

Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the years ended December 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 audited Consolidated Financial Statements for the years ended December 31, 2020 and 2019 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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.

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

This MD&A is dated April 30, 2021.

About Southern

Southern is a natural gas and light oil producer with assets in Mississippi and Alabama characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern has a primary focus on acquiring and developing conventional natural gas and light oil resources in the southeast Gulf States of Mississippi, Louisiana, and East Texas (the "Southeast Gulf States"). Southern's mission is to build a socially responsible and environmentally conscious light oil and natural gas company in the Southeast Gulf States. In these areas, Southern has access to major pipelines, significant Company-owned infrastructure, year-round access to drill, and the ability to shift focus between natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk. Southern's goal is to continually grow shareholder value through 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 accretive acquisitions, optimizations of existing oil and natural gas fields and the utilization of re-development strategies utilizing horizontal drilling and multi-staged fracture completion techniques. Southern's head office is located in Calgary, Alberta, Canada.

Improved Liquidity and Strategic Initiative

On April 30, 2021, Southern Energy Corp. (Delaware) closed the previously announced transaction to retire the existing Credit Facility (as defined below) with a cash settlement payment of US\$8.0 million, plus accrued interest. The US\$8.0 million settlement was financed through a new senior secured term

loan of up to \$8.5 million (the "New Facility"). The New Facility is secured against the oil and gas properties of Southern. Details of the New Facility include:

- Tranche A: US\$5.5 million at closing
- Tranche B: US\$3.0 million available up to December 31, 2021, in multiple advances of no less than US\$500 thousand each
- Maturity of 36 months from closing date
- Interest of 12% per annum, paid monthly in arrears on the last day of the month
- Issued 41,250,000 Warrants equivalent to 30% of Tranche A with an exercise price of \$0.05 per share and an expiry date on the earlier of: (a) a liquidity event resulting in the sale of Southern Energy Corp. (Delaware); or (b) the maturity date of the New Facility
- Beginning on May 31, 2021, repayments of the principal amount outstanding under the New Facility will be computed as the sum of: (a) outstanding amount multiplied by $1/A$, where A equals the number of whole or part months remaining to the maturity date plus 12 months; and (b) on the last day of the second month following each fiscal quarter, the amount by which 50% of positive free cash flow ("FCF") (as described below) for the respective fiscal quarter. FCF is calculated as Earnings Before Interest, Taxes, Depreciation, Amortization, and Impairment ("EBITDAX"), less the aggregate of the New Facility principal and interest payments
- Beginning June 30, 2021 and as at each quarter-end thereafter, financial covenant calculation related to an asset coverage ratio ("ACR") of at least 2:1. ACR is calculated as the ratio of the net present value of proved developed producing oil and gas properties as determined by an independent qualified engineer, using a price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the New Facility
- Beginning September 30, 2021, and for each quarter-end thereafter, Southern Energy Corp. (Delaware) shall maintain a total debt service coverage ratio ("DSCR") of greater than 1.25:1. DSCR is the ratio of EBITDAX to scheduled principal payments and interest expense

On April 22, 2021, Southern initiated a non-brokered private placement of up to 150.0 million units of the Company (the "Units") at a price of \$0.04 per Unit, for aggregate gross proceeds of up to \$6.0 million. Each Unit is comprised of one Common Share and one Common Share purchase warrant (a "Unit Warrant").

Upon closing of the New Facility on April 30, 2021, Southern's outstanding first lien debt balance was reduced from US\$12.7 million (\$15.5 million) to US\$5.5 million (\$6.8 million).

Annual Overview

The outbreak of the novel coronavirus ("COVID-19") was declared a pandemic by the World Health Organization on March 11, 2020. Global financial markets experienced significant volatility and weakness as a consequence of the pandemic and governments worldwide enacted emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, temporary business closures, self-imposed quarantine periods, social distancing and restrictions on public gatherings, have caused material disruption to businesses globally resulting in an economic slowdown. Crude oil prices declined dramatically in 2020 due to the actual and anticipated impacts of COVID-19 on global commerce and energy demand, as well as disagreements between major oil producing nations of Saudi Arabia and Russia with respect to production quotas. Second and third waves of the outbreak are

underway in several countries including Canada and new restrictions are being imposed as COVID-19 case counts rise. The duration and full extent of the impact of COVID-19 is uncertain as information surrounding the pandemic continues to evolve. New variants of the virus have emerged overseas and recently into Canada adding to this uncertainty.

To manage risk through volatile commodity prices, Southern has fixed price hedges on production of 5,100 Mcf/d of natural gas at an average price of US\$2.45/Mcf through December 31, 2021. These hedge volumes equate to approximately 40% of its current production. See the "*Risk Management – Commodity Derivative Contracts*" section below for specific details on Southern's hedge positions.

Southern continues to focus on maintaining the health, safety and security of employees, contractors, partners and residents within all of its operating areas and communities. The Company quickly implemented response plans and procedures that would protect the health and well-being of all of its stakeholders, such as allowing Southern's Calgary office employees the option to work from home and implementing 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. Southern continues to monitor all COVID-19 updates from the Mississippi Secretary of State.

