Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2022 and 2021

(US Dollars)

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial results is provided by the management of Southern Energy Corp. ("Southern" or the "Company") and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2022 and 2021 (the "Financial Statements"), which 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 Company's presentation currency is the United States ("US") dollar. The functional currency of Southern Energy Corp. is Canadian ("CAD") dollars, and its results and balance sheet items are translated to US dollars for the purposes of this MD&A and the Financial Statements, in accordance with the Company's foreign currency translation accounting policy. The functional currencies of the Company's foreign subsidiaries are US dollars.

In the fourth quarter 2021, the Company changed its presentation currency from Canadian dollars to the US dollar. 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. For more information, including reconciliation of the translation of previously reported amounts please see Note 14 *Change in Presentation Currency* in the Financial Statements.

In December 2021, the Company completed a 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 post-Consolidation Common Shares commenced trading on the TSX Venture Exchange (the "TSXV") and the AIM market of the London Stock Exchange plc ("AIM") on December 22, 2021. All references to Common Shares, purchase warrants, units and share based rewards in this MD&A have been adjusted retrospectively to reflect the 8:1 share consolidation and are presented on a post-Consolidation basis.

Throughout this MD&A, "crude oil" or "oil" refers to light and medium crude oil product types as defined by National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). References to "NGLs" throughout this MD&A comprise pentane, butane, propane, and ethane, being all NGLs as defined by NI 51-101. References to "natural gas" throughout this MD&A refers to conventional natural gas as defined by NI 51-101.

This MD&A is dated May 26, 2022.

About Southern

Southern is a natural gas exploration and production company with assets in Mississippi characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. 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 (the "Southeast Gulf States"). Southern's mission is to build a socially responsible and environmentally conscious natural gas and light oil company in the Southeast Gulf States. In these areas, Southern has access to major pipelines, significant Company-owned infrastructure, year-round access to drill, and the ability to shift focus between natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk. Southern's goal is to continually grow shareholder value through organic growth opportunities and strategic, accretive acquisitions.

The Company's management team has a long and successful history of working together as a team and have created significant shareholder value through accretive acquisitions, optimizations of existing natural gas and oil fields and the utilization of re-development strategies utilizing horizontal drilling and multi-staged fracture completion techniques. Southern's head office is located in Calgary, Alberta, Canada.

Operations Update

In May 2022, Southern commenced completion operations on the three-well horizontal padsite in the Gwinville asset. The first well to begin flowback following the stimulation was the GH 19-3 #3 well, which came on-line on May 25, 2022. The GH 19-3 #2 and GH 19-3 #4 wells are expected to be on-line shortly, and the Company is looking forward to providing initial production results in the coming weeks.

FIRST QUARTER HIGHLIGHTS

- $2.2 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q1 2022, an increase of 121% from the same period in 2021.
- Petroleum and natural gas sales were $5.9 million in Q1 2022, an increase of 54% from the same period in 2021
- Q1 2022 average production of 11,515 Mcfe/d (92% natural gas), a decrease of 11% from the same period in 2021 (see "*Production Summary*" below for a breakdown by product type)
- Rig released two (2.0 net) wells of the three well program at Gwinville in Q1 2022 with the third well rig released in April 2022 (see "*Operations Update*" for more information)
- Net loss of $1.9 million in Q1 2022 ($0.02 loss per share – basic and diluted), with an unrealized loss on derivatives of $2.9 million, compared to a net loss of $0.6 million in Q1 2021
- Average realized oil and natural gas prices for Q1 2022 of $95.20/bbl and $4.87/Mcf, respectively, reflecting the benefit of strategic access to premium-priced US sales hubs
- Exited Q1 2022 with Net Debt (see "*Reader Advisories – Specified Financial Measures*") of $10.7 million, and Net Debt to Q1 2022 annualized Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") of 1.2x
- On February 1, 2022, Southern disposed of all of its properties in the non-core Smackover cash generating unit ("SO CGU") for net proceeds of $0.8 million

