Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the years ended December 31, 2021 and 2020

(US Dollars)

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial results is provided by the management of Southern Energy Corp. ("Southern" or the "Company") and should be read in conjunction with the Company's audited Consolidated Financial Statements for the years ended December 31, 2021 and 2020 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's presentation currency is the United States ("US") dollar. The functional currency of Southern Energy Corp. is Canadian ("CAD") dollars, and its results and balance sheet items are translated to US dollars for the purposes of this MD&A and the Financial Statements, in accordance with the Company's foreign currency translation accounting policy. The functional currencies of the Company's foreign subsidiaries are US dollars.

In the fourth quarter 2021, the Company changed its presentation currency from Canadian dollars to the US dollar. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other similar publicly traded businesses in the oil and gas industry. For more information, including reconciliation of the translation of previously reported amounts please see Note 19 *Change in Presentation Currency* in the Financial Statements.

In December 2021, the Company completed a consolidation of the common shares ("Common Shares") on the basis of one post-consolidated Common Share for every eight pre-consolidation Common Shares (the "Consolidation"). The post-Consolidation Common Shares commenced trading on the TSX Venture Exchange (the "**TSXV**") and the AIM (as defined herein) on December 22, 2021. All references to Common Shares, purchase warrants, units and share based rewards in this MD&A have been adjusted retrospectively to reflect the 8:1 share consolidation and are presented on a post-Consolidation basis.

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

This MD&A is dated April 19, 2022.

About Southern

Southern is a natural gas exploration and production company with assets in Mississippi 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 natural gas and light oil 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 organic growth opportunities and strategic, accretive acquisitions.

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 natural gas and oil 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.

Operations Update

Southern has completed the drilling operations on the three well horizontal padsite in Gwinville. Site preparation for the completion operations has begun and the Company anticipates initial production from the wells in May 2022. Flowback from the completions is planned to be directly into the Gwinville gathering system to sales, with no flaring required.

Annual Overview

2021 was a transformational year as Southern successfully executed multiple transactions to significantly improve the financial position and liquidity of the Company and strategically position Southern for accelerated growth in 2022.

On April 30, 2021, Southern Energy Corporation (Delaware) ("Southern US") closed a transaction for the retirement of its existing senior secured credit facility (the "Previous Facility") with a cash settlement payment of $8.0 million, plus accrued interest. The $8.0 million settlement was financed 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 $4.4 million (the "Private Placement"). See the "*Liquidity and Capital Resources*" section for details of the New Facility.

Pursuant to the Private Placement, Southern issued 17.1 million units ("Units") of the Company at a price of CAD$0.32 per Unit, for aggregate gross proceeds of $4.4 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 CAD$0.32 for a period of two years following the date of issuance.

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. See "*Liquidity and Capital Resources – Debenture Financing*" for more details.

On August 10, 2021, Southern's Common Shares were admitted to trading on the AIM market of the London Stock Exchange plc ("AIM") under the symbol "SOUC". The dual listing was pursued to continue working towards the Company's 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.

On November 24, 2021, Southern closed an equity financing for aggregate gross proceeds of $10.0 million through the issuance of a total of 31.8 million Common Shares (the "Offering"), of which $5.3 million was raised pursuant to a private placement of 16.9 million Common Shares to UK investors at a price of 23.52 pence per Common Share and the remaining $4.7 million was raised pursuant to a short form prospectus offering of 14.9 million Common Shares at a price of CAD$0.40 per Common Share.

In 2021, the Henry Hub natural gas price increase 74% from 2020, to $3.71/MMbtu as industrial activity levels return to near pre-pandemic levels and natural gas exports continued to increase. Global liquified natural gas ("LNG") continues to see increased demand as many countries rebound from the economic impact of the COVID-19 pandemic. The US LNG market has grown drastically over the last 10 years, increasing from zero to now drawing almost 13 bcf per day of production out of North American supply. In the medium to long-term, LNG demand is expected to be tight as it is a reliable and lower-emissions fuel source compared to coal, which will need to be displaced, particularly in Asia, if ambitions to see a global net-zero emissions is to be achieved. China has stated they would like to be carbon neutral by 2060, relying on increased LNG imports as part of their plans to accomplish their goal.

To manage through volatile commodity prices, Southern has hedged 4,000 MMBtu/d of natural gas production for Q1 2022 through a costless collar with a floor of $3.50/MMBtu and ceiling of $5.10/MMBtu. On January 28, 2022, Southern entered into a fixed price hedge on production of 2,000 MMBtu/d of natural gas at a price of $4.61/MMBtu from March 1, 2022 through December 31, 2022. Combined with the existing fixed price hedge that Southern has in place, the Company currently has 6,000 MMBtu/d of natural gas production hedged at an average price of $3.60/MMBtu from April 1, 2022 to December 31, 2022. These hedge volumes equate to approximately 52% of its current production. On April 4, 2022, Southern entered into a costless collar with a floor of $3.50/MMBtu and a ceiling of $20.00/MMBtu for 2,000 MMBtu/d of natural gas from November 1, 2022 through March 31, 2023. See the "*Risk Management – Commodity Derivative Contracts*" section below for specific details on Southern's hedge positions.