In response to the COVID-19 pandemic, Southern immediately took measures to protect the balance sheet including implementing cost saving measures by reducing corporate salaries by 20% and eliminating all non-essential business expenditures. Additional measures to improve liquidity included the settlement of accrued interest on the convertible debentures due on December 31, 2020, in-kind through the issuance of additional convertible debentures. See the "*Liquidity, Capital Resources and Going Concern - Debenture Financing*" section below for more information. Southern will continue to evaluate opportunities to reduce operating and capital costs, selling non-core oil and gas assets and pursuing potential alternative financing sources.

Southern applied for and received US\$112 thousand from the Paycheck Protection Program ("PPP"), which was part of the *Coronavirus Aid, Relief, and Economic Security Act* ("CARES Act") that was signed into law on March 26, 2020. The CARES Act was a \$2.2 trillion economic stimulus bill in response to the economic fallout of the COVID-19 pandemic in the United States. The PPP was specifically aimed towards small businesses to provide resources to maintain staffing and payroll levels through the initial period of the pandemic. The PPP was designed as a low interest rate loan for approximately 2.5 months of payroll expenses, with the ability to be forgiven, interest and tax free, if certain criteria are met. On November 6, 2020, Southern was advised from its lender that the Small Business Administration (the "SBA") had approved forgiveness on the full amount of the loan.

In Canada, the Federal government took steps to provide various programs given the serious impacts of the spread of COVID-19, such as the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS"). Southern received \$170 thousand from the CEWS and CERS programs in 2020.

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 that it was working to rectify the situation. The temporary shut-in of the Mechanicsburg field impacted approximately 3,300 Mcfe/d, comprised of 50 bbl/d of crude oil, 30 bbl/d of NGLs and 2,820 mcf/d of natural gas. The situation was resolved and Southern resumed production from its Mechanicsburg assets on June 12, 2020.

The United States ended October 2020 with more than 3.9 trillion cubic feet (Tcf) in working natural gas storage, 5% more than the 2015–19 average and the fourth-highest end-of-October level on record. However, due to the extreme cold temperatures in February 2021 that stretched across North America, gas withdrawals were much larger than the five-year average for February. The U.S. Energy Infrastructure Administration forecasts that natural gas inventories will end March 2021 at 1.6 Tcf, which is 13% lower than the five-year average.

Another factor that the Company views as positive for natural gas demand, specifically in the Southern United States where most of the US LNG facilities are located, is the continued strength of LNG imports by Asian countries. Along with other commodities, LNG demand decreased in the first half of 2020 due to the COVID-19 pandemic, but by the end of the year, Chinese LNG imports reached 67 million tonnes, which was 7 million tonnes more than 2019. India has also seen strong LNG demand as imports have increased by 11% in 2020.

Southern continues to see an increase in structural demand for natural gas in the US. As the natural gas exploration and production sector seeks to return cash to shareholders through dividends and share repurchases, rather than increasing production through drilling, there is an expectation of stronger gas prices for the next decade.

FOURTH QUARTER AND YEAR END 2020 HIGHLIGHTS

- Reduced bank indebtedness by US\$0.4 million (\$0.5 million) in Q4 2020 and US\$0.8 million (\$1.1 million) for the full year in 2020, while net debt (see "*Reader Advisories – Non-IFRS Measures*") at December 31, 2020, decreased by \$1.9 million compared to December 31, 2019.
- Southern generated \$1.0 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Non-IFRS Measures*") in Q4 2020 and \$3.6 million for the full year in 2020.
- Southern achieved average production of 13,626 Mcfe/d (91% natural gas) in Q4 2020, a decrease of 11% compared to Q4 2019 and annual production of 12,857 Mcfe/d (92% natural gas) in 2020, a 2% increase compared to 2019.
- Reduced production and operating costs to \$1.13/Mcfe in Q4 2020, a 10% decrease compared to Q4 2019, and annual expenses to \$1.25/Mcfe, a 15% decrease compared to the full year of 2019.
- At December 31, 2020, Southern had positive adjusted working capital (see "*Reader Advisories – Non-IFRS Measures*") of \$1.4 million excluding royalty payables and bank debt.
- Recorded general and administrative costs of \$3.7 million for the full year in 2020, which was \$0.8 million (18%) lower compared to the same period in 2019.
- Southern's realized crude oil and natural gas prices for Q4 2020 averaged \$51.27/bbl and \$3.19/Mcf (Q4 2019 - \$74.73/bbl and \$3.08/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