Summary of Financial Information

(000s, except $ per share)	Three months ended March 31, 2022	2021
Petroleum and natural gas sales	$ 5,925	$ 3,857
Net loss	(1,855)	(631)
Net loss per share		
Basic	(0.02)	(0.02)
Fully diluted	(0.02)	(0.02)
Adjusted funds flow from operations [(1)]	2,234	1,011
Adjusted funds flow from operations per share [(1)]		
Basic	0.03	0.04
Fully diluted	0.03	0.04
Capital expenditures	6,872	57
Weighted average shares outstanding		
Basic	78,153	27,596
Fully diluted	78,153	27,596
As at period end		
Basic common shares outstanding	78,200	27,596
Total assets	48,534	29,339
Non-current liabilities	11,777	10,033
Net debt [(1)]	$ 10,745	$ 22,524

Notes:
(1) See "*Reader Advisories – Specified Financial Measures*"

Production Summary

	Three months ended March 31, 2022	2021
Daily production from operations		
Oil (bbl/d)	139	153
NGLs (bbl/d)	14	20
Natural gas (Mcf/d)	10,597	11,884
Total Production (Mcfe/d)	**11,515**	**12,922**
Percentage of natural gas	**92%**	**92%**

Production in Q1 2022 averaged 11,515 Mcfe/d, a decrease of 11% for the same period in 2021. During Q1 2022, the company experienced high third-party pipeline operating pressures in the Mount Olive field which negatively impacted production, but this situation has since been resolved by optimizing compression needs in the field. Natural declines and the impacts of the small non-core dispositions of the Black Warrior Basin ("BWB") CGU in 2021 and the SO CGU on February 1, 2022 contributed to the low decline rate.

Petroleum and Natural Gas Revenues and Pricing Summary

(000s)	Three months ended March 31, 2022	2021
Oil	$ 1,191	$ 775
NGLs	86	64
Natural gas	4,648	3,018
Total revenue	**$ 5,925**	**$ 3,857**

Realized commodity prices

	Three months ended March 31, 2022	2021
Oil ($/bbl)	$ 95.20	$ 56.28
NGLs ($/bbl)	68.25	35.56
Natural gas ($/Mcf)	4.87	2.82
Combined ($/Mcfe)	**$ 5.72**	**$ 3.32**
Benchmark prices		
Crude oil – LLS ($/bbl)	$ 96.55	$ 59.91
Crude oil – WTI ($/bbl)	94.29	57.79
Natural gas – HH ($/MMBtu)	4.57	2.72

Southern sells the majority of its oil and natural gas at the wellhead. Southern receives Louisiana Light Sweet ("LLS") pricing (less adjustments for proximity and quality) for its oil, and Henry Hub ("HH") pricing (less minor proximity adjustments) for its natural gas.

In Q1 2022, Southern realized an oil price of $95.20/bbl which was an increase of 70% from the same period in 2021. Oil prices were strong in Q1 2022 on improved fundamentals and the belief that we are moving towards the end of the novel coronavirus ("COVID-19") related lock downs and restrictions.

Southern realized a price of $4.87/Mcf in Q1 2022, a 73% increase from Q1 2021. Natural gas prices remained strong in the first quarter of 2022. This was driven by the continued domestic and global demand for natural gas through the domestic industrial and gas-fired power requirements, the expanded export of Liquified Natural Gas ("LNG") out of the US Gulf Coast and Europe's need to secure alternative long-term energy supply sources.

Royalties

	Three months ended March 31,	
(000s)	**2022**	**2021**
Oil	$ 237	$ 158
NGLs	15	13
Natural gas	949	613
Total royalties	**$ 1,201**	**$ 784**
Royalties as a % of revenue	**20.3%**	**20.3%**

Royalty expenses were $1.2 million in Q1 2022, an increase of 54%, from the same period in 2021. The increase was due to higher LLS and HH prices. Southern expects royalties as a percentage of revenue to remain around 20% for 2022 as royalty agreements are based on a fixed royalty rate.

Production, Operating and Transportation Expenses

	Three months ended March 31,	
(000s)	**2022**	**2021**
Operating expenses	$ 1,021	$ 924
Production taxes	357	231
Transportation expense	39	46
Total production, operating and transportation	**$ 1,417**	**$ 1,201**

Operating expenses were $1.0 million ($0.99/Mcfe) in Q1 2022, which was an increase of 11% or $0.20/Mcfe compared to the same period in 2021. Southern continues to focus on optimizing certain fields and utilizing company owned equipment where possible to keep operating costs low to help offset the current inflationary environment for labour and equipment.

