Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2019 and 2018

(Canadian 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, 2019 and 2018 (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.

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 May 28, 2019.

Corporate Summary

Southern is an emerging natural gas and light oil producer having assets in Mississippi, Alabama and Louisiana (the "Southeast Gulf States") 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, the Company, under its former name "Standard Exploration Ltd.", announced: (i) a non-brokered private placement (the "Private Placement") in addition to a definitive reorganization and investment agreement with a new management team and board of directors (collectively, the "Recapitalization"); and (ii) a definitive agreement pursuant to which the Company would acquire 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 December 19, 2018, Southern completed the Private Placement of 122,190,000 common shares of the Company (the "Common Shares") at a price of $0.10 per Common Share and 57,920,000 units of the Company (the "Recap Units") at a price of $0.10 per Recap Unit, for aggregate gross proceeds of $18.0 million. Each Recap Unit is comprised of one Common Share and one performance-based Common Share purchase warrant (a "Recap Warrant"). The Transaction closed on the same day.

On December 31, 2018, Southern completed a consolidation of the Common Shares on the basis of one post-consolidated Common Share for every five pre-consolidated Common Shares (the "Consolidation"). On January 2, 2019 Southern changed its name from "Standard Exploration Ltd." to "Southern Energy Corp." and on January 7, 2019, the Common Shares commenced trading on the TSX Venture Exchange ("TSXV") under the new name and new trading symbol "SOU". All information related to issued and outstanding common shares, stock options and warrants, has been restated to reflect the Consolidation for all periods present.

The Company's presentation and functional currency is the Canadian dollar. The functional currency of the Company's United States ("US") subsidiaries is the US dollar, and its results and balance sheet items are translated to Canadian dollars for the purposes of this MD&A and the 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 Southeast Gulf States through the consolidation and development of prolific reservoirs outside of the expensive shale basins. 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. Our goal is to continually grow shareholder value through organic growth and by making strategic, accretive acquisitions.

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, the completion of the Financing, Acquisition and Rights Offering, plans to fund our current activities, future operations (including the planned drilling of a Gwinville horizontal well), future oil and natural gas production estimates and weighting, future financial position, resolution of working capital deficiencies, future revenues, projected costs and planned capital expenditures. 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, allocation of capital resources, 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 (including the Financing and the Rights Offering), the timing of exploration and development, the timing of the Acquisition, 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 (the "Annual Information Form"), 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.

FIRST QUARTER 2019 HIGHLIGHTS

- Q1 2019 represents Southern's first full quarter of operations focused on consolidating high-quality, robust-netback and low-decline oil and gas assets in underexploited basins in the U.S. Gulf Coast states, which attract some of the best commodity pricing in the U.S.

- Production from the Company's U.S. assets averaged 1,562 boe/d (13% oil & liquids) during Q1, the first full quarter of operations with Southern's new management team and strategy.

- During the first quarter, the Company entered into an agreement to acquire high-quality and low-decline (less than 5%) operated assets in Mississippi with control of strategic facilities and infrastructure for $22.0 million (US$16.5 million) (the "Acquisition"). Upon completion of the Acquisition, which is anticipated on or about June 7, 2019, Southern's pro-forma production is expected to exceed 2,550 boe/d (10% oil & liquids), representing a 63% increase over the Company's Q1 2019 U.S. production.

- Southern's Q1 2019 realized oil and natural gas prices averaged $79.20/bbl and $4.21/Mcf, respectively, reflecting the benefit of pricing at U.S. sales hubs, which currently trade at a premium to Canadian benchmark prices. The Company's operating netbacks for the period averaged $10.97/boe, contributing to positive adjusted funds flow from operations of $0.4 million. See "*Non-IFRS Measures*".

- Capital expenditures totaled $0.5 million for the first quarter, with over half directed to preparations for the drilling of a Gwinville horizontal well planned for later in the year, as well as investing in geological data and facility and wellsite equipment.

- As at March 31, 2019, Southern had a US$12.5 million ($16.7 million) borrowing base which was 40% undrawn.

