Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the years ended December 31, 2019 and 2018

(Canadian Dollars)

MESSAGE TO SHAREHOLDERS

First and foremost, thank you to our shareholders for your continued trust and support during a notably difficult operating environment. 2019 has been a year of unparalleled challenges with continued low natural gas prices, global oil supply and demand imbalances caused by price wars and the recent impact of COVID-19 (Coronavirus) which have combined to create an increasingly difficult environment for oil and gas producers. Southern has adapted to these global events by deferring all drilling plans until economic conditions improve and will execute a responsible capital program that will only consider projects offering high rates of return and quick payouts. Southern has taken several steps to ensure strength and resiliency during this period, including an analysis of our entire supply chain for areas to cut costs and optimize processes.

In 2019, Southern further solidified our strategy of becoming a pure US Southeast Gulf States player by successfully completing the sale of all remaining Canadian assets and closing a strategic acquisition in our existing core area. The acquisition, which was completed on June 14, 2019, consisted of high netback, low decline, operated natural gas assets in the State of Mississippi. Southern achieved $3.4 million of Adjusted Funds Flow from Operations[1] in 2019. Had the Acquisition closed on January 1, 2019, management estimates that Southern would have realized Pro Forma Adjusted Funds Flow from Operations[2] of $5.3 million for the twelve months of 2019.

Our focus for 2020 will be to continue to drive costs down on our existing asset base and looking for opportunities to deleverage our balance sheet, primarily through accretive acquisitions. Southern will continue to ensure the highest possible safety measures for all employees and contractors in the field. This includes making a positive impact in the communities where we operate and continuing to have open communication with all royalty and stakeholders.

We believe there will be opportunities to consolidate high quality assets within our current asset base as well as expand into a new core position within the US Southeast Gulf States. We believe being countercyclical and acquiring assets during this depressed commodity price environment will be in the best interest of all Southern stakeholders.

In the US, increasing base-load natural gas demand within the power generation sector has driven domestic demand in recent years. Natural gas has been steadily replacing coal as a more cost-effective, cleaner energy source to meet growing electrical demand. In the US, switching from coal to natural gas fired power generation has been a primary contributor to the US significantly reducing greenhouse gas emissions in 2019, speaking volumes to the value of natural gas as a clean and reliable source of energy to power the globe. Along with significant domestic demand growth, export demand has seen phenomenal increase with recent start-ups of new natural gas pipelines and LNG expansion from zero to nearly 10 Bcf per day capacity to date. Both LNG and pipeline export capacity are forecasted to continue to grow at unprecedented rates in the coming five years. We expect that with this increase in structural demand for natural gas in the US states coupled with the lack of capital spending on supply additions

[1] See "*Non-IFRS Measures*".
[2] See "*Non-IFRS Measures*".

through drilling for dry gas or associated gas that the scales will tip in the favour of stronger gas prices for the next decade.

While last year saw the completion of the transition to a pure US oil and natural gas producer, this year we will look to be active on the acquisition front while focusing on protecting our balance sheet. Spending levels are designed to maintain production levels and to generate excess adjusted funds flow for debt repayment. We are focused on our original goal of becoming a premium natural gas producer benefiting from the highest natural gas pricing in North America. 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
May 4, 2020

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 audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018 (the "Financial Statements"), 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 May 4, 2020.

Corporate Summary

Southern is an emerging natural gas and light oil producer having assets in Mississippi and Alabama (the "Southeast Gulf States") with a stable, low decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern is looking to grow through strategic acquisitions in the Southeast Gulf States that complement the Company's current assets. The Company's management team has 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 presented.

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 socially responsible and environmentally conscious 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 shift focus on natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk. Southern's goal is to continually grow shareholder value through strategic, accretive acquisitions and organic growth opportunities.

READER ADVISORIES

Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information

Certain statements and information contained within this MD&A may constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements include, without limitation, statements regarding the status of development or expenditures relating to Southern's business, plans to fund current activities, future operations, future strategic acquisitions, future oil and natural gas production estimates and weighting, future financial position, resolution of working capital deficiencies, strategies to improve the Company's financial position and the success thereof, future revenues, increased operating netbacks and Adjusted Funds Flow from Operations due to the Acquisition, projected costs (including anticipated operating expense savings from the Acquisition), resolution of title ownership issues in respect of royalty payables, results of discussions with lenders regarding amendments to the Credit Facility 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, future foreign exchange rates, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, drilling results, the ability to obtain financing on acceptable terms, ability to comply with ongoing obligations under credit facilities, allocation of capital resources, the impact of increasing competition, the continuation of the current tax, royalty and regulatory regimes and deterioration in general economic conditions, including the actions of oil and gas producing countries and the impact of the novel coronavirus ("COVID-19"). 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, estimates regarding capital requirements and future revenues, the timing and amount of tax credits, adverse effects on general economic conditions in Canada, the United States and globally, including due to the recent outbreak of COVID-19 and other risks detailed from time to time in Southern's public disclosure documents.

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, 2019 (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.southernenergycorp.com.

This MD&A also contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Southern's increasing operating netbacks and Adjusted Funds Flow from Operations due to the Acquisition and anticipated operating expense savings due to the Acquisition, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "*Non-IFRS Measures*".

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

Pro Forma Information

This MD&A includes certain pro forma information combining the Company's results for the year ended December 31, 2019 with results from the Acquisition (as defined herein) assets for the same period. Management believes that reviewing the Company's operating results by combining actual and pro forma results including the Acquisition is useful in reaching conclusions regarding the overall operating performance of the Company, as the Acquisition closed on June 14, 2019 and contributed less than half a year of results to the Financial Statements for the year ended December 31, 2019. The pro forma information contained herein includes adjustments as if the Acquisition had occurred on January 1, 2019, including adjustments for the effects of acquisition accounting but do not include adjustments for costs related to integration activities, cost savings or synergies that might be achieved by the combined assets. The sources of these pro forma results are the Financial Statements combined with the internal, unaudited financial information of the Acquisition assets for the same period. These pro forma financial measures are not specified, defined or determined under IFRS accounting rules. Pro forma amounts to be presented are not necessarily indicative of what the Company's results would have been had Southern operated the Acquisition assets since January 1, 2019, nor will the historical pro forma amounts necessarily be indicative of future results. For more information, see "*Non-IFRS Measures*".