Q1 2022 production taxes of $357 thousand (6.0% as a percentage of revenue, were related to a 6% severance tax charged by the State of Mississippi on all oil and natural gas production. Mississippi has a severance tax relief program, where new horizontal wells that are drilled are charged a severance tax rate of 1.3% for a period not to exceed thirty months from the date of the first sale of production from the wells or until the well reaches payout status, whichever occurs first. Payout is deemed to have occurred the first day of the next month after gross revenue, less royalties and severance taxes, equal the costs to drill and complete the well. Southern expects that the current three well drilling program (see "*Operations Update*", for more information) will qualify for this reduced severance tax relief program.

Transportation expenses of $39 thousand ($0.04/Mcfe) in Q1 2022 are related to pipeline fees at Mechanicsburg for the transportation of Southern's natural gas volumes to the sales meter (approximately $0.21/Mcf). Transportation fees in Q1 2022 were lower than Q1 2021 due to lower volumes at Mechanicsburg.

Operating Netback

	Three months ended March 31,	
($/Mcfe)	**2022**	**2021**
Petroleum and natural gas revenue	$ 5.72	$ 3.32
Royalties	(1.16)	(0.67)
Production and operating	(1.33)	(0.99)
Transportation costs	(0.04)	(0.04)
Realized loss on derivatives	(0.12)	(0.09)
Operating netback per Mcfe (1)	**$ 3.07**	**$ 1.53**
Operating netback % of revenue (1)	**54%**	**46%**

Notes:
(1) See "*Reader Advisories – Specified Financial Measures*".

Southern's operating netbacks improved by 101% for the three months ended March 31, 2022, compared to the same period in 2021. The increase was driven primarily from higher commodity prices, partially offset by increased royalties and operating expenses.

General & Administrative and Transaction Costs

	Three months ended March 31,	
(000s)	**2022**	**2021**
General and administrative	$ 937	$ 682
Transaction costs	-	69
Total	**$ 937**	**$ 751**

General and administrative costs were $0.9 million in Q1 2022, an increase of 38% for the same period in 2021. The increase was primarily from the increased costs related to compliance and regulatory expenses related to the AIM admission process.

Finance Expense

	Three months ended March 31,	
(000s)	**2022**	**2021**
Bank Interest	$ 128	$ 207
Convertible debenture interest	131	130
Lease interest	11	4
Accretion	154	140
Total finance expense	**$ 424**	**$ 481**

Finance expenses were lower for the three months ended March 31, 2022, compared to the same period in 2021. The decrease was primarily related to lower bank interest expenses due to a much lower credit facility balance in Q1 2022 partially offset by a higher interest rate. For more information, see "*Liquidity and Capital Resources*", below.

Share-based Compensation

Southern recorded share-based compensation of $40 thousand Q1 2022, compared to $35 thousand in the same period in 2021, relating to the stock option issuances on June 20, 2019 and October 7, 2021. For more information, see "*Shareholders' Equity – Stock Option Plan*".

Depletion, Depreciation and Amortization

	Three months ended March 31,	
(000s)	**2022**	**2021**
Depletion	$ 1,016	$ 931
Depreciation	34	77
Total depletion, depreciation and amortization	**$ 1,050**	**$ 1,008**

Depletion expense was $1.0 million ($0.98/Mcfe) in Q1 2022, an increase of 10% on a dollar basis and 23% on a per Mcfe basis, compared to Q1 2021 ($0.80/Mcfe). The increased expense was due to the impairment reversal at September 30, 2021, partially offset by lower production volumes in Q1 2022 compared to the same period in 2021.

Depreciation expense is related to the Right-of-Use assets associated with the office space lease. Depreciation expense for Q1 2022 is lower than the comparable period in 2021 due to the new office lease entered into on June 1, 2021 at a reduced rate compared to the previous lease.