Highlights Subsequent to Quarter End

- On May 2, 2019 the Company closed the sale of all remaining Canadian oil and natural gas assets for $0.64 million, prior to customary purchase price adjustments, firmly positioning Southern as a pure-play U.S. exploration and production company.

- Southern set May 10, 2019 as the date of record ("Record Date") for the previously announced rights offering, which could raise gross proceeds of up to $5.1 million. Holders of Southern common shares on the Record Date will receive one right per common share held, and four rights will entitle the holder to purchase one new common share at a price of $0.10 per share prior to 4:00 pm MST on June 7, 2019.

- On May 23, 2019, Southern entered into an $8.0 million convertible debenture financing with a syndicate of agents on a best-efforts basis (the "Convertible Debenture Financing"), to issue up to 8,000 convertible debentures at a price of $1,000 per debenture with an over-allotment option that could raise up to an additional $1.2 million. The Convertible Debenture Financing is expected to close concurrent with the Acquisition on or about June 7, 2019.

Selected Financial Information

	Three months ended March 31,	
(000s, except $ per share)	**2019**	**2018**
Petroleum and natural gas sales	$ 4,424	$ -
Net loss from continuing operations	(1,674)	-
Net loss per share from continuing operations		
Basic	(0.01)	-
Fully diluted	(0.01)	-
Total net loss	(1,697)	(110)
Total net loss per share		
Basic	(0.01)	(0.00)
Fully diluted	(0.01)	(0.00)
Adjusted funds flow from operations (1)	439	(19)
Capital expenditures	522	-
Weighted average shares outstanding		
Basic	204,357	24,247
Fully diluted	204,357	24,247
As at period end		
Common shares outstanding		
Basic	204,357	24,247
Fully diluted	204,357	24,247
Total assets	42,252	3,642
Non-current liabilities	15,981	1,095
Net debt (1)	$ 11,850	$ -

(1) See "Non-IFRS Measures".

Presentation of Results from Operations

On March 29, 2019, Southern entered into a purchase and sale agreement to sell all of its Canadian oil and natural gas assets for $0.64 million, prior to customary purchase price adjustments (the "Disposition"). The Disposition closed on May 2, 2019. As a result of the Disposition, at March 31, 2019, the Canadian assets have been classified as assets held for sale and the operating results are presented as discontinued operations for the three months ended March 31, 2019 as well as the comparative periods, unless otherwise noted. For more information, see "*Assets Held for Sale and Discontinued Operations*".

Production and Pricing Summary

	Three months ended March 31, 2019	2018
Daily production from continuing operations		
Oil (bbl/d)	164	-
NGLs (bbl/d)	45	-
Natural gas (Mcf/d)	8,119	-
Production from continuing operations (boe/d)	**1,562**	**-**
Production from discontinued operations (boe/d)	**46**	**43**
Total production (boe/d)	**1,608**	**43**
Realized commodity prices for continuing operations		
Oil (bbl)	$ 79.20	$ -
NGLs (bbl)	44.69	-
Natural gas (Mcf)	4.21	-
Combined (boe)	**$ 31.47**	**$ -**
Benchmark prices		
Crude oil – LLS (US$ per bbl)	62.03	66.34
Natural gas – HH (US$ per MMbtu)	2.86	2.84
Exchange rate (US$ / $)	$ 1.33	$ 1.26

Southern's US assets produced 1,562 boe/d during the first full quarter of operations under Southern. Natural gas volumes made up 87% of the total volumes from continuing operations. Southern's US assets receive Louisiana Light Sweet ("LLS") pricing, less minor pricing adjustments for its oil and Henry Hub ("HH") pricing for its natural gas. For the three months ended March 31, 2019 ("Q1 2019"), LLS averaged US$62.03/bbl and HH averaged US$2.86/MMbtu.

Production from discontinued operations increased 3 boe/d (7%) during Q1 2019 compared to the three months ended March 31, 2018 ("Q1 2018").