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Market Outlook

To date in 2020, crude oil prices have declined dramatically, largely due to the actual and anticipated impact of the COVID-19 outbreak upon global commerce and energy demand, and the recent disagreements between the major oil producing nations of Saudi Arabia and Russia with respect to production quotas. The production cuts by the Organization of Petroleum Exporting Countries ("OPEC") in late 2019 and discussions of potentially further cuts in 2020 had, until recently, kept WTI oil prices in the mid-to-low US$50s. On March 9, 2020, oil prices fell precipitously and WTI has since dropped as far as into the low US$20s.

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks. While the extreme volatility in oil prices and the continued depressed natural gas pricing will negatively impact Southern's future cash flow, the full extent of the impact on the Company's future financial results is uncertain given the length and severity of these developments cannot be reliably estimated.

These challenges have accelerated throughout the first quarter of 2020 and continue into the second quarter. During this time of uncertainty, Southern is focused on maintaining the health and safety of its personnel, while ensuring business continuity. As it is difficult to predict when the global economy will return to a normalized activity level or when commodity prices will stabilize, forecasting future cash flows remains challenging. Southern has taken immediate steps to mitigate the impacts to the financial capacity of the Company with protecting its balance sheet being the top priority.

Southern is currently reviewing all options to improve the financial strength of the Corporation. The Company recently implemented cost saving measures by reducing corporate salaries by 20%, field salaries by 10%, and eliminating all non-essential business expenditures. Additional cost reduction initiatives include the ongoing evaluation of opportunities to reduce operating and capital costs, unwinding of "in-the-money" derivative contracts, selling non-core oil and gas assets and pursuing potential alternative financing sources.

To manage risk through volatile commodity prices, Southern has fixed price hedges on production of 6,000 Mcf/d of natural gas at an average price of US$2.55/Mcf through December 31, 2020. In addition, Southern has entered into a buy-back swap for 75 Bbl/d of oil where Southern will pay a fixed price of WTI US$26.11/Bbl. This transaction enables Southern to lock in a hedge gain of US$543 thousand for the remainder of 2020 on the two existing oil fixed price swaps. These hedge volumes equate to approximately 45% of its current production. Southern has also hedged approximately 35% of its budgeted 2021 natural gas production at an average price of US$2.45/Mcf through 2021. See the "*Risk Management – Commodity Derivative Contracts*" section below for specific details on Southern's hedge positions.

We expect an increase in structural demand for natural gas in the US and coupled with the lack of capital spending on supply additions through drilling for dry gas or associated gas that the scales will tip in the favour of stronger gas prices for the next decade.

Operational Update

In March 2020, Southern was informed by its third-party pipeline and gathering services provider for the Mechanicsburg assets that an operational event caused the pipeline company to direct all suppliers to suspend deliveries into the pipeline for an indeterminate period of time. The pipeline company declared this to be a force majeure event and had advised it was working to rectify the situation. The temporary shut-in of the Mechanicsburg impacted approximately 550 boe/d (80% natural gas). Southern has been informed by the pipeline and gathering services provider that the situation will be resolved and production is expected to resume in June 2020.

TWELVE MONTHS ENDED DECEMBER 31, 2019 FINANCIAL AND OPERATIONAL HIGHLIGHTS

- On May 2, 2019, the Company closed the sale of all its remaining Canadian oil and natural gas assets for $0.5 million, firmly positioning Southern as a pure-play U.S. exploration and production company.

- On June 7, 2019, the Company closed the previously announced rights offering (the "Rights Offering"). Under the Rights Offering, shareholders of Southern (each, a "Shareholder") subscribed for and purchased an aggregate of 19,413,306 Common Shares at a price of $0.10 per Common Share, resulting in proceeds of approximately $1.9 million to the Company, net of issuance costs.

- On June 14, 2019, the Company closed an acquisition of high-quality and low-decline (less than 5%) operated assets in Mississippi with control of strategic facilities and infrastructure for cash consideration of US$14.9 million ($19.9 million), including customary adjustments of US$1.6 million ($2.2 million) for the period between February 1, 2019 to June 14, 2019 and the royalty suspense obligations related to the assets (the "Acquisition").

- Southern achieved $3.4 million of Adjusted Funds Flow from Operations[3] in 2019. Had the Acquisition closed on January 1, 2019, management estimates that Southern would have realized Pro Forma Adjusted Funds Flow from Operations[4] of $5.3 million for the twelve months of 2019.

- As at December 31, 2019, Southern had positive working capital[5] of $0.5 million excluding the royalty payables.

[3] See "*Non-IFRS Measures*".
[4] See "*Non-IFRS Measures*".
[5] See "*Non-IFRS Measures*".

- On June 14, 2019, Southern closed the sale of 8,069 Debentures (as defined below in "*Liquidity and Capital Resources – Debenture Financing*") at a price of $1,000 per Debenture and received net proceeds after share issuance costs of $7.3 million.

- In the second half of 2019, after closing the Acquisition, Southern voluntarily repaid US$1.8 million ($2.4 million) on its Credit Facility (as defined below in "*Liquidity and Capital Resources – Credit Facility*") from excess Adjusted Funds Flow from Operations[6].

- Southern realized average production of 15,313 Mcfe/d (90% natural gas) in Q4 2019 and 12,656 Mcfe/d (89% natural gas) from continuing operations for the twelve months of 2019.

- Southern's realized oil and natural gas prices for the year ended December 31, 2019 averaged $77.23/bbl and $3.22/Mcf, respectively, reflecting the benefit of pricing at US sales hubs, which currently trade at a premium to Canadian benchmark prices.

Summary of Financial Information

	Three months ended December 31,		Year ended December 31,		
(000s, except $ per share)	**2019**	**2018**	**2019**	**2018**	**2017**
Petroleum and natural gas sales	$ 5,525	$ 806	$ 19,129	$ 806	$ -
Net loss from continuing operations	(7,787)	(2,160)	(10,896)	(2,160)	-
Net loss per share from continuing operations					
Per share (1)	(0.03)	(0.05)	(0.05)	(0.07)	-
Total net loss	(7,787)	(2,368)	(10,873)	(2,695)	(606)
Total net loss per share					
Per share (1)	(0.03)	(0.05)	(0.05)	(0.09)	(0.02)
Adjusted funds flow from operations (2)	1,437	(1,374)	3,437	(1,403)	(128)
Per share (3)	0.01	(0.03)	0.02	(0.05)	(0.01)
Capital expenditures, excluding business combinations	189	1	22,943	1	-
Weighted average shares outstanding					
Basic	223,770	47,740	215,201	30,168	24,247
Fully diluted	223,770	47,740	215,201	30,168	24,247
As at period end					
Common shares outstanding					
Basic	220,770	204,357	220,770	204,357	24,247
Fully diluted	220,770	204,357	220,770	204,357	24,247
Total assets	49,176	54,929	49,176	54,929	3,750
Non-current liabilities	30,502	6,791	30,502	6,791	1,094
Net debt (2)	$ 31,297	$ 12,683	$ 31,297	$ 12,683	$ -

(1) Basic and fully diluted weighted average shares outstanding.
(2) See "Non-IFRS Measures".
(3) Basic weighted average shares outstanding

[6] See "*Non-IFRS Measures*".

