

Management's Discussion and Analysis of

## SOUTHERN ENERGY CORP.

For the three months ended March 31, 2021 and 2020

(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, 2021 and 2020 (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.

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 May 26, 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 Corporation (Delaware) ("Southern US") closed the previously announced retirement of its existing senior secured credit facility (the "Previous Facility") with a cash settlement payment of US\$8.0 million, plus accrued interest. The US\$8.0 million settlement was financed

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through a new senior secured term loan of up to \$8.5 million (the "New Facility") and gross proceeds from a non-brokered private placement of \$5.5 million (the "Private Placement"). Details of the New Facility include:

- US\$5.5 million was drawn at closing ("Tranche A"), with US\$3 million available up to December 31, 2021, in multiple advances of no less than US\$500 thousand each ("Tranche B")
- Maturity of 36 months from closing date
- Interest of 12% per annum, paid monthly in arrears on the last day of the month
- 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 US 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

In connection with the establishment of the New Facility, Southern issued 41,250,000 warrants to the lender with an exercise price of \$0.05 per common share (each, a "Common Share") and an expiry date on the earlier of: (a) a liquidity event resulting in the sale of Southern US; or (b) the maturity date of the New Facility.

On April 30, 2021, pursuant to the Private Placement, Southern issued 136.6 million units ("Units") of the Company at a price of \$0.04 per Unit, for aggregate gross proceeds of \$5.5 million. Each Unit is comprised of one Common Share and one Common Share purchase warrant (each, a "Unit Warrant"). Each Unit Warrant entitles the holder to purchase one Common Share at a price of C\$0.04 for a period of two years following the date of issuance.

Upon closing of the New Facility and the Private Placement 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).

#### FIRST QUARTER HIGHLIGHTS

- Southern generated \$1.3 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Non-IFRS Measures*") in Q1 2021, a 90% increase from the same period in 2020.
- Production and operating costs were \$1.26/Mcfe in Q1 2021, a decrease of 11% from the same period in 2020.
- Southern realized average production of 12,922 Mcfe/d (92% natural gas, see "*Production Summary*" below for a breakdown by product type) during Q1 2021, a 1% increase from the same period in 2020, demonstrating Southern's ability to maintain the existing low decline asset base with minimal maintenance capital expenditures.
- Reduced Net Debt (see "*Reader Advisories – Non-IFRS Measures*") by \$1.1 million from December 31, 2020 and \$5.0 million from March 31, 2020.
- As at March 31, 2021, Southern had positive Adjusted Working Capital (see "*Reader Advisories – Non-IFRS Measures*") of \$1.6 million excluding royalty payables.
- Southern's realized oil and natural gas prices for Q1 2021 averaged \$71.24/bbl and \$3.57/Mcf, respectively, reflecting the benefit of pricing at US sales hubs, which currently trade at a premium to Canadian benchmark prices.

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**Summary of Financial Information**

<i>(000s, except \$ per share)</i>	Three months ended March 31,	
	2021	2020
Petroleum and natural gas sales	\$ 4,883	\$ 3,397
Net loss	(798)	(10,216)
Net loss per share		
Per share <sup>(1)</sup>	(0.00)	(0.05)
Adjusted funds flow from operations <sup>(2)</sup>	1,282	676
Per share <sup>(1)</sup>	0.01	0.00
Capital expenditures, excluding business combinations	72	46
Weighted average shares outstanding		
Basic	220,770	220,770
Fully diluted	220,770	220,770
<b>As at period end</b>		
Common shares outstanding		
Basic	220,770	220,770
Fully diluted	220,770	220,770
Total assets	36,894	42,382
Non-current liabilities	12,616	12,855
Net debt <sup>(2)</sup>	\$ 28,324	\$ 33,292

Notes:

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

### Production Summary

	Three months ended March 31,	
	2021	2020
<b>Daily production from operations</b>		
Oil (bbl/d)	153	144
NGLs (bbl/d)	20	22
Natural gas (Mcf/d)	11,884	11,785
<b>Total Production (Mcf/d)</b>	<b>12,922</b>	<b>12,781</b>
<b>Percentage of natural gas</b>	<b>92%</b>	<b>92%</b>

Production in Q1 2021 averaged 12,922 Mcfe/d, a slight increase of 1% from the same period in 2020, primarily due to the Mechanicsburg assets being down in March 2020 as a result of a third-party pipeline force majeure event partially offset by natural declines.