Petroleum and Natural Gas Revenues

(000s)	Three months ended March 31, 2019	2018
Oil	$ 1,169	$ -
NGLs	181	-
Natural gas	3,074	-
Revenue from continuing operations	4,424	-
Revenue from discontinued operations	219	188
Total revenue	**$ 4,643**	**$ 188**

Southern's revenue from continuing operations was $4.4 million in Q1 2019 of which 69% was from natural gas sales.

Revenue from discontinued operations was $31 thousand (16%) higher in Q1 2019 compared to Q1 2018, due to higher Western Canadian Select benchmark pricing in Alberta and slightly higher oil sales volumes.

Royalties

	Three months ended March 31,	
(000s)	**2019**	**2018**
Oil and NGLs	$ 226	$ -
NGLs	26	-
Natural gas	564	-
Royalties from continuing operations	816	-
Royalties from discontinued operations	29	24
Total royalties	$ 845	$ 24
Royalties as a % of revenue for continuing operations	**18.4%**	**-**

Q1 2019 royalty expense was $816 thousand (18.4% royalty rate as percentage of revenue). 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.

Royalty expense for discontinued operations increased $5 thousand (20%) in Q1 2019 compared to Q1 2018 due to higher sales revenue.

Production, Operating and Transportation Expenses

	Three months ended March 31,	
(000s)	**2019**	**2018**
Operating expenses	$ 1,357	$ -
Production taxes	256	-
Transportation expense	305	-
Total from continuing operations	1,918	-
Total from discontinued operations	67	63
Total production, operating and transportation	**$ 1,985**	**$ 63**

Operating expenses from continuing operations for Q1 2019 were $1.4 million ($9.65/boe), primarily from field labour, chemicals and water disposal.

Q1 2019 production taxes of $256 thousand (5.8% as a percentage of revenue) were related to a 6% severance tax charged by Mississippi on all oil and natural gas production. Horizontal wells that are drilled receive a severance tax relief at a rate of 1.3% for: (a) a period not to exceed thirty months from the date of the first sale of production from the wells; or (b) until the well reaches payout status, whichever occurs first. Payout is deemed to have occurred on the first day of the next month after gross revenues, less royalties and severance taxes, equal the cost to drill and complete the well.

Q1 2019 transportation expenses of $305 thousand ($2.17/boe) are related to fees based on agreements in place to truck Southern's oil production volumes and pipeline fees for the transportation of natural gas sales volumes.

Q1 2019 total production, operating and transportation costs from discontinued operations increased $4 thousand (6%) from Q1 2018, consistent with the increased production in Q1 2019 compared to Q1 2018.

Operating Netback from Continuing Operations

	Three months ended March 31,	
($ per boe)	**2019**	**2018**
Petroleum and natural gas revenue	$ 31.47	$ -
Royalties	(5.81)	-
Production and operating	(11.48)	-
Transportation costs	(2.17)	-
Realized (loss) on derivatives	(1.04)	-
Operating netback (1)	**$ 10.97**	**$ -**

(1) See "Non-IFRS Measures".

Southern realized an operating netback of $10.97/boe in Q1 2019 from continuing operations.

General & Administrative and Transaction Costs

	Three months ended March 31,	
(000s)	**2019**	**2018**
General and administrative	$ 962	$ -
Transaction costs	165	-
Total from continuing operations	1,127	-
Total from discontinued operations	100	113
Total	**$ 1,227**	**$ 113**

Q1 2019 general and administrative costs for continuing operations were $962 thousand. Transaction costs of $165 thousand in Q1 2019 were related to the Acquisition (described in "*Liquidity and Capital Resources – Asset Acquisition*").

General and administrative expenses relating to discontinued operations decreased $13 thousand (12%) in Q1 2019 compared to Q1 2018.

Depletion and Depreciation from Continuing Operations

	Three months ended March 31,	
(000s)	**2019**	**2018**
Depletion and depreciation	$ 1,032	$ -

Depletion expense for Q1 2019 was $936 thousand and included an estimated $42.4 million of future development costs associated with the proven plus probable reserves.

With the implementation of IFRS 16 – *Leases*, Southern recorded $96 thousand of depreciation expense related to the Company's office lease liabilities for Q1 2019.

