

Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three and six months ended June 30, 2022 and 2021

(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 unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2022 and 2021 (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 ("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 14 *Change in Presentation Currency* in the Financial Statements.

In December 2021, the Company completed a consolidation of its common shares ("Common Shares") on the basis of one post-consolidation 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 market of the London Stock Exchange plc ("AIM") 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 August 23, 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

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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

In Q2 2022, Southern was successful at safely and effectively bringing all three of the recently drilled wells from the horizontal padsite at Gwinville online. During a partial month of June 2022, the combined wells contributed approximately 2,600 Mcf/d of natural gas production to Q2 2022.

SECOND QUARTER HIGHLIGHTS

- \$3.6 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q2 2022, representing an increase of 490% from the same period in 2021 and \$5.8 million for the six months ended June 30, 2022, representing an increase of 260% compared to the same period in 2021
- Net earnings of \$2.8 million in Q2 2022 (\$0.03 earnings per share – basic and diluted) compared to net earnings of \$3.1 million in the same period of 2021, which included a one-time gain of \$4.5 million on debt retirement
- Petroleum and natural gas sales were \$10.3 million in Q2 2022, an increase of 176% from the same period in 2021
- Completed and successfully brought online all three wells from the initial Gwinville appraisal program (see "*Operations Update*" for more information)
- Q2 2022 average production of 14,169 Mcfe/d (95% natural gas), which included only a partial month of June from the three new wells at Gwinville, was an increase of 14% from the same period in 2021 (see "*Production Summary*" below for a breakdown by product type)
- Average realized oil and natural gas prices for Q2 2022 of \$109.01/bbl and \$7.53/Mcf, respectively, reflecting the benefit of strategic access to premium-priced US sales hubs and macroeconomic factors
- Exited Q2 2022 with Net Debt (see "*Reader Advisories – Specified Financial Measures*") of \$12.8 million, and Net Debt to annualized Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") of 0.9x
- Announced a bought deal prospectus offering and placing, which successfully closed on July 7, 2022, raising aggregate gross proceeds of \$31.0 million

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Summary of Financial Information

<i>(000s, except \$ per share)</i>	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Petroleum and natural gas sales	\$ 10,311	\$ 3,736	\$ 16,236	\$ 7,593
Net earnings	2,838	3,099	984	2,468
Net earnings per share				
Basic	0.03	0.08	0.01	0.07
Fully diluted	0.03	0.06	0.01	0.06
Adjusted funds flow from operations ⁽¹⁾	3,590	608	5,824	1,619
Adjusted funds flow from operations per share ⁽¹⁾				
Basic	0.04	0.02	0.07	0.05
Fully diluted	0.04	0.01	0.06	0.04
Capital expenditures	10,104	36	16,976	93
Weighted average shares outstanding				
Basic	83,302	39,044	80,742	33,352
Fully diluted	101,011	54,943	91,796	45,235
As at period end				
Basic common shares outstanding	89,537	44,674	89,537	44,674
Total assets	58,347	29,254	58,347	29,254
Non-current liabilities	10,013	13,486	10,013	13,486
Net debt ⁽¹⁾	\$ 12,814	\$ 14,292	\$ 12,184	\$ 14,292

Notes:

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

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Production Summary

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Average daily production from operations				
Oil (bbl/d)	100	139	120	146
NGLs (bbl/d)	13	28	24	24
Natural gas (Mcf/d)	13,491	11,465	12,044	11,673
Total production (Mcf/d)	14,169	12,467	12,848	12,693
Percentage of natural gas	95%	92%	94%	92%

Production averaged 14,169 Mcfe/d in Q2 2022 and 12,848 Mcfe/d for the first six months of 2022, an increase of 14% and 1%, respectively, from the same periods in 2021, primarily due to the impact of the new wells in Gwinville coming online in Q2 2022, partially offset by the Mechanicsburg assets being down for 10 days due to compressor repairs, small non-core dispositions of the Black Warrior Basin ("BWB") CGU in 2021 and the Smackover ("SO") CGU on February 1, 2022 and the natural declines of the existing wells. The three wells at Gwinville contributed approximately 2,600 Mcf/d of natural gas during a partial month of June to Q2 2022 production.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
<i>(000s)</i>				
Oil	\$ 992	\$ 800	\$ 2,183	\$ 1,575
NGLs	80	94	166	158
Natural gas	9,239	2,842	13,887	5,860
Total revenue	\$ 10,311	\$ 3,736	\$ 16,236	\$ 7,593