Presentation of Results from Operations

On May 2, 2019, Southern disposed of all of its Canadian oil and natural gas assets for $0.5 million (the "Disposition"). As a result of the Disposition, the Canadian assets are presented as discontinued operations for the three and twelve months ended December 31, 2019 as well as the comparative periods, unless otherwise noted. For more information, see "*Discontinued Operations*".

Production and Pricing Summary

Quarter-over-Quarter

	Q4 2019	Q3 2019
Daily production from continuing operations		
Oil (bbl/d)	217	198
NGLs (bbl/d)	38	34
Natural gas (Mcf/d)	13,783	14,440
Production from continuing operations (Mcfe/d)	**15,313**	**15,832**
Production from discontinued operations (Mcfe/d)	**-**	**-**
Total production (Mcfe/d)	**15,313**	**15,832**
Percentage of natural gas	**90%**	**91%**

Q4 2019 production from continuing operations decreased 519 Mcfe/d, or 3%, from Q3 2019 due to natural decline of the producing assets and some brief downtime in our Central Mississippi ("CMS") cash generating units ("CGU") to complete field optimization projects.

There was no production from discontinued operations in Q4 or Q3 2019 as the Disposition closed on May 2, 2019.

Year-over-Year

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Daily production from continuing operations				
Oil (bbl/d)	217	25	190	6
NGLs (bbl/d)	38	4	39	1
Natural gas (Mcf/d)	13,783	1,058	11,282	267
Production from continuing operations (Mcfe/d)	**15,313**	**1,232**	**12,656**	**309**
Production from discontinued operations (Mcfe/d)	**-**	**288**	**95**	**283**
Total production (Mcfe/d)	**15,313**	**1,520**	**12,751**	**592**
Percentage of natural gas	**90%**	**86%**	**89%**	**86%**

Southern's Southeast Gulf State assets produced 12,656 Mcfe/d during the twelve months ended December 31, 2019. Natural gas volumes comprised 89% of the total volumes from continuing operations. Had the Acquisition closed on January 1, 2019, management estimates that production would have averaged approximately 15,300 Mcfe/d for the twelve months ended December 31, 2019, which is inline with Q4 sales production and highlights the low decline nature of Southern's assets.

Compared to the prior year, Q4 2019 average production from discontinued operations decreased 288 Mcfe/d, or 100%, and 188 Mcfe/d, or 66%, for the year ended December 31, 2019. The decrease is due to the Disposition, which closed on May 2, 2019.

Petroleum and Natural Gas Revenues

Quarter-over-Quarter

(000s)	**Q4 2019**	**Q3 2019**
Oil	$ 1,492	$ 1,392
NGLs	124	91
Natural gas	3,909	3,662
Revenue from continuing operations	5,525	5,145
Revenue from discontinued operations	-	-
Total revenue	**$ 5,525**	**$ 5,145**
Realized commodity prices for continuing operations		
Oil ($/bbl)	$ 74.73	$ 76.42
NGLs ($/bbl)	35.47	29.09
Natural gas ($/Mcf)	3.08	2.76
Combined ($/Mcfe)	**$ 3.92**	**$ 3.53**
Benchmark prices		
Crude oil – LLS ($/bbl)	$ 80.04	$ 79.95
Crude oil – LLS (US$/bbl)	60.68	60.56
Crude oil – WTI ($/bbl)	75.18	74.51
Crude oil – WTI (US$/bbl)	57.00	56.45
Natural gas – HH ($/MMbtu)	3.19	3.08
Natural gas – HH (US$/MMbtu)	2.42	2.33
Exchange rate (US$/$)	$ 1.32	$ 1.32

Southern sells the majority of its oil and natural gas at the wellhead. Southern receives Louisiana Light Sweet ("LLS") pricing (less adjustments for proximity and quality) for its oil, and Henry Hub ("HH") pricing (less minor proximity adjustments) for its natural gas. LLS pricing was relatively flat in Q4 at US$60.68/bbl compared to Q3 2019. HH pricing increased slightly to US$2.42/MMbtu during the same period.

In Q4 2019, Southern adjusted how the transportation expenses were being recorded as the majority of the petroleum and natural gas production was and continues to be sold at the wellhead. The adjustment resulted in lower transportation expenses offset by lower petroleum and natural gas revenues and higher royalty expenses. The adjustments had no impact to the Operating Netback[7] or Adjusted Cash Flow from Operations[8]. Prior quarters have been restated for comparison purposes.

[7] See "Non-IFRS Measures".
[8] See "Non-IFRS Measures".

Revenue from continued operations in Q4 2019 increased $380 thousand, or 7%, compared to Q3 2019 as a result of higher realized natural gas pricing and higher oil volumes partially offset by lower realized oil pricing.

Year-over-Year

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
(000s)				
Oil	$ 1,492	$ 173	$ 5,356	$ 173
NGLs	124	17	498	17
Natural gas	3,909	616	13,275	616
Revenue from continuing operations	5,525	806	19,129	806
Revenue from discontinued operations	-	99	334	840
Total revenue	**$ 5,525**	**$ 905**	**$ 19,463**	**$ 1,646**
Realized commodity prices for continuing operations				
Oil ($/bbl)	$ 74.73	$ -	$ 77.23	$ -
NGLs ($/bbl)	35.47	-	34.98	-
Natural gas ($/Mcf)	3.08	-	3.22	-
Combined ($/Mcfe)	**$ 3.92**	**$ -**	**$ 4.14**	**$ -**
Benchmark prices				
Crude oil – LLS ($/bbl)	$ 80.04	$ 87.38	$ 83.05	$ 90.27
Crude oil – LLS (US$/bbl)	60.68	66.27	63.21	69.84
Crude oil – WTI ($/bbl)	75.18	77.43	75.82	83.75
Crude oil – WTI (US$/bbl)	57.00	58.69	57.03	64.73
Natural gas – HH ($/MMbtu)	3.19	4.97	3.42	3.99
Natural gas – HH (US$/MMbtu)	2.42	3.73	2.57	3.07
Exchange rate (US$/$)	$ 1.32	$ 1.32	$ 1.33	$ 1.30

Southern's revenue from continuing operations was $19.1 million in 2019, of which 69% was from natural gas sales. Had the Acquisition closed on January 1, 2019, management estimates that Pro Forma Revenue from Continuing Operations[9] would have been $22.6 million (an increase of approximately $3.5 million) in 2019.