Gain on sale of assets

On February 1, 2019, Southern disposed of a minor non-core property in its Central Mississippi ("CMS") cash-generating unit ("CGU"). There was no cash exchanged in the transaction, however the royalty payables balance of US$112 thousand ($147 thousand) related to the assets was transferred to the purchaser. Southern recorded a gain on disposition of $133 thousand.

Impairment

The Canadian assets have been classified as held for sale and recorded at the lesser of their carrying amount and their fair value based on the observed selling price, less customary purchase price adjustments. Southern recorded an impairment of $725 thousand for the Canadian assets at March 31, 2019.

As at March 31, 2019, Southern did not identify any indicators of impairment for any of its US CGUs.

Capital Expenditures, Property Acquisitions and Dispositions

	Three months ended March 31,	
(000s)	**2019**	**2018**
Drilling and completions	$ 265	$ -
Land	1	-
Geological and geophysical	73	-
Facilities, equipment and pipelines	183	-
Capital from continuing operations	**$ 522**	**$ -**
Capital from discontinued operations	**-**	**-**
Total Capital Expenditures	**$ 522**	**$ -**
Net dispositions	**-**	**-**
Total Capital	**$ 522**	**$ -**

In Q1 2019, Southern spent $265 thousand on the preparation of the wellsite lease for the drilling of a Gwinville horizontal well that is planned for later in the year. Southern also incurred $73 thousand on geological data and $183 thousand relating to facility and well site equipment.

Shareholders' Equity

Share capital

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

The following table reflects the Company's outstanding Common Shares at March 31, 2019 and December 31, 2018:

	Number of Shares	Share Capital
Balance as at December 31, 2018	204,356,973	$ 33,860
Balance as at March 31, 2019	**204,356,973**	**$ 33,860**

Warrants

The Company issued 57,920,000 Recap Warrants in conjunction with the December 19, 2018 Private Placement. The Recap 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 Recap 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 Recap 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). As at March 31, 2019, 19,306,667 Recap Warrants had vested as the Market Price had exceeded $0.15.

Rights Offering

On April 25, 2019, Southern announced that the date of record ("Record Date") for the previously announced rights offering (the "Rights Offering") to the holders of Common Shares will be May 10, 2019. Under the Rights Offering, Canadian residents and shareholders of record on the Record Date (the "Eligible Holders") receive one transferable right (a "Right") for every Common Share held. Four Rights will entitle the Eligible Holder to purchase one Common Share at a price of $0.10 per Common Share until the Rights expire at 4:00 p.m. (Calgary time) on June 7, 2019. There is no additional subscription privilege and no standby commitment in respect of the Rights Offering. The completion of the Rights Offering is not subject to Southern receiving any minimum amount of subscriptions from Eligible Holders.

Liquidity and Capital Resources

During our initial stages of growth, the Company is dependant on cash on hand, operating cash flows, equity issuances and bank debt to finance capital expenditures and property acquisitions. The Company will manage borrowings in relation to our credit capacity and our ability to generate future operating cash flows to service such debt. The 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 the remainder of 2019 capital expenditures, the Company has $0.9 million of capital to maintain capacity and $6.2 million to meet planned growth and development activities. The Company will monitor its financial capacity before proceeding with additional wells on its growth and 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, adjusted funds flow from operations and available capacity under the Senior Secured Credit Facility (as defined below).

As at March 31, 2019, excluding the current portion of the lease obligations and the current derivative assets and liabilities, Southern had a working capital deficiency of $1.8 million. The working capital deficiency is a result of $4.9 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.

Credit Facility

On March 1, 2019, Southern entered into a third amendment (the "Amendment") to the credit agreement (the "Credit Agreement") between Gulf Pine and Texas Capital Bank, National Association providing Gulf Pine with a US$150 million senior secured credit facility (the "Senior Secured Credit Facility"). The Amendment included the assignment of the Credit Agreement from Gulf Pine to Southern Energy Corporation (Delaware) (the "Borrower"), replacement of "GAAP" with "IFRS" with respect to the covenant calculations and a borrowing base reduction from US$16.0 million ($21.8 million) 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.

