Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the years ended December 31, 2018 and 2017

(Canadian Dollars)

MESSAGE TO SHAREHOLDERS

I am pleased to have the opportunity to write this letter welcoming you to Southern Energy Corp. On December 19, 2018, the Company finalized a definitive reorganization and investment agreement which consisted of (i) a $18.0 million non-brokered private placement (the “Private Placement”); (ii) the appointment of a new management team (the “New Management Team”) and new board of directors (the “New Board”) in connection with the completion of the Private Placement; and (iii) subject to regulatory approval, a rights offering (the “Rights Offering”) to holders of common shares (“Common Shares”) of Company (collectively, the “Recapitalization”). Concurrently, Southern acquired all of the limited partnership units of Gulf Pine Energy Partners, LP (“Gulf Pine”) for a total transaction value of US$24.4 million (comprised of cash consideration of US$3.4 million), including net debt (the “Transaction”).

We believe there is an excellent opportunity to consolidate high quality, high netback, low decline oil and natural gas assets in underexploited basins in the US Gulf Coast states at highly attractive metrics. Southern will focus away from high-priced and infrastructure constrained shale basins in the US, choosing instead to establish a dominant position in proven oil and gas basins which attract some of the best commodity pricing in the US.

Southern will focus development drilling in areas of stacked pay with high resource intensity complemented by accretive oil and natural gas opportunities in the US Gulf Coast states, growing through a targeted acquisition and consolidation strategy. The Company’s low base decline, high netback production, efficient inventory of internally generated locations and the recapitalized corporate structure will allow for sustainable and efficient per share growth.

While last year saw a significant transition for Southern shareholders, this year should be even more active. On behalf of the management team and the Board of Directors, we thank you for supporting our company’s mission and we will work tirelessly to build value for shareholders.

Sincerely,

(signed) "*Ian Atkinson*"

Ian Atkinson
President and Chief Executive Officer
April 1, 2019

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial results as provided by the management of Southern Energy Corp. ("Southern" or the "Company") should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2018 and 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information presented has been rounded to the nearest thousand and is presented in Canadian dollars, unless otherwise indicated.

This MD&A is dated April 1, 2019.

Corporate Summary

Southern is an emerging Gulf States natural gas and light oil producer with a stable production base, significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Our management team has extensive experience with developing assets through the utilization of horizontal drilling and multi-staged fracture completion techniques. We have a long and successful history of working together as a team and have created significant shareholder value through high quality engineering and geoscience work. Southern's head office is located in Calgary, Alberta, Canada.

On November 13, 2018, Standard Exploration Ltd. ("Standard") announced and subsequently closed on December 19, 2018, a definitive reorganization and investment agreement with a new management team and board of directors in addition to a non-brokered private placement (collectively, the "Recapitalization"). The Corporation also announced and subsequently closed a definitive agreement which the Corporation acquired all of the limited partnership units of Gulf Pine Energy Partners, LP ("Gulf Pine") for a total transaction value of US$24.4 million (comprised of cash consideration of US$3.4 million), including net debt (the "Transaction").

On January 4, 2019: (i) Southern changed its name from "Standard Exploration Ltd." to "Southern Energy Corp."; (ii) the Company's common shares ("Common Shares") commenced trading on the TSX Venture Exchange ("TSXV") under the new name and new trading symbol "SOU"; and (iii) Southern completed a consolidation of the Common Shares on the basis of one post-consolidated Common Share for every 5 pre-consolidated Common Shares.

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

Southern's mission is to build a substantial light oil and natural gas company in the southeastern United States through the consolidation and development of prolific reservoirs outside of the expensive shale basins. Our goal is to continually grow shareholder value via organic growth and by making strategic, accretive acquisitions. In these areas Southern has access to major pipelines, significant company owned infrastructure, year-round access to drill, and the ability to change focus on natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk.

