Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three and six months ended June 30, 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 and six months ended June 30, 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 August 20, 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 a transaction to retire the existing senior secured credit facility (the "Old Facility") 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 US$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 non-transferable common shares purchase warrants (each, a "Bonus Warrant") 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).

On August 10, 2021, Southern was admitted to the AIM market of the London Stock Exchange plc ("AIM") and the Company's Common Shares began trading on August 10, 2021, under the symbol "SOUC". The dual listing is expected to help Southern pursue its strategic objective of growth through acquisitions and organic opportunities by taking advantage of AIM's liquidity and access to a broader range of global investors.

SECOND QUARTER HIGHLIGHTS

- Southern generated $0.8 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Non-IFRS Measures*") in Q2 2021, comparable to the same period in 2020. Q2 2021 includes $0.4 million of expenses related to the AIM listing (see "*Improved Liquidity and Strategic Initiative*").

- Per unit operating expenses were $1.03/Mcfe in Q2 2021, a decrease of 7% from the same period in 2020.

- Southern realized average production of 12,467 Mcfe/d (92% natural gas, see "*Production Summary*" below for a breakdown by product type) during Q2 2021, a 6% increase from the same period in 2020.

- Reduced Net Debt (see "*Reader Advisories – Non-IFRS Measures*") by $10.6 million during Q2 2021 and $13.9 million from June 30, 2020.

- As at June 30, 2021, Southern had positive Adjusted Working Capital (see "*Reader Advisories – Non-IFRS Measures*") of $2.5 million excluding royalty payables.

- Southern's realized oil and natural gas prices for Q2 2021 averaged $77.71/bbl and $3.35/Mcf, respectively, reflecting the benefit of strategic access to premium-priced US sales hubs.

Summary of Financial Information

(000s, except $ per share)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Petroleum and natural gas sales	$ 4,589	$ 2,478	$ 9,472	$ 5,875
Net earnings (loss)	3,908	(1,871)	3,110	(12,087)
Net earnings (loss) per share				
Basic	0.01	(0.01)	0.01	(0.05)
Fully diluted	0.01	(0.01)	0.01	(0.05)
Adjusted funds flow from operations (1)	749	752	2,031	1,428
Basic	0.00	0.00	0.01	0.01
Fully diluted	0.00	0.00	0.01	0.01
Capital expenditures	44	(5)	116	41
Weighted average shares outstanding				
Basic	312,354	220,770	266,815	220,770
Fully diluted	439,545	220,770	361,881	220,770
As at period end				
Basic common shares outstanding	357,395	220,770	357,395	220,770
Total assets	36,257	39,351	36,257	39,351
Non-current liabilities	16,715	12,621	16,715	12,621
Net debt (1)	$ 17,714	$ 31,659	$ 17,714	$ 31,659

Notes:

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

Production Summary

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Daily production from operations				
Oil (bbl/d)	139	116	146	130
NGLs (bbl/d)	28	8	24	15
Natural gas (Mcf/d)	11,465	11,054	11,673	11,420
Total production (Mcfe/d)	**12,467**	**11,798**	**12,693**	**12,290**
Percentage of natural gas	**92%**	**94%**	**92%**	**93%**

Production averaged 12,467 Mcfe/d in Q2 2021 and 12,693 Mcfe/d for the first six months of 2021, an increase of 6% and 3%, respectively, from the same periods in 2020, primarily due to the Mechanicsburg assets being down for the majority of Q2 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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
(000s)				
Oil	$ 983	$ 429	$ 1,964	$ 1,214
NGLs	116	7	197	67
Natural gas	3,490	2,042	7,311	4,594
Total revenue	**$ 4,589**	**$ 2,478**	**$ 9,472**	**$ 5,875**

Realized commodity prices

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Oil ($/bbl)	$ 77.71	$ 40.64	$ 74.32	$ 51.31
NGLs ($/bbl)	45.53	9.62	45.35	24.54
Natural gas ($/Mcf)	3.35	2.03	3.46	2.21
Combined ($/Mcfe)	**$ 4.04**	**$ 2.31**	**$ 4.12**	**$ 2.63**
Benchmark prices				
Crude oil – LLS ($/bbl)	$ 83.64	$ 39.81	$ 79.78	$ 52.53
Crude oil – LLS (US$/bbl)	68.02	29.01	63.97	39.04
Crude oil – WTI ($/bbl)	81.21	38.14	77.22	49.84
Crude oil – WTI (US$/bbl)	66.12	27.84	61.96	37.06
Natural gas – HH ($/MMbtu)	3.65	2.43	3.56	2.47
Natural gas – HH (US$/MMbtu)	2.97	1.75	2.84	1.81
Exchange rate ($/US$)	$ 1.23	$ 1.39	$ 1.25	$ 1.36