Realized commodity prices

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Oil (\$/bbl)	\$ 109.01	\$ 63.25	\$ 100.51	\$ 59.60
NGLs (\$/bbl)	67.62	36.89	65.51	26.37
Natural gas (\$/Mcf)	7.53	2.72	6.37	2.27
Combined (\$/Mcf)	\$ 8.00	\$ 3.29	\$ 6.98	\$ 3.30
Benchmark prices				
Crude oil – LLS (\$/bbl)	\$ 110.09	\$ 68.02	\$ 103.32	\$ 63.97
Crude oil – WTI (\$/bbl)	108.41	66.12	101.35	61.96
Natural gas – HH (\$/MMbtu)	7.49	2.97	6.03	2.84

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.

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In Q2 2022, Southern realized an oil price of \$109.01/bbl which was an increase of 72% from the same period in 2021. For the first half of 2022, Southern's realized oil price increased 69% compared to the same period in 2021. Oil prices continued their strength into Q2 2022 due to global concerns over oil supply as demand continues to improve on fundamentals and the belief that we are moving towards the end of the novel coronavirus ("COVID-19") related lock downs and restrictions.

Southern realized a price of \$7.53/Mcf in Q2 2022, a 177% increase from Q2 2021. During the first half of 2021, Southern realized a price of \$6.37/Mcf, a 181% increase from the same period in 2021. Natural gas prices remained elevated in the second quarter of 2022. This was driven by the continued domestic and global demand for natural gas through the domestic industrial and gas-fired power requirements, the expanded export of Liquefied Natural Gas ("LNG") out of the US Gulf Coast and Europe's need to secure alternative long-term energy supply sources. The Southern US has seen very hot weather to start the summer which has increased natural gas demand and resulted in spot and basis premiums to NYMEX where a portion of Southern's gas is currently being sold.

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
<i>(000s)</i>				
Oil	\$ 197	\$ 164	\$ 434	\$ 322
NGLs	14	16	29	29
Natural gas	1,889	575	2,838	1,188
Total royalties	\$ 2,100	\$ 755	\$ 3,301	\$ 1,539
Royalties as a % of revenue	20.4%	20.2%	20.3%	20.3%

Royalties were \$2.1 million in Q2 2022 and \$3.3 million for the first six months of 2022, an increase of 178% and 114%, respectively, from the same periods in 2021. The increase was due to increased natural gas production from the new wells in Gwinville and 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 fixed royalty rates.

Production, Operating and Transportation Expenses

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
<i>(000s)</i>				
Operating expenses	\$ 985	\$ 953	\$ 2,006	\$ 1,877
Production taxes	526	224	883	455
Transportation expense	32	47	71	93
Total production, operating and transportation	\$ 1,543	\$ 1,224	\$ 2,960	\$ 2,425

Operating expenses were \$1.0 million (\$0.76/Mcfe) in Q2 2022, which were an increase of 3% on a dollar basis but a decrease of \$0.08/Mcfe compared to the same period in 2021. For the first half of 2022, operating expenses were \$2.0 million (\$0.86/Mcfe), which were 7% higher or an increase of \$0.04/Mcfe compared to the same period in 2021. The three new wells in Gwinville will utilize existing Company

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owned infrastructure, which will allow Southern to add this new production with a minimal increase to operating expenses. 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.

Q2 2022 production taxes of \$526 thousand and \$883 thousand for the three and six months ended June 30, 2022, respectively, 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 has received confirmation that the three new wells at Gwinville qualify for this reduced severance tax relief program.

Transportation expenses of \$32 thousand (\$0.02/Mcfe) in Q2 2022 and \$71 thousand (\$0.03/Mcfe) in the first six months of 2022 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 2022 were lower than 2021 due to lower volumes at Mechanicsburg.