Impairment

At March 31, 2022, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

Capital Expenditures, Property Acquisitions and Dispositions

The following table summarizes capital spending, excluding non-cash items:

	Three months ended March 31,	
(000s)	**2022**	**2021**
Drilling and completions	$ 5,834	$ -
Geological and geophysical	11	-
Facilities, equipment and pipelines	1,024	57
Other	3	-
Capital expenditures, before Acquisitions and Dispositions	**6,872**	**57**
Dispositions	**(759)**	**(107)**
Net capital expenditures (1)	**$ 6,113**	**$ (50)**

Notes:
(1) See "*Reader Advisories – Specified Financial Measures*".

Southern incurred $5.8 million of expenses in Q1 2022 related to the three well drilling program at Gwinville (see "*Operations Update*", for more information). Southern also invested $1.0 million of capital towards long term infrastructure related to the future development of the Gwinville field, including a gathering pipeline and frac pond. This investment will be utilized by future pad drilling in the area.

On February 1, 2022, Southern disposed of all its non-core properties in the SO CGU for net proceeds of $0.8 million.

Shareholders' Equity

Share Capital

The authorized share capital of the Company consists of an unlimited number of Common Shares and an unlimited number of preferred shares.

The following table reflects the Company's outstanding common shares as at March 31, 2022 and December 31, 2021:

	Number of Shares	Share Capital
Balance as at December 31, 2021	78,121,858	$ 41,018
Issuance of common shares to satisfy unit warrant exercise	78,125	26
Share issuance costs	-	(50)
Balance as at March 31, 2022	**78,199,983**	**$ 40,994**

Subsequent to March 31, 2022, 3,245,312 Common Shares were issued related to the exercise of Common Share purchase warrants ("Unit Warrant") at a price of CAD$0.32 from the April 2021 non-brokered private placement for proceeds of CAD$1.0 million and 3,371,250 Common Shares were issued to satisfy the convertible debenture conversion rights of 2,697 convertible debenture at a price of CAD$0.80 per Common Share.

Warrants

As at March 31, 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.

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.

Stock Option Plan

The following table reflects the Company's outstanding options to purchase Common Shares at March 31, 2022 and December 31, 2021:

The following table summaries the change in stock options outstanding:

	Number of stock options	**Weighted average exercise price (CAD)**
Balance at December 31, 2021	3,628,125	$ 0.71
Balance at March 31, 2022	**3,628,125**	**$ 0.71**

The following table summarizes information regarding stock options outstanding at December 31, 2021:

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)
$0.56 - $0.80	**3,628**	**3.1**	**$0.71**	**1,943**	**$0.74**

Liquidity and Capital Resources

Southern continues to focus on creating balance sheet resilience and long-term sustainability through all commodity cycles. The Company monitors its capital based on projected cash flow from operations and anticipated capital expenditures. 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.

In Q1 2022, Southern had a total capital program of $6.9 million (see "*Capital Expenditures, Property Acquisitions and Dispositions*", above for more details). Southern funded the capital expenditures through a combination of non-core asset dispositions, excess adjusted funds flows from operations (see "*Reader Advisories – Specified Financial Measures*") and aggregate gross proceeds of $10.0 million from the November 2021 equity financing (the "Offering"). The estimated remaining costs for drilling the three wells at Gwinville is $8.9 million and is expected to be completed by the end of Q2 2022, and is expected to be funded through the funds available from Tranche B of the Credit Facility, remaining proceeds from the Offering and excess adjusted funds flow from operations (see "*Reader Advisories – Specified Financial Measures*").

To further support the Gwinville drilling program, Southern entered into the second amendment to the Credit Facility (the "Second Amendment") on April 8, 2022. The Second Amendment includes an increase of Tranche B to $4.5 million ($4.0 million available to borrow) and extension of the availability to June 30, 2022.

