Unrealized (gain) loss on derivatives	(740)	729	2,145	766
<b>Loss on derivative instruments</b>	<b>\$ 1,208</b>	<b>\$ 910</b>	<b>\$ 4,221</b>	<b>\$ 1,056</b>

### ***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, 2022 or December 31, 2021.

### ***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

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

operations based on reasonable production and pricing assumptions, adding additional commodity derivative contracts, reducing capital spending and utilizing equity to settle interest payments on Convertible Debentures. 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, 2022, a 10% change in future commodity prices applied against these contracts would have a \$0.6 million impact on net income.

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

**10. Royalties Payable**

As at June 30, 2022, Southern had \$4.6 million (\$4.5 million at December 31, 2021) of non-interest bearing royalty payables related to unresolved title or ownership issues. The royalty payable account is made up of balances due to approximately 5,000 royalty holders with over 95% of the balances outstanding for greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

**11. Oil and Natural Gas Sales**

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

	Three months ended		Six months ended	
	June 30,		June 30,	
Commodity sales from production, by product	2022	2021	2022	2021
Crude oil	\$ 992	\$ 800	\$ 2,183	\$ 1,575
Natural gas liquids	80	94	166	158
Natural gas	9,239	2,842	13,887	5,860
<b>Total Oil and Natural Gas Sales</b>	<b>\$ 10,311</b>	<b>\$ 3,736</b>	<b>\$ 16,236</b>	<b>\$ 7,593</b>

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

---

**12. Financing**

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Bank debt interest	\$ 137	\$ 143	\$ 265	\$ 350
Convertible debentures interest	103	137	234	267
Accretion	163	195	317	335
Interest on lease obligations	9	7	20	11
<b>Total Financing Expenses</b>	<b>\$ 412</b>	<b>\$ 482</b>	<b>\$ 836</b>	<b>\$ 963</b>

**13. Capital Risk Management**

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.



# SOUTHERN ENERGY CORP.



Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

## 14. Change in Presentation Currency

The impact of the change in presentation currency (see Note 2 “Basis of Presentation – Presentation and Functional Currency” for more information) on the condensed consolidated interim financial statements is as follows:

Restated Condensed Consolidated Interim Statement of Earnings and Comprehensive Income:

(\$000s, except for per share amounts)	Three months ended June 30, 2021		Six months ended June 30, 2021	
	(CAD)	(Restated)	(CAD)	(Restated)
<b>Revenues</b>				
Petroleum and natural gas revenue	\$ 4,589	\$ 3,736	\$ 9,472	\$ 7,593
Royalties	(927)	(755)	(1,919)	(1,539)
	<u>3,662</u>	<u>2,981</u>	<u>7,553</u>	<u>6,054</u>
<b>Expenses</b>				
Production and operating	1,445	1,177	2,908	2,333
Transportation	58	47	116	93
Depletion, depreciation and amortization	1,180	961	2,456	1,969
Loss on derivatives	1,117	910	1,302	1,056
Gain on dispositions	(232)	(189)	(232)	(189)
Financing	592	482	1,202	963
Gain on debt retirement	(5,679)	(4,543)	(5,679)	(4,543)
General and administrative	793	646	1,656	1,328
Share-based compensation	42	34	86	69
Transaction costs	395	322	482	391
Loss on foreign exchange	43	35	146	116
	<u>(246)</u>	<u>(118)</u>	<u>4,443</u>	<u>3,586</u>
<b>Total net earnings for the period</b>	<b>3,908</b>	<b>3,099</b>	<b>3,110</b>	<b>2,468</b>
Currency translation adjustment	(67)	(45)	(55)	(35)
<b>Comprehensive income for the period</b>	<b>\$ 3,841</b>	<b>\$ 3,054</b>	<b>\$ 3,055</b>	<b>\$ 2,433</b>
<b>Net earnings per common share</b>				
Basic	\$ 0.10	\$ 0.08	\$ 0.09	\$ 0.07
Diluted	\$ 0.08	\$ 0.06	\$ 0.08	\$ 0.06

# SOUTHERN ENERGY CORP.



Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 Amounts in (\$000s of US Dollars), except for per share amounts

## Restated Condensed Consolidated Interim Statement of Cash Flows:

	Three months ended June 30, 2021		Six months ended June 30, 2021	
	(CAD)	(Restated)	(CAD)	(Restated)
<b>Operating activities</b>				
Total net earnings for the period	\$ 3,908	\$ 3,099	\$ 3,110	\$ 2,468
Changes in non-cash items:				
Depletion, depreciation and amortization	1,180	961	2,456	1,969
Gain on dispositions	(232)	(189)	(232)	(189)
Financing expense	592	482	1,202	963
Gain on debt retirement	(5,679)	(4,543)	(5,679)	(4,543)
Unrealized loss on derivatives	895	729	942	766
Unrealized loss on foreign exchange	43	35	146	116
Share-based compensation	42	34	86	69
Changes in non-cash working capital	(206)	(166)	(399)	(319)
Net cash provided by operating activities	543	442	1,632	1,300
<b>Investing activities</b>				
Capital expenditures	(44)	(36)	(116)	(93)
Proceeds from dispositions	97	79	232	186
Changes in non-cash working capital	41	33	(59)	(47)
Net cash provided by investing activities	94	76	57	46
<b>Financing activities</b>				
Proceeds from share issuances, net	4,931	4,014	4,931	4,014
Repayment of long-term debt	(10,238)	(8,334)	(10,809)	(8,784)
Draw on credit facility	6,757	5,500	6,757	5,500
Payment of interest	(379)	(309)	(641)	(516)
Finance lease payments	(84)	(68)	(191)	(153)
Transaction costs on debt refinance	(798)	(650)	(798)	(650)
Changes in non-cash working capital	(275)	(222)	(45)	(39)
Net cash used by financing activities	(86)	(69)	(796)	(628)
Net increase in cash and cash equivalents	551	449	893	718
Effect of foreign exchange rate changes	(9)	6	(21)	10
Cash and cash equivalents, beginning of period	1,488	1,183	1,158	910
Cash and cash equivalents, end of period	\$ 2,030	\$ 1,638	\$ 2,030	\$ 1,638