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 three months ended March 31, 2019, the effective interest rate, excluding commitment and other fees, was 5.54%.

As at March 31, 2019, the Senior Secured Credit Facility was subject to the following financial covenants, calculated quarterly:

Financial covenant	**Limit**	**As at Mar 31, 2019**	**As at Dec 31, 2018**
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.5	2.5	4.1
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 3.0	3.4	4.2
Current ratio (Current Assets / Current Liabilities)	Minimum 1.0	1.6	2.1

The financial covenants include financial measures defined within the credit facility agreement that are not defined under IFRS. These financial measures are defined by the credit facility agreement as follows:

- "Debt" includes only the credit facility drawings at the period end
- "Bank EBITDAX" is defined as Earnings before Interest, Taxes, Depreciation, Depletion, Amortization, Exploration Expenses and other non-cash charges such as, Impairment, Unrealized gain / (loss) on derivatives, Stock-based compensation and Foreign exchange gain / (loss)

- "Current Assets" is calculated by taking the total current assets from the consolidated statement of financial position less the current derivative asset and adding the unused portion of the available credit facility
- "Current Liabilities" is calculated by taking the total current liabilities from the consolidated statement of financial position less the current derivative liability and the current portion of the lease liability
- The twelve-month trailing covenant calculation for Bank EBITDAX and Cash Interest uses the consolidated results of Southern starting from December 19, 2018 and the results of Gulf Pine for trailing periods beginning from April 1, 2018 to December 19, 2018

As at March 31, 2019, the Borrower was in compliance with the above covenants. As at December 31, 2018, the Borrower was not in compliance with the leverage ratio covenant of the Senior Secured Credit Facility. As such, all outstanding debt as at December 31, 2018 was classified under current liabilities. The Borrower has obtained written waivers for non-compliance for the period ended December 31, 2018.

As at March 31, 2019, the borrowing base was US$12.5 million ($16.7 million) and Southern had US$7.5 million ($10.0 million) drawn.

Asset Acquisition

On April 25, 2019, Southern entered into an agreement with an arm's length private company to acquire assets in the State of Mississippi for cash consideration of US$16.5 million ($22.0 million), subject to customary adjustments (the "Acquisition"). The Acquisition has an expected closing date of June 7, 2019 (the "Closing Date").

The assets include high-quality, low-decline, operated production of approximately 1,000 boe/d (97% gas) with control of strategic facilities and infrastructure that are complementary to Southern's existing Mississippi operations. The Acquisition represents a continuation of Southern's strategy to develop conventional and unconventional light oil and natural gas resources in the Southeast Gulf States.

The Acquisition will be funded from the $8.0 million Debenture Financing (as defined below), cash on hand and available capacity on its current and expanded Senior Secured Credit Facility.

Debenture Financing

On May 23, 2019, in connection with and to fund the Acquisition, Southern entered into an agreement with a syndicate of agents (the "Agents"), pursuant to which the Agents have agreed to offer for sale to the public, on a best efforts basis, up to 8,000 convertible debentures (the "Debentures") of Southern at a price of $1,000 per Debenture for aggregate gross proceeds of up to $8.0 million (the "Debenture Financing").

The Debentures will have a coupon of 8.00% per annum, and a conversion price of $0.125 per Common Share. The Company has granted the Agents an over-allotment option to offer for sale up to an additional $1.2 million aggregate principal amount of the Debentures, on the same terms, exercisable in whole or in part at any time up to 48 hours prior to the Closing Date. The Debentures will be issued pursuant to a debenture indenture (the "Indenture") to be dated as of the Closing Date.

The Debentures will mature and be repayable on June 30, 2022 (the "Maturity Date") and will 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"), with the first such payment to be made December 31, 2019. The Debentures will be repaid in cash at maturity, subject to earlier redemption by the Company as described below.