Business Combination

On December 19, 2018, Southern acquired all of the limited partnership units of Gulf Pine Energy Partners, LP ("Gulf Pine") for cash consideration of US$3.4 million ($4.6 million). The Gulf Pine assets consist of low decline production and high working interest in more than 59,000 net acres in Mississippi and Alabama. The Company has treated the transaction as a business combination and has accounted for it using the acquisition method to reflect the fair value of assets acquired and liabilities assumed. Financial performance from the assets acquired were included in the financial statements from the closing date of the transaction. The aggregate purchase price was allocated as follows:

Consideration ($000s) - $4,641 (US$3,425)	**Fair Value ($000s)**
Property, plant and equipment	$ 33,334
Cash	1,312
Working capital (1)	(5,987)
Bank loan	(20,713)
Decommissioning provisions	(3,305)
Fair value of net assets acquired	**$ 4,641**

(1) Working capital consists of accounts receivable, prepaid expenses or deposits, derivatives assets or liabilities and accounts payable.

READER ADVISORIES

Disclosure Regarding Forward-Looking Statements

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 our business, plans to fund our current activities, future operations, future oil and natural gas production estimates and weighting, future financial position, future revenues and projected costs. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", or the negative of such terms or other comparable terminology. We made a number of assumptions in the preparation of these forward-looking statements including, without limitation, future commodity prices, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, drilling results, the ability to obtain financing on acceptable terms, the impact of increasing competition and the continuation of the current tax, royalty and regulatory regimes. You 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, risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, market demand, commodity price, interest rate and exchange rate volatility, the need for additional capital and the effect of capital market conditions and other factors, government regulation, the potential dilutive effects of any financing, the timing of exploration and development, the timing and costs of obtaining regulatory approvals, our estimates regarding our capital requirements and future revenues, the timing and amount of tax credits, and other risks detailed from time to time in our public disclosure documents.

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 Annual Information Form for the year ended December 31, 2018, which may be accessed on the Company's SEDAR profile at www.sedar.com or on the Company's website at www.southernenergy.ca.

The forward-looking statements 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 JUDGEMENTS 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.

Selected Annual Information

($000s) except per share amounts	Year ended December 31, 2018	2017	2016
Petroleum and natural gas sales, net	$ 1,340	$ 765	$ 813
Net loss	(2,695)	(606)	(3,034)
Per share – basic and diluted	(0.09)	(0.02)	(0.13)
Comprehensive loss	(2,633)	(606)	(3,034)
Per share – basic and diluted	(0.09)	(0.02)	(0.13)
Total assets	54,929	3,750	4,475
Total long term liabilities	$ 6,791	$ 1,094	$ 1,269

Summary of Financial Results

	Three months ended December 31		Year ended December 31	
($000s)	**2018**	**2017**	**2018**	**2017**
Petroleum and natural gas sales	$ 905	$ 213	$ 1,646	$ 869
Royalties	(166)	(23)	(306)	(104)
Production and operating	(328)	(53)	(512)	(223)
Transportation	(42)	(10)	(77)	(45)
Exploration and evaluation	(44)	(22)	(86)	(48)
Loss on realized derivatives	(111)	-	(111)	-
Interest income	4	3	11	7
General and administrative	(444)	(117)	(820)	(584)
Transaction costs	(1,148)	-	(1,148)	-
Funds Flow from Operations (1)	**(1,374)**	**(9)**	**(1,403)**	**(128)**
Unrealized gain on derivatives	436	-	436	-
Share-based compensation	(1,195)	-	(1,195)	(5)
Depletion, depreciation and amortization	(186)	(80)	(469)	(372)
Interest paid	(40)	-	(40)	-
Accretion	(9)	21	(24)	11
Loss on sale of assets	-	(11)	-	(112)
Net Loss	**(2,368)**	**(79)**	**(2,695)**	**(606)**
Currency translation adjustment	62	-	62	-
Comprehensive Loss	**$ (2,306)**	**$ (79)**	**$ (2,633)**	**$ (606)**

(1) See "Non-IFRS Measures".