<i>(000s, except \$ per share)</i>	Three months ended December 31,		Year ended December 31,		
	2020	2019	2020	2019	2018
Petroleum and natural gas sales	\$ 4,510	\$ 5,525	\$ 13,922	\$ 19,129	\$ 806
Adjusted funds flow from operations ⁽²⁾	989	1,437	3,553	3,437	(1,403)
Per share ⁽¹⁾	0.00	0.01	0.02	0.02	(0.05)
Net income (loss) from continuing operations	3,735	(7,787)	(11,310)	(10,896)	(2,160)
Net income (loss) per share from continuing operations					
Per share ⁽¹⁾	0.02	(0.03)	(0.05)	(0.05)	(0.07)
Total net income (loss)	3,735	(7,787)	(11,310)	(10,873)	(2,695)
Total net income (loss) per share					
Per share ⁽¹⁾	0.02	(0.03)	(0.05)	(0.05)	(0.09)
Capital expenditures	117	189	236	22,943	1
Weighted average shares outstanding					
Basic	220,770	223,770	220,770	215,201	30,168
Fully diluted	220,770	223,770	220,770	215,201	30,168
As at period end					
Common shares outstanding					
Basic	220,770	220,770	220,770	220,770	204,357
Fully diluted	220,770	220,770	220,770	220,770	204,357
Total assets	38,647	49,176	38,647	49,176	54,929
Non-current liabilities	12,907	30,502	12,907	30,502	6,791
Net debt ⁽²⁾	\$ 29,386	\$ 31,297	\$ 29,386	\$ 31,297	\$ 12,683

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 and year ended December 31, 2019, unless otherwise noted. Throughout this MD&A, references to discontinued operations will include Nil values for Q4 2020 and year ended December 31, 2020, as the Disposition was completed on May 2, 2019.

Asset Acquisition

In 2019, Southern further solidified its strategy of becoming a pure US Southeast Gulf States player by successfully closing a strategic acquisition (the "Acquisition") in Southern's 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 December 31,		Year ended December 31,	
	2020	2019	2020	2019
Daily production from continuing operations				
Oil (bbl/d)	166	217	145	190
NGLs (bbl/d)	28	38	21	39
Natural gas (Mcf/d)	12,462	13,783	11,861	11,282
Production from continuing operations (Mcf/d)	13,626	15,313	12,857	12,656
Production from discontinued operations (Mcf/d)	-	-	-	95
Total production (Mcf/d)	13,626	15,313	12,857	12,751
Percentage of natural gas	91%	90%	92%	89%

Production from continuing operations averaged 13,626 Mcfe/d in Q4 2020 and 12,857 Mcfe/d for the year ended December 31, 2020, a decrease of 11% and an increase of 2% for the same periods in 2019, respectively. The decrease in Q4 2020 compared to the same period in 2019 was primarily due to natural declines as minimal maintenance capital was incurred in 2020. The increase for the year ended December 31, 2020 compared to the same period in 2019 was mostly due to the additional volumes from the Acquisition, partially offset by the temporary shut-in of production that began in March 2020 and resumed in June 2020 from Southern's Mechanicsburg assets due to a third-party pipeline force majeure event (see March 26, 2020 press release for additional information) and natural declines.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<i>(000s)</i>				
Oil	\$ 783	\$ 1,492	\$ 2,706	\$ 5,356
NGLs	69	124	181	498
Natural gas	3,658	3,909	11,035	13,275
Revenue from continuing operations	4,510	5,525	13,922	19,129
Revenue from discontinued operations	-	-	-	334
Total revenue	\$ 4,510	\$ 5,525	\$ 13,922	\$ 19,463

Realized commodity prices for continuing operations

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Oil (\$/bbl)	\$ 51.27	\$ 74.73	\$ 50.99	\$ 77.23
NGLs (\$/bbl)	26.79	35.47	23.55	34.98
Natural gas (\$/Mcf)	3.19	3.08	2.54	3.22
Combined (\$/Mcf)	\$ 3.60	\$ 3.92	\$ 2.96	\$ 4.14
Benchmark prices				
Crude oil – LLS (\$/bbl)	\$ 57.48	\$ 80.04	\$ 54.77	\$83.05
Crude oil – LLS (US\$/bbl)	44.18	60.68	41.17	63.21
Crude oil – WTI (\$/bbl)	55.62	75.18	52.45	75.82
Crude oil – WTI (US\$/bbl)	42.75	57.00	39.44	57.03
Natural gas – HH (\$/MMBtu)	3.61	3.19	2.85	3.42
Natural gas – HH (US\$/MMBtu)	2.77	2.42	2.13	2.57
Exchange rate (\$/US\$)	\$ 1.30	\$ 1.32	\$ 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 Q4 2020 Southern realized an oil price of \$51.27/bbl which was a decrease of 31% from the same period in 2019. For the year ended December 31, 2020, Southern's realized oil price decreased 34% compared to the same period in 2019. Oil prices began to strengthen in Q4 2020 as vaccines were approved and started to be administered by various countries around the world, in addition to the continued low oil rig counts helping to balance the market glut of oil due to the impacts of COVID-19. Since the end of Q1 2020, the LLS differentials to West Texas Intermediate ("WTI") have remained extremely tight. The LLS premium to WTI averaged US\$1.43/bbl in Q4 2020 and US\$1.73/bbl for the year ended December 31, 2020, compared to US\$3.68/bbl and US\$6.18/bbl, respectively, for the same periods in 2019.