At the holder's option, the Debentures will be convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, or (ii) if called for redemption, the date specified for redemption by the Company, at a conversion price of $0.125 per Common Share, subject to adjustment in certain events. This represents a conversion rate of approximately 8,000 Common Shares for each $1,000 principal amount of Debentures, subject to the operation of certain anti-dilution provisions expected to be contained in the Indenture. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the last Interest Payment Date prior to the date of conversion to the date of conversion. In addition to the foregoing, in the event of a change of control of the Company, subject to certain terms and conditions, holders of Debentures will be entitled to convert their Debentures and, subject to certain limitations, receive, in addition to the number of Common Shares they would otherwise be entitled to receive, an additional number of Common Shares per $1,000 principal amount of Debentures.

The Debentures will be direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the Senior Secured Credit Facility, and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

The Debentures will not be redeemable by the Company prior to June 30, 2020. On or after June 30, 2020 and prior to June 30, 2021, the Debentures will be redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 105% of their principal amount plus accrued and unpaid interest, if any. On or after June 30, 2021 and prior to the Maturity Date, the Debentures will be redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 102.5% of their principal amount plus accrued and unpaid interest, if any.

The Debentures will be offered for sale to purchasers in (i) all of the provinces of Canada pursuant to available private placement exemptions and such other international jurisdictions as mutually agreed to by the Agents and the Company, and (ii) the United States on a private placement basis pursuant to exemptions from the registration requirements of U.S. securities laws. The securities issued and sold in the Debenture Financing will be subject to a four month hold period under applicable securities legislation. The Debenture Financing is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities. The net proceeds of the Debenture Financing will be used to fund the Acquisition and is expected to close concurrently with the Acquisition (i.e. the Closing Date).

Borrowing Base Increase

In connection with the Acquisition, the borrowing base under the Senior Secured Credit Facility is expected to increase by US$4.5 million ($6.0 million) to US$17.0 million ($22.7 million). The Company is in the process of finalizing all the terms of the credit facility expansion.

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. 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. At March 31, 2019, Southern's total contractual obligations and commitments were $10.0 million, consisting of the outstanding bank loan balance, excluding interest and bank fees. Operating leases previously included in Southern's contractual obligations and commitments are now disclosed on the balance sheet with the adoption of IFRS 16 – *Leases*.

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 liquidly and capital resources.

Contingency

At March 31, 2019 and December 31, 2018, the estimated liability 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 at $30 thousand.

On March 20, 2019, the shareholder filed an application in the court of Queen's Bench of Alberta to compel the Company to make an offer to pay a monetary amount considered to be fair value for the Common Shares held. The Company and its legal counsel are in the process of resolving the matter through the courts.

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 Condensed 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 Condensed Consolidated Statement of Loss and Comprehensive Loss in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2019:

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

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

Assets Held for Sale and Discontinued Operations

On March 29, 2019, Southern entered into a Purchase and Sale Agreement to sell all of its Canadian oil and natural gas assets for $0.64 million, prior to customary purchase price adjustments. The Disposition closed on May 2, 2019.

Assets and Liabilities Held for Sale

As at March 31, 2019, the Alberta CGU assets were classified as held for sale and recorded at the lesser of their carrying amount and their fair value less cost to sell. The Alberta CGU and the remaining Canadian segment's associated decommissioning liabilities were classified to liabilities related to assets held for sale.

(000s) **As at March 31, 2019**	Plant, Property & Equipment	Decommissioning Liabilities
Canadian assets	$ 1,608	$ 1,090

Results of Discontinued Operations

	Three months ended March 31,	
(000s)	**2019**	**2018**
Revenues		
Petroleum and natural gas revenue	$ 219	$ 188
Royalties	(29)	(24)
	190	164
Expenses		
Production and operating	51	53
Transportation	16	11
Exploration evaluation	1	9
Depletion, depreciation and amortization	39	86
Finance	6	2
General and administrative	100	113
	213	274
Net loss from discontinued operations	**$ (23)**	**$ (110)**