	March 31, 2022	December 31, 2021	March 31, 2021
Long-term debt	$ (3,948)	$ (4,543)	$ (12,750)
Convertible debentures – face value	(6,713)	(6,617)	(6,671)
Adjusted working capital (deficiency)	(84)	4,729	(3,103)
Net debt	**$ (10,745)**	**$ (6,431)**	**$ (22,524)**
Quarterly adjusted funds flow from operations	2,234	1,426	1,011
Annualized factor	4	4	4
Annualized adjusted funds flow	8,936	5,704	4,044
Net debt to annualized adjusted funds flow	**1.20x**	**1.13x**	**5.57x**

As at March 31, 2022, Southern had an adjusted working capital deficiency (see "*Reader Advisories – Specified Financial Measures*") of $0.1 million. Included in the adjusted working capital is $4.6 million of non-interest-bearing royalty payables related to unresolved title or ownership issues. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time. The royalty suspense account is made up of balances from approximately 5,000 royalty holders with over 95% of the balances being greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

Southern's net debt (see "*Reader Advisories – Specified Financial Measures*") was $10.7 million at March 31, 2022. This compares to a net debt balance of $6.4 million at December 31, 2021 and $22.5 million at March 31, 2021. Southern will continue to focus on balance sheet strength, while utilizing excess adjusted funds flows from operations (see "*Reader Advisories – Specified Financial Measures*") to meet the obligations of the Credit Facility.

Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing senior secured term loan ("Credit Facility") at March 31, 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 ($0.5 million drawn at March 31, 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 March 31, 2022, Southern had $3.9 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.

Effective December 30, 2021, Southern entered into the first amendment to the Credit Facility (the "First Amendment"). The First Amendment included: (a) an extension to the availability of Tranche B from December 31, 2021 to April 30, 2022; and (b) the exclusion of transaction costs related to the August AIM admission from the calculation of EBITDAX.

On April 8, 2022, Southern entered into the second amendment to the Credit Facility (the "Second Amendment"). The Second Amendment includes an increase of Tranche B to $4.5 million ($4.0 million available to borrow) and extension of the availability to June 30, 2022.

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

Financial covenant	**Limit**	**As at Mar 31, 2022**	**As at Dec 31, 2021**
Asset Coverage ratio	Minimum 2.00	9.95	6.55
Debt Service Coverage ratio	Minimum 1.25	2.16	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 March 31, 2022, Southern was in compliance with the above financial covenants.

Debenture Financing

As at March 31, 2022, Southern had 8,389 convertible debentures (the "Debentures") issued at a price of CAD$1,000 per Debenture that accrue interest at the rate of 8.00% per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date").

On June 28, 2021, Southern received an extraordinary resolution from the holders of its 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:

- 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 CAD$1.00 to CAD$0.80; and
- 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.

Contractual Obligations and Commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term as at December 31, 2021:

	Total	2022	2023	2024	Thereafter
Long-term debt(1)	$ 3,948	$ 1,582	$ 1,051	$ 1,051	$ 264
Convertible debentures(2)	6,713	-	-	6,713	-
Lease obligations(3)	394	111	148	135	-
Total	**$ 11,055**	**$ 1,693**	**$ 1,199**	**$ 7,899**	**$ 264**

Notes:

(1) Long-term debt consists of Credit Facility – see "*Liquidity and Capital Resources*" for more information
(2) Convertible debentures have a maturity date of June 30, 2024.
(3) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16.

Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

Risk Management

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Southern's operations. These risks include but are not limited to:

- volatility of commodity prices;
- global pandemics such as COVID-19, including recent surges of COVID-19 cases in China which have resulted in strict policies and lockdowns in major Chinese cities intended to contain the spread of COVID-19;
- outbreak of military hostilities, including armed conflict between Russia and Ukraine and the potential destabilizing effect such conflict may pose for the European continent or the global oil and natural gas markets;
- global and regional supply and demand;
- reservoir quality and uncertainty of reserves estimates;
- geological and engineering risks;
- operating hazards and other difficulties inherent in the exploration for and production of oil and gas;
- timing and success of integrating the business and operations of acquired companies and assets;
- the uncertainty of discovering commercial quantities of new reserves;
- ability to obtain all necessary licences and permits required for the business of the Company;
- interest rate and foreign exchange risks;
- rising interest rates with further increases anticipated over the next 12 months;
- inflation risk, including impacts on cost management, supply chain dynamics and government policies impacting operating and capital costs;
- competition;
- credit risk related to non-payment for sales contracts or non-performance by counterparties to contracts, including derivative financial instruments and physical sales contracts;
- public sentiment towards the use of fossil fuels;
- availability of capital;
- environmental impact risk;
- future legislative and regulatory changes;
- changing royalty regimes;
- business interruptions due to unexpected events;
- access to markets; and
- risk of interruption or failure of information technology systems and data.