Southern realized a price of \$3.19/Mcf in Q4 2020 and \$2.54/Mcf during the year ended December 31, 2020, an increase of 4% and a decrease of 21%, respectively, from the same periods in 2019. HH pricing had been challenged during the first half of 2020, primarily due to strong supply growth from the associated natural gas in the Permian Basin combined with weaker global LNG demand as a result of Covid-19 related demand destruction. However, as Asian countries were able to better control the spread of Covid-19, LNG demand started to bounce back in Asia around the middle of 2020, and the United States quickly reached new record LNG export volumes in Q3 and Q4 2020. Record LNG exports coupled with dramatic reductions in rig counts in the United States have helped to reduce the domestic natural gas inventory levels at the end of 2020 and into 2021. Southern believes the decrease in new oil and gas wells being drilled should be beneficial to natural gas prices over the medium to long term. This has been evident as the remainder calendar 2021 strip pricing for HH is currently trading at an average of US\$3.01/MMBtu.

Royalties

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<i>(000s)</i>				
Oil	\$ 159	\$ 301	\$ 552	\$ 1,147
NGLs	12	23	32	109
Natural gas	741	773	2,243	2,603
Royalties from continuing operations	912	1,097	2,827	3,859
Royalties from discontinued operations	-	-	-	54
Total royalties	\$ 912	\$ 1,097	\$ 2,827	\$ 3,913
Royalties as a % of revenue	20.2%	19.9%	20.3%	20.2%

Royalties from continuing operations were \$912 thousand in Q4 2020 and \$2.8 million for the year ended December 31, 2020, a decrease of 17% and 27%, respectively, from the same periods in 2019. The decrease is primarily due to lower LLS and HH prices and lower sales volumes. Royalties as a percentage of revenue continue to be steady at approximately 20%. Due to the low decline nature of Southern's assets, it is expected that the royalty percentage should remain relatively consistent in 2021.

Production, Operating and Transportation Expenses

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<i>(000s)</i>				
Operating expenses	\$ 1,146	\$ 1,430	\$ 5,036	\$ 5,650
Production taxes	272	333	837	1,149
Transportation expense	75	88	220	368
Total from continuing operations	1,493	1,851	6,093	7,167
Total from discontinued operations	-	-	-	61
Total production, operating and transportation	\$ 1,493	\$ 1,851	\$ 6,093	\$ 7,228

Operating expenses from continuing operations were \$1.1 million (\$0.91/Mcfe) in Q4 2020, which were 20% lower on a dollar basis or a decrease of \$0.11/Mcfe compared to the same period in 2019. For the year ended December 31, 2020, operating expenses from continuing operations were \$5.0 million (\$1.07/Mcfe), which were 11% lower or a decrease of \$0.15/Mcfe compared to the same period in 2019. Southern is continually looking for opportunities to reduce operating costs by optimizing field equipment and well setups to maximize operating netbacks.

In April 2020, Southern applied for and received US\$112 thousand from the Paycheck Protection Program ("PPP"), which was part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") that was signed into law on March 26, 2020. The CARES Act was a \$2.2 trillion economic stimulus bill in response to the economic fallout of the COVID-19 pandemic in the United States. The PPP was specifically aimed towards small businesses to provide resources to maintain staffing and payroll levels through the initial

period of the pandemic. The PPP was designed as a low interest rate loan for approximately 2.5 months of payroll expenses, with the ability to be forgiven, interest and tax free, if certain criteria are met. On November 6, 2020, Southern was advised from its lender that the Small Business Administration (the "SBA") had approved forgiveness on the full amount of the loan.

Q4 2020 production taxes of \$272 thousand (6.0% as a percentage of revenue) and \$837 thousand for the year ended December 31, 2020, 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 \$75 thousand (\$0.06/Mcfe) and \$220 thousand (\$0.05/Mcfe) for Q4 2020 and the year ended December 31, 2020, respectively, are related to pipeline fees at Mechanicsburg for the transportation of Southern's natural gas volumes to the sales meter (approximately \$0.25/Mcf). For the year ended December 31, 2020, transportation expenses were 40% lower than the same period in 2019, due to the temporary shut-in of production from March 2020 to June 2020 from Southern's Mechanicsburg assets due to a third-party pipeline force majeure event.

Operating Netback

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<i>(\$/Mcfe)</i>				
Petroleum and natural gas revenue	\$ 3.60	\$ 3.92	\$ 2.96	\$ 4.14
Royalties	(0.73)	(0.78)	(0.60)	(0.84)
Production and operating	(1.13)	(1.25)	(1.25)	(1.47)
Transportation costs	(0.06)	(0.06)	(0.05)	(0.08)
Realized gain on derivatives	0.15	0.08	0.51	0.07
Operating netback per Mcfe ⁽¹⁾	\$ 1.83	\$ 1.91	\$ 1.57	\$ 1.82
Operating netback % of revenue ⁽¹⁾	51%	49%	53%	44%

Notes:

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

Southern's operating netback of \$1.83/Mcfe in Q4 2020 was 4% lower than the same period in 2019. Lower HH and LLS prices in Q4 2020 were partially offset with lower royalty expenses, higher realized derivative gains and Southern's focus on lowering operating costs on an absolute and per Mcfe basis.

Southern's operating netback was \$1.57/Mcfe for the year ended December 31, 2020, which was \$0.25/Mcfe lower than the same period of 2019. The decrease was primarily due to lower realized petroleum and natural gas prices, partially offset by lower operating costs and a gain on derivatives.