Results from Operations

The 2018 results below include twelve days of production from the Gulf Pine assets that were acquired on December 19, 2018.

Production and pricing summary

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Daily production				
Oil and NGLs (bbl/d)	77	43	55	51
Natural gas (Mcf/d)	1,059	4	267	16
Combined (boe/d)	**253**	**44**	**100**	**54**
Realized commodity prices ($CAD)				
Oil and NGLs (bbl)	$ 40.83	$ 53.96	$ 51.76	$ 49.65
Natural gas (Mcf)	6.33	2.79	6.33	0.31
Combined (boe)	**$ 38.83**	**$ 53.65**	**$ 45.56**	**$ 47.33**
Benchmark prices				
Crude oil – WCS (CAD$ per bbl)	$ 25.37	$ 54.88	$ 49.69	$ 49.88
Crude oil – LLS (US$ per bbl)	66.27	61.04	69.84	54.06
Natural gas – HH (US$ per MMbtu)	3.74	2.92	3.07	3.02
Exchange rate (US$ / CAD$)	$ 1.32	$ 1.27	$ 1.30	$ 1.30

The increased sales volumes reflect the twelve days of the acquired Gulf Pine assets. On a per day basis, the Gulf Pine assets produced 222 bbls/d of crude oil and NGLs and 8,115 mcf/d of natural gas for a combined 1,575 boe/d. Southern's US assets receive Louisiana Light Sweet ("LLS") pricing for its oil and Henry Hub ("HH") pricing for its natural gas. For the month of December, LLS settled at $55.29/bbl and HH settled at $3.93/MMbtu.

Excluding the Gulf Pine acquisition, Southern's sales volumes decreased 3 boe/d (6%) during the year ended December 31, 2018 compared to 2017 due to the natural decline of the Chin Coulee assets. During the three months ended December 31, 2018, oil volumes were up 5 bbls/d (12%) compared to the same period in 2017.

Petroleum and Natural Gas Revenues

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Oil and NGLs	$ 289	$ 212	$ 1,030	$ 867
Natural gas	616	1	616	2
Total Revenue	**$ 905**	**$ 213**	**$ 1,646**	**$ 869**

The acquisition of the Gulf Pine assets contributed $806 of total revenue for the three months and year ended December 31, 2018.

Excluding the Gulf Pine assets, Southern's total revenue was down $29 (3%) during the year ended December 31, 2018 compared to the same period last year. Southern's oil revenue for the three months ended December 31, 2018 was down $114 (54%) compared to the same period in 2017, due to the lower Western Canadian Select benchmark pricing in Alberta at the end of 2018.

Royalties

	Three months ended December 31,		Year ended December 31,	
	2018	**2017**	**2018**	**2017**
Oil and NGLs	$ 52	$ 23	$ 192	$ 104
Natural gas	114	-	114	-
Total royalties	$ 166	$ 23	$ 306	$ 104
Royalties as a % of revenue	**18.3%**	**10.8%**	**18.6%**	**12.0%**

The Gulf Pine assets incurred $148 of royalty expense (18% royalty rate as percentage of revenue) for the three months and year ended December 31, 2018.

Excluding the Gulf Pine acquisition, royalty expense increased $54 during the year ended December 31, 2018 compared to 2017, due to a higher average Crude Oil Royalty Calculation Par Prices (reference prices) in 2018. Royalty expense decreased $5 for the three months ended December 31, 2018 compared to the same period in the prior year due to lower pricing in the fourth quarter of 2018.

Royalties as a percentage of revenue is expected to remain at current levels as Southern's asset base is comprised primarily of freehold royalty owners with fixed percentage royalty agreements.