### Petroleum and Natural Gas Revenues and Pricing Summary

<i>(000s)</i>	Three months ended March 31,	
	2021	2020
Oil	\$ 981	\$ 785
NGLs	81	60
Natural gas	3,821	2,552
<b>Total revenue</b>	<b>4,883</b>	<b>3,397</b>

### Realized commodity prices

	Three months ended March 31,	
	2021	2020
Oil (\$/bbl)	\$ 71.24	\$ 59.91
NGLs (\$/bbl)	45.00	29.97
Natural gas (\$/Mcf)	3.57	2.38
<b>Combined (\$/Mcf)</b>	<b>\$ 4.20</b>	<b>\$ 2.92</b>
<b>Benchmark prices</b>		
Crude oil – LLS (\$/bbl)	\$ 75.91	\$ 65.25
Crude oil – LLS (US\$/bbl)	59.91	49.07
Crude oil – WTI (\$/bbl)	73.23	61.54
Crude oil – WTI (US\$/bbl)	57.79	46.27
Natural gas – HH (\$/MMbtu)	3.46	2.50
Natural gas – HH (US\$/MMbtu)	2.72	1.87
Exchange rate (\$/US\$)	\$ 1.26	\$ 1.34

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 2021 Southern realized an oil price of \$71.24/bbl which represents an increase of 19% from the same period in 2020. Oil prices benefited from an improving global economy that was encouraged by the roll-out of COVID-19 vaccinations and an increasing sentiment that the end of pandemic related government shutdowns is near. Since the end of Q1 2020, the LLS premium to West Texas Intermediate ("WTI") has remained extremely tight. The LLS premium to WTI averaged US\$2.12/bbl in Q1 2021, compared to US\$2.80/bbl in Q1 2020.

Southern realized a price of \$3.57/Mcf in Q1 2021, a 50% increase from Q1 2020. Natural gas prices benefited from extreme cold temperatures in February 2021 that stretched across North America, resulting in gas withdrawals that were much larger than the five-year average for February. LNG exports also continued at record volumes as LNG demand increased in Asia beginning around the middle of 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 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 is trading at an average of US\$3.01/MMBtu as of the date hereof.

### Royalties

<i>(000s)</i>	Three months ended March 31,	
	2021	2020
Oil	\$ 200	\$ 161
NGLs	16	11
Natural gas	776	519
<b>Total royalties</b>	<b>\$ 992</b>	<b>\$ 691</b>
<b>Royalties as a % of revenue</b>	<b>20.3%</b>	<b>20.3%</b>

Royalties were \$992 thousand in Q1 2021, an increase of 44% from the same period in 2020 due to higher LLS and HH prices. Southern expects royalties as a percentage of revenue to remain around 20% for 2021 as royalty agreements are based on a fixed royalty rate.

### Production, Operating and Transportation Expenses

<i>(000s)</i>	Three months ended March 31,	
	2021	2020
Operating expenses	\$ 1,170	\$ 1,452
Production taxes	293	203
Transportation expense	58	42
<b>Total production, operating and transportation</b>	<b>\$ 1,521</b>	<b>\$ 1,697</b>

Field expenses for Q1 2021 were \$1,521 thousand (\$1.31/Mcfe), which was 10% lower on a dollar basis and a decrease of \$0.15/Mcfe compared to the same period in 2020. Southern continuously analyzes opportunities to reduce operating costs by streamlining business processes and optimizing field equipment and well setups.

Q1 2021 production taxes of \$293 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 \$58 thousand (\$0.05/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 2021 was 38% higher than Q1 2020, due to the Mechanicsburg field being down as a result of a third-party pipeline force majeure event for part of Q1 2020.