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

FOURTH QUARTER AND YEAR END 2021 HIGHLIGHTS

- $1.4 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q4 2021 and $4.8 million for the full year of 2021, excluding $2.0 million of one-time expenses related to AIM listing (see "*Annual Overview*", above)

- Net Debt (see "*Reader Advisories – Specified Financial Measures*") reduced by $8.7 million in Q4 2021 and $16.6 million for the full year of 2021

- Average production of 12,753 Mcfe/d (91% natural gas) during Q4 2021 and 12,592 Mcfe/d (92% natural gas) for the full year of 2021, a 6% and 2% decrease from the same periods in 2020, respectively (see "*Production Summary*" below for a breakdown by product type)

- Petroleum and natural gas sales were $7.2 million in Q4 2021 and $19.9 million for the full year 2021, an increase of 107% and 91% from the same periods in 2020, respectively

- Annual net earnings of $10.1 million in 2021 ($0.24 per share – basic) compared to a net loss of $7.8 million in 2020

- Average realized oil and natural gas prices for Q4 2021 of $74.18/bbl and $5.55/Mcf, respectively, reflecting the benefit of strategic access to premium-priced US sales hubs

- Completed a series of low-cost well recompletions and workovers beginning in Q3 2021 and carrying into early Q4 2021
  - Work program had an overall cost of approximately $0.8 million and added approximately 1,250 Mcfe/d[1] (208 boe/d) of production (approximately 80% natural gas)
  - Production adds from work program helped to achieve low corporate decline rate of 2% in 2021

- In August 2021, successfully completed admission of its entire issued share capital to trading on the AIM market of the London Stock Exchange plc

- On November 24, 2021, successfully closed an equity financing for aggregate gross proceeds of $10.0 million (see "*Annual Overview*", above for more details)

- On December 29, 2021, sold the remaining assets from the non-core Black Warrior Basin CGU ("BWB CGU") for net proceeds of $0.6 million

[1] Comprised of 39 bbl/d light and medium crude oil, 2 bbl/d NGLs and 1,000 mcf/d conventional natural gas

Summary of Financial Information

(000s, except $ per share)	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020	2019 (2)
Petroleum and natural gas sales	$ 7,151	$ 3,461	$ 19,942	$ 10,431	$ 14,416
Net earnings (loss)	3,311	2,951	10,093	(7,813)	(8,318)
Net earnings (loss) per share					
Basic	0.06	0.11	0.24	(0.28)	(0.31)
Fully diluted	0.05	0.08	0.19	(0.28)	(0.31)
Adjusted funds flow from operations (1)	1,426	758	2,860	2,656	2,539
Adjusted funds flow from operations per share (1)					
Basic	0.02	0.03	0.07	0.10	0.09
Fully diluted	0.02	0.02	0.05	0.10	0.09
Capital expenditures	1,755	90	2,562	179	17,291
Weighted average shares outstanding					
Basic	58,087	27,596	42,545	27,596	26,900
Fully diluted	73,895	38,083	55,047	27,596	26,900
As at period end					
Basic common shares outstanding	78,122	27,596	78,122	27,596	27,596
Total assets	46,212	30,354	46,212	30,354	37,863
Non-current liabilities	12,609	10,138	12,609	10,138	23,485
Net debt (1)	$ 6,431	$ 23,064	$ 6,431	$ 23,064	$ 24,097

Notes:
(1) See "*Reader Advisories – Specified Financial Measures*"
(2) Excludes results from discontinued operations

Production Summary

	Three months ended December 31,		Year ended December 31,	
	2021	**2020**	**2021**	**2020**
Daily production from operations				
Oil (bbl/d)	160	166	150	145
NGLs (bbl/d)	21	28	23	21
Natural gas (Mcf/d)	11,667	12,462	11,554	11,861
Total production (Mcfe/d)	**12,753**	**13,626**	**12,592**	**12,857**
Percentage of natural gas	**91%**	**91%**	**92%**	**92%**

Production averaged 12,753 Mcfe/d in Q4 2021 and 12,592 Mcfe/d for the year ended December 31, 2021, a decrease of 6% and 2% for the same periods in 2020, respectively. The decrease in Q4 2021 and year ended December 31, 2021, compared to the same period in 2020 was primarily due to natural declines as Southern's 2021 maintenance capital program commenced in late Q3.