Production, Operating and Transportation Expenses

	Three months ended December 31,		Year ended December 31,	
	2018	**2017**	**2018**	**2017**
Operating expenses	$ 281	$ 53	$ 465	$ 223
Production taxes	47	-	47	-
Transportation expense	42	10	77	45
Total	**$ 370**	**$ 63**	**$ 589**	**$ 268**

The Gulf Pine assets incurred $218 in operating expenses, $47 in production taxes and $30 in transportation for the three months and year ended December 31, 2018.

The production taxes primarily relate to a 6% severance tax charged by Mississippi on all oil and natural gas production. There is a severance tax relief for all horizontal wells that are drilled. Horizontal wells that are drilled receive a severance tax relief at a 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 revenues, less royalties and severance taxes, equal the cost to drill and complete the well. Southern does not currently have any wells receiving severance tax relief.

Excluding the Gulf Pine assets, operating expenses increased $24 (11%) during the year ended December 31, 2018 compared to 2017 and $10 (19%) during the three months ended December 31, 2018 compared the same period of the prior year. The increases were primarily due to higher power costs in 2018. Transportation expenses remained relatively flat during 2018 compared to 2017 as a result of similar trucked oil volumes during each period.

Operating Netback

	Three months ended December 31,		Year ended December 31,	
($ per boe)	**2018**	**2017**	**2018**	**2017**
Petroleum and natural gas revenue	$ 38.83	$ 53.65	$ 45.56	$ 47.33
Royalties	(7.12)	(5.79)	(8.47)	(5.66)
Production and operating	(14.09)	(13.35)	(14.18)	(12.15)
Transportation costs	(1.81)	(2.52)	(2.13)	(2.45)
Realized (loss) on derivatives	(4.76)	-	(3.07)	-
Operating netback (1)	**$ 11.05**	**$ 31.99**	**$ 17.71**	**$ 27.07**

(1) See "Non-IFRS Measures".

General & Administrative and Transaction Costs

	Three months ended December 31,		Year ended December 31,	
	2018	**2017**	**2018**	**2017**
General and administrative	$ 444	$ 117	$ 820	$ 584
Transaction costs	1,148	-	1,148	-
Total	**$ 1,592**	**$ 117**	**$ 1,968**	**$ 584**

The 2018 general and administrative costs were higher than 2017 due to increased expenses for the year end audit, tax returns and reserve reports as a result of the Gulf Pine acquisition. The transaction costs are related to the Gulf Pine acquisition.

Depletion, Depreciation and Amortization

Year ended December 31,	**2018**	**2017**
Depletion, deprecation and amortization	$ 469	$ 372

In the 2018 calculation of depletion expense, an estimated $40.9 million of future development costs associated with the proven plus probable reserves were included (2017 - $nil).

Property, Plant and Equipment (PP&E)

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, 2016	$ 3,616	$ -	$ 3,616
Dispositions	(599)	-	(599)
Change in decommissioning provision	(36)	-	(36)
Depletion and depreciation	(372)	-	(372)
Net book value as at December 31, 2017	**2,609**	**-**	**2,609**
Additions	1	-	1
Acquired in Business Combination (Note 4)	33,334	-	33,334
Change in decommissioning provision (Note 7)	2,252	-	2,252
Depletion and depreciation	(469)	-	(469)
Effect of foreign exchange rate changes	472	-	472
Net book value as at December 31, 2018	**$ 38,199**	**$ -**	**$ 38,199**

As at December 31, 2018, Southern did not identify any indicators of impairment for any of its CGUs.

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.

On January 4, 2019, the Company completed a consolidation of the Common Shares on the basis of one post-consolidated Common Share for every 5 pre-consolidated Common Shares. This MD&A and all information related to issued and outstanding common shares, stock options and warrants, have been restated to reflect the share consolidation for all periods present.

