Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2020 and 2019

(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, 2020 and 2019 (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.

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.

This MD&A is dated May 26, 2020.

Overview

Southern is a natural gas and light oil producer with assets in Mississippi and Alabama (the "Southeast Gulf States") characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern'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 between natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk. Southern's goal is to continually grow shareholder value through strategic, accretive acquisitions and organic growth opportunities.

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.

Responding to COVID-19

The novel coronavirus ("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 at 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.

During this time of uncertainty, Southern is focused on maintaining the health, safety and security of employees, contractors, partners and residents within all of its operating areas and communities. In response to the COVID-19 pandemic, the Company quickly implemented response plans and procedures that would protect the health and well-being of all stakeholders. Southern established work from home protocols for all Calgary office employees in mid-March. With Southern's IT infrastructure already in place prior to the pandemic, the transition for employees to work remotely from home was seamless. The Company also implemented social distancing protocols throughout its field operations, including limiting the number of people that access the field office, strict cleaning procedures of all equipment handled by employees and contractors, and avoiding face to face sales and meetings with suppliers. As a result of the actions taken and the due diligence of the Company's staff in following prescribed social distancing measures, the Company is pleased to report that it has not had any lost time as a result of COVID-19.

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 advised it was working to rectify the situation. The temporary shut-in of the Mechanicsburg field impacted approximately 3,300 Mcfe/d (80% natural gas). Southern has been informed by the pipeline and gathering services provider that the situation will be resolved in June 2020, and Southern expects to resume production immediately thereafter.

FIRST QUARTER 2020 HIGHLIGHTS

- Southern generated $0.7 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Non-IFRS Measures*") in Q1 2020, a 54% increase from the same period in 2019.

- Southern realized average production of 12,781 Mcfe/d (92% natural gas) during Q1 2020, a 36% increase from the same period in 2019.

- Production and operating costs were $1.42/Mcfe in Q1 2020, a decrease of 26% from the same period in 2019.

- As at March 31, 2020, Southern had positive working capital (see "*Reader Advisories – Non-IFRS Measures*") of $0.8 million excluding royalty payables.

- Southern's realized oil and natural gas prices for Q1 2020 averaged $59.91/bbl and $2.38/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 March 31,	
(000s, except $ per share)	**2020**	**2019**
Petroleum and natural gas sales	$ 3,397	$ 4,252
Net loss from continuing operations	(10,216)	(1,674)
Net loss per share from continuing operations		
Per share [1]	(0.05)	(0.01)
Total net loss	(10,216)	(1,697)
Total net loss per share		
Per share [1]	(0.05)	(0.01)
Adjusted funds flow from operations [2]	676	439
Per share [1]	0.00	0.00
Capital expenditures, excluding business combinations	46	522
Weighted average shares outstanding		
Basic	220,770	204,357
Fully diluted	220,770	204,357
As at period end		
Common shares outstanding		
Basic	220,770	204,357
Fully diluted	220,770	204,357
Total assets	42,382	42,252
Non-current liabilities	12,855	15,981
Net debt [2]	$ 33,292	$ 11,850

Notes:

(1) Basic and fully diluted weighted average shares outstanding.

(2) See "*Reader Advisories – Non-IFRS Measures*".

Discontinued 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 months ended March 31, 2019, unless otherwise noted. Throughout this MD&A, references to discontinued operations will include Nil values for Q1 2020, as the Disposition was completed on May 2, 2019.

Asset Acquisition

In 2019, Southern further solidified our strategy of becoming a pure US Southeast Gulf States player by successfully closing a strategic acquisition ("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.