All of these risks influence the controls and management at the Company.
Southern manages these risks by:

- attracting and retaining a team of highly-qualified and motivated professionals who have a vested interest in the success of the Company;
- operating properties in order to maximize opportunities;
- employing risk management instruments to minimize exposure to volatility of commodity prices;

- maintaining a comprehensive property loss and business interruption insurance program to reduce risk;
- implementing cyber security protocols and procedures to reduce the risk of a significant breach of the Company's information technology systems and related data; and
- maintaining strict environmental, safety and health practices.

For additional details on the risks relating to Southern's business, see "*Risk Factors*" in the Company's most recent Annual Information Form for the year ended December 31, 2021 (the "AIF"), which is available on SEDAR at www.sedar.com.

Commodity 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 Consolidated 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 Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2022:

Natural Gas	Volume	Pricing
Fixed Price Swap		
April 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.100/MMBtu
April 1, 2022 – December 31, 2022	2,000 MMBtu/d	NYMEX – HH $4.610/MMBtu

Subsequent to March 31, 2022, Southern entered into the following derivative contract:

Natural Gas	Volume	Pricing
Costless Collar		
November 1, 2022 – March 31, 2023	2,000 MMBtu/d	NYMEX – HH $3.50 - $20.00/MMBtu

Eight Quarter Analysis

(000s) **Three months ended**	**Mar 31 2022**	**Dec 31 2021**	**Sep 30 2021**	**Jun 30 2021**	**Mar 31 2021**	**Dec 31 2020**	**Sep 30 2020**	**Jun 30 2020**
Revenue	$ 5,925	$ 7,151	$ 5,198	$ 3,736	$ 3,857	$ 3,461	$ 2,655	$ 1,789
Net earnings (loss)	(1,849)	3,311	4,314	3,099	(631)	2,951	(2,220)	(1,350)
Per share:								
Basic	(0.02)	0.06	0.10	0.08	(0.02)	0.11	(0.08)	(0.05)
Diluted	(0.02)	0.04	0.07	0.06	(0.02)	0.08	(0.08)	(0.05)

Significant factors and trends that have impacted the Company's results during the above periods include:

- Volatility in commodity prices and the resultant effect on revenue and net loss.
- On May 28, 2020, Southern disposed of a non-core Canadian royalty asset resulting in a gain on disposal of $244 thousand.
- On June 12, 2020, Southern resumed production from its Mechanicsburg assets, which had been shut-in since March 2020, due to a force majeure event.
- At September 30, 2020, improved natural gas strip pricing for Q4 2020 and calendar 2021 resulted in an unrealized loss on derivatives of $1.5 million.
- At December 31, 2020, as a result of stronger future commodity forecast prices, Southern recorded an impairment recovery of $3.6 million for the CMS and SO CGUs.
- On April 30, 2021, Southern recorded a $4.5 million gain on debt retirement of the Previous Facility.
- At June 30, 2021, improved natural gas strip pricing in Q2 2021 and for the remainder of calendar 2021 resulted in a realized loss on derivatives of $181 thousand and an unrealized loss on derivatives of $0.7 million.
- At September 30, 2021, improved natural gas and strip pricing in Q3 2021 and for the remainder of calendar 2021 and calendar 2022 resulted in a realized loss on derivatives of $0.7 million and an unrealized loss on derivatives of $2.1 million.
- At September 30, 2021, as a result of stronger future commodity forecast prices, Southern recorded an impairment recovery of $7.8 million for the CMS and SO CGUs.
- On December 29, 2021, Southern disposed of the remaining assets in the BWB CGU resulting in a gain on sale of $0.6 million.
- On February 1, 2022, Southern disposed of its non-core SO CGU resulting in a gain on sale of $0.4 million.
- At March 31, 2022, improved natural gas and strip pricing for the remainder of calendar 2022 resulted in an unrealized loss on derivatives of $2.9 million.