Southern recorded a realized gain on derivatives of \$0.2 million and \$2.4 million in Q4 2020 and the year ended December 31, 2020, respectively, demonstrating Southern's ability, through its strong hedge position, to maintain positive cashflow through the depressed commodity price environment in 2020.

General & Administrative and Transaction Costs

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<i>(000s)</i>				
General and administrative	\$ 1,115	\$ 1,245	\$ 3,661	\$ 4,465
Transaction costs	184	8	184	588
Total from continuing operations	1,299	1,253	3,845	5,053
Total from discontinued operations	-	-	-	150
Total	\$ 1,299	\$ 1,253	\$ 3,845	\$ 5,203

General and administrative costs were \$1.1 million in Q4 2020 and \$3.7 million for the year ended December 31, 2020, a decrease of 10% and 18%, respectively, from the same periods in 2019. The decrease is primarily attributable to lower payroll, consulting and financial advisor fees as well as subsidy funds received from the Government of Canada in 2020 through the CEWS program. Southern is focused on reducing corporate spending in order to protect the financial position of the Company.

As previously disclosed in the March 26, 2020 press release, Southern has implemented cost saving measures by reducing corporate salaries by 20% and eliminating all non-essential business expenditures.

Transaction costs of \$184 thousand in Q4 2020 were related to potential transactions that were contemplated prior to the execution of the New Facility announced on April 30, 2021. For more information see, "*Improved Liquidity and Strategic Initiative*". The majority of the transaction costs in 2019 were related to the December 19, 2018 acquisition of Gulf Pine Energy Partners, LP ("Gulf Pine").

Financing Expense

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
(000s)				
Bank Interest	\$ 244	\$ 270	\$ 885	\$ 981
Convertible debenture interest	162	162	647	355
Lease interest	(12)	13	18	59
Accretion	232	118	732	270
Total from continuing operations	626	563	2,282	1,665
Total from discontinued operations	-	-	-	6
Total finance expense	\$ 626	\$ 563	\$ 2,282	\$ 1,671

Finance expenses from continuing operations increased 11% and 37% in Q4 and the year ended December 31, 2020, respectively, compared to the same periods in 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, Capital Resources and Going Concern – Debenture Financing*" below. Accretion expenses in Q4 2020 include \$83 thousand related to the amortization of transaction costs incurred with the execution of the Amended Credit Agreement (as defined below). See "*Liquidity, Capital Resources and Going Concern*", for further details. Bank interest was \$26 thousand and \$96 thousand lower in Q4 2020, and the year ended December 31, 2020, respectively, compared to the same periods in 2019, primarily due to the debt repayments made in the second half of 2020 and lower effective interest rates in 2020. The effective interest rate, excluding commitment and other fees, was 4.7% for the year ended December 31, 2020 compared to 5.6% for the same period in 2019.

Share-based Compensation

Southern recorded share-based compensation of \$45 thousand and \$282 thousand in Q4 2020 and the year ended December 31, 2020, respectively, compared to \$100 thousand and \$212 thousand in the same periods in 2019, relating to the stock option issuance on June 20, 2019. For more information, see "*Shareholders' Equity – Stock Option Plan*".

Depletion, Depreciation and Amortization

	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
(000s)				
Depletion	\$ 1,217	\$ 1,656	\$ 4,636	\$ 5,357
Depreciation	94	96	383	384
Total from continuing operations	1,311	1,752	5,019	5,741
Total from discontinued operations	-	-	-	39
Total depletion, depreciation and amortization	\$ 1,311	\$ 1,752	\$ 5,019	\$ 5,780

Depletion expense from continuing operations in Q4 2020 was \$1.2 million (\$0.97/Mcfe), a decrease of 27% on a dollar basis and 18% on a per Mcfe basis, compared to Q4 2019 (\$1.18/Mcfe). Depletion expense

from continuing operations for the year ended December 31, 2020 was \$4.6 million (\$0.99/Mcfe), a decrease of 13% on a dollar basis and a decrease of 15% on a per Mcfe basis, compared to the same period in 2019 (\$1.16/Mcfe). The main factors impacting depletion were the non-cash impairment charges recorded in both the first quarter of 2020 and the fourth quarter of 2019.

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.

December 2019

At 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 CGU ("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 7% discount rate (equivalent to 10% pre-tax), based on reserves estimated by Southern's independent reserves evaluator at December 31, 2019.

March 2020

At March 31, 2020, Southern determined that the significant decrease in oil prices in March 2020 and Southern's market capitalization falling below the net assets of the Company were indications of impairment. Southern estimated the recoverable amount of all CGUs at March 31, 2020 and determined that the carrying value of the CMS CGU and the Smackover, Alabama CGU ("SO CGU") exceeded their recoverable amounts. 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 of the CMS CGU and SO CGU, and a 7% discount rate (equivalent to 10% pre-tax). The proved developed producing oil and gas reserves were based on reserves estimated by Southern's independent reserves evaluator at December 31, 2019, and revised price estimates at March 31, 2020.

December 2020

As a result of an increase in the forward benchmark commodity prices at December 31, 2020 compared to March 31, 2020, Southern estimated the recoverable amount of all CGUs at December 31, 2020. Southern determined that the recoverable amounts of the CMS CGU and SO CGU exceeded their carrying values. A non-cash impairment recovery of \$4.6 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 of the CMS CGU and SO CGU, and a 7% discount rate (equivalent to 10% pre-tax), based on reserves estimated by Southern's independent reserves evaluator at December 31, 2020.