Production Summary

	Three months ended March 31, 2020	2019
Daily production from continuing operations		
Oil (bbl/d)	144	164
NGLs (bbl/d)	22	45
Natural gas (Mcf/d)	11,785	8,119
Production from continuing operations (Mcfe/d)	**12,781**	**9,373**
Production from discontinued operations (Mcfe/d)	**-**	**276**
Total production (Mcfe/d)	**12,781**	**9,649**
Percentage of natural gas	**92%**	**87%**

Production from continuing operations in Q1 2020 averaged 12,781 Mcfe/d, an increase of 36% from the same period in 2019, primarily from additional volumes from the Acquisition partially offset by downtime at the Mechanicsburg field and natural declines. For more information on the Mechanicsburg assets, see "*Operational Update*".

Petroleum and Natural Gas Revenues and Pricing Summary

(000s)	Three months ended March 31, 2020	2019
Oil	$ 785	$ 1,105
NGLs	60	146
Natural gas	2,552	3,001
Revenue from continuing operations	3,397	4,252
Revenue from discontinued operations	-	219
Total revenue	**$ 3,397**	**$ 4,471**

In Q4 2019, Southern adjusted how transportation expenses were being recorded as the majority of the petroleum and natural gas production was, and continues to be, sold at the wellhead. This 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 or Adjusted Cash Flow from Operations (see "*Reader Advisories – Non-IFRS Measures*"). Prior quarters have been restated for comparison purposes.

Realized commodity prices for continuing operations

	Three months ended March 31,	
	2020	**2019**
Oil ($/bbl)	$ 59.91	$ 74.86
NGLs ($/bbl)	29.97	36.05
Natural gas ($/Mcf)	2.38	4.11
Combined ($/Mcfe)	**$ 2.92**	**$ 5.04**
Benchmark prices		
Crude oil – LLS ($/bbl)	$ 65.25	$ 82.58
Crude oil – LLS (US$/bbl)	49.07	62.03
Crude oil – WTI ($/bbl)	61.54	73.02
Crude oil – WTI (US$/bbl)	46.27	54.85
Natural gas – HH ($/MMbtu)	2.50	3.81
Natural gas – HH (US$/MMbtu)	1.87	2.86
Exchange rate ($/US$)	$ 1.34	$ 1.33

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

In Q1 2020 Southern realized an oil price of $59.91/bbl which was a decrease of 20% from the same period in 2019. With the uncertainty around COVID-19, and subsequent reduction in oil demand due to government lockdowns, oil prices were under significant pressure in March 2020. This resulted in LLS differentials to West Texas Intermediate ("WTI") tightening dramatically. The LLS premium to WTI in Q1 2020 averaged US$2.80/bbl compared to US$7.18/bbl in Q1 2019.

Southern realized a price of $2.38/Mcf in Q1 2020, a 42% decrease from Q1 2019. HH pricing has been challenged to begin 2020, primarily due to strong supply growth from the associated natural gas in the Permian combined with weaker global LNG demand. However, this has changed dramatically due to the demand destruction of oil caused by COVID-19 and the large reduction in rig counts resulting from lower oil prices. Southern believes the decrease in new wells being drilled should be beneficial to natural gas prices over the medium to long term. This has been evident as the calendar 2021 strip pricing for HH traded at an average of US$2.76/MMBtu on May 1, 2020.

Royalties

(000s)	Three months ended March 31, 2020	2019
Oil	$ 161	$ 243
NGLs	11	34
Natural gas	519	584
Royalties from continuing operations	691	861
Royalties from discontinued operations	-	29
Total royalties	**$ 691**	**$ 890**
Royalties as a % of revenue for continuing operations	**20.3%**	**20.2%**

Royalties from continuing operations were $691 thousand in Q1 2020, a decrease of 20% from the same period in 2019 due to lower LLS and HH prices. Southern expects royalties as a percentage of revenue to remain around 20% for 2020 as royalty agreements are based on a fixed royalty rate.