READER ADVISORIES

Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information

Certain statements and information contained within this MD&A may constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements include, without limitation, statements regarding the status of development or expenditures relating to Southern's business, the intentions of management and the Company, plans to fund current activities, future operations, future strategic acquisitions, future oil and natural gas production estimates and weighting, future financial position, resolution of adjusted working capital deficiencies, strategies to improve the Company's financial position and the success thereof, the availability and renewal of the Credit Facility and lending vehicles thereunder, the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and exchange rates, plans regarding Southern's capital programs and well drilling programs and the costs, sources of funding and expected completion dates thereof, future revenues, increased operating netbacks, projected costs, resolution of title ownership issues in respect of royalty payables, expectations in respect of inflationary and interest rate risks, expectations regarding commodity prices and global demand and supply for natural gas, government shutdowns related to COVID-19 and variant strains of the virus, future divestitures/acquisitions and planned capital expenditures. Forward-looking statements are often, but not always identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", or the negative of such terms or other comparable terminology. Southern has made a number of assumptions in the preparation of these forward-looking statements including, without limitation, future commodity prices, future foreign exchange rates, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, the continued availability of capital and skilled personnel, drilling results, the ability to obtain financing on acceptable terms, ability to comply with ongoing obligations under credit facilities, allocation of capital resources, the ability to enter into future derivative contracts on acceptable terms, the impact of increasing competition, the continuation of the current tax, royalty and regulatory regimes, the volatility in commodity prices and oil price differentials and the resulting effect on the Company's financial results, the actions of OPEC and non-OPEC oil and gas exporting countries to set production levels and the influence thereof on oil prices and global demand, the impact of inflation on costs, and the impact of COVID-19 and variant strains of the virus. Readers should not place undue reliance on forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, the material uncertainties and risks described under the headings "Risk Management" and "Specified Financial Measures", risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, uncertainty of reserves estimates, environmental impact risks, market demand, competition, commodity price, interest rate and exchange rate volatility, credit risk, the need for additional capital and the effect of capital market conditions and other factors, changes in tax, royalty or environmental legislation, government regulation and policy generally, geo-political risks, political and economic instability abroad, wars (including Russia's military actions in Ukraine), hostilities, civil insurrections, increased operating and capital costs due to inflationary pressures, the potential dilutive effects of any financing, the timing of exploration and development, the timing and costs of obtaining regulatory approvals, estimates regarding capital requirements and future revenues, the timing and amount of tax credits, adverse effects on general economic conditions in Canada, the United States and globally, including due to the recent outbreak of COVID-19 and other risks detailed from time to time in Southern's public disclosure documents. Ongoing military actions between Russia and the Ukraine have the potential to threaten the supply of oil and gas from the region. The long-term impacts of the actions between these nations remains uncertain.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also to be considered are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Legal challenges to asset ownership, limitations to rights of access and adequacy of pipelines or alternative methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of the Company are included in reports on file with applicable securities regulatory authorities, including but not limited to the Company's AIF for the year ended December 31, 2021, which may be accessed on the Company's SEDAR profile at www.sedar.com or on the Company's website at www.southernenergycorp.com.

This MD&A also contains future oriented financial information and financial outlook information (collectively, "FOFI") with respect to budgeted capital expenditures and prospective results of operations for 2022, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "Specified Financial Measures".

The forward-looking statements and FOFI contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Significant Judgments and Estimates

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the Company's financial results. Significant judgments in the financial statements include going concern, financing arrangements, impairment indicators, asset acquisition and joint arrangements. Significant estimates in the financial statements include income taxes and deferred taxes, commitments, provision for future decommissioning obligations, exploration and evaluation assets and accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond management's control and the effect on future consolidated financial statements from changes in such estimates could be significant.

Specified Financial Measures

This MD&A contains various specified financial measures, including non-IFRS financial measures, non-IFRS financial ratios and capital management measures. Management has incorporated certain specified financial measures commonly used in the oil and natural gas industry, such as adjusted funds flow from operations, operating netback, adjusted working capital, net capital expenditures and net debt. These terms are not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these specified financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The specified financial measures and their manner of reconciliation to IFRS financial measures are discussed below. These specified financial measures provide additional information that management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities.