The following table reflects the Company's outstanding common shares at December 31, 2018 and 2017:

	Number of Shares	Share Capital
Balance as at December 31, 2017	24,246,973	$ 15,923
Issuance of common shares by private placement, net of issue costs	180,110,000	17,937
Balance as at December 31, 2018	**204,356,973**	**$ 33,860**

On December 19, 2018, Southern completed a non-brokered private placement of common shares ("Common Shares") and units ("Units") of the Company, for aggregate gross proceeds of $18.0 million (the "Private Placement"). Pursuant to the Private Placement, Southern issued an aggregate of 122,190,000 Common Shares and 57,920,000 Units of the Company at a price of $0.10 per share. Each

Unit is comprised of one Common Share and one performance-based Common Share purchase warrant ("Performance Warrant").

As at April 2, 2019, there were 204,356,973 common shares and 57,920,000 Performance Warrants outstanding. Each Performance Warrant entitles the holder to purchase one Common Share at a price of $0.10 for a period of five years. The Performance Warrants vest and become exercisable as to one-third upon the 20-day volume weighted average trading price of the Common Shares (the "Market Price") equaling or exceeding $0.15, an additional one-third upon the Market Price equaling or exceeding $0.20 and a final one-third upon the Market Price equaling or exceeding $0.25. In addition, in the event the Market Price equals or exceeds $0.40, 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), the Common Shares are acquired for cash or for the securities of a company listed on a recognized stock exchange (other than the TSXV).

Liquidity and Capital Resources

In 2018, the acquisition of Gulf Pine for $4.6 million was financed directly through proceeds from an $18.0 million non-brokered private placement completed in December 2018.

During our initial stages of growth, the Company is dependant on cash on hand, operating cash flows and equity issuances and bank debt to finance capital expenditures and property acquisitions. The Company will manage borrowings in relations to our credit capacity and our ability to generate future operating cash flows to service such debt. They Company can also explore dispositions of its non-core oil and gas properties to provide further capital resources.

The Company continuously monitors production, commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing its capital spending levels by reducing its drilling and completion activity on its operated properties. Currently proposed for 2019 capital expenditures, the Company has $1.4 million of capital to maintain capacity and $6.2 million to meet planned growth and development activities. The Company will monitor it financial capacity before proceeding with additional wells on its development program. Management expects to be able to fully meet all current obligations when due with funding provided by a combination of accounts receivable collections, funds flow from operation and available capacity under the credit facility. As at March 31, 2019, Southern has available capacity under the credit facility of US$5.0 million ($6.8 million).

Excluding the bank loan, which is classified as current as at December 31, 2018 (see below), and the $10.6 million in subscription receipts held in trust and accrued accounts receivable for the Private Placement, Southern has a working capital deficiency of $2.1 million. The working capital deficiency is a result of $5.0 million (US$3.7 million) of royalty payables related to any title or ownership issues not yet resolved in accordance with customary industry standards, resulting in the operator suspending payment of the related royalty until such issues are resolved. Upon resolution of the title or ownership issues, payments are made for the suspended amounts, without interest. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time.

As part of the acquisition of Gulf Pine (Note 4), one of the wholly owned subsidiaries of Southern continued to hold the existing US$150 million Senior Secured Credit Facility ("Borrower"). The outstanding bank debt assumed by Southern was US$15.4 million ($20.7 million). The credit facility is secured against the US Oil and Gas properties of Southern. The borrowing base for the Senior Secured Credit Facility is reviewed semi-annually. The next scheduled borrowing base review will be completed in April 2019. Southern has the ability to request two additional redeterminations each year, at its sole election.

Interest on borrowings under the Senior Secured Credit Facility is determined by reference to the London Interbank Offered Rate ("LIBOR") plus a margin that ranges from 2.50% to 3.50%. Southern pays a commitment fee of 0.50% on the undrawn borrowing base. During the period of December 20, 2018 to December 31, 2018, the effective interest rate, excluding commitment and other fees, was 5.97%.