### Operating Netback

(\$/Mcfe)	Three months ended March 31,	
	2021	2020
Petroleum and natural gas revenue	\$ 4.20	\$ 2.92
Royalties	(0.85)	(0.59)
Production and operating	(1.26)	(1.42)
Transportation costs	(0.05)	(0.04)
Realized gain on derivatives	(0.12)	0.50
<b>Operating netback per Mcfe <sup>(1)</sup></b>	<b>\$ 1.92</b>	<b>\$ 1.37</b>
<b>Operating netback % of revenue <sup>(1)</sup></b>	<b>46%</b>	<b>47%</b>

Notes:

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

Southern's operating netback was \$1.92/Mcfe in Q1 2021, an increase of 40% compared to the same period in 2020. This increase was driven primarily from higher commodity prices, partially offset by a loss on derivatives.

### General & Administrative and Transaction Costs

(000s)	Three months ended March 31,	
	2021	2020
General and administrative	\$ 863	\$ 918
Transaction costs	87	-
<b>Total</b>	<b>\$ 950</b>	<b>\$ 918</b>

General and administrative costs were \$863 thousand in Q1 2021, a decrease of 6% from the same period in 2020. The decrease is primarily attributable to salary reductions of head office staff and elimination of all non-essential business expenditures in response to the COVID-19 pandemic in order to protect the financial position of the Company.



Transaction costs of \$87 thousand in Q1 2021 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*", above.

### Finance Expense

(000s)	Three months ended March 31,	
	2021	2020
Bank Interest	\$ 262	\$ 244
Convertible debenture interest	165	161
Lease interest	5	11
Accretion	178	111
<b>Total finance expense</b>	<b>\$ 610</b>	<b>\$ 527</b>

Finance expenses were \$610 thousand in Q1 2021, an increase of 16% compared to Q1 2020. The increase was primarily a result of increased accretion expenses related to the additional Debentures (as defined below) that were issued on December 30, 2020 and \$28 thousand related to the amortization of transaction costs incurred with the execution of the Amended Credit Agreement (as defined below). For more information on the Debentures, see "*Liquidity and Capital Resources – Debenture Financing*" below. Bank interest was \$18 thousand higher in Q1 2021 compared to Q1 2020, due to a higher interest rate, partially offset by a lower debt balance. The effective interest rate, excluding commitment and other fees, increased from 5.1% in Q1 2020 to 6.5% in Q1 2021.

### Share-based Compensation

Southern recorded \$44 thousand in share-based compensation in Q1 2021 (\$99 thousand in Q1 2020) 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,	
	2021	2020
Depletion	\$ 1,179	\$ 1,229
Depreciation	97	96
<b>Total depletion, depreciation and amortization</b>	<b>\$ 1,276</b>	<b>\$ 1,325</b>

Depletion expense was \$1.2 million (\$1.01/Mcfe) in Q1 2021, a decrease of 4% compared to the same period in the prior year (Q1 2020 - \$1.06/Mcfe).

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

### Impairment

At March 31, 2021, Southern did not identify any indicators of impairment or impairment recovery for any of its cash generating units ("CGUs").

### Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended March 31,	
	2021	2020
<i>(000s)</i>		
Drilling and completions	\$ -	\$ -
Geological and geophysical	-	-
Facilities, equipment and pipelines	72	46
<b>Capital expenditures, before Acquisitions and Dispositions</b>	<b>72</b>	<b>46</b>
<b>Dispositions</b>	<b>(135)</b>	<b>-</b>
<b>Net capital expenditures</b>	<b>\$ (63)</b>	<b>\$ 46</b>

Capital expenditures of \$72 thousand in Q1 2021 were related to maintenance capital in the field on existing operations. Southern has planned a minimal capital program of \$0.3 million for the remainder of 2021, 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 Common Shares and an unlimited number of preferred shares.