Southern completed a series of low-cost well recompletions and workovers beginning in Q3 2021 and carrying into early Q4. The program had an overall cost of approximately $0.8 million and added approximately 1,250 Mcfe/d (208 boe/d) comprised of 39 bbl/d light and medium crude oil, 2 bbl/d NGLs and 1,000 mcf/d conventional natural gas. These results highlight the long life, low decline profile of Southern's current base assets, which led to the low annual decline rate of 2% in 2021.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended December 31,		Year ended December 31,	
	2021	**2020**	**2021**	**2020**
(000s)				
Oil	$ 1,092	$ 601	$ 3,597	$ 2,027
NGLs	99	53	355	137
Natural gas	5,960	2,807	15,990	8,267
Total revenue	**$ 7,151**	**$ 3,461**	**$ 19,942**	**$ 10,431**

Realized commodity prices

	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Oil ($/bbl)	$ 74.18	$ 39.35	$ 65.70	$ 38.19
NGLs ($/bbl)	51.24	20.57	42.29	17.82
Natural gas ($/Mcf)	5.55	2.45	3.79	1.90
Combined ($/Mcfe)	**$ 6.09**	**$ 2.76**	**$ 4.34**	**$ 2.22**
Benchmark prices				
Crude oil – LLS ($/bbl)	$ 78.40	$ 44.18	$ 69.48	$ 41.17
Crude oil – WTI ($/bbl)	77.19	42.75	67.92	39.44
Natural gas – HH ($/MMbtu)	4.85	2.77	3.71	2.13

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

In Q4 2021, Southern realized an oil price of $74.18/bbl which was an increase of 89% from the same period in 2020. For the year ended December 31, 2021, Southern's realized oil price increased 72% compared to the same period in 2020. In 2021, oil prices benefited from increased demand as countries emerged from pandemic lockdowns and the supply side was restrained by disciplined production quotas by the OPEC+ nations and North American producers limiting growth in exchange for the distribution of profits to their stakeholders through share buy backs and dividends.

Southern realized a price of $5.55/Mcf in Q4 2021, a 127% increase from Q4 2020. During the year ended December 31, 2021, Southern realized a price of $3.79/Mcf, a 99% increase from the same period in 2020. In 2021, natural gas prices benefited from a return to pre-pandemic demand levels, combined with the growing globalization of natural gas pricing through the increased export of LNG out of the US.

Royalties

	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
(000s)				
Oil	$ 224	$ 122	$ 736	$ 414
NGLs	17	9	63	24
Natural gas	1,229	569	3,265	1,680
Total royalties	**$ 1,470**	**$ 700**	**$ 4,064**	**$ 2,118**
Royalties as a % of revenue	**20.6%**	**20.2%**	**20.4%**	**20.3%**

Royalty expenses were $1.5 million in Q4 2021 and $4.1 million for the year ended December 31, 2021, an increase of 110% and 92%, 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 2022 as royalty agreements are based on a fixed royalty rate.

Production, Operating and Transportation Expenses

	Three months ended December 31,		Year ended December 31,	
	2021	**2020**	**2021**	**2020**
(000s)				
Operating expenses	$ 919	$ 879	$ 3,791	$ 3,755
Production taxes	432	209	1,199	627
Transportation expense	44	58	183	166
Total production, operating and transportation	**$ 1,395**	**$ 1,146**	**$ 5,173**	**$ 4,548**

Operating expenses were $0.9 million ($0.78/Mcfe) in Q4 2021, which was a small increase of 5% or $0.08/Mcfe compared to the same period in 2020. For the year ended December 31, 2021, operating expenses were $3.8 million ($0.82/Mcfe), which were relatively inline on a dollar and per Mcfe basis compared to the same period in 2020. Southern continues to focus on optimizing certain fields and utilizing company owned equipment where possible to keep operating costs low to help offset the current inflationary environment for labour and equipment.

Q4 2021 production taxes of $432 thousand (6.0% as a percentage of revenue) and $1.2 million for the year ended December 31, 2021, were related to a 6% severance tax charged by the State of Mississippi on all oil and natural gas production. Mississippi has a severance tax relief program, where new horizontal wells that are drilled are charged a severance tax rate of 1.3% for a period not to exceed thirty months from the date of the first sale of production from the wells or until the well reaches payout status, whichever occurs first. Payout is deemed to have occurred the first day of the next month after gross revenue, less royalties and severance taxes, equal the costs to drill and complete the well. Southern expects that the current three well drilling program (see "*Operations Update*", for more information) will qualify for this reduced severance tax relief program.

Transportation expenses of $44 thousand ($0.04/Mcfe) in Q4 2021 and $183 thousand ($0.04/Mcfe) for the twelve months of 2021 are related to pipeline fees at Mechanicsburg for the transportation of Southern's natural gas volumes to the sales meter (approximately $0.21/Mcf). Transportation fees in Q4 2021 were lower than Q4 2020 due to lower volumes at Mechanicsburg. Transportation fees for the year ended December 31, 2021, were 10% higher than the same period in 2020, as a result of a third-party pipeline force majeure event in March 2020.

Operating Netback

	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
($/Mcfe)				
Petroleum and natural gas revenue	$ 6.09	$ 2.76	$ 4.34	$ 2.22
Royalties	(1.25)	(0.56)	(0.88)	(0.45)
Production and operating	(1.15)	(0.87)	(1.09)	(0.93)
Transportation costs	(0.04)	(0.05)	(0.04)	(0.04)
Realized (loss) / gain on derivatives	(1.44)	0.11	(0.59)	0.38
Operating netback per Mcfe (1)	**$ 2.21**	**$ 1.39**	**$ 1.74**	**$ 1.18**
Operating netback % of revenue (1)	**36%**	**50%**	**40%**	**53%**

Notes:
(1) See "*Reader Advisories – Specified Financial Measures*".