The covenants of the Borrower under the credit facility, calculated quarterly, include covenants which relate to a maximum leverage ratio of 3.5 to 1.0 (Debt / Earnings before Interest, Taxes, Depreciation, Depletion, Amortization and Exploration Expenses calculated on a trailing twelve month basis including Gulf Pine's operations hereafter defined as "Bank EBITDAX"), interest coverage ratio of at least 3.0 to 1.0 (Bank EBITDAX / Cash Interest) and minimum current ratio of 1.0 to 1.0 (Current Assets / Current Liabilities). As at December 31, 2018, the Borrower was in compliance with the interest coverage ratio (4.2 to 1.0) and current ratio (2.1 to 1.0). The Borrower was not in compliance with the leverage ratio (4.1 to 1.0) covenant of the credit facility. As such, all outstanding debt has been classified under current liabilities. The Borrower has obtained written waivers for non-compliance for December 31, 2018.

As at December 31, 2018, the borrowing base was US$16.0 million ($21.8 million) and Southern had US$15.4 million ($21.0 million) drawn.

Subsequent to December 31, 2018, Southern made the following debt repayments:

Date of repayment	**(US$000s)**
January 8, 2019	200
January 29, 2019	2,700
March 14, 2019	5,000
Total amount repaid since December 31, 2018	**$ 7,900**
Balance as at March 31, 2019	**$ 7,500**

Southern has reduced its leverage ratio in 2019 by utilizing cash flows from operations and a portion of the proceeds from the Private Placement to partially pay down the loan balance. Had the payments been made as of December 31, 2018 and based on Southern's current outstanding debt balance as at March 31, 2019, the Borrower would have been in compliance with the leverage ratio covenant as at December 31, 2018.

On March 1, 2019, Southern entered into the Third Amendment to Credit Agreement. The Amendment included the assignment of the Credit Agreement from Gulf Pine Energy, LP to Southern Energy Corp. (DE), replacement of "GAAP" with "IFRS" with respect to the covenant calculations and a borrowing base reduction to US$12.5 million ($17.1 million). The February 1, 2021, maturity date of the Credit Agreement remained the same with the execution of the Third Amendment.

Contractual Obligations

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. These costs include royalties paid to governments or mineral rights owners, surface lease rentals and decommissioning obligations. These costs are highly dependent on the future operating environment and are subject to changes in commodity prices, ownership, production volumes and government policies.

The following reflect the contractual maturities of the Company's debt obligations and anticipated timing of settlements of its other financial liabilities as at December 31, 2018:

($000s)	2019	2020	2021	2022	Thereafter	Total
Office lease	418	418	383	-	-	1,219
Bank loan (1)	21,009	-	-	-	-	21,009
Total	**$ 21,427**	**$ 418**	**$ 383**	**$ -**	**$ -**	**$ 22,228**

(1) Excludes bank fees and interest payments

Off Balance Sheet Arrangements

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

Contingency

At December 31, 2018 and 2017, the estimated lability relating to the fair value of the Common Shares and reimbursement of estimated legal fees offered to a shareholder who exercised dissent rights relating to the Company's acquisition of Canadian Energy Exploration Inc. shares in 2012 is included in accounts payable and accrued liabilities is $30.

Related Party Transactions

During 2018, professional fees for Southern of $86 were incurred to a firm of which a previous officer and director of the Company is a partner.

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;
- 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;
- interest rate and foreign exchange risks;
- 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;
- 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;
- maintaining a strong financial position; 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, which is available on SEDAR at www.sedar.com.

Commodity Derivative Contracts

Southern is exposed to commodity price risk as prices for oil and natural gas products fluctuate in response to many factors including local and global supply and demand, weather patterns, pipeline transportation, political stability, and economic factors. Commodity price fluctuations are an inherent part of the oil and gas business. 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 Loss and Comprehensive Loss in the period of change.