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 Q2 2021 Southern realized an oil price of $77.71/bbl which was an increase of 91% from the same period in 2020. For the first half of 2021, Southern's realized oil price increased 45% compared to the same period in 2020. Oil prices benefited from an improving global economy that was encouraged by the continued roll-out of COVID-19 vaccinations and OPEC+ largely maintaining production restrictions. The LLS premium to West Texas Intermediate ("WTI") has increased in 2021, but still remains quite tight. The LLS premium to WTI averaged US$1.90/bbl in Q2 2021, compared to US$1.17/bbl in Q2 2020.

Southern realized a price of $3.35/Mcf in Q2 2021, a 65% increase from Q2 2020. During the first half of 2021, Southern realized a price of $3.46/Mcf, a 57% increase from the same period in 2020. Flat natural gas production in Q2 2021 compared to the previous quarter, combined with strong natural gas exports and North American demand recovery from COVID-19 in 2020, continue to support stronger pricing in 2021. The US liquified natural gas export economics remain encouraging due to low European inventory levels and strong Asian demand. Southern believes the robust LNG economics combined with the decrease in new wells being drilled should be beneficial to natural gas prices over the medium to long term.

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
(000s)				
Oil	$ 201	$ 90	$ 401	$ 251
NGLs	20	1	36	12
Natural gas	706	431	1,482	950
Total royalties	**$ 927**	**$ 522**	**$ 1,919**	**$ 1,213**
Royalties as a % of revenue	**20.2%**	**21.1%**	**20.3%**	**20.6%**

Royalties were $0.9 million in Q1 2021 and $1.9 million for the first six months of 2021, an increase of 78% and 58%, respectively, from the same periods in 2020. The increase was 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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
(000s)				
Operating expenses	$ 1,170	$ 1,196	$ 2,340	$ 2,648
Production taxes	275	151	568	354
Transportation expense	58	23	116	65
Total production, operating and transportation	**$ 1,503**	**$ 1,370**	**$ 3,024**	**$ 3,067**

Field expenses were $1.2 million ($1.03/Mcfe) in Q2 2021, which were 2% lower or a decrease of $0.08/Mcfe compared to the same period in 2020. For the first half of 2021, field expenses were $2.3 million ($1.02/Mcfe), which were 12% lower or a decrease of $0.16/Mcfe compared to the same period in 2020. The decreased operating costs in 2021 are primarily due to lower contract labour, equipment rentals as Southern optimized certain fields by utilizing company owned equipment, and reduced variable costs at Mechanicsburg in 2020 due to a third-party pipeline force majeure event. Southern continuously analyzes opportunities to reduce operating costs by streamlining business processes and optimizing field equipment and well setups.

Q2 2021 production taxes of $275 thousand (6.0% as a percentage of revenue) and $568 thousand for the six months ended June 30, 2021, were related to a 6% severance tax charged by the State of Mississippi on all oil and natural gas production.

Transportation expenses of $58 thousand ($0.05/Mcfe) and $116 thousand ($0.05/Mcfe) for the first half of 2021 are related to pipeline fees at Mechanicsburg for the transportation of Southern's natural gas volumes to the sales meter (approximately $0.25/Mcf). Q2 2021 was 152% higher and the six months ended June 30, 2021, were 78% higher than the same period in 2020, due to the Mechanicsburg field being down for the majority of Q2 2020 as a result of a third-party pipeline force majeure event in March 2020.

Operating Netback

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
($/Mcfe)				
Petroleum and natural gas revenue	$ 4.04	$ 2.31	$ 4.12	$ 2.63
Royalties	(0.82)	(0.49)	(0.84)	(0.54)
Production and operating	(1.27)	(1.25)	(1.27)	(1.34)
Transportation costs	(0.05)	(0.02)	(0.05)	(0.03)
Realized (loss) / gain on derivatives	(0.20)	0.87	(0.16)	0.68
Operating netback per Mcfe (1)	**$ 1.70**	**$ 1.42**	**$ 1.80**	**$ 1.40**
Operating netback % of revenue (1)	**42%**	**61%**	**44%**	**53%**

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

Southern's operating netbacks improved by 20% and 29% for the three and six months ended June 30, 2021, compared to the same periods in 2020. The increase was driven primarily from higher commodity prices, partially offset by realized commodity hedging losses in 2021.