Revenue from discontinued operations decreased $99 thousand, or 100%, in Q4 2019 and $506 thousand, or 60%, for the twelve months ended December 31, 2019, compared to the same periods in 2018. The decrease is due to the Disposition, which closed on May 2, 2019.

[9] See "*Non-IFRS Measures*".

Royalties

Quarter-over-Quarter

(000s)	**Q4 2019**	**Q3 2019**
Oil	$ 301	$ 308
NGLs	23	22
Natural gas	773	722
Royalties from continuing operations	1,097	1,052
Royalties from discontinued operations	-	-
Total royalties	**$ 1,097**	**$ 1,052**
Royalties as a % of revenue for continuing operations	**19.9%**	**20.4%**

Royalties from continuing operations increased $45 thousand, or 4%, in Q4 2019 compared to Q3 2019. The increased royalties were primarily due to higher HH pricing in Q4 2019.

Year-over-Year

	Three months ended December 31,		**Year ended December 31,**	
	2019	**2018**	**2019**	**2018**
(000s)				
Oil	$ 301	$ 32	$ 1,147	$ 32
NGLs	23	2	109	2
Natural gas	773	114	2,603	114
Royalties from continuing operations	1,097	148	3,859	148
Royalties from discontinued operations	-	18	54	158
Total royalties	**$ 1,097**	**$ 166**	**$ 3,913**	**$ 306**
Royalties as a % of revenue for continuing operations	**19.9%**	**18.4%**	**20.2%**	**18.4%**

Royalties from continuing operations were $3.9 million, or 20.2% of revenue, for the year ended December 31, 2019. Had the Acquisition closed on January 1, 2019, management estimates that Pro Forma Royalties from Continuing Operations[10] would have been approximately $4.6 million (an increase of approximately $0.8 million) for the year ended December 31, 2019.

Royalties from discontinued operations decreased $18 thousand, or 100%, in Q4 2019 and $104 thousand, or 66%, for the year ended December 31, 2019, compared to the same periods in 2018, as the Disposition closed on May 2, 2019.

[10] See "*Non-IFRS Measures*".

Production, Operating and Transportation Expenses

Quarter-over-Quarter

(000s)	Q4 2019	Q3 2019
Operating expenses	$ 1,430	$ 1,567
Production taxes	333	308
Transportation expense	88	110
Total from continuing operations	1,851	1,985
Total from discontinued operations	-	-
Total production, operating and transportation	**$ 1,851**	**$ 1,985**

Field expenses from continuing operations for Q4 2019 were $134 thousand ($0.06/Mcfe), or 7%, lower than Q3 2019 primarily due to lower lease maintenance costs, equipment rentals and water disposal costs, partially offset by higher labour costs.

Year-over-Year

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
(000s)				
Operating expenses	$ 1,430	$ 218	$ 5,650	$ 218
Production taxes	333	47	1,149	47
Transportation expense	88	30	368	30
Total from continuing operations	1,851	295	7,167	295
Total from discontinued operations	-	75	61	294
Total production, operating and transportation	**$ 1,851**	**$ 370**	**$ 7,228**	**$ 589**

Operating expenses from continuing operations for the year ended December 31, 2019 were $5.7 million ($1.22/Mcfe), driven primarily from field labour, chemicals and water disposal. Southern lowered operating costs per Mcfe by approximately $0.45/Mcfe in the second half of 2019, primarily due to the Acquisition of low operating expense assets and further streamlined field operations on the acquired assets.

For the year ended December 31, 2019, production taxes of $1.1 million (6.0% as a percentage of revenue) were related to a 6% severance tax charged by the State of Mississippi on all oil and natural gas production. 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.

Transportation expenses of $368 thousand ($0.08/Mcfe) are related to pipeline fees for the transportation of a portion of Southern's natural gas volumes at CMS to the sales meter (approximately $0.25/Mcf).

Had the Acquisition closed on January 1, 2019, management estimates that operating expenses, production taxes and transportation expenses from continuing operations would have increased approximately $0.9 million[11] for the year ended December 31, 2019.

Total production, operating and transportation costs from discontinued operations decreased $75 thousand in Q4 2019 and $233 thousand for the year ended December 31, 2019, compared to the same periods in 2018. The decrease is due to the Disposition, which closed on May 2, 2019.

Operating Netback

Quarter-over-Quarter

($/Mcfe)	**Q4 2019**	**Q3 2019**
Petroleum and natural gas revenue	$ 3.92	$ 3.53
Royalties	(0.78)	(0.72)
Production and operating	(1.25)	(1.29)
Transportation costs	(0.06)	(0.08)
Realized gain on derivatives	0.08	0.19
Operating netback per Mcfe[12]	**$ 1.91**	**$ 1.63**
Operating netback % of revenue	**49%**	**46%**

Southern's operating netback increased in Q4 2019 by $0.28/Mcfe, or 17%, compared to Q3 2019 primarily due to higher oil volumes and higher realized natural gas pricing, partially offset by lower production and a smaller gain on derivatives in Q4 2019.

Year-over-Year

	Three months ended December 31,		**Year ended December 31,**	
	2019	**2018**	**2019**	**2018**
($/Mcfe)				
Petroleum and natural gas revenue	$ 3.92	$ 7.11	$ 4.14	$ 7.11
Royalties	(0.78)	(1.31)	(0.84)	(1.31)
Production and operating	(1.25)	(2.34)	(1.47)	(2.34)
Transportation costs	(0.06)	(0.26)	(0.08)	(0.26)
Realized gain (loss) on derivatives	0.08	(0.98)	0.07	(0.98)
Operating netback per Mcfe[13]	**$ 1.91**	**$ 2.22**	**$ 1.82**	**$ 2.22**
Operating netback % of revenue	**49%**	**31%**	**44%**	**31%**

Southern realized an operating netback of $1.82/Mcfe for the year ended December 31, 2019 from continuing operations. The operating netback of $2.22/Mcfe for the three months and year ended December 31, 2018 includes only twelve days of production from continuing operations.

[11] See "*Non-IFRS Measures*".
[12] See "*Non-IFRS Measures*".
[13] See "*Non-IFRS Measures*".

General & Administrative and Transaction Costs

Quarter-over-Quarter

(000s)	**Q4 2019**	**Q3 2019**
General and administrative	$ 1,245	$ 1,056
Transaction costs	8	192
Total from continuing operations	1,253	1,248
Total from discontinued operations	-	-
Total	**$ 1,253**	**$ 1,248**

Q4 2019 general and administrative costs increase $189 thousand, or 18%, from Q3 2019 primarily due to year-end costs relating to tax compliance, audit work and reserve report. Transaction costs decreased $184 thousand in Q4 2019 compared to Q3 2019.