Southern's operating netbacks improved by 59% and 47% for the three and twelve months ended December 31, 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, as Southern's average hedge price in 2021 was $2.52/MMbtu. While the resulting realized losses on commodity contracts had an impact on cash flow from operating activities as gas prices rallied in the second half of 2021, Southern expects the impact will moderate in 2022 as some of these older natural gas hedges expired on December 31, 2021.

General & Administrative and Transaction Costs

	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
(000s)				
General and administrative	$ 1,037	$ 856	$ 3,049	$ 2,739
Transaction costs	217	141	2,154	141
Total	**$ 1,254**	**$ 997**	**$ 5,203**	**$ 2,880**

General and administrative costs were $1.0 million in Q4 2021 and $3.0 million for the full year of 2021, an increase of 21% and 11% for the same periods in 2020. The increase was primarily from the increased costs related to compliance and regulatory expenses related to the AIM listing.

Transaction costs of $0.2 million and $2.0 million for the three and twelve months ended December 31, 2021, were primarily related to the dual listing of Southern's Common Shares on AIM in August 2021.

Finance Expense

(000s)	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Bank Interest	$ 151	$ 187	$ 662	$ 660
Convertible debenture interest	134	124	535	481
Lease interest	12	(9)	35	130
Accretion	160	178	644	550
Total finance expense	**$ 457**	**$ 480**	**$ 1,876**	**$ 1,704**

Finance expenses were lower for the three months ended December 31, 2021, compared to the same period in 2020. The decrease was primarily related to lower bank interest expenses due to a much lower credit facility balance in Q4 2021 partially offset by a higher interest rate. For more information, see "*Liquidity and Capital Resources*", below. Finance expenses were higher for the twelve months ended December 31, 2021, compared to the same period in 2020, as 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, "*Liquidity and Capital Resources*", below.

Share-based Compensation

Southern recorded share-based compensation of $117 thousand and $200 thousand in Q4 2021 and the year ended December 31, 2021, respectively, compared to $35 thousand and $210 thousand in the same periods in 2020, relating to the stock option issuances on June 20, 2019 and October 7, 2021. For more information, see "*Shareholders' Equity – Stock Option Plan*".

Depletion, Depreciation and Amortization

(000s)	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Depletion	$ 1,076	$ 934	$ 3,815	$ 3,462
Depreciation	41	72	195	285
Total depletion, depreciation and amortization	**$ 1,117**	**$ 1,006**	**$ 4,010**	**$ 3,747**

Depletion expense was $1.1 million ($0.92/Mcfe) in Q4 2021, an increase of 15% on a dollar basis and 23% on a per Mcfe basis, compared to Q4 2020 ($0.75/Mcfe). The increased expense was due to the impairment reversal at September 30, 2021, partially offset by lower production volumes in Q4 2021 compared to the same period in 2020. Depletion expense for the twelve months of 2021 was $3.8 million ($0.83/Mcfe) an increase of 10% on a dollar basis and 12% on a per Mcfe basis, compared to the full year of 2020. The increased expense was due to the impairment reversal at December 31, 2020, partially offset by lower production volumes in 2021 compared to 2020.

Depreciation expense is related to the Right-of-Use assets associated with the office space lease. Depreciation expense for Q4 2021 and the twelve months ended December 31, 2021 is lower than the comparable periods in 2020 due to the new office lease entered into on June 1, 2021 at a reduced rate compared to the previous lease.

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the cash generating units ("CGUs") that comprise oil and natural gas properties. At December 31, 2021, Southern did not identify any indicators of impairment for any of its CGUs.

March 2020

At March 31, 2020, Southern determined that the significant decrease in oil prices in March 2020 and Southern's market capitalization falling below the net assets of the Company were indications of impairment. Southern estimated the recoverable amount of all CGUs at March 31, 2020 and determined that the carrying value of the Central Mississippi CGU ("CMS CGU") and the Smackover CGU ("SO CGU") exceeded their recoverable amounts, resulting in a non-cash impairment charge of $7.3 million.

The Company estimated the recoverable amounts as fair value less costs of disposal, using the net present value of the cash flows from proved developed producing oil and gas reserves of each of the CMS CGU and SO CGU, and a 7% discount rate (equivalent to 10% pre-tax). The proved developed producing oil and gas reserves were based on reserves estimated by Southern's independent reserves evaluator at December 31, 2019, and revised price estimates at March 31, 2020.

December 2020

As a result of an increase in the forward benchmark commodity prices at December 31, 2020 compared to March 31, 2020, Southern estimated the recoverable amount of all CGUs at December 31, 2020. Southern determined that the recoverable amounts of the CMS CGU and SO CGU exceeded their carrying values, resulting in a non-cash impairment recovery of $3.6 million.