General & Administrative and Transaction Costs

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
(000s)				
General and administrative	$ 793	$ 767	$ 1,656	$ 1,685
Transaction costs	395	-	482	-
Total	**$ 1,188**	**$ 767**	**$ 2,138**	**$ 1,685**

General and administrative costs were $793 thousand in Q2 2021 and $1.7 million for the first six months of 2021, an increase of 3% and a decrease of 2%, respectively, from the same periods in 2020. The higher expenses in Q2 2021 were primarily a result of ceasing to receive wage subsidies under the Canada

Emergency Wage Subsidy ("CEWS") program that was passed by the Government of Canada in April 2020, compared to $132 thousand received in Q2 2020. The decrease for the first half of 2021 is primarily attributable to the salary reductions of head office staff and elimination of all non-essential business expenditures in response to the COVID-19 pandemic beginning in April 2020, partially offset by the CEWS subsidy received in 2020.

Transaction costs of $395 thousand in Q2 2021 were related to the dual listing of Southern's Common Shares on AIM. Transaction costs of $482 thousand for the first half of 2021 include $87 thousand 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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
(000s)				
Bank Interest	$ 176	$ 201	$ 438	$ 445
Convertible debenture interest	168	160	333	322
Lease interest	8	10	13	21
Accretion	240	117	418	227
Total finance expense	**$ 592**	**$ 488**	**$ 1,202**	**$ 1,015**

Finance expenses were higher for the three and six months ended June 30, 2021, compared to the same periods in 2020. The increase was primarily a result of increased accretion expenses related to the amortization of transaction costs incurred with the execution of the New Facility. For more information see, "*Improved Liquidity and Strategic Initiative*", above.

Share-based Compensation

Southern recorded share-based compensation of $42 thousand and $86 thousand in Q2 2021 and the first half of 2021, respectively, compared to $92 thousand and $191 thousand in the same periods in 2020, 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 June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
(000s)				
Depletion	$ 1,123	$ 1,033	$ 2,302	$ 2,262
Depreciation	57	96	154	192
Total depletion, depreciation and amortization	**$ 1,180**	**$ 1,129**	**$ 2,456**	**$ 2,454**

Depletion expense was $1.1 million ($0.99/Mcfe) in Q2 2021, an increase of 9% on a dollar basis and 3% on a per Mcfe basis, compared to Q2 2020 ($0.96/Mcfe). The increase was due to higher production volumes in Q2 2021. Depletion expense for the first half of 2021 was $2.3 million ($1.00/Mcfe) which was comparable to the same period in 2020. The main factors impacting depletion were the increased volumes in 2021, offset by the non-cash impairment charges recorded in the first quarter of 2020.

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

Impairment

At June 30, 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 June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
(000s)				
Acquisitions	$ -	$ -	$ -	$ -
Drilling and completions	-	-	-	-
Geological and geophysical	-	-	-	-
Facilities, equipment and pipelines	38	(5)	110	41
Other	6	-	6	-
Capital expenditures, before dispositions	**44**	**(5)**	**116**	**41**
Dispositions	**(97)**	**(338)**	**(232)**	**(338)**
Net capital expenditures	**$ (53)**	**$ (343)**	**$ (116)**	**$ (297)**

Capital expenditures of $44 thousand and $116 thousand in Q2 2021 and the first half of 2021, respectively, were primarily related to maintenance capital in the field on existing operations.

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 June 30, 2021 and December 31, 2020:

	Number of Shares	Share Capital
Balance as at December 31, 2020	220,770,279	$ 35,441
Issuance of common shares by private placement, net of issue costs	136,625,000	3,109
Balance as at June 30, 2021	**357,395,279**	**$ 38,550**

On April 30, 2021, Southern completed a Private Placement of 136.6 million Units of the Company at a price of $0.04 per Unit, for aggregate gross proceeds of $5.5 million (see "*Improved Liquidity and Strategic Initiative*" for more information).

Warrants

On April 30, 2021, the Company issued 136.6 million Unit Warrants in conjunction with the Private Placement. Each Unit Warrant entitles the holder to purchase one Common Share at a price of $0.04 for a period of two years following the date of issuance.

The Company used the fair value method to account for the Unit Warrants. The estimated fair value of Unit Warrants was determined using the binomial option pricing model, with a volatility of 52%. In Q2 2021, Southern recorded $1.8 million to Shareholders' Equity relating to the Unit Warrants.