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. The table below shows the estimated impact of a 1% increase in the assumed discount rate or a 5% decrease in commodity price forecasts to the estimated recoverable amounts as at December 31, 2020:

CGU	1% increase in discount rate	5% decrease in commodity forecast
Central Mississippi	\$ (1,091)	\$ (2,432)
Smackover	(9)	(38)

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,	
	2020	2019	2020	2019
<i>(000s)</i>				
Acquisitions	\$ -	\$ 25	\$ -	\$ 21,349
Drilling and completions	-	-	-	449
Geological and geophysical	-	-	-	153
Facilities, equipment and pipelines	103	164	222	988
Other	14	-	14	4
Total Capital Expenditures	117	189	236	22,943
Net dispositions	-	20	(338)	(484)
Total Capital	\$ 117	\$ 209	\$ (102)	\$ 22,459

Capital expenditures of \$236 thousand for the year ended December 31, 2020 were related to maintenance capital in the field on existing operations. Southern's minimal capital program in 2020 was focused on supporting the low corporate average decline rate of approximately 12%.

On May 28, 2020, Southern disposed of a non-core Canadian royalty asset, with a carrying value of \$Nil, for net proceeds of \$338 thousand.

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 December 31, 2020 and 2019:

	<u>Number of Shares</u>	<u>Share Capital</u>
Balance at December 31, 2019	220,770,279	\$ 35,441
Balance at December 31, 2020	220,770,279	\$ 35,441

Warrants

At December 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 9 of the Financial Statements for further information.

Stock Option Plan

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

	<u>Number of stock options</u>	<u>Weighted average exercise price</u>
Balance at December 31, 2019	19,400,000	\$ 0.10
Balance at December 31, 2020	19,400,000	\$ 0.10

	<u>Outstanding and Exercisable</u>	
<u>Exercise price</u>	<u>Number of stock options</u>	<u>Weighted average remaining life (years)</u>
\$ 0.10	19,400,000	3.5
\$ 0.10	19,400,000	3.5

Liquidity, Capital Resources and Going Concern

As discussed above in the "Improved Liquidity and Strategic Initiative" section, Southern has taken critical steps to improve the financial strength of the company. Southern will continue to focus on improving liquidity and balance sheet resilience through corporate cost saving measures, field optimization projects, sale of non-core oil and gas assets and looking for alternative sources of financing.

Southern entered into the Amended and Restated Credit Agreement in respect of the Credit Facility on July 20, 2020 (the "Amended Credit Agreement"). See "Credit Facility", below, for more information.

On February 1, 2021, Southern entered into the third amendment to the Amended Credit Agreement (the "Third Amendment"). The Third Amendment extended the maturity of both the Conforming Facility (as defined below) and the Non-Conforming Facility (as defined below) to February 12, 2021.

Effective February 12, 2021, Southern entered into the fourth amendment to the Amended Credit Agreement (the "Fourth Amendment"). The Fourth Amendment included: (a) a waiver for the noncompliance of the leverage ratio financial covenant as at December 31, 2020; and (b) an extension of the maturity of the Conforming and Non-Conforming Facilities to April 30, 2021. See below "Credit Facility" for more information.

Southern made the following debt repayments to the Credit Facility subsequent to December 31, 2020:

Date of repayment	(US\$000s)	(\$000s)
January 13, 2021	\$ 150	\$ 191
February 2, 2021	200	254
March 9, 2021	100	126
April 7, 2021	100	126
Total amount repaid since December 31, 2020	\$ 550	\$ 697
Balance as at April 29, 2021	\$ 12,650	\$ 15,549

On December 31, 2020, excluding the current portion of the bank debt, lease obligations and the current derivative assets and liabilities, Southern had an adjusted working capital deficiency (see "Reader Advisories – Non-IFRS Measures") of \$4.2 million. The adjusted working capital deficiency is primarily a result of \$5.6 million (US\$4.4 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 adjusted working capital of \$1.4 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 5,500 royalty holders with over 96% of the balances being greater than 120 days, 43% 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 \$29.4 million at December 31, 2020. This compares to a net debt balance of \$31.3 million at December 31, 2019. Southern was able to reduce the debt balance by US\$0.8 million during 2020. 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.

On December 31, 2020, Southern settled \$322,760 of accrued interest due on the 8% convertible unsecured subordinated debentures (see the "Convertible Financing" section below for more information) in-kind through the issuance of additional debentures.

Southern was able to fund the minimal capital expenditures of \$236 thousand for the full year of 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 \$0.3 million planned for 2021, 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 5,100 Mcf/d of natural gas at an average price of US\$2.45/Mcf through December 31, 2021. These hedge volumes equate to approximately 40% of its current production. See the "Risk Management – Commodity Derivative Contracts" section below for specific details on Southern's hedge positions.

Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at December 31, 2020. The Credit Facility is secured against the oil and gas properties of Southern. At December 31, 2020, Southern had US\$13.2 million (\$16.8 million) drawn on the Credit Facility, which has been paid down by US\$550 thousand (\$697 thousand) subsequent to year end, as described above. On July 20, 2020, as part of a bank redetermination, Southern entered into the Amended Credit Agreement. Details of the Amended Credit Agreement include:

- Borrowing base limit set to US\$13.9 million; comprised of a US\$8.5 million conforming borrowing base facility (the "Conforming Facility") and a US\$4.8 million non-conforming borrowing base facility (the "Non-Conforming Facility" and together with the Conforming Facility, the "Credit Facility").
- Non-Conforming Facility has a coupon 50 basis points above existing Credit Facility rates.
- Beginning July 26, 2020, and continuing every month, the Non-Conforming Facility is reduced by the greater of US\$100 thousand or Bank EBITDAX less maintenance capital expenditures.
- Upon execution of the Amended Credit Facility, Southern made a principal repayment of US\$100 thousand.
- The Non-Conforming Facility has a maturity date of September 1, 2020, being the next redetermination date, and the Conforming Facility has a maturity date of February 1, 2021.
- Amendments to the Credit Facility financial covenants, which are summarized below:

Financial covenant	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021
Leverage ratio (Debt / Bank EBITDAX)	4.60	4.00	3.75	3.50
Interest coverage ratio (Bank EBITDAX / Cash Interest)	2.75	2.75	2.75	2.75
Current ratio (Current Assets / Current Liabilities)	0.95	1.00	1.00	1.00

On October 6, 2020, Southern entered into the first amendment to the Amended Credit Agreement (the "First Amendment"). The First Amendment postponed the next redetermination and the maturity of the Non-Conforming Facility to November 1, 2020.

On November 24, 2020, Southern entered into the second amendment to the Amended Credit Agreement (the "Second Amendment"). The Second Amendment included: (a) a waiver for the non compliance of the leverage ratio financial covenant as at September 30, 2020; (b) an extension of the maturity of the Non-

Conforming Facility to February 1, 2021, which is the same date as the maturity of the Conforming Facility; and (c) redetermined the borrowing base limit at US\$13.3 million (US\$8.5 million Conforming Facility and US\$4.8 million Non-Conforming Facility) to account for debt repayments made during the year.

With the execution of the Amended Credit Agreement, interest on borrowings under the Credit Facility is determined by reference to the Eurodollar Rate, and includes a minimum rate of 1.0%, plus a margin that ranges from 2.5% to 3.5%. As part of the Amended Credit Agreement, Southern will pay an additional 0.5% per annum on balances that exceed the Conforming Facility. The Second Amendment includes an additional 2.0% per annum on all outstanding borrowings. During the year ended December 31, 2020, the effective interest rate, excluding commitment and other fees, was 4.7%.

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).

Below are the financial covenant calculations based on the Amended Credit Agreement for December 31, 2020:

Financial covenant	Limit	As at	As at
		Dec 31, 2020	Dec 31, 2019
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.75	4.72	3.32
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 2.75	4.26	4.86
Current ratio (Current Assets / Current Liabilities)	Minimum 1.00	1.63	1.44

The financial covenants include financial measures defined within the Amended Credit Agreement that are not defined under IFRS. These financial measures are defined by the Amended Credit Agreement as follows:

- Debt includes only the Credit Facility drawings at the period end.
- Bank EBITDAX is defined as Earnings before Interest, Taxes, Depreciation, Depletion, Amortization, Exploration Expenses and other non-cash charges such as, Impairment, Unrealized (gain) / loss on derivatives, Stock-based compensation and Foreign exchange (gain) / loss.
- Current Assets is calculated by taking the total current assets from the consolidated statement of financial position less the current derivative asset and adding the unused portion of the available Credit Facility.
- Current Liabilities is calculated by taking the total current liabilities from the consolidated statement of financial position less the current derivative liability, the current portion of the lease liability, royalties payable balances greater than one year and the current bank debt.

Southern was not in compliance with the leverage ratio covenant of its Credit Facility for the period ended September 30, 2020 and December 31, 2020 but has obtained written waivers for non-compliance of these covenant violations from its lender. If future profitability or available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, management's plans include reducing expenditures and pursuing additional asset dispositions or alternative financing arrangements. For more information, see "*Liquidity, Capital Resources and Going Concern*".

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"). 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.

The accrued interest payment due on December 31, 2020, was settled in-kind through the issuance of 320 additional Debentures. The additional Debentures have the same terms as the outstanding Debentures, with interest beginning to accrue on the additional Debentures on December 31, 2020.