There were no general and administrative costs relating to the discontinued operations in Q4 2019, as the Disposition closed on May 2, 2019.

Year-over-Year

	Three months ended December 31,		**Year ended December 31,**	
	2019	**2018**	**2019**	**2018**
(000s)				
General and administrative	$ 1,245	$ 333	$ 4,465	$ 333
Transaction costs	8	1,148	588	1,148
Total from continuing operations	1,253	1,481	5,053	1,481
Total from discontinued operations	-	111	150	487
Total	**$ 1,253**	**$ 1,592**	**$ 5,203**	**$ 1,968**

For the twelve months ended December 31, 2019, general and administrative costs for continuing operations were $4.5 million and transaction costs were $588 thousand. For the three months and year ended December 31, 2018, general and administrative costs of $333 thousand only include twelve days and the $1.1 million of transaction costs are directly related to the Gulf Pine Transaction that was completed on December 19, 2018.

General and administrative expenses relating to discontinued operations decreased $111 thousand, or 100%, in Q4 2019 and $226 thousand, or 69%, for the twelve months ended December 31, 2019, compared to same periods in 2018.

Finance Expense

Quarter-over-Quarter

(000s)	Q4 2019	Q3 2019
Bank Interest	$ 270	$ 303
Convertible debenture interest	162	163
Lease interest	13	14
Accretion	118	117
Total from continuing operations	563	597
Total from discontinued operations	-	-
Total finance expense	**$ 563**	**$ 597**

Finance expenses from continuing operations decreased $34 thousand in Q4 2019 compared to Q3 2019. The decrease was attributable to lower interest rates and lower average debt balance in Q4 2019 as Southern continues to utilize free cash flow to diligently pay down the outstanding debt balance. The effective interest rate, excluding commitment and other fees, decreased from 5.84% in Q3 2019 to 5.42% in Q4 2019.

There were no finance expenses in Q4 2019 related to the discontinued operations that were disposed of on May 2, 2019.

Year-over-Year

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
(000s)				
Bank debt interest	$ 270	$ 40	$ 981	$ 40
Convertible debenture interest	162	-	355	-
Lease interest	13	-	59	-
Accretion	118	5	270	5
Total from continuing operations	563	45	1,665	45
Total from discontinued operations	-	-	6	8
Total finance expense	**$ 563**	**$ 45**	**$ 1,671**	**$ 53**

Finance expenses from continuing operations for the year ended December 31, 2019 were $1.7 million, which includes $355 thousand of interest on the Debentures that were sold on June 14, 2019. For more information on the Debentures, see "*Liquidity and Capital Resources – Debenture Financing*" below. For the three months and year ended December 31, 2018, finance expenses from continuing operations of $45 thousand only include twelve days related to the Gulf Pine Transaction that was completed on December 19, 2018.

Share-based Compensation

Southern recorded $100 thousand in share-based compensation in Q4 2019 relating to the stock option issuance on June 20, 2019. For more information, see "*Shareholders' Equity – Stock Option Plan*".

Depletion, Depreciation and Amortization

Quarter-over-Quarter

(000s)	**Q4 2019**	**Q3 2019**
Depletion	$ 1,656	$ 1,698
Depreciation	96	96
Total from continuing operations	1,752	1,794
Total from discontinued operations	-	-
Total depletion, depreciation and amortization	**$ 1,752**	**$ 1,794**

Depletion expense from continuing operations was $42 thousand, or 2%, lower in Q4 2019 compared to Q3.

There were no depletion expenses in Q4 2019 related to the discontinued operations, as the assets were sold on May 2, 2019.

Year-over-Year

	Three months ended December 31,		**Year ended December 31,**	
	2019	**2018**	**2019**	**2018**
(000s)				
Depletion	$ 1,656	$ 127	$ 5,357	$ 127
Depreciation	96	-	384	-
Total from continuing operations	1,752	127	5,741	127
Total from discontinued operations	-	59	39	342
Total depletion, depreciation and amortization	**$ 1,752**	**$ 186**	**$ 5,780**	**$ 469**

Depletion expenses from continuing operations for the year ended December 31, 2019 were $5.4 million. In the calculation of depletion expense at December 31, 2019, an estimated $36.7 million of future development costs associated with the proven plus probable reserves were included ($40.9 million for 2018). For the three months and year ended December 31, 2018, depletion expenses from continuing operations of $127 thousand only include twelve days related to the Gulf Pine acquisition that was completed on December 19, 2018.

Depreciation expense is primarily related to the Right-of-Use ("ROU") assets related to the office space lease. See "*Adoption of IFRS 16 — Leases ("IFRS 16")*" for further information.

Depletion expenses relating to discontinued operations decreased $59 thousand, or 100%, in Q4 2019 and $303 thousand, or 86%, for the twelve months ended December 31, 2019, compared to same periods in 2018, as the assets were classified as held for sale at March 31, 2019 and subsequently sold on May 2, 2019.

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the CGUs that comprise oil and natural gas properties. During the year ended December 31, 2019, Southern viewed the deterioration of current and future natural gas prices as well as the reduction of Southern's market capitalization below the net assets of the Company as indications of impairment. Southern estimated the recoverable amount of all CGUs at December 31, 2019. Southern determined that the carrying value of the Central Mississippi ("CMS") CGU exceeded its recoverable amount. A non-cash impairment charge of $6.7 million was recorded in the Consolidated Statements of Loss and Comprehensive Loss.

The Company estimated the recoverable amounts as fair value less costs of disposal, using the net present value of the cash flows from proved developed producing oil and gas reserves of each CGU, and a 10% discount rate, based on reserves estimated by Southern's independent reserves evaluator at December 31, 2019.

The following table details the forward pricing used in estimating the recoverable amounts of Southern's CGUs at December 31, 2019:

Period Ending	West Texas Intermediate ($US/bbl)	Henry Hub ($US/MMBtu)	FX (USD/CAD)
12-31-2020	60.25	2.57	0.760
12-31-2021	63.11	2.79	0.768
12-31-2022	66.02	2.99	0.784
12-31-2023	67.64	3.15	0.789
12-31-2024	69.16	3.22	0.789
12-31-2025	70.69	3.29	0.789
12-31-2026	72.25	3.35	0.789
12-31-2027	73.77	3.43	0.789
12-31-2028	75.25	3.49	0.789
12-31-2029	76.76	3.56	0.789

Thereafter, WTI and HH prices escalated 2 percent on January 1 of each year and FX rates held constant at 0.789

Changes in any of the key judgements, such as a revision in reserves, changes in forecast commodity prices, foreign exchange rates, capital or operating costs would impact the estimated recoverable amount. As at December 31, 2019, a 1% increase in the assumed discount rate would reduce the estimated recoverable amount by $2.5 million while a 5% decrease change in commodity price forecasts would reduce the estimated recoverable amount by $4.8 million.

Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
(000s)				
Acquisitions	$ 25	$ 3,329	$ 21,349	$ 3,329
Drilling and completions	-	-	449	-
Geological and geophysical	-	-	153	-
Facilities, equipment and pipelines	164	1	988	1
Other	-	-	4	-
Total Capital Expenditures	**189**	**3,330**	**22,943**	**3,330**
Net dispositions	**20**	**-**	**(484)**	**-**
Total Capital	**$ 209**	**$ 3,330**	**$ 22,459**	**$ 3,330**

Asset Acquisition

On June 14, 2019, Southern closed the previously announced Acquisition with an arm's length private company to acquire assets in the State of Mississippi for cash consideration of $21.3 million.

The assets include high-quality, low-decline wells that produced approximately 6,750 Mcfe/d (97% gas) since being acquired on June 14, 2019 and include 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 light oil and natural gas resources in the Southeast Gulf States.

The Acquisition was funded from: (a) the Debenture Financing (as described below in "*Liquidity and Capital Resources – Debenture Financing*") which raised net proceeds of $7.3 million; (b) cash on hand; and (c) available capacity on the expanded Credit Facility (as described below in the "*Liquidity and Capital Resources – Credit Facility"*).

Capital Expenditures

Southern spent $164 thousand in Q4 2019 relating to facility and well site equipment and asset optimization projects in both the Central Mississippi and Black Warrior Basin CGUs.

There were no capital expenditures from discontinued operations for the three or year ended December 31, 2019 or comparable periods in 2018.

Net dispositions of $0.5 million relate to the Disposition of all of Southern's Canadian assets.

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 December 31, 2019 and 2018:

	Number of Shares	Share Capital
Balance as at December 31, 2018	204,356,973	$ 33,860
Issuance of Common Shares by Rights Offering, net of issue costs	19,413,306	1,881
Redemption of Common Shares from private placement	(3,000,000)	(300)
Balance as at December 31, 2019	220,770,279	**$ 35,441**

On January 23, 2020, 3,000,000 of the Common Shares subscribed to in the Private Placement were redeemed by the Company. At December 31, 2019, Southern has reflected the redemption within shareholder's equity.

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 December 31, 2019, 19,306,667 Recap Warrants had vested as the Market Price had exceeded $0.15.

Rights Offering

On June 7, 2019, the Company closed the previously announced Rights Offering. Under the Rights Offering, Shareholders subscribed for and purchased an aggregate of 19,413,306 Common Shares at a price of $0.10 per Common Share, resulting in approximately $1.9 million of proceeds to the Company, net of issuance costs.

Stock Option Plan

Pursuant to the Company's Stock Option Plan, on June 20, 2019, Southern granted 19,400,000 stock options to purchase common shares of the Company ("Options") to directors, officers and employees. The Options expire five years from the date of grant and are exercisable at a price of $0.10 per common share. The Options vest in equal instalments annually over three years from the date of grant. This is the first grant of Options since Southern's Recapitalization in December of 2018.

	Number of stock options	Weighted average exercise price
Balance at December 31, 2018	-	$ -
Granted	19,400,000	0.10
Balance at December 31, 2019	**19,400,000**	**$ 0.10**

	Outstanding and Exercisable	
Exercise price	**Number of stock options**	**Weighted average remaining life (years)**
$ 0.10	19,400,000	4.5
$ 0.10	**19,400,000**	**4.5**

Liquidity and Capital Resources

The Company is dependant on cash on hand, operating cash flows, the issuance of equity/debt securities and bank debt to finance capital expenditures and property acquisitions. The Company will manage borrowings in relation to credit capacity and the ability to generate future operating cash flows to service such debt. To date, Southern has displayed the ability to generate free cash flow even in a low commodity price environment and continues to service the existing credit facility. The Company may also explore dispositions of its non-core oil and gas properties to provide further capital resources.

The current challenging economic climate, due to the COVID-19 pandemic and volatile commodity prices, may lead to further adverse changes in cash flows, working capital levels and debt balances, which may also have a direct impact on the Company's operating result and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. While it is too early to know the full extent of the impacts the COVID-19 pandemic may have, Southern has taken a cautious approach to future expenditures in order to ensure capital preservation. Southern has postponed the drilling of a Gwinville well that was planned in 2019 until pricing and economic conditions improve and has a minor capital program of $0.5 million planned for 2020, directed towards maintenance capital to sustain current production.

As at December 31, 2019, Southern was in compliance with all financial covenants on its Senior Secured Bank Credit Facility. Based on the Company's projections using current strip pricing and the execution of the sixth amendment (the "Sixth Amendment") and related covenant changes, Southern does not anticipate to be in any covenant violations for the next twelve months. See "*Credit Facility*", below, for further information on the Sixth Amendment. Management forecasts may change materially based upon actual prices received during the year, changes in future strip pricing and its future business plan. This material uncertainty may cast significant doubt with respect to the ability of the Corporation to continue as a going concern.

As at December 31, 2019, excluding the current portion of the lease obligations and the current derivative assets and liabilities, Southern had a working capital deficiency of $5.0 million. The working capital deficiency is primarily a result of $5.6 million (US$4.3 million) of non-interest bearing royalty payables related to unresolved title or ownership issues not expected to be settled within the operating cycle unless claimants demand repayment and provide proof of ownership. Excluding the royalty payables, Southern would have positive working capital of $0.5 million. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time. The royalty suspense account is made up of balances from approximately 5,000 royalty holders with over 96% of the balances being greater than 120 days, 34% of the balance being greater than 10 years. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

Credit Facility

As at December 31, 2019, Southern Energy Corp. (Delaware) ("Southern Delaware"), one of the wholly-owned subsidiaries of Southern continued to hold the existing Senior Secured Credit Facility (the "Credit Facility"). The Credit Facility is secured against the oil and gas properties of Southern. The borrowing base for the Credit Facility is reviewed semi-annually. Southern has the ability to request two additional redeterminations each year, at its sole election.