Operating Netback

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
<i>(\$/Mcfe)</i>				
Petroleum and natural gas revenue	\$ 8.00	\$ 3.29	\$ 6.98	\$ 3.30
Royalties	(1.63)	(0.67)	(1.42)	(0.67)
Production and operating	(1.17)	(1.04)	(1.24)	(1.02)
Transportation costs	(0.02)	(0.04)	(0.03)	(0.04)
Operating netback per Mcfe before derivatives ⁽¹⁾	\$ 5.18	\$ 1.54	\$ 4.29	\$ 1.57
Realized loss on derivatives	(1.51)	(0.16)	(0.89)	(0.13)
Operating netback per Mcfe ⁽¹⁾	\$ 3.67	\$ 1.38	\$ 3.40	\$ 1.44
Operating netback % of revenue ⁽¹⁾	46%	42%	49%	44%

Notes:

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

Southern's operating netbacks improved by 166% for the three months ended June 30, 2022 and 136% for the first half of 2022, compared to the same periods in 2021. The increase was driven primarily from higher commodity prices, partially offset by increased royalties and realized commodity hedging losses in 2022.

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General & Administrative and Transaction Costs

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
(000s)				
General and administrative	\$ 1,070	\$ 646	\$ 2,007	\$ 1,328
Transaction costs	58	322	58	391
Total	\$ 1,128	\$ 968	\$ 2,065	\$ 1,719

General and administrative costs were \$1.1 million in Q2 2022 and \$2.0 million for the first six months of 2022, an increase of 66% and 51%, respectively, from the same periods in 2021. The increase was primarily related to the ongoing costs of compliance associated with the Company's admission to AIM and corporate salaries returning to normal levels after the reductions made in Q2 2020 to help protect the balance sheet at the start of the COVID-19 pandemic.

Transaction costs of \$58 thousand in Q2 2022 were related to legal fees on a potential transaction. 2021 transaction costs of \$322 thousand in Q2 and \$391 thousand for the first six months were primarily related to the AIM admission process.

Finance Expense

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
(000s)				
Bank Interest	\$ 137	\$ 143	\$ 265	\$ 350
Convertible debenture interest	103	137	234	267
Lease interest	9	7	20	11
Accretion	163	195	317	335
Total finance expense	\$ 412	\$ 482	\$ 836	\$ 963

Finance expenses were lower for the three and six months ended June 30, 2022, compared to the same periods in 2021. The decrease was primarily related to lower bank interest expenses due to a lower credit facility balance in 2022 partially offset by a higher interest rate. For more information, see "*Liquidity and Capital Resources*", below.

Share-based Compensation

Southern recorded share-based compensation of \$38 thousand and \$78 thousand in Q2 2022 and the first half of 2022, respectively, compared to \$34 thousand and \$69 thousand in the same periods in 2021, relating to the stock option issuances on June 20, 2019 and October 7, 2021. For more information, see "*Shareholders' Equity – Stock Option Plan*".

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Depletion, Depreciation and Amortization

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
(000s)				
Depletion	\$ 1,185	\$ 914	\$ 2,201	\$ 1,845
Depreciation	42	46	76	123
Total depletion, depreciation and amortization	\$ 1,227	\$ 960	\$ 2,277	\$ 1,968

Depletion expense was \$1.2 million (\$0.92/Mcfe) in Q2 2022, an increase of 30% on a dollar basis and 14% on a per Mcfe basis, compared to Q2 2021 (\$0.81/Mcfe). The higher expense was due to increased production volumes in Q2 2022 compared to the same period in 2021. Depletion expense for the first half of 2022 was \$2.2 million (\$0.95/Mcfe) which was 19% higher on a dollar and per Mcfe basis compared to the same periods in 2021, primarily due to higher production volumes in 2022.

Depreciation expense is primarily related to the Right-of-Use assets associated with the office space lease. Depreciation expense for in 2022 is lower than the comparable periods in 2021 due to the new office lease entered into on June 1, 2021 at a reduced rate compared to the previous lease.

Impairment

At June 30, 2022, Southern did not identify any indicators of impairment for any of its 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,	
	2022	2021	2022	2021
(000s)				
Acquisitions	\$ -	\$ -	\$ -	\$ -
Drilling and completions	9,008	-	14,842	-
Geological and geophysical	22	-	33	-
Facilities, equipment and pipelines	894	36	1,918	93
Other	180	-	183	-
Capital expenditures, before Dispositions	10,104	36	16,976	93
Dispositions	-	(79)	(759)	(186)
Net capital expenditures ⁽¹⁾	\$ 10,104	\$ (43)	\$ 16,217	\$ (93)

Notes:

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

Southern incurred \$9.0 million of expenses in Q2 2022 and \$14.8 million for the first six months of 2022 related to the three well drilling program at Gwinville (see "Operations Update", for more information). Southern also invested \$1.9 million of capital in the first half of 2022 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.