Production, Operating and Transportation Expenses

(000s)	Three months ended March 31, 2020	2019
Operating expenses	$ 1,452	$ 1,356
Production taxes	203	256
Transportation expense	42	89
Total from continuing operations	1,697	1,701
Total from discontinued operations	-	67
Total production, operating and transportation	**$ 1,697**	**$ 1,768**

Field expenses from continuing operations for Q1 2020 were $1,697 thousand ($1.46/Mcfe), which were comparable on a dollar basis and a decrease of $0.56/Mcfe compared to the same period in 2019. Southern continuously analyzes opportunities to reduce operating costs by streamlining business processes and optimizing field equipment and well setups. In conjunction with the Acquisition, Southern was able to renegotiate a $0.27/Mcf reduction in transportation fees and capitalize on operational and employee synergies to reduce the Acquisition asset operating costs by 30%.

Q1 2020 production taxes of $203 thousand (6.0% as a percentage of revenue) were related to a 6% severance tax charged by the State of Mississippi on all oil and natural gas production. 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 $42 thousand ($0.04/Mcfe) are related to pipeline fees at Mechanicsburg for the transportation of Southern's natural gas volumes to the sales meter (approximately $0.25/Mcf). Q1 2020 was 53% lower than Q1 2019, due to the Mechanicsburg field being down for part of Q1 2020 (see "*Operational Update*", above).

Operating Netback

	Three months ended March 31,	
($/Mcfe)	**2020**	**2019**
Petroleum and natural gas revenue	$ 2.92	$ 5.04
Royalties	(0.59)	(1.02)
Production and operating	(1.42)	(1.91)
Transportation costs	(0.04)	(0.11)
Realized gain on derivatives	0.50	(0.17)
Operating netback per Mcfe [(1)]	**$ 1.37**	**$ 1.83**
Operating netback % of revenue [(1)]	**47%**	**36%**

Notes:
(1) See "*Reader Advisories – Non-IFRS Measures*".

Southern's operating netback was $1.37/Mcfe in Q1 2020, a decrease of 25% compared to the same period in 2019. This decrease was driven primarily from lower commodity prices, partially offset by lower operating costs and a gain on derivatives.

Southern has shut in some minor oil producing properties of approximately 20 bbl/d due to uneconomic netbacks from the currently depressed oil prices. These volumes have high operating costs associated with them. Southern does not believe there will be any reservoir issues when the wells are brought back on production. Additionally, Southern has chosen to utilize well site storage tanks, where possible, rather than selling into the depressed prices. These initiatives are aimed at maximizing operating netbacks and preserving the future value of the Company's oil reserves.

General & Administrative and Transaction Costs

	Three months ended March 31,	
(000s)	**2020**	**2019**
General and administrative	$ 918	$ 962
Transaction costs	-	165
Total from continuing operations	918	1,127
Total from discontinued operations	-	100
Total	**$ 918**	**$ 1,227**

General and administrative costs were $918 thousand in Q1 2020, a decrease of 5% from the same period in 2019. The decrease is primarily attributable to lower consulting and financial advisor fees in Q1 2020 as Southern has focused on reducing corporate spending in order to protect the financial position of the Company.

Southern is currently reviewing all options to improve the financial strength of the Company. The Company recently implemented cost saving measures by reducing corporate salaries by 20%, field salaries by 10%, and eliminating all non-essential business expenditures.

Transaction costs of $165 thousand in Q1 2019 are related to the December 19, 2018 acquisition of Gulf Pine Energy Partners, LP ("Gulf Pine").

Finance Expense

(000s)	Three months ended March 31, 2020	2019
Bank Interest	$ 244	$ 231
Convertible debenture interest	161	-
Lease interest	11	17
Accretion	111	5
Total from continuing operations	527	253
Total from discontinued operations	-	6
Total finance expense	**$ 527**	**$ 259**

Finance expenses from continuing operations was $527 thousand in Q1 2020, an increase of 108% compared to Q1 2019. The increase was primarily a result of the interest on the Debentures that were issued on June 14, 2019 to fund the Acquisition. For more information on the Debentures, see "*Liquidity and Capital Resources – Debenture Financing*" below. Bank interest was $13 thousand higher in Q1 2020 compared to Q1 2019, due to a higher debt balance, partially offset by lower interest rates. The effective interest rate, excluding commitment and other fees, decreased from 5.5% in Q1 2019 to 5.1% in Q1 2020.