Eight Quarter Analysis

(000s) Three months ended	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017
Revenue	$ 4,424	$ 806	$ -	$ -	$ -	$ -	$ -	$ -
Net loss from continuing operations	(1,674)	(2,160)	-	-	-	-	-	-
Per share, basic and diluted	(0.01)	(0.05)	-	-	-	-	-	-
Total net loss	(1,697)	(2,368)	(134)	(83)	(110)	(79)	(175)	(265)
Per share, basic and diluted	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)

Revenue in Q1 2019 was $3.6 million higher than the previous quarter due to a full month of production from the Gulf Pine assets compared to twelve days of production in the three months ended December 31, 2018. Net loss from continuing operations in Q1 2019 was $486 thousand lower than the previous quarter primarily due to higher operating netback, gain on disposition of assets and lower stock-based compensation expense, partially offset by higher general and administrative expenses. The results starting with the three months ended September 30, 2018 and prior quarters, reflect net loss from discontinued operations as discussed above.

Change in Accounting Policies:

Assets held for sale and discontinued operations

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are tested for impairment prior to transfer, and measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the profit or loss in the period measured. Non-current assets and disposal groups held for sale are presented in current assets and liabilities on the statement of financial position.

Individual non-current assets or disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held-for-sale. The results of discontinued operations are shown separately in the consolidated statements of operations with comparative figures restated. Detailed disclosure of revenue, expenses and net earnings (loss) are disclosed in the notes. Cash flows and comparative figures are disclosed in Note 13.

Amendments to IFRS 3 "Business Combinations" – Definition of a Business ("IFRS 3")

Southern elected to early adopt the amendments to IFRS 3 effective January 1, 2019, which will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the application of the acquisition method. The Company retrospectively adopted the amendments to IFRS 3, which did not result in any adjustments to the prior issued financial statements.

Adoption of IFRS 16 — Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognized the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption, Southern elected to use the following practical expedients permitted under the standard:

- 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 ("ROU") asset if the underlying asset is of a lower dollar value (less than $5 thousand); 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.

As a result of the adoption of IFRS 16 as at January 1, 2019, Southern recorded a current lease liability of $405 thousand and a long-term lease liability of $714 thousand with an associated Right-of-Use Asset of $1.1 million. The difference in operating lease commitments disclosed as at December 31, 2018 and lease liabilities recognised in the statement of financial position at January 1, 2019 is primarily due to the discounting of the future lease payments using Southern's incremental borrowing rate.

Non-IFRS Measures

This MD&A contains terms commonly used in the oil and natural gas industry, such as adjusted funds flow from operations, operating netback, working capital 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 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 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. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices. Management monitors working capital and net debt as part of its capital structure in order to fund current operations and future growth of the Company.

"Adjusted Funds Flow from Operations"

Adjusted 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 March 31, 2019	2018
Cash flow from operating activities	$ (345)	$ 19
Change in non-cash working capital	784	(41)
Cash decommissioning expenses	-	3
Adjusted Funds flow from operations (1)	**$ 439**	**$ (19)**

(1) Includes results from discontinued operations

"**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 March 31, 2019	2018
Revenue	$ 4,424	$ -
Royalties	(816)	-
Production and operating	(1,613)	-
Transportation costs	(305)	-
Realized (loss) on derivatives	(146)	-
Operating netback (1)	**$ 1,544**	**$ -**

(1) Excludes results from discontinued operations

"Working Capital" and "Net Debt"

The following tables outline Southern's calculation of working capital and net debt:

	As at Mar 31, 2019	As at Dec 31, 2018
Current assets	$ 6,752	$ 16,710
Current liabilities	(9,100)	(29,227)
Remove:		
Current derivative assets	(97)	(332)
Current portion of lease liabilities	399	-
Current bank loan	-	21,009
Current derivative liabilities	218	166
Working capital (deficiency) surplus	**$ (1,828)**	**$ 8,326**

	As at Mar 31, 2019	As at Dec 31, 2018
Bank loan	$ (10,022)	$ (21,009)
Working capital (deficiency) surplus	(1,828)	8,326
Net debt	**$ (11,850)**	**$ (12,683)**

Abbreviations

bbl/d	barrels per day
Mcf/d	thousand cubic feet 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.

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@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.