The Company estimated the recoverable amounts as fair value less costs of disposal, using the net present value of the cash flows from proved developed producing oil and gas reserves of each of the CMS CGU and SO CGU, and a 7% discount rate (equivalent to 10% pre-tax), based on reserves estimated by Southern's independent reserves evaluator at December 31, 2020.

September 2021

At September 30, 2021, Southern viewed the increase in the forward benchmark commodity prices as an indication of impairment reversal. Southern estimated the recoverable amount of all CGUs at September 30, 2021. Southern determined that the recoverable amounts of the CMS and SO CGUs exceeded their carrying values, resulting in a non-cash impairment recovery of $7.8 million.

The Company estimated the recoverable amounts as fair value less costs of disposal, using the net present value of the cash flows from proved developed producing oil and gas reserves of each CGU, and a 7% discount rate (equivalent to 10% pre-tax), based on reserves estimated by Southern's independent reserves evaluator at April 1, 2021, and updated by the Company's internal reserves evaluator to September 30, 2021 for production, production and operating costs, royalty costs, and price estimates.

Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
(000s)				
Acquisitions	$ -	$ -	$ -	$ -
Drilling and completions	1,288	-	1,288	-
Geological and geophysical	-	-	-	-
Facilities, equipment and pipelines	436	79	1,234	168
Other	31	11	40	11
Capital expenditures, before dispositions	**1,755**	**90**	**2,562**	**179**
Dispositions	**(604)**	**-**	**(790)**	**(244)**
Net capital expenditures (1)	**$ 1,151**	**$ 90**	**$ 1,772**	**$ (65)**

Notes:
(1) See "*Reader Advisories – Specified Financial Measures*".

Southern incurred $1.3 million of expenses in Q4 2021 related to preliminary work on the three well drilling program at Gwinville (see "*Operations Update*", for more information). Southern also invested $0.3 million of capital towards long term infrastructure related to the future development of the Gwinville field, including a gathering pipeline and frac pond. This investment will be utilized by future pad drilling in the area. As discussed above in the "*Production Summary*", Southern spent $0.8 million in 2021 on a low-risk recompletion and workover program to facilitate the low corporate decline rate on the existing assets.

In 2021, Southern disposed of its non-core assets in the BWB CGU through two separate transactions. The first transaction closed on May 31, 2021, for net proceeds of $80 thousand with the remaining assets sold on December 29, 2021, for net proceeds of $0.6 million.

Subsequent to the end of the year, on February 1, 2022, Southern disposed of all its non-core properties in the SO CGU for net proceeds of $0.8 million.

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 as at December 31, 2021 and 2020:

	Number of Shares	Share Capital
Balance as at December 31, 2020	27,596,303	$ 29,271
April Issuance of common shares by private placement, net of issue costs	17,078,125	2,531
July issuance of common shares to settle convertible debenture interest	487,722	269
October issuance of common shares to satisfy unit warrant exercise	162,500	56
November issuance of common shares by offering, net of issue costs	31,788,002	8,678
December issuance of common shares to settle convertible debenture interest	1,009,206	215
Balance as at December 31, 2021	**78,121,858**	**$ 41,018**

On April 30, 2021, Southern completed a Private Placement of 17.1 million Units of the Company at a price of CAD$0.32 per Unit, for aggregate gross proceeds of $4.4 million (see "*Liquidity and Capital Resources*" for more information).

In October 2021, Southern issued 162,500 new Common Shares in the Company to satisfy the exercise of Unit Warrants for proceeds of $0.1 million. As of the date of this report, there are 17.1 million Unit Warrants outstanding.

In November 2021, Southern completed an Offering pursuant to which 31.8 million Common Shares were issued: 16.9 million Common Shares were issued to UK investors pursuant to a private placement under the Offering at a price of 23.52 pence per Common Share, and 14.9 million Common Shares were issued pursuant to a short form prospectus offering at a price of CAD$0.40 per Common Share.

Warrants

On April 30, 2021, pursuant to the Private Placement, Southern issued 17.1 million units ("Units") of the Company at a price of CAD$0.32 per Unit, for aggregate gross proceeds of $4.4 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 CAD$0.32 for a period of two years following the date of issuance.

On April 30, 2021, as part of the New Facility (see "*Liquidity and Capital Resources*" for more information) the Company issued 5,156,250 Bonus Warrants (as defined below in "*Liquidity and Capital Resources*") to the lender under the New Facility.

The Company used the fair value method to account for the Unit Warrants and Bonus Warrants. The estimated fair value of Unit Warrants and Bonus Warrants were determined using the binomial option pricing model. Southern recorded $1.2 million and $0.5 million, net of tax, to Shareholders' Equity relating to the Unit Warrants and Bonus Warrants, respectively.

As at December 31, 2021, 2,413,333 performance-based Common Share purchase warrants ("Performance Warrants") had vested as the 20-day volume weighted average trading price of Common Shares ("Market Price") had exceeded CAD$1.20.