On April 30, 2021, as part of the New Facility (see "*Improved Liquidity and Strategic Initiative*" for more information) the Company issued 41,250,000 Bonus Warrants to the lender under the New Facility. Each Bonus Warrant entitles the holder to purchase one Common Share at a price of $0.05 for a period of three years following the date of issuance.

The Company used the fair value method to account for the Bonus Warrants. The estimated fair value of Bonus Warrants was determined using the binomial option pricing model, with a volatility of 46%. In Q2 2021, Southern recognized $0.7 million of long-term debt transaction costs that will be amortized over the life of the New Facility relating to the Bonus Warrants.

As at June 30, 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 8 of the Financial Statements for further information.

Stock Option Plan

The following table reflects the Company's outstanding options to purchase Common Shares at June 30, 2021 and December 31, 2020:

	Number of stock options	Weighted average exercise price
Balance at December 31, 2020	19,400,000	$ 0.10
Balance at June 30, 2021	**19,400,000**	**$ 0.10**

	Outstanding and Exercisable	
Exercise price	**Number of stock options**	**Weighted average remaining life (years)**
$ 0.10	19,400,000	3.0
$ 0.10	**19,400,000**	**3.0**

Liquidity and Capital Resources

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 June 30, 2021, excluding the current portion of the long-term debt, lease obligations and the current derivative assets and liabilities, Southern had an adjusted working capital deficiency (see "*Reader Advisories – Non-IFRS Measures*") of $2.8 million. The adjusted working capital deficiency is primarily a result of $5.3 million (US$4.3 million) of non-interest bearing royalty payables related to unresolved title or ownership issues not expected to be settled within the operating cycle unless claimants demand repayment and provide proof of ownership. Excluding the royalty payables, Southern would have positive adjusted working capital of $2.5 million. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time. The royalty suspense account is made up of balances from approximately 5,700 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 $17.7 million at June 30, 2021. This compares to a net debt balance of $29.4 million at December 31, 2020 and $31.7 million at June 30, 2020. Southern was able to reduce net debt by $10.6 million during Q2 2021 through the series of transaction discussed in the "*Improved Liquidity and Strategic Initiative"* section. Southern continues to focus on capital preservation and utilizing excess adjusted funds flows from operations (see "*Reader Advisories – Non-IFRS Measures*") to meet the obligations of the New Facility (see "*Improved Liquidity and Strategic Initiative"*, for further details of such obligations).

Southern was able to fund the minimal capital expenditures of $116 thousand during the first half of 2021 through excess adjusted funds flows from operations (see "*Reader Advisories – Non-IFRS Measures*"). Southern has a minor capital program of $1.0 million planned for the remainder of 2021, directed towards maintenance capital to support the low corporate average decline rate of approximately 12% and a modest low risk recompletion program to take advantage of the current strength in commodity prices. This capital program will be funded through excess adjusted funds flows from operations (see "*Reader Advisories – Non-IFRS Measures*") and a US$500 thousand draw from Tranche B of the New Facility (see "*Improved Liquidity and Strategic Initiative",* for more information).

To further support Southern's long-term sustainability, while providing Southern the ability to participate in any potential natural gas price appreciation during the upcoming winter, the Company entered into the following commodity derivative contracts subsequent to June 30, 2021 (See "*Risk Management – Commodity Derivative Contracts*" below for specific details on Southern's hedge positions):

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
August 1, 2021 – October 31, 2021	1,000 MMBtu/d	NYMEX – HH $3.940/MMBtu
April 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.100/MMBtu

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November 1, 2021 – December 31, 2021	1,000 MMBtu/d	NYMEX – HH $3.50 - $5.10/MMBtu
January 1, 2022 – March 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.50 - $5.10/MMBtu

Credit Facility

On April 30, 2021, Southern retired the Old Facility and entered into the New Facility. For more information see "*Improved Liquidity and Strategic Initiative*", above. The retirement of the Old Facility resulted in a gain on debt retirement of $5.7 million recorded in the Condensed Consolidated Interim Statement of Earnings (Loss) and Comprehensive Income (Loss). The new US$8.5 million senior secured term loan is held by Southern US and is secured against the oil and natural gas properties of Southern. At June 30, 2021, Southern had US$5.3 million ($6.5 million) drawn on the New Facility.