Share-based Compensation

Southern recorded $99 thousand in share-based compensation in Q1 2020 ($Nil in Q1 2019) relating to the stock option issuance on June 20, 2019. For more information, see "*Shareholders' Equity – Stock Option Plan*".

Depletion, Depreciation and Amortization

(000s)	Three months ended March 31, 2020	2019
Depletion	$ 1,229	$ 936
Depreciation	96	96
Total from continuing operations	1,325	1,032
Total from discontinued operations	-	39
Total depletion, depreciation and amortization	**$ 1,325**	**$ 1,071**

Depletion expense from continuing operations was $1.2 million ($1.06/Mcfe) in Q1 2020, an increase of 31% compared to the same period in the prior year (Q1 2019 - $1.11/Mcfe). The higher depletion expense is due to higher sales volumes in Q1 2020.

Depreciation expense is related to the Right-of-Use assets associated with the office space lease.

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the cash generating units ("CGUs") that comprise oil and natural gas properties. At March 31, 2020, Southern viewed the significant decrease in oil prices in March 2020 and Southern's market capitalization below the net assets of the Company as indications of impairment. Southern estimated the recoverable amount of all CGUs at March 31, 2020. Southern determined that the carrying value of the Central Mississippi ("CMS") CGU and the non-operated Smackover ("SO") CGU exceeded its recoverable amount. A non-cash impairment charge of $10.4 million was recorded in the condensed consolidated interim 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. The proved developed producing oil and gas reserves were based on reserves estimated by Southern's independent reserves evaluator as at December 31, 2019 and revised price estimates as at March 31, 2020.

From January 1, 2020 to March 31, 2020, independent reserve engineer price estimates for 2020 have decrease 50% and 19% and decreased 23% and 9% on average over the next 10-year outlook for oil and natural gas respectively.

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 March 31, 2020, a 1% increase in the assumed discount rate would reduce the estimated recoverable amount by $0.8 million while a 5% decrease in commodity price forecasts would reduce the estimated recoverable amount by $2.2 million.

Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended March 31,	
	2020	**2019**
(000s)		
Drilling and completions	$ -	$ 265
Geological and geophysical	-	73
Facilities, equipment and pipelines	46	184
Total Capital	**$ 46**	**$ 522**

Capital expenditures of $46 thousand in Q1 2020 were related to maintenance capital in the field on existing operations. Southern has planned a minimal capital program of $0.5 million for 2020, consisting entirely of maintenance capital to support the low corporate average decline rate of approximately 12%.

Shareholders' Equity

Share Capital

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

The following table reflects the Company's outstanding Common Shares at March 31, 2020 and December 31, 2019:

	Number of Shares	Share Capital
Balance as at December 31, 2019	220,770,279	$ 35,441
Balance as at March 31, 2020	**220,770,279**	**$ 35,441**

On January 23, 2020, 3,000,000 of the Common Shares subscribed for in the Company's December 2018 private placement were redeemed by the Company. At December 31, 2019, Southern had reflected the redemption within shareholder's equity.

Warrants

As at March 31, 2020, 19,306,667 Recap Warrants (as defined in the Financial Statements) had vested as the Market Price (as defined in the Financial Statements) had exceeded $0.15. See Note 8 of the Financial Statements for further information.