Contractual Obligations and Commitments

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

	Total	2021	2022	2023	Thereafter
Bank debt ⁽¹⁾	\$ 16,806	\$ 16,806	\$ -	\$ -	\$ -
Convertible debentures ⁽²⁾	8,389	-	8,389	-	-
Lease obligations ⁽³⁾	392	392	-	-	-
Total	\$ 25,587	\$ 17,198	\$ 8,389	\$ -	\$ -

Notes:

- (1) Bank debt was discharged on April 30, 2021 – see "*Improved Liquidity and Strategic Initiative*" for more information
- (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;

- the ability to raise required capital on acceptable terms;
- 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, 2020 (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 December 31, 2020:

Natural Gas	Volume	Pricing (US\$)
<i>Fixed Price Swap</i>		
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

Eight Quarter Analysis

(000s)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Three months ended	2020	2020	2020	2020	2019	2019	2019	2019
Revenue	\$ 4,510	\$ 3,537	\$ 2,478	\$ 3,397	\$ 5,525	\$ 5,145	\$ 4,207	\$ 4,252
Net earnings (loss) from continuing operations	3,735	(2,958)	(1,871)	(10,216)	(7,787)	(1,081)	(354)	(1,674)
Per share, basic and diluted	0.02	(0.01)	(0.01)	(0.05)	(0.03)	(0.00)	(0.00)	(0.01)
Total net earnings (loss)	3,735	(2,958)	(1,871)	(10,216)	(7,787)	(1,081)	(308)	(1,697)
Per share, basic and diluted	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.03)	\$ (0.00)	\$ (0.00)	\$ (0.01)

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 CGUs. For more information, see the "Impairment" section above.
- On May 28, 2020, Southern disposed of a non-core Canadian royalty asset resulting in a gain on disposal of \$338 thousand.
- On June 12, 2020, Southern resumed production from its Mechanicsburg assets, which had been shut-in since March 2020, due to a force majeure event, see the "Operational Update" section above.
- At September 30, 2020, improved natural gas strip pricing for Q4 2020 and calendar 2021 resulted in an unrealized loss on derivatives of \$2.0 million.
- At December 31, 2020, as a result of stronger future commodity forecast prices, Southern recorded an impairment recovery of \$4.6 million for the 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 and indebtedness, future operations, future compliance with Credit Facility covenants, future compliance with the New Facility covenants and repayments thereunder, future strategic acquisitions, future oil and natural gas production estimates and weighting, future financial position, resolution of adjusted working capital deficiencies, expected royalties as a percentage of revenue, strategies to improve the Company's financial position and the success thereof, benefits from government stimulus loans and subsidies including PPP and CEWS, future revenues, operational and employee synergies and cost savings from the Acquisition, resolution of title ownership issues in respect of royalty payables, the alternative exchange listing 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, adjusted 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 adjusted 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,	
	2020	2019	2020	2019
Cash flow from operating activities	\$ 1,726	\$ 982	\$ 3,455	\$ 3,145
Change in non-cash working capital	(736)	443	92	269
Cash decommissioning expenses	(1)	12	6	23
Adjusted Funds Flow from Operations⁽¹⁾	\$ 989	\$ 1,437	\$ 3,553	\$ 3,437

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 December 31,		Year ended December 31,	
	2020	2019	2020	2019
Revenue	\$ 4,510	\$ 5,525	\$ 13,922	\$ 19,129
Royalties	(912)	(1,097)	(2,827)	(3,859)
Production and operating	(1,418)	(1,763)	(5,873)	(6,799)
Transportation costs	(75)	(88)	(220)	(368)
Realized gain (loss) on derivatives	183	113	2,396	319
Operating netback⁽¹⁾	\$ 2,288	\$ 2,690	\$ 7,398	\$ 8,422

Notes:

(1) Excludes results from discontinued operations.

Southern Energy Corp
 Management's Discussion and Analysis
 For the years ended December 31, 2020 and 2019

"Adjusted Working Capital" and "Net Debt"

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

	As at Dec 31, 2020	As at Dec 31, 2019	As at Dec 31, 2018
Current assets	\$ 3,613	\$ 4,013	\$ 16,710
Current liabilities	(25,429)	(8,726)	(29,227)
Remove:			
Current derivative assets	(8)	(819)	(332)
Current portion of lease liabilities	381	382	-
Current portion of bank debt	16,779	-	21,009
Current derivative liabilities	473	105	166
Adjusted working capital deficiency	\$ (4,191)	\$ (5,045)	\$ 8,326

	As at Dec 31, 2020	As at Dec 31, 2019	As at Dec 31, 2018
Bank debt – face value	\$ (16,806)	\$ (18,183)	\$ (21,009)
Convertible debentures – face value	(8,389)	(8,069)	-
Adjusted working capital deficiency	(4,191)	(5,045)	8,326
Net debt	\$ (29,386)	\$ (31,297)	\$ (12,683)

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

NGL 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.

The Company's annual aggregate production for 2020 and 2019, the aggregative average production for each quarter of 2020 and 2019, and the references to "NGLs", "natural gas" and "crude oil", reported in this MD&A consist of the following product types, as defined in NI 51-101 and using a conversion ratio of 6 mcf:1 bbl where applicable.

	2020					2019				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Light & Medium Crude Oil (bbl/d)	145	166	153	116	144	190	217	198	179	164
NGLs (bbl/d)	21	28	27	8	22	39	38	34	38	45
Conventional Natural Gas (Mcf/d)	11,861	12,462	12,135	11,054	11,785	11,282	13,783	14,440	8,687	8,119
Total (boe/d)	2,143	2,271	2,203	1,966	2,130	2,109	2,552	2,639	1,665	1,562

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, 2020 and 2019 and AIF is also available on SEDAR at www.sedar.com or www.southernenergycorp.com.