Stock Option Plan

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

The following table summaries the change in stock options outstanding:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2020	2,425,000	$ 0.80
Granted	1,428,125	0.56
Forfeited	(225,000)	0.80
Balance at December 31, 2021	**3,628,125**	**$ 0.71**

The following table summarizes information regarding stock options outstanding at December 31, 2021:

Exercise Price ($CAD/share)	Number of options outstanding (000s)	Weighted average remaining terms (years)	Weighted average exercise price for options outstanding ($CAD/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($CAD/share)
$0.56 - $0.80	**3,628**	**3.4**	**$0.71**	**1,943**	**$0.74**

On October 7, 2021, pursuant to the Company's Stock Option Plan, an aggregate of 1,428,125 stock options to purchase Common Shares of the Company were granted to directors, officers and employees of Southern. The stock options expire five years from the date of grant and are exercisable at a price of CAD$0.56 per Common Share. The stock options vest as to one third on the grant date and one third on each of the first and second anniversaries of the grant date.

Liquidity and Capital Resources

Southern has taken critical steps to improve the financial strength of the company in 2021. On April 30, 2021, Southern US closed a transaction to retire the Previous Facility with a cash settlement payment of $8.0 million, plus accrued interest. The $8.0 million settlement was financed through a new senior secured term loan of up to $8.5 million and gross proceeds from the Private Placement of $4.4 million.

Effective December 30, 2021, Southern entered into the first amendment to the New Facility (the "First Amendment"). The First Amendment included: (a) an extension to the availability of Tranche B from December 31, 2021 to April 30, 2022; and (b) the exclusion of transaction costs related to the August AIM admission (see "*Annual Overview*" for more information) from the calculation of EBITDAX (as defined below).

Details of the New Facility combined with the changes from the First Amendment include:

- $5.5 million was drawn at closing ("Tranche A"), with $3 million available up to April 30, 2022, in multiple advances of no less than $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, Impairment, and costs related to the AIM admission ("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 5,156,250 non-transferable Common Shares purchase warrants (each, a "Bonus Warrant") to the lender with an exercise price of CAD$0.40 per 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.

Upon closing of the New Facility and the Private Placement on April 30, 2021, Southern's outstanding first lien debt balance was reduced from $12.7 million to $5.5 million.

As at December 31, 2021, Southern had adjusted working capital (see "*Reader Advisories – Specified Financial Measures*") of $4.7 million. Included in the adjusted working capital is $4.5 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. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time. The royalty suspense account is made up of balances from approximately 5,000 royalty holders with over 95% of the balances being greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

In 2021, Southern had a total capital program of $2.6 million (see "*Capital Expenditures, Property Acquisitions and Dispositions*", above for more details), including $0.8 million for a minor recompletion and workover program to take advantage of the current strength in commodity prices. Southern funded the capital expenditures through a combination of non-core asset dispositions, excess adjusted funds flows from operations (see "*Reader Advisories – Specified Financial Measures*") and a $500 thousand draw from Tranche B of the New Facility. The estimated remaining costs for drilling the three wells at Gwinville is $13.0 million and is expected to be completed by the end of May 2022, and will be funded through the funds available from Tranche B of the New Facility and proceeds from the Offering.

To further support the Gwinville drilling program, Southern entered into the second amendment to the New Facility (the "Second Amendment") on April 8, 2022. The Second Amendment includes an increase of Tranche B to $4.5 million ($4.0 million available to borrow) and extension of the availability to June 30, 2022.

Southern's net debt (see "*Reader Advisories – Specified Financial Measures*") was $6.4 million at December 31, 2021, a reduction of $16.6 million compared to December 31, 2020. Southern will continue to focus on balance sheet strength, while utilizing excess adjusted funds flows from operations (see "*Reader Advisories – Specified Financial Measures*") to meet the obligations of the New Facility.

Credit Facility

On April 30, 2021, Southern retired the Previous Facility and entered into the New Facility. For more information see "*Liquidity and Capital Resources*", above. The retirement of the Previous Facility resulted in a gain on debt retirement of $4.5 million recorded in the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). The new $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 December, 2021, Southern had $4.5 million drawn on the New Facility.

Below are the financial covenant calculations on the New Facility for December 31, 2021:

Financial covenant	Limit	As at Dec 31, 2021	As at Dec 31, 2020
Asset Coverage ratio (Collateral value / Outstanding principal)	Minimum 2.00	6.55	N/A
Debt Service Coverage ratio (EBITDAX / Principal + Interest)	Minimum 1.25	1.73	N/A

As at December 31, 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 CAD$1,000 per Debenture that accrue interest at the rate of 8.00% per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date").

At the Company's election, interest on the Debentures, on the date it is payable can be settled a) in cash; b) by delivering freely tradeable, treasury common shares ("Shares") of the Company to a trustee for sale, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Shares; or c) any combination of a) and b) above. At the holder's option, the Debentures are convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, or (ii) if called for redemption, the date specified for redemption by the Company, at a conversion price of CAD$0.80 per Common Share, subject to adjustment in certain events. This represents a conversion rate of

approximately 1,250 Common Shares for each CAD$1,000 principal amount of Debentures, subject to the operation of certain anti-dilution provisions contained in the indenture governing the Debentures. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the last Interest Payment Date prior to the date of conversion to the date of conversion.
The Debentures are direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the senior secured term loan, and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

Prior to the Maturity Date, the Debentures are redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 102.5% of their principal amount plus accrued and unpaid interest, if any.