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 voting Common Shares and an unlimited number of preferred shares.

The following table reflects the Company's outstanding Common Shares at June 30, 2022 and December 31, 2021:

	Number of Shares	Share Capital
Balance as at December 31, 2021	78,121,858	\$ 41,018
Issuance of common shares to satisfy unit warrant exercise	5,425,000	1,710
Issuance of common shares to satisfy conversion of convertible debentures	4,740,000	3,023
Issuance of common shares to satisfy bonus warrant exercise	1,250,000	490
Share issuance costs	-	(74)
Balance as at June 30, 2022	89,536,858	\$ 46,167

On July 7, 2022, Southern closed an equity financing for aggregate gross proceeds of \$31.0 million through the issuance of a total of 46,371,927 Common Shares (the "Offering"), of which \$17.5 million was raised pursuant to a bought deal prospectus offering of 26.1 million Common Shares at a price of CAD\$0.87 per Common Share and the remaining \$13.5 million was raised pursuant to an accelerated bookbuild of 20.3 million Common Shares at a price of 54.5 pence per Common Share.

Warrants

As at June 30, 2022, 5,587,500 Unit Warrants had been exercised at a price of CAD\$0.32 for proceeds of CAD\$1.8 million. There are 11,490,625 remaining Unit Warrants with an expiry date of April 30, 2023.

As at June 30, 2022, 1,250,000 common share purchase warrants ("Bonus Warrants") issued with the closing of the Credit Facility in April 2021 were exercised at a price of CAD\$0.40 for proceeds of CAD\$0.5 million. There are 3,906,250 remaining Bonus Warrants with an expiry date on the earlier of: (a) a liquidity event resulting in the sale of Southern Energy Corporation (Delaware); or (b) the maturity date of the Credit Facility.

As at June 30, 2022, 2,413,333 performance-based Common Share purchase warrants ("Performance Warrants") had vested as the 20-day volume weighted average trading price ("Market Price") of the Common Shares had exceeded CAD\$1.20. The Performance Warrants have an exercise price of CAD\$0.80.

On April 21, 2022, an amendment was adopted by the Board to the acceleration provisions of the 7,240,000 Performance Warrants issued in 2018. Pursuant to such amendment, the Performance Warrants vest and become exercisable as to one-third upon the Market Price equaling or exceeding

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CAD\$1.20, an additional one-third upon the Market Price equaling or exceeding CAD\$1.35 and a final one-third upon the Market Price equaling or exceeding CAD\$1.50. In addition, in the event the Market Price equals or exceeds CAD\$1.65, each Performance Warrant shall be exercisable for 1.5 Common Shares, provided that, at the time of exercise in respect of the additional 0.5 of a Common Share per Performance Warrant, the Common Shares are listed on the facilities of a recognized stock exchange (other than the TSXV) or the Common Shares are acquired for cash or for the securities of a company listed on a recognized stock exchange (other than the TSXV). These acceleration thresholds were previously set at CAD\$1.20, CAD\$1.60, CAD\$2.00, and CAD\$3.20, respectively, prior to the amendments that were adopted by the Board.

Share Award Incentive Plan

The following table reflects the Company's outstanding options to purchase Common Shares at June 30, 2022 and December 31, 2021:

The following table summarizes the change in stock options outstanding:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2021	3,628,125	\$ 0.71
Balance at June 30, 2022	3,628,125	\$ 0.71

The following table summarizes information regarding stock options outstanding at June 30, 2022:

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	2.9	\$0.71	2,676	\$0.76

Liquidity and Capital Resources

Southern continues to focus on creating balance sheet resilience and long-term sustainability through all commodity cycles. The Company monitors its capital based on projected cash flow from operations and anticipated capital expenditures. In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt or equity financing is impacted by external conditions, including future commodity prices and global economic conditions. The Company continually monitors business conditions including changes in economic conditions, the risk of its drilling programs, forecasted commodity prices, and potential corporate or asset acquisitions.