"Adjusted Funds Flow from Operations"

Adjusted funds flow from operations (non-IFRS financial measure) is calculated based on cash flow from operating activities before changes in non-cash adjusted working capital and cash decommissioning expenditures. Management uses adjusted funds flow from operations as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Adjusted funds flow from operations per share is calculated using the same weighted average basic and diluted shares that are used in calculating net earnings (loss) per share. The reconciliation between funds flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

	Three months ended,		
	March 31, 2022	**December 31, 2021**	**March 31, 2021**
Cash flow from operating activities	$ 1,589	$ 1,515	$ 858
Change in non-cash working capital	630	(95)	153
Cash decommissioning expenses	15	6	-
Adjusted Funds Flow from Operations	**$ 2,234**	**$ 1,426**	**$ 1,011**

"Operating Netback"

Operating netback (non-IFRS financial measure) is calculated as oil and natural gas sales less royalties, production taxes, operating expenses, transportation costs and realized gain (loss) on derivatives. Operating netback may also be calculated on a per Mcfe basis and as a percentage of revenue. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices.

	Three months ended March 31,	
	2022	**2021**
Revenue	$ 5,925	$ 3,857
Royalties	(1,201)	(784)
Production and operating	(1,378)	(1,156)
Transportation costs	(39)	(46)
Realized loss on derivatives	(128)	(109)
Operating netback	**$ 3,179**	**$ 1,762**

"Adjusted Working Capital" and "Net Debt"

The below tables outline Southern's calculation of adjusted working capital and net debt. Management monitors adjusted working capital (capital management measure) and net debt (capital management measure) as part of its capital structure in order to fund current operations and future growth of the Company.

	As at March 31, 2022	As at December 31, 2021	As at March 31, 2021
Current assets	$ 9,658	$ 12,622	$ 3,176
Current liabilities	(14,784)	(9,790)	(19,649)
Remove:			
Current derivative assets	-	(46)	-
Current portion of lease liabilities	126	128	222
Current portion of long-term debt	1,445	1,183	12,750
Current derivative liabilities	3,471	632	398
Adjusted working capital (deficiency)	**$ (84)**	**$ 4,729**	**$ (3,103)**

	As at March 31, 2022	As at December 31, 2021	As at March 31, 2021
Long-term debt	$ (3,948)	$ (4,543)	$ (12,750)
Convertible debentures – face value	(6,713)	(6,617)	(6,671)
Adjusted working capital (deficiency)	(84)	4,729	(3,103)
Net debt	**$ (10,745)**	**$ (6,431)**	**$ (22,524)**

"Net Capital Expenditures"

Southern uses "Net Capital Expenditures" (capital management measure) to measure its capital investment level compared to the Company's annual budgeted capital expenditures after dispositions. "Net Capital Expenditures" is calculated by subtracting proceeds from dispositions from capital expenditure costs. The directly comparable IFRS measure is net cash (used) provided by investing activities. The following table details the composition of capital expenditures and its reconciliation to cash used in investing activities:

	Three months ended March 31, 2022	2021
Net cash used by investing activities	$ 3,985	$ 30
Change in non-cash working capital	2,128	(80)
Net Capital Expenditures	**$ 6,113**	**$ (50)**

Abbreviations

bbl	barrels
bbl/d	barrels per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet equivalent
Mcfe/d	thousand cubic feet equivalent per day
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
boe	barrels of oil
boe/d	barrels of oil equivalent per day
NGLs	natural gas liquids
Gas	natural gas
Liquids	oil and NGLs
NYMEX – HH	New York Mercantile Exchange – Henry Hub
WTI	West Texas Intermediate
LLS	Louisiana Light Sweet

Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

Natural gas liquids volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent ("Mcfe") using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (Mcf) are converted to barrels of oil equivalent ("boe") using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Mcfe and boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf may be misleading as an indication of value.

Additional Information

Additional information about the Company can be obtained by contacting the Company at Suite 2400, 333 7th Avenue SW, Calgary, Alberta T2P 2Z1 or by email at info@southernenergycorp.com. Additional information, including the Company's audited financial statements for the years ended December 31, 2021 and 2020, and the Company's AIF, are also available on SEDAR at www.sedar.com or online at www.southernenergycorp.com.