Stock Option Plan

The following table reflects the Company's outstanding options to purchase Common Shares at March 31, 2020 and December 31, 2019:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2019	19,400,000	$ 0.10
Balance at March 31, 2020	**19,400,000**	**$ 0.10**

	Outstanding and Exercisable	
Exercise price	**Number of stock options**	**Weighted average remaining life (years)**
$ 0.10	19,400,000	4.2
$ 0.10	**19,400,000**	**4.2**

Liquidity, Capital Resources and Going Concern

Due to the current low commodity price environment and COVID-19 pandemic, Southern is currently reviewing all options to improve the financial strength of the Company. The Company implemented cost saving measures to reduce corporate salaries by 20%, field salaries by 10%, and eliminate all non-essential business expenditures. In addition to the cost saving measures noted, Southern will further manage liquidity by evaluating additional opportunities to reduce both operating and capital field expenditures, unwinding of in the money derivative contracts, sale of non-core oil and gas assets and looking for alternative sources of financing. 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 Company's Credit Facility (as defined in "*Credit Facility*", below).

As at March 31, 2020, excluding the current portion of the bank debt, lease obligations and the current derivative assets and liabilities, Southern had a working capital deficiency (see "*Reader Advisories – Non-IFRS Measures*") of $5.4 million. The working capital deficiency is primarily a result of $6.2 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 $0.8 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.

Southern's net debt (see "*Reader Advisories – Non-IFRS Measures*") was $33.3 million at March 31, 2020. This compares to a net debt balance of $31.3 million at December 31, 2019. The increase is primarily due to the weakening of the Canadian dollar against the US dollar as Southern's bank debt is denominated in US dollars and translated to Canadian dollars based on Southern's foreign exchange accounting policies. Southern was able to maintain an average outstanding debt balance of US$14.0 million during Q1 2020 even with the current challenging economic climate, due to the COVID-19 pandemic and volatile commodity prices. Southern continues to focus on capital preservation and utilizing excess adjusted funds flows from operations (see "*Reader Advisories – Non-IFRS Measures*") to paydown the bank debt.

Southern was able to fund the minimal capital expenditures of $46 thousand in Q1 2020 through excess adjusted funds flows from operations (see "*Reader Advisories – Non-IFRS Measures*"). 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 a minor capital program of $0.5 million planned for 2020, directed towards maintenance capital to sustain current production. This capital program will be funded through excess adjusted funds flows from operations (see "*Reader Advisories – Non-IFRS Measures*").

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 50% of its current production. Southern has also hedged approximately 45% of its budgeted 2021 natural gas production at an average price of US$2.45/Mcf through 2021. See "*Risk Management – Commodity Derivative Contracts*" below for specific details on Southern's hedge positions.

Given the volatility in commodity prices, the ongoing COVID-19 pandemic and the previously announced downtime at the Mechanicsburg field, at the end of Q1 2020 Southern was not compliant with the leverage ratio covenant of its Credit Facility, but has obtained a written waiver from its lenders for non-compliance for the period ended March 31, 2020 (see "*Credit Facility*", below). Southern is currently receiving the cooperation of its lending institution with respect to the Company's covenant breach under the Credit Facility, and Management believes that an agreement will be reached such that Southern will be in good standing under the Credit Facility on a go-forward basis. However, there can be no assurance that Southern's lender will waive any further breaches of the Credit Facility or that Southern will be able to arrange alternative financing (if needed) on terms satisfactory to the Company or at all. This material uncertainty may cast significant doubt with respect to the ability of the Company to continue as a going concern.

At March 31, 2020, Southern recorded a $10.4 million impairment (see "*Impairment*" for more information). The impairment expense drove the Q1 2020 net loss for the period of $10.2 million. The impairment was based on the April 1, 2020 consensus price decks of four evaluators, which were set during extremely volatile commodity prices due to the impact of COVID-19 to the global demand for oil and natural gas. Since April 1, 2020, the forward strip pricing for both oil and natural gas has increased. Due to the agreed oil production cuts between Saudi Arabia and Russia, in conjunction with the dramatic decrease in active drilling rigs throughout the world, Southern believes that commodity prices should increase over the medium term. Had Southern not recorded an impairment at Q1 2020, the Company would have reported income of $200 thousand.