Southern had the following commodity derivative contracts in place as at December 31, 2018:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
January 1, 2019 – December 31, 2019	3,900 MMBtu/d	NYMEX – HH $2.840/MMBtu
January 1, 2020 – December 31, 2020	1,000 MMBtu/d	NYMEX – HH $2.600/MMBtu

Crude Oil	Volume	Pricing (US$)
Fixed Price Swap		
January 1, 2019 – December 31, 2019	50 Bbl/d	WTI $55.25/Bbl

Subsequent to December 31, 2018, Southern entered into the following commodity derivative contract:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
January 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.748/MMBtu

The Company's financial instruments that were accounted for at fair value as of December 31, 2018 and 2017 are presented below.

	Year ended December 31,	
Comprised of:	**2018**	**2017**
Current derivative asset	$ 332	$ -
Current derivative liability	(166)	-
Non-current derivative asset	20	-
Non-current derivative liability	(51)	-
Fair value of contracts, end of period	**$ 135**	**$ -**

Below is a reconciliation of the (gain) / loss on derivatives from the Consolidated Statements of Loss and Comprehensive Loss:

	Year ended December 31,	
	2018	**2017**
Realized loss on derivatives	$ 111	$ -
Unrealized (gain) on derivatives	(436)	-
(Gain) on derivative instruments	**$ (325)**	**$ -**

Operating Segment Results

With the acquisition of Gulf Pine, the Company and its subsidiaries operated in two geographical segments during the year ended December 31, 2018. The two geographical segments being Canada and the United States, are reported below:

Year ended December 31, 2018	**United States**	**Canada**	**Other** (1)	**Total**
Revenue, net of royalties	$ 658	$ 682	$ -	$ 1,340
Net income / (loss)	514	(46)	(3,163)	(2,695)
As at December 31, 2018				
Property, plant and equipment	$ 35,932	$ 2,267	$ -	$ 38,199

(1) Other includes general and administrative, share-based compensation and transaction costs

Operating Results

	Three months ended December 31, 2018		**Year ended December 31, 2018**	
($000s)	***US***	***Canada***	***US***	***Canada***
Petroleum and natural gas sales	$ 806	$ 99	$ 806	$ 840
Royalties	(148)	(18)	(148)	(158)
Production and operating	(265)	(63)	(265)	(247)
Transportation	(30)	(12)	(30)	(47)
Loss on realized derivatives	(111)	-	(111)	-
Operating Netback	**$ 252**	**$ 6**	**$ 252**	**$ 388**

(1) See "Non-IFRS Measures".

	Three months ended December 31, 2018		**Year ended December 31, 2018**	
	US	***Canada***	***US***	***Canada***
Daily production				
Oil and NGLs (bbl/d)	29	48	7	48
Natural gas (Mcf/d)	1,059	-	267	-
Combined (boe/d)	**205**	**48**	**52**	**48**
Realized commodity prices ($CAD)				
Oil ($/bbl)	**$ 71.31**	**$ 22.51**	**$ 71.31**	**$ 48.74**
Natural gas ($/Mcf)	**$ 6.33**	**$ -**	**$ 6.33**	**$ -**

Eight Quarter Analysis

Three months ended	2018 December 31	2018 September 30	2018 June 30	2018 March 31	2017 December 31	2017 September 30	2017 June 30	2017 March 31
Revenue, net of royalties	$ 739	$ 205	$ 232	$ 164	$ 190	$ 168	$ 181	$ 226
Net loss	(2,368)	(134)	(83)	(110)	(79)	(175)	(265)	(87)
Per share, basic and diluted	$ (0.05)	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.00)

Change in Accounting Policies:

Adoption of IFRS 9 – Financial Instruments ("IFRS 9")

On January 1, 2018, the Company adopted IFRS 9. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model. The adoption of IFRS 9 did not have a material impact on Southern's consolidated financial statements.

Adoption of IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

On January 1, 2018, the Company adopted IFRS 15. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers using a single principles based, five step model. The Company used the cumulative effect method to adopt the new standard. There was no adjustment to opening retained earnings as at January 1, 2018 based on the Company's assessment of customer contracts not yet completed as at January 1, 2018.