Interest on borrowings under the Credit Facility is determined by reference to the London Interbank Offered Rate ("LIBOR") plus a margin that ranges from 2.50% to 3.50%, based on utilization. Southern pays a commitment fee of 0.50% on the undrawn borrowing base. For the year ending December 31, 2019, the effective interest rate was 5.58% (December 31, 2018 – 5.97%), excluding commitment and other fees.

On March 1, 2019, Southern Delaware entered into the third amendment (the "Third Amendment") to the Credit Facility. The Third Amendment included the assignment of the Credit Facility from Gulf Pine Energy, LP to Southern Energy Corp. (Delaware), replacement of "GAAP" with "IFRS" with respect to the covenant calculations and a borrowing base reduction to US$12.5 million ($17.1 million).

On June 14, 2019, Southern Delaware entered into a fourth amendment (the "Fourth Amendment") to the Credit Facility. The Fourth Amendment included an increase to the borrowing base related to the closing of the Acquisition from US$12.5 million ($16.4 million) to US$17.0 million ($22.2 million), a quarterly borrowing base reduction beginning September 1, 2019 of US$0.9 million ($1.2 million) and amendments to the covenant calculations.

On November 27, 2019, as part of the semi-annual borrowing base review, Southern Delaware entered into a fifth amendment (the "Fifth Amendment") to the Credit Facility reducing the borrowing base to US$15.0 million ($19.9 million). Beginning January 1, 2020, the borrowing base will be reduced monthly by US$250 thousand until March 1, 2020. The February 1, 2021, maturity date of the Credit Facility remained the same with the execution of the Fifth Amendment.

The covenants of the Company under the Credit Facility, calculated quarterly, include covenants which relate to a maximum leverage ratio of 3.5 to 1.0 (Debt / 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 part of the Fourth Amendment, for the test period ending December 31, 2019, Bank EBITDAX and Cash Interest was annualized by taking the results of the two fiscal quarters ending December 31, 2019 and multiplying them by two. For the test period of March 31, 2020, Bank EBITDAX and Cash Interest will be annualized by taking the results of the three fiscal quarters ending March 31, 2020 and multiplying them by four and dividing them by three.

As part of the Fifth Amendment, the current ratio covenant calculation, beginning with the test period ending December 31, 2019 and ending with the test period of December 31, 2020, will exclude royalty suspense balances that are at least one year old, as at the test period date (See Note 14 - Royalties Payable of the Financial Statements for additional information).

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

		As at December 31,	
Financial covenant	**Limit**	**2019**	**2018**
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.5	3.3	4.1
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 3.0	4.9	4.2
Current ratio (Current Assets / Current Liabilities)	Minimum 1.0	1.4	2.1

The financial covenants include financial measures defined within the Credit Facility that are not defined under IFRS. These financial measures are defined by the Credit Facility 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, the current portion of the lease liability, royalties payable balances greater than one year and the current bank debt.

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

As at December 31, 2019, the borrowing base was US$15.0 million ($19.5 million) and Southern had US$14.0 million ($18.2 million) drawn. 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, 2019, as a result of the March 1, 2020 bank redetermination, Southern will enter into the Sixth Amendment to the Credit Facility. Details of the Sixth Amendment include:

- Borrowing base reduction to US$14.0 million from US$14.25 million at March 31, 2020, separated into two tranches;
- Tranche A (conforming) – US$8.5 million lending value with the same financial covenants as the current Credit Facility (See Note 8 – Bank Debt for more details on the financial covenants) and a minimum interest rate of 4.5%;
- Tranche B (Non-conforming) – US$5.5 million lending value and the same interest rate as above;
- Tranche B will replace the Monthly Credit Reductions (described in Note 8 – Bank Debt) with cash flow repayments. Beginning on May 26, 2020, and continuing on the 26th day of every month until the July 2020 redetermination, any available cash balances in excess of US$0.4 million held with the lender will be utilized to paydown the owing balance on Tranche B;
- Increased hedging requirements of 80% of projected PDP volumes on a rolling 24 months and 50% of projected PDP volumes for months 25 to 36;
- Additional non-financial covenants primarily related to financial reporting;
- Next redetermination scheduled for July 1, 2020.

Debenture Financing

On June 14, 2019, Southern closed the sale of 8,069 convertible debentures (the "Debentures") at a price of $1,000 per Debenture and received net proceeds of $7.3 million (the "Debenture Financing"), which was used to finance the Acquisition.

The Debentures will mature and be repayable on June 30, 2022 (the "Maturity Date") and 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 made in cash on December 31, 2019. At the Company's election, interest on the Debentures on the date it is payable can be settled: (a) in cash; (b) by delivering freely tradeable, treasury Common Shares to a trustee for sale, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares; or (c) any combination of (a) and (b) above. At the holder's option, the Debentures are 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 contained in the indenture governing the Debentures. 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 are direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the 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 are not 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 securities issued and sold in the Debenture Financing are subject to a four month hold period under applicable securities legislation.

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 December 31, 2019, Southern's total contractual obligations and commitments were $18.2 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. See "*Adoption of IFRS 16 – Leases ("IFRS 16")*" section below.

Off-balance Sheet Arrangements

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

Risk Management

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

- volatility of commodity prices;
- global pandemics such as COVID-19;
- 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; 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 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, 2019:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
January 1, 2020 – March 31, 2020	1,000 MMBtu/d	NYMEX – HH $2.700/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
January 1, 2020 – December 31, 2020	2,000 MMBtu/d	NYMEX – HH $2.575/MMBtu
January 1, 2021 – December 31, 2021	1,500 MMBtu/d	NYMEX – HH $2.575/MMBtu

Crude Oil	Volume	Pricing (US$)
Fixed Price Swap		
January 1, 2020 – December 31, 2020	50 bbl/d	WTI $55.25/bbl
January 1, 2020 – December 31, 2020	25 bbl/d	WTI $56.45/bbl

Subsequent to December 31, 2019, Southern entered into the following commodity derivative contracts:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
February 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.253/MMBtu
January 1, 2021 – December 31, 2021	3,600 MMBtu/d	NYMEX – HH $2.402/MMBtu

Crude Oil	Volume	Pricing (US$)
Fixed Price Swap		
May 1, 2020 – December 31, 2020	75 bbl/d	WTI $26.11/bbl

On April 27, 2020, Southern entered a buy-back swap for 75 Bbl/d of oil where Southern will pay a fixed price of WTI US$26.11/Bbl. This transaction enables Southern to lock in a hedge gain of US$543 thousand for the remainder of 2020 on the two oil fixed price swaps above.

Discontinued Operations

On May 2, 2019, Southern disposed of all of its Canadian oil and natural gas assets for $0.5 million. The results of operations from the Canadian segment have been reported as a discontinued operation.