The following table reflects the Company's outstanding Common Shares at March 31, 2021 and December 31, 2020:

	Number of Shares	Share Capital
<b>Balance as at December 31, 2020</b>	220,770,279	\$ 35,441
<b>Balance as at March 31, 2021</b>	<b>220,770,279</b>	<b>\$ 35,441</b>

#### *Warrants*

As at March 31, 2021, 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 7 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, 2021 and December 31, 2020:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2020	19,400,000	\$ 0.10
<b>Balance at March 31, 2021</b>	<b>19,400,000</b>	<b>\$ 0.10</b>

  

Exercise price	Outstanding and Exercisable	
	Number of stock options	Weighted average remaining life (years)
\$ 0.10	19,400,000	3.2
<b>\$ 0.10</b>	<b>19,400,000</b>	<b>3.2</b>

**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.

As at March 31, 2021, 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 \$3.9 million. The adjusted working capital deficiency is primarily a result of \$5.5 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 \$1.6 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 5,400 royalty holders with over 97% of the balances being greater than 120 days. 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 \$28.3 million at March 31, 2021. This compares to a net debt balance of \$29.4 million at December 31, 2020 and \$33.3 million at March 31, 2020. Southern was able to reduce the debt balance by US\$1.1 million during Q1 2021. 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 \$72 thousand during Q1 2021 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 the remainder of 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 "Risk Management – Commodity Derivative Contracts" below for specific details on Southern's hedge positions.

#### *Credit Facility*

The Previous Facility was retired on April 30, 2021. For more information see "Improved Liquidity and Strategic Initiative", above.

Southern US, one of the wholly-owned subsidiaries of Southern, held the Previous Facility at March 31, 2021. The Previous Facility was secured against the oil and gas properties of Southern. At March 31, 2021, Southern had US\$12.8 million (\$16.0 million) drawn on the Previous Facility.

On February 1, 2021, Southern entered into the third amendment (the "Third Amendment") to the Amended and Restated Credit Agreement (the "Amended Credit Agreement"). The Third Amendment extended the maturity of both the conforming borrowing base facility (the "Conforming Facility") and non-conforming borrowing base facility (the "Non-Conforming Facility") from February 1, 2021 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.

Interest on borrowings under the Previous Facility was determined by reference to the Eurodollar Rate, and included a minimum rate of 1.0%, plus a margin that ranges from 4.5% to 5.5%. During the three months ended March 31, 2021, the effective interest rate, excluding commitment and other fees, was 6.5%.

The financial covenants of the Previous Facility, calculated quarterly, included covenants which related 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 March 31, 2021:

Financial covenant	Limit	As at	As at
		Mar 31, 2021	Dec 31, 2020
Leverage ratio (Debt / Bank EBITDAX)	Maximum 4.00	3.77	4.72
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 2.75	4.95	4.26
Current ratio (Current Assets / Current Liabilities)	Minimum 1.00	1.64	1.63

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

- Debt includes only the Previous 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 Previous Facility.
- Current Liabilities is calculated by taking the total current liabilities from the consolidated statement of financial position less the current derivative liability, the current portion of the lease liability, royalties payable balances greater than one year and the current bank debt.

As at March 31, 2021, Southern was in compliance with the above covenants. As at December 31, 2020, Southern was not in compliance with the leverage ratio covenant of the Previous Facility, but obtained a written waiver for non-compliance for the period ended December 31, 2020.

#### *Debenture Financing*

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

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2020	8,389	\$ 7,468	\$ 665
Accretion of discount	-	137	-
<b>Balance at March 31, 2021</b>	<b>8,389</b>	<b>\$ 7,605</b>	<b>\$ 665</b>

#### **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, 2021:

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	Total	2021	2022	2023	Thereafter
Bank debt <sup>(1)</sup>	\$ 16,033	\$ 16,033	\$ -	\$ -	\$ -
Convertible debentures <sup>(2)</sup>	8,389	-	8,389	-	-
Lease obligations <sup>(3)</sup>	285	285	-	-	-
<b>Total</b>	<b>\$ 24,707</b>	<b>\$ 16,318</b>	<b>\$ 8,389</b>	<b>\$ -</b>	<b>\$ -</b>

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;
- 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:

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- 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](http://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, 2021:

Natural Gas	Volume	Pricing (US\$)
<i>Fixed Price Swap</i>		
April 1, 2021 – December 31, 2021	1,500 MMBtu/d	NYMEX – HH \$2.575/MMBtu
April 1, 2021 – December 31, 2021	3,600 MMBtu/d	NYMEX – HH \$2.402/MMBtu

### Eight Quarter Analysis

(000s)	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Three months ended	2021	2020	2020	2020	2020	2019	2019	2019
Revenue	\$ 4,883	\$ 4,510	\$ 3,537	\$ 2,478	\$ 3,397	\$ 5,525	\$ 5,145	\$ 4,207
Net earnings (loss) from continuing operations	(798)	3,735	(2,958)	(1,871)	(10,216)	(7,787)	(1,081)	(354)
Per share, basic and diluted	(0.00)	0.02	(0.01)	(0.01)	(0.05)	(0.03)	(0.00)	(0.00)
Total net earnings (loss)	(798)	3,735	(2,958)	(1,871)	(10,216)	(7,787)	(1,081)	(308)
Per share, basic and diluted	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.03)	\$ (0.00)	\$ (0.00)

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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 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 asset 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 Central Mississippi CGU.
- On March 31, 2020, Southern recorded an impairment expense of \$10.4 million for the CGUs.
- 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.
- 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.

## **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 adjusted working capital deficiencies, strategies to improve the Company's financial position and the success thereof, future revenues, increased operating netbacks, projected costs, resolution of title ownership issues in respect of royalty payables, results of discussions with lenders regarding covenant breaches, the number of new wells being drilled in the United States, government shutdowns related to COVID-19, future divestitures of assets 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, 2020, which may be accessed on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.southernenergycorp.com](http://www.southernenergycorp.com).

This MD&A also contains future oriented financial information and financial outlook information (collectively, "FOFI") with respect to budgeted capital expenditures and prospective results of operations for 2021, 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 adjusted 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:

	<b>Three months ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Cash flow from operating activities	\$ 1,089	\$ 923
Change in non-cash working capital	193	(246)
Cash decommissioning expenses	-	(1)
<b>Adjusted Funds Flow from Operations<sup>(1)</sup></b>	<b>\$ 1,282</b>	<b>\$ 676</b>

Notes:

(1) Includes results from discontinued operations.

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*"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,	
	2021	2020
Revenue	\$ 4,883	\$ 3,397
Royalties	(992)	(691)
Production and operating	(1,463)	(1,655)
Transportation costs	(58)	(42)
Realized gain (loss) on derivatives	(138)	585
<b>Operating netback<sup>(1)</sup></b>	<b>\$ 2,232</b>	<b>\$ 1,594</b>

Notes:

- (1) Excludes results from discontinued operations.

*"Adjusted Working Capital" and "Net Debt"*

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

	As at March 31, 2021	As at December 31, 2020	As at March 31, 2020
Current assets	\$ 3,994	\$ 3,613	\$ 4,876
Current liabilities	(24,709)	(25,429)	(28,591)
Remove:			
Current derivative assets	-	(8)	(2,064)
Current portion of lease liabilities	279	381	377
Current portion of bank debt	16,033	16,779	19,862
Current derivative liabilities	501	473	179
<b>Adjusted working capital deficiency</b>	<b>\$ (3,902)</b>	<b>\$ (4,191)</b>	<b>\$ (5,361)</b>

	As at March 31, 2021	As at December 31, 2020	As at March 31, 2020
Bank debt	\$ (16,033)	\$ (16,806)	\$ (19,862)
Convertible debentures – face value	(8,389)	(8,389)	(8,069)
Adjusted working capital deficiency	(3,902)	(4,191)	(5,361)
<b>Net debt</b>	<b>\$ (28,324)</b>	<b>\$ (29,386)</b>	<b>\$ (33,292)</b>

**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 ("Mcf") 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](mailto: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](http://www.sedar.com) or [www.southernenergycorp.com](http://www.southernenergycorp.com).