Below are the financial covenant calculations on the New Facility for June 30, 2021:

Financial covenant	**Limit**	**As at Jun 30, 2021**	**As at Dec 31, 2020**
Asset Coverage ratio (Collateral value / Outstanding principal)	Minimum 2.00	4.01	N/A
Debt Service Coverage ratio (EBITDAX / Principal + Interest)	Minimum 1.25	N/A	N/A

The financial covenants include financial measures defined within the New Facility that are not defined under IFRS. These financial measures are defined by the New Facility as follows:

- Collateral value is defined as 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%.
- Outstanding principal included only the New Facility drawings at the period end.
- EBITDAX is defined as Earnings before Interest, Taxes, Depreciation, Depletion, Amortization, Exploration Expenses and other non-cash charges and income such as, Impairment, Unrealized (gain) / loss on derivatives, Stock-based compensation and Foreign exchange (gain) / loss.
- The denominator of the DSCR is the aggregate principle and interest expense paid in cash during the applicable periods of the calculation.

As at June 30, 2021, Southern was in compliance with the above financial covenants.

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.

On June 28, 2021, Southern received an extraordinary resolution from the holders of its convertible debentures (the "Debentures") approving certain amendments to the Debenture Indenture entered into between the Company and the trustee dated June 14, 2019. On June 30, 2021, the Company and the trustee entered into a First Supplemental Indenture effecting such amendments to the terms of the Debentures, being:

- An extension of the maturity date of the Debentures by two years to June 30, 2024
- A decrease of the conversion price for the Debentures from $0.125 to $0.10
- Allowing the Company to satisfy its obligation to pay interest on the Debentures by, among other things, delivering freely tradeable Common Shares in the capital of the Company to the Trustee for distribution directly to the Debenture holders as a payment in-kind of accrued interest on the Debentures

On July 14, 2021, the accrued interest payment due on June 30, 2021, was settled in-kind through the issuance of 3,901,775 Common Shares. The number of Common Shares was based on a 20-day volume weighted average trading price ("Market Price") of the Common Shares as of June 30, 2021.

	Number of Convertible Debentures	Liability Component	Equity Component
Balance at December 31, 2020	8,389	$ 7,468	$ 665
Accretion of discount	-	280	-
Balance at June 30, 2021	**8,389**	**$ 7,748**	**$ 665**

Contractual Obligations and Commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term as at June 30, 2021:

	Total	2021	2022	2023	Thereafter
Long-term debt(1)	$ 6,527	$ 888	$ 1,735	$ 1,735	$ 2,169
Convertible debentures(2)	8,389	-	-	-	8,389
Lease obligations(3)	629	92	184	184	169
Total	**$ 15,545**	**$ 980**	**$ 1,919**	**$ 1,919**	**$ 10,727**

Notes:

(1) Long-term debt consists of New Facility – see "*Improved Liquidity and Strategic Initiative*" for more information
(2) Convertible debentures have a maturity date of June 30, 2024.
(3) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16.

Off-balance Sheet Arrangements

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

Risk Management

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

- volatility of commodity prices;
- global pandemics such as COVID-19;
- reservoir quality and uncertainty of reserves estimates;
- geological and engineering risks;
- operating hazards and other difficulties inherent in the exploration for and production of oil and gas;
- timing and success of integrating the business and operations of acquired companies and assets;
- the uncertainty of discovering commercial quantities of new reserves;
- interest rate and foreign exchange risks;
- competition;
- credit risk related to non-payment for sales contracts or non-performance by counterparties to contracts, including derivative financial instruments and physical sales contracts;
- environmental impact risk;
- future legislative and regulatory changes;
- changing royalty regimes;
- business interruptions due to unexpected events;
- access to markets; and
- risk of interruption or failure of information technology systems and data.

All of these risks influence the controls and management at the Company.

Southern manages these risks by:

- attracting and retaining a team of highly-qualified and motivated professionals who have a vested interest in the success of the Company;
- operating properties in order to maximize opportunities;
- employing risk management instruments to minimize exposure to volatility of commodity prices;
- maintaining a comprehensive property loss and business interruption insurance program to reduce risk;
- implementing cyber security protocols and procedures to reduce the risk of a significant breach of the Company's information technology systems and related data; and
- maintaining strict environmental, safety and health practices.