Future adoption of IFRS 16 — Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases ("IAS 17") and related interpretations. IFRS 16 requires the recognition of right-of-use ("ROU") asset and lease liability on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases.

The standard will come into effect for annual periods beginning on or after January 1, 2019. The Company plans to use the modified retrospective approach on adoption of IFRS 16 and intends to use the following practical expedients permitted under the standard. Some of these expedients are on a lease-by-lease basis and others are applicable by class of underlying assets:

- Account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases;

- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of a lower dollar value;
- Apply a single discount rate to a portfolio of leases with similar characteristics; and
- Recognize lease liabilities at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on date of transition.

Management has identified right of use assets and lease liabilities relating primarily to office space.

As at December 31, 2018, the Company is in the process of finalizing the full financial impact of IFRS 16 and developing and implementing polices, internal controls and processes.

Non-IFRS Measures

This MD&A contains terms commonly used in the oil and natural gas industry, such as funds flow from operations, field netback and operating netback. 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 non-IFRS measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The non-IFRS measures and their manner of reconciliation to IFRS financial measures are discussed below. These non-IFRS 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. Management uses funds flow from operations as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices.

"Funds Flow from Operations"

Funds flow from operations is calculated based on cash flow from operative activities before changes in non-cash working capital and cash decommissioning expenditures. The reconciliation between funds flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

	Three months ended December 31,		**Year ended December 31,**	
($000s)	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities	$ (1,589)	$ (17)	$ (1,591)	$ (62)
Change in non-cash working capital	213	2	174	(77)
Cash decommissioning expenditures	2	6	14	11
Funds flow from operations	**$ (1,374)**	**$ (9)**	**$ (1,403)**	**$ (128)**

"**Operating Netback**"

Operating Netback is calculated as oil and natural gas sales less royalties, production taxes, operating expenses, transportation costs and realized gain / (loss) on derivatives.

	Three months ended December 31,		Year ended December 31,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 905	$ 213	$ 1,646	$ 869
Royalties	(166)	(23)	(306)	(104)
Production and operating	(328)	(53)	(512)	(223)
Transportation costs	(42)	(10)	(77)	(45)
Realized (loss) on derivatives	(111)	-	(111)	-
Operating netback	**$ 258**	**$ 127**	**$ 640**	**$ 497**

"Bank EBITDAX"

The covenants of the Borrower under the credit facility, calculated quarterly, include covenant ratios that use "Bank EBITDAX", which is defined and calculated as Earnings before Interest, Taxes, Depreciation, Depletion, Amortization and Exploration Expense calculated on a trailing twelve-month basis including Gulf Pine's operations.

Abbreviations

bbl/d	barrels per day
Mcf/d	thousand cubic feet per day
Mcf/d	thousand cubic feet equivalent per day
MMBtu/d	million British thermal units per day
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
WCS	Western Canadian Select

Barrel of Oil Equivalent

The term barrels of oil equivalent ("BOE") may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel (6 Mcf / bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Information Regarding Disclosure on Reserves and Resources

The reserve and resource estimates contained herein are estimates only and there is no guarantee that the estimated reserves or resources will be recovered. Where discussed herein "NPV 10%" or similar expressions represents the net present value (net of capex) of net income discounted at 10%, with net income reflecting the indicated oil, liquids and natural gas prices and IP rate, less internal estimates of operating costs and royalties.

Additional Information

Additional information about the Company can be obtained by contacting the Company at Southern Energy Corp., Suite 2400, 333 7th Avenue SW, Calgary, Alberta T2P 2Z1 or by email at info@southernenergy.ca. Additional information, including the Company's audited financial statements for the years ended December 31, 2018 and 2017 and annual information form is also available on SEDAR at www.sedar.com or www.southernenergy.ca.