The accrued interest payment due on December 31, 2020, was settled in-kind through the issuance of 320 additional Debentures. The in-kind interest payment was approved by extraordinary resolution of the holders of the Debentures pursuant to the Company's debenture indenture with the trustee dated June 14, 2019. 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 CAD$1.00 to CAD$0.80; and
- 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 487,722 Common Shares. The number of Common Shares was based on the Market Price of the Common Shares ending on the fifth trading day preceding June 30, 2021.

On December 31, 2021, the accrued interest payment due on December 31, 2021, was settled in-kind through the issuance of 1,009,206 Common Shares. The number of Common Shares was based the Market Price of the Common Shares ending on the fifth trading day preceding December 31, 2021.

Contractual Obligations and Commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term as at December 31, 2021:

	Total	2022	2023	2024	Thereafter
Long-term debt[1]	$ 4,543	$ 1,582	$ 1,316	$ 1,316	$ 329
Convertible debentures[2]	6,617	-	-	6,617	-
Lease obligations[3]	424	145	145	134	-
Total	**$ 11,584**	**$ 1,727**	**$ 1,461**	**$ 8,067**	**$ 329**

Notes:
(1) Long-term debt consists of New Facility – see "*Liquidity and Capital Resources*" 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;
- outbreak of military hostilities, including armed conflict between Russia and Ukraine and the potential destabilizing effect such conflict may pose for the European continent or the global oil and natural gas markets;
- 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;
- ability to obtain all necessary licences and permits required for the business of the Company;
- interest rate and foreign exchange risks;
- inflation and cost management;
- 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;
- availability of capital;
- 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, 2021 (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 Earnings (Loss) and Comprehensive Income (Loss) in the period of change.

Southern had the following commodity derivative contracts in place as at December 31, 2021:

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

Subsequent to December 31, 2021, Southern entered into the following derivative contracts:

Natural Gas	Volume	Pricing
Fixed Price Swap		
March 1, 2022 – December 31, 2022	2,000 MMBtu/d	NYMEX – HH $4.610/MMBtu
Costless Collar		
November 1, 2022 – March 31, 2023	2,000 MMBtu/d	NYMEX – HH $3.50 - $20.00/MMBtu

Eight Quarter Analysis

(*000s*) **Three months ended**	**Dec 31 2021**	**Sep 30 2021**	**Jun 30 2021**	**Mar 31 2021**	**Dec 31 2020**	**Sep 30 2020**	**Jun 30 2020**	**Mar 30 2020**
Revenue	$ 7,151	$ 5,198	$ 3,736	$ 3,857	$ 3,461	$ 2,655	$ 1,789	$ 2,526
Net earnings (loss)	3,311	4,314	3,099	(631)	2,951	(2,220)	(1,350)	(7,194)
Per share:								
Basic	0.06	0.10	0.08	(0.02)	0.11	(0.08)	(0.05)	(0.26)
Diluted	0.04	0.07	0.06	(0.02)	0.08	(0.08)	(0.05)	(0.26)

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 March 31, 2020, Southern recorded an impairment expense of $7.3 million for the CGUs.
- On May 28, 2020, Southern disposed of a non-core Canadian royalty asset resulting in a gain on disposal of $244 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 $1.5 million.
- At December 31, 2020, as a result of stronger future commodity forecast prices, Southern recorded an impairment recovery of $3.6 million for the CMS and SO CGUs.
- On April 30, 2021, Southern recorded a $4.5 million gain on debt retirement of the Previous 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 $181 thousand and an unrealized loss on derivatives of $0.7 million.
- At September 30, 2021, improved natural gas and strip pricing in Q3 2021 and for the remainder of calendar 2021 and calendar 2022 resulted in a realized loss on derivatives of $0.7 million and an unrealized loss on derivatives of $2.1 million.
- At September 30, 2021, as a result of stronger future commodity forecast prices, Southern recorded an impairment recovery of $7.8 million for the CMS and SO CGUs.
- On December 29, 2021, Southern disposed of the remaining assets in the BWB CGU resulting in a gain on sale of $0.6 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, the intentions of management and the Company, 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, the availability and renewal of the New Facility and lending vehicles thereunder, expected benefits from the Company's listing on AIM, expectations regarding the intended use of proceeds from the Offering, expectations regarding Southern's well recompletion and workover programs and the effects thereof on the Company's financial position, the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and exchange rates, plans regarding Southern's capital programs and well drilling programs and the costs, sources of funding and expected completion dates thereof, 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 and variant strains of the virus, 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, the continued availability of capital and skilled personnel, drilling results, the ability to obtain financing on acceptable terms, ability to comply with ongoing obligations under credit facilities, allocation of capital resources, the ability to enter into future derivative contracts on acceptable terms, the impact of increasing competition, the continuation of the current tax, royalty and regulatory regimes, the volatility in commodity prices and oil price differentials and the resulting effect on the Company's financial results, the actions of OPEC and non-OPEC oil and gas exporting countries to set production levels and the influence thereof on oil prices and global demand, the impact of inflation on costs, and the impact of COVID-19 and variant strains of the virus. 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 "Specified Financial 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, changes in tax, royalty or environmental legislation, government regulation and policy generally, geo-political risks, political and economic instability abroad, wars (including Russia's military actions in Ukraine), hostilities, civil insurrections, increased operating and capital costs due to inflationary pressures, 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. Ongoing military actions between Russia and the Ukraine have the potential to threaten the supply of oil and gas from the region. The long-term impacts of the actions between these nations remains uncertain.