Credit Facility

As at March 31, 2020, Southern Energy Corp. (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. The maturity date of the Credit Facility is February 1, 2021. As this maturity is less than twelve months from March 31, 2020, the outstanding bank debt has been classified under current liabilities.

Interest on borrowings under the Credit Facility is determined by reference to the London Interbank Offered Rate ("LIBOR") plus a margin that ranges from 2.5% to 3.5%. Southern pays a commitment fee of 0.5% on the undrawn borrowing base. During the three months ended March 31, 2020, the effective interest rate, excluding commitment and other fees, was 5.1%.

The financial covenants of the Credit Facility, calculated quarterly, include covenants which relate to a maximum leverage ratio (Debt / Bank EBITDAX), minimum interest coverage ratio (Bank EBITDAX / Cash Interest) and minimum current ratio (Current Assets / Current Liabilities).

As at March 31, 2020, Southern was not compliant with the leverage ratio covenant of the Credit Facility, but has obtained a written waiver from its lenders for non-compliance for the period ended March 31, 2020. See the discussion under "*Liquidity, Capital Resources and Going Concern*", above, for further details. At December 31, 2019, Southern was in compliance with all financial covenants of the Credit Facility.

Financial covenant	Limit	As at Mar 31, 2020	As at Dec 31, 2019
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.5	4.0	3.3
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 3.0	4.2	4.9
Current ratio (Current Assets / Current Liabilities)	Minimum 1.0	1.3	1.4

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.

Southern is currently receiving the cooperation of its lending institution with respect to the Company's covenant breach under the Credit Facility, and Management believes that an agreement will be reached such that Southern will be in good standing under the Credit Facility on a go-forward basis. See the discussion under "*Liquidity, Capital Resources and Going Concern*", above, for further details.

As at March 31, 2020, the borrowing base was US$14.3 million ($20.2 million) and Southern had US$14.0 million ($19.9 million) drawn.

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.

	Number of Debentures	Liability Component	Equity Component
Balance at December 31, 2019	8,069	$ 6,648	$ 665
Accretion of discount	-	117	-
Balance at March 31, 2020	**8,069**	**$ 6,765**	**$ 665**

Contractual Obligations and Commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term as at March 31, 2020:

	Total	2020	2021	2022	Thereafter
Bank debt(1)	$ 19,862	$ -	$ 19,862	$ -	$ -
Convertible debentures(2)	8,069	-	-	8,069	-
Lease obligations(3)	697	314	383	-	-
Total	**$ 28,628**	**$ 314**	**$ 20,245**	**$ 8,069**	**$ -**

Notes:
(1) Credit Facility has a maturity date of February 1, 2021.
(2) Convertible debentures have a maturity date of June 30, 2022.
(3) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16.

Off-balance Sheet Arrangements

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

Risk Management

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

- volatility of commodity prices;
- global pandemics such as COVID-19;
- 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 for the year ended December 31, 2019 (the "AIF"), which is available on SEDAR at www.sedar.com.

Commodity Derivative Contracts

Southern utilizes oil and natural gas derivative contracts to mitigate its exposure to commodity price risk associated with future oil and natural gas production. Typical derivative contracts could consist of options, in the form of price floors, collars or three-way collars and fixed-price swaps. The derivative financial instruments are recorded on the Consolidated Statement of Financial Position as either an asset or a liability measured at fair value. Southern does not apply hedge accounting to its commodity derivative contracts; accordingly, changes in the fair value of these instruments are recognized in the Consolidated Statement of Loss and Comprehensive Loss in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2020:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
April 1, 2020 – December 31, 2020	1,000 MMBtu/d	NYMEX – HH $2.600/MMBtu
April 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.748/MMBtu
April 1, 2020 – December 31, 2020	2,000 MMBtu/d	NYMEX – HH $2.575/MMBtu
April 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH $2.253/MMBtu
January 1, 2021 – December 31, 2021	1,500 MMBtu/d	NYMEX – HH $2.575/MMBtu
January 1, 2021 – December 31, 2021	3,600 MMBtu/d	NYMEX – HH $2.402/MMBtu

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

Subsequent to March 31, 2020, Southern entered into the following commodity derivative contracts:

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.