Results of Discontinued Operations

	Year ended December 31,	
	2019	**2018**
Revenues		
Petroleum and natural gas revenue	$ 334	$ 840
Royalties	(54)	(158)
	280	682
Expenses		
Production and operating	42	247
Transportation	19	47
Exploration evaluation	1	86
Depletion, depreciation and amortization	39	342
Finance	6	8
General and administrative	150	487
	257	1,217
Net earnings (loss) from discontinued operations	**$ 23**	**$ (535)**

Eight Quarter Analysis

(000s) **Three months ended**	**Dec 31 2019**	**Sep 30 2019**	**Jun 30 2019**	**Mar 31 2019**	**Dec 31 2018**	**Sep 30 2018**	**Jun 30 2018**	**Mar 31 2018**
Revenue	$ 5,525	$ 5,145	$ 4,207	$ 4,252	$ 806	$ -	$ -	$ -
Net loss from continuing operations	(7,787)	(1,081)	(354)	(1,674)	(2,160)	-	-	-
Per share, basic and diluted	(0.03)	(0.00)	(0.00)	(0.01)	(0.05)	-	-	-
Total net loss	(7,787)	(1,081)	(308)	(1,697)	(2,368)	(134)	(83)	(110)
Per share, basic and diluted	$ (0.03)	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.00)	$ (0.00)

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

- Volatility in commodity prices and the resultant effect on revenue and net loss;
- On December 19, 2018, Southern purchased the units of Gulf Pine Energy Partners, LP. The above revenue and net loss from continuing operations for the quarter ending December 31, 2018 reflect the twelve days of production from the acquired assets;
- On May 2, 2019, Southern disposed of all of its Canadian assets and operating results for prior periods have been classified as discontinued operations;
- On June 14, 2019, Southern closed a strategic Acquisition, which contributed revenue of $361 thousand and an operating netback of $216 thousand in Q2 2019;
- Southern recorded transaction costs of $1.1 million for the fourth quarter of 2018, $165 thousand for the first quarter of 2019 and $233 thousand for the second quarter of 2019 related to the Recapitalization and acquisition of Gulf Pine; and
- On December 31, 2019, Southern recorded an impairment expense of $6.7 million for the CMS CGU. For more information, see the "*Impairment*" section above.

Change in Accounting Policies:

Adoption of 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.

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

On January 1, 2019, Southern adopted IFRS 16 "Leases" as issued by IASB. IFRS 16 requires the recognition of right-of-use 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 Company used the modified retrospective approach on adoption of IFRS 16 including 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.

As a result of the adoption of IFRS 16 as at January 1, 2019, Southern identified a ROU asset and lease liabilities relating to office space and 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, net debt and pro forma financial measures. 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 operating 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,	
	2019	**2018**	**2019**	**2018**
Cash flow from operating activities	$ 982	$ (1,589)	$ 3,145	$ (1,591)
Change in non-cash working capital	443	213	269	174
Cash decommissioning expenses	12	2	23	14
Adjusted Funds Flow from Operations(1)	**$ 1,437**	**$ (1,374)**	**$ 3,437**	**$ (1,403)**

(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 December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Revenue	$ 5,525	$ 806	$ 19,129	$ 806
Royalties	(1,097)	(148)	(3,859)	(148)
Production and operating	(1,763)	(265)	(6,799)	(265)
Transportation costs	(88)	(30)	(368)	(30)
Realized gain (loss) on derivatives	113	(111)	319	(111)
Operating netback(1)	**$ 2,690**	**$ 252**	**$ 8,422**	**$ 252**

(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 December 31, 2019	As at December 31, 2018
Current assets	$ 4,013	$ 16,710
Current liabilities	(8,726)	(29,227)
Remove:		
Current derivative assets	(819)	(332)
Current portion of lease liabilities	382	-
Current bank debt	-	21,009
Current derivative liabilities	105	166
Working capital (deficiency) surplus	**$ (5,045)**	**$ 8,326**

	As at December 31, 2019	As at December 31, 2018
Bank debt	$ 18,183	$ 21,009
Convertible debentures – face value	8,069	-
Working capital deficiency (surplus)	5,045	(8,326)
Net debt	**$ 31,297**	**$ 12,683**

"Pro Forma Financial Measures"

Pro Forma Operating Netback (including Pro Forma Royalties from Continuing Operations and Pro Forma Revenue from Continuing Operations) and Pro Forma Adjusted Funds Flow from Operations are financial measures that are not defined under IFRS. The Company defines these non-IFRS pro forma financial measures as if certain business combinations, acquisitions or transactions occurred on dates prior to their actual dates for the purposes of comparing financial results from period to period. The Company believes they enhance an investor's understanding of the Company's financial and operating performance across periods, because they provide a direct comparison of financial performance from period to period for the assets currently owned by the Company. For further information, see "*Reader Advisories – Pro Forma Information*".

The table below reconciles Operating Netback to Pro Forma Operating Netback for the year ended December 31, 2019:

	Year Ended December 31, 2019		
	As Reported	Pro Forma Contributions(2)	Pro Forma Total
Revenue	$ 19,129	$ 3,517	$ 22,646
Royalties	(3,859)	(754)	(4,613)
Production and operating	(6,799)	(869)	(7,668)
Transportation costs	(368)	(31)	(399)
Realized gain on derivatives	319	-	319
Operating netback(1)	**$ 8,422**	**$ 1,863**	**$ 10,285**

(1) Excludes results from discontinued operations
(2) Includes results as if the Acquisition had occurred on January 1, 2019

The table below reconciles Adjusted Funds Flow from Operations to Pro Forma Adjusted Funds Flow from Operations for the nine months ended December 31, 2019:

	Year Ended December 31, 2019		
	As Reported	Pro Forma Contributions(2)	Pro Forma Total
Cash flow from operating activities	$ 3,145	$ 1,863	$ 5,008
Change in non-cash working capital	269	-	269
Cash decommissioning expenses	23	-	23
Adjusted Funds Flow from Operations(1)	**$ 3,437**	**$ 1,863**	**$ 5,300**

(1) Includes results from discontinued operations
(2) Includes results as if the Acquisition had occurred on January 1, 2019

Abbreviations

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

Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

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

Additional Information

Additional information about the Company can be obtained by contacting the Company at Suite 2400, 333 7th Avenue SW, Calgary, Alberta T2P 2Z1 or by email at info@southernenergycorp.com. Additional information, including the Company's audited financial statements for the years ended December 31, 2019 and 2018 and Annual Information Form is also available on SEDAR at www.sedar.com or www.southernenergycorp.com.