For additional details on the risks relating to Southern's business, see "*Risk Factors*" in the Company's most recent Annual Information Form for the year ended December 31, 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 June 30, 2021:

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

Subsequent to June 30, 2021, Southern entered into the following commodity derivative contracts:

Natural Gas	Volume	Pricing (US$)
Fixed Price Swap		
August 1, 2021 – October 31, 2021	1,000 MMBtu/d	NYMEX – HH $3.940/MMBtu
April 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.100/MMBtu
Costless Collar		
November 1, 2021 – December 31, 2021	1,000 MMBtu/d	NYMEX – HH $3.50 - $5.10/MMBtu
January 1, 2022 – March 31, 2022	4,000 MMBtu/d	NYMEX – HH $3.50 - $5.10/MMBtu

Eight Quarter Analysis

(000s) **Three months ended**	**Jun 30 2021**	**Mar 31 2021**	**Dec 31 2020**	**Sep 30 2020**	**Jun 30 2020**	**Mar 31 2020**	**Dec 31 2019**	**Sep 30 2019**
Revenue	$ 4,589	$ 4,883	$ 4,510	$ 3,537	$ 2,478	$ 3,397	$ 5,525	$ 5,145
Net earnings (loss)	3,908	(798)	3,735	(2,958)	(1,871)	(10,216)	(7,787)	(1,081)
Per share:								
Basic	0.01	(0.00)	0.02	(0.01)	(0.01)	(0.05)	(0.03)	(0.00)
Diluted	0.01	(0.00)	0.02	(0.01)	(0.01)	(0.05)	(0.03)	(0.00)

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

- Volatility in commodity prices and the resultant effect on revenue and net loss.
- On December 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.
- On April 30, 2021, Southern recorded a $5.7 million gain on debt retirement of the Old Facility.
- At June 30, 2021, improved natural gas strip pricing in Q2 2021 and for the remainder of calendar 2021 resulted in a realized loss on derivatives of $222 thousand and an unrealized loss on derivatives of $0.9 million.

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, expected benefits from the Company's listing on AIM, future revenues, increased operating netbacks, projected costs, resolution of title ownership issues in respect of royalty payables, expectations regarding commodity prices and global demand and supply for natural gas, government shutdowns related to COVID-19, future divestitures/acquisitions 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 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") 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:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Cash flow from operating activities	$ 543	$ 120	$ 1,632	$ 1,043
Change in non-cash working capital	206	630	399	384
Cash decommissioning expenses	-	2	-	1
Adjusted Funds Flow from Operations	**$ 749**	**$ 752**	**$ 2,031**	**$ 1,428**

"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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue	$ 4,589	$ 2,478	$ 9,472	$ 5,875
Royalties	(927)	(522)	(1,919)	(1,213)
Production and operating	(1,445)	(1,347)	(2,908)	(3,002)
Transportation costs	(58)	(23)	(116)	(65)
Realized (loss) gain on derivatives	(222)	933	(360)	1,518
Operating netback	**$ 1,937**	**$ 1,519**	**$ 4,169**	**$ 3,113**

"Adjusted Working Capital" and "Net Debt"

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

	As at June 30, 2021	As at December 31, 2020	As at June 30, 2020
Current assets	$ 4,625	$ 3,613	$ 4,701
Current liabilities	(10,433)	(25,429)	(27,518)
Remove:			
Current derivative assets	-	(8)	(1,457)
Current portion of lease liabilities	172	381	371
Current portion of long-term debt	1,444	16,779	19,079
Current derivative liabilities	1,394	473	313
Adjusted working capital deficiency	**$ (2,798)**	**$ (4,191)**	**$ (4,511)**

	As at June 30, 2021	As at December 31, 2020	As at June 30, 2020
Long-term debt	$ (6,527)	$ (16,806)	$ (19,079)
Convertible debentures – face value	(8,389)	(8,389)	(8,069)
Adjusted working capital deficiency	(2,798)	(4,191)	(4,511)
Net debt	**$ (17,714)**	**$ (29,386)**	**$ (31,659)**

Abbreviations

bbl/d	barrels per day
Mcf/d	thousand cubic feet per day
Mcfe/d	thousand cubic feet equivalent per day
MMBtu/d	million British thermal units per day
boe/d	barrels of oil equivalent per day

NGLs	natural gas liquids
Gas	natural gas
Liquids	oil and NGLs
NYMEX – HH	New York Mercantile Exchange – Henry Hub
WTI	West Texas Intermediate
LLS	Louisiana Light Sweet

Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

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

Additional Information

Additional information about the Company can be obtained by contacting the Company at Suite 2400, 333 7th Avenue SW, Calgary, Alberta T2P 2Z1 or by email at info@southernenergycorp.com. Additional information, including the Company's audited financial statements for the years ended December 31, 2020 and 2019 and AIF is also available on SEDAR at www.sedar.com or www.southernenergycorp.com.