Eight Quarter Analysis

(000s) **Three months ended**	**Mar 31 2020**	**Dec 31 2019**	**Sep 30 2019**	**Jun 30 2019**	**Mar 31 2019**	**Dec 31 2018**	**Sep 30 2018**	**Jun 30 2018**
Revenue	$ 3,397	$ 5,525	$ 5,145	$ 4,207	$ 4,252	$ 806	$ -	$ -
Net loss from continuing operations	(10,216)	(7,787)	(1,081)	(354)	(1,674)	(2,160)	-	-
Per share, basic and diluted	(0.05)	(0.03)	(0.00)	(0.00)	(0.01)	(0.05)	-	-
Total net loss	(10,216)	(7,787)	(1,081)	(308)	(1,697)	(2,368)	(134)	(83)
Per share, basic and diluted	$ (0.05)	$ (0.03)	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.05)	$ (0.01)	$ (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. 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 in December 2018; and
- On December 31, 2019, Southern recorded an impairment expense of $6.7 million for the CMS CGU.
- On March 31, 2020, Southern recorded an impairment expense of $10.4 million for the CMS and SO CGUs. For more information, see the "*Impairment*" section above.

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 covenant breaches and planned capital expenditures. Forward-looking statements are often, but not always identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", or the negative of such terms or other comparable terminology. Southern has made a number of assumptions in the preparation of these forward-looking statements including, without limitation, future commodity prices, future foreign exchange rates, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, 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 COVID-19. Readers should not place undue reliance on forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, the material uncertainties and risks described under the headings "Risk Management" and "Non-IFRS Measures", risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, uncertainty of reserves estimates, environmental impact risks, market demand, competition, commodity price, interest rate and exchange rate volatility, credit risk, the need for additional capital and the effect of capital market conditions and other factors, 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 AIF for the year ended December 31, 2019, 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.

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.

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 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 March 31,	
	2020	**2019**
Cash flow from operating activities	$ 923	$ (345)
Change in non-cash working capital	(246)	784
Cash decommissioning expenses	(1)	-
Adjusted Funds Flow from Operations[(1)]	**$ 676**	**$ 439**

Notes:
(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,	
	2020	**2019**
Revenue	$ 3,397	$ 4,252
Royalties	(691)	(861)
Production and operating	(1,655)	(1,612)
Transportation costs	(42)	(89)
Realized gain (loss) on derivatives	585	(146)
Operating netback[(1)]	**$ 1,594**	**$ 1,544**

Notes:
(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 March 31, 2020	As at December 31, 2019	As at March 31, 2019
Current assets	$ 4,876	$ 4,013	$ 6,752
Current liabilities	(28,591)	(8,726)	(9,100)
Remove:			
Current derivative assets	(2,064)	(819)	(97)
Current portion of lease liabilities	377	382	399
Current portion of bank debt	19,862	-	-
Current derivative liabilities	179	105	218
Working capital deficiency	**$ (5,361)**	**$ (5,045)**	**$ (1,828)**

	As at March 31, 2020	As at December 31, 2019	As at March 31, 2019
Bank debt	$ (19,862)	$ (18,183)	$ (10,022)
Convertible debentures – face value	(8,069)	(8,069)	-
Working capital deficiency	(5,361)	(5,045)	(1,828)
Net debt	**$ (33,292)**	**$ (31,297)**	**$ (11,850)**

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 AIF is also available on SEDAR at www.sedar.com or www.southernenergycorp.com.