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, 2021, 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 "Specified Financial 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.

Specified Financial Measures

This MD&A contains various specified financial measures, including non-IFRS financial measures, non-IFRS financial ratios and capital management measures. Management has incorporated certain specified financial measures commonly used in the oil and natural gas industry, such as adjusted funds flow from operations, operating netback, adjusted working capital, net capital expenditures 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 specified financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The specified financial measures and their manner of reconciliation to IFRS financial measures are discussed below. These specified financial 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.

"Adjusted Funds Flow from Operations"

Adjusted funds flow from operations (non-IFRS financial measure) is calculated based on cash flow from operating activities before changes in non-cash adjusted working capital and cash decommissioning expenditures. 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. Adjusted Funds Flow from Operations per share is calculated using the same weighted average basic and diluted shares that are used in calculating net earnings (loss) per share. The reconciliation between funds flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

	Three months ended December 31,		**Year ended December 31,**	
	2021	**2020**	**2021**	**2020**
Cash flow from operating activities	$ 1,515	$ 1,337	$ 2,907	$ 2,608
Change in non-cash working capital	(95)	(578)	(78)	44
Cash decommissioning expenses	6	(1)	31	4
Adjusted Funds Flow from Operations	**$ 1,426**	**$ 758**	**$ 2,860**	**$ 2,656**

"Operating Netback"

Operating Netback (non-IFRS financial measure) is calculated as oil and natural gas sales less royalties, production taxes, operating expenses, transportation costs and realized gain (loss) on derivatives. Operating Netback may also be calculated on a per Mcfe basis and as a percentage of revenue. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices.

	Three months ended December 31, 2021	Three months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Revenue	$ 7,151	$ 3,461	$ 19,942	$ 10,431
Royalties	(1,470)	(700)	(4,064)	(2,118)
Production and operating	(1,350)	(1,088)	(4,990)	(4,382)
Transportation costs	(44)	(58)	(183)	(166)
Realized (loss) gain on derivatives	(1,684)	140	(2,719)	1,771
Operating netback	**$ 2,603**	**$ 1,755**	**$ 7,986**	**$ 5,536**

"Adjusted Working Capital" and "Net Debt"

The below tables outline Southern's calculation of adjusted working capital and net debt. Management monitors adjusted working capital (capital management measure) and net debt (capital management measure) as part of its capital structure in order to fund current operations and future growth of the Company.

	As at December 31, 2021	As at December 31, 2020	As at December 31, 2019
Current assets	$ 12,622	$ 2,838	$ 3,090
Current liabilities	(9,790)	(19,973)	(6,718)
Remove:			
Current derivative assets	(46)	(6)	(631)
Current portion of lease liabilities	128	299	294
Current portion of long-term debt	1,183	13,179	-
Current derivative liabilities	632	372	81
Adjusted working capital (deficiency)	**$ 4,729**	**$ (3,291)**	**$ (3,884)**

	As at December 31, 2021	As at December 31, 2020	As at December 31, 2019
Long-term debt	$ (4,543)	$ (13,200)	$ (14,000)
Convertible debentures – face value	(6,617)	(6,573)	(6,213)
Adjusted working capital (deficiency)	4,729	(3,291)	(3,884)
Net debt	**$ (6,431)**	**$ (23,064)**	**$ (24,097)**

"Net Capital Expenditures"

Southern uses "Net Capital Expenditures" (capital management measure) to measure its capital investment level compared to the Company's annual budgeted capital expenditures after dispositions. "Net Capital Expenditures" is calculated by subtracting proceeds from dispositions from capital expenditure costs. The directly comparable IFRS measure is net cash (used) provided by investing activities. The following table details the composition of capital expenditures and its reconciliation to cash used in investing activities:

	Three months ended December 31,		**Year ended December 31,**	
	2021	**2020**	**2021**	**2020**
Net cash used (provided) by investing activities	$ 661	$ 34	$ 831	$ (54)
Change in non-cash working capital	490	56	941	(11)
Net Capital Expenditures	**$ 1,151**	**$ 90**	**$ 1,772**	**$ (65)**

Abbreviations

bbl	barrels
bbl/d	barrels per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet equivalent
Mcfe/d	thousand cubic feet equivalent per day
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
boe	barrels of oil
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, 2021 and 2020 and AIF is also available on SEDAR at www.sedar.com or www.southernenergycorp.com.