For the first half of 2022, Southern had a total capital program of \$17.0 million (see "*Capital Expenditures, Property Acquisitions and Dispositions*", above for more details). Southern funded the capital expenditures

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through a combination of non-core asset dispositions, excess adjusted funds flows from operations (see "Reader Advisories – Specified Financial Measures") and aggregate gross proceeds of \$10.0 million from the November 2021 equity financing. To further support the Gwinville drilling program, Southern entered into the second amendment to the Credit Facility (the "Second Amendment") on April 8, 2022. The Second Amendment includes an increase of Tranche B to \$4.5 million and extension of the availability to June 30, 2022. As at June 30, 2022, Southern was fully drawn on Tranche B.

Southern's Board has approved a capital budget of \$34.4 million for the second half of 2022 that will include the drilling, completion and equipping of five horizontal Gwinville wells, as well as pad construction, in-field pipelines and water disposal well conversions that will help service the next few years of Gwinville development. This capital budget will be funded through the net proceeds of the Offering (see "Shareholder's Equity") and excess adjusted funds flow from operations (see "Reader Advisories – Specified Financial Measures").

	June 30, 2022	December 31, 2021	June 30, 2021
Long-term debt	\$ (6,803)	\$ (4,543)	\$ (5,266)
Convertible debentures – face value	(3,567)	(6,617)	(6,769)
Adjusted working capital (deficiency)	(2,444)	4,729	(2,257)
Net debt	\$ (12,814)	\$ (6,431)	\$ (14,292)
Quarterly adjusted funds flow from operations	3,590	1,426	608
Annualized factor	4	4	4
Annualized adjusted funds flow	14,360	5,704	2,432
Net debt to annualized adjusted funds flow	0.89x	1.13x	5.88x

As at June 30, 2022, Southern had an adjusted working capital deficiency (see "Reader Advisories – Specified Financial Measures") of \$2.4 million. Included in the adjusted working capital is \$4.6 million of non-interest-bearing royalty payables related to unresolved title or ownership issues. 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.

Southern's net debt (see "Reader Advisories – Specified Financial Measures") was \$12.8 million as at June 30, 2022. This compares to a net debt balance of \$6.4 million as at December 31, 2021 and \$14.3 million as at June 30, 2021. The increased net debt as at June 30, 2022 as compared to December 31, 2021, is a result of Southern borrowing the remaining balance available from Tranche B of the Credit Facility to help fund the Gwinville drilling program. With the full capital spend for the Gwinville wells prior to June 30, 2022 and only a partial period of Q2 2022 having the impact of the new wells on adjusted funds flow, the net debt to annualized adjusted funds flow (see "Reader Advisories – Specified Financial Measures") decreased to 0.89x at June 30, 2022. 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 Credit Facility.

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Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing senior secured term loan ("Credit Facility") at June 30, 2022. The Credit Facility is comprised of Tranche A of \$5.5 million that was advanced at closing on April 30, 2021 and Tranche B of \$4.5 million (\$4.5 million drawn at June 30, 2022) with an availability until June 30, 2022. Interest on the Credit Facility is 12% per annum, paid monthly in arrears on the last day of the month. The Credit Facility is secured against the oil and gas properties of Southern and matures on April 30, 2024. As at June 30, 2022, Southern had \$6.8 million drawn on the Credit Facility.

The Credit Facility includes a monthly repayment of the principal amount outstanding 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, and costs related to the AIM admission ("EBITDAX"), less the aggregate of the Credit Facility principal and interest payments.

In Q2 2022, the Company entered into amending agreements to the Credit Facility:

- on April 8, 2022 to increase Tranche B to \$4.5 million and extend the availability to June 30, 2022 from April 30, 2022; and
- on May 2, 2022 to increase flexibility in payment of interest of the Debentures (as defined herein).

On August 19, 2022, Southern entered into a non-binding term sheet with its current lender in respect to the Credit Facility, which proposes, among other amendments, an increase of \$25 million to Tranche B of the Credit Facility, with a maximum draw of \$10.0 million in any rolling sixty day period, and an extension of the commitment period and maturity of the Credit Facility to September 30, 2023 and August 31, 2025 for Tranche A and Tranche B, respectively. In addition, quarterly FCF repayments that were 50% of the previous quarter FCF are now replaced by a quarterly FCF grid whereby quarterly repayments are X% of the preceding quarter where X equal to 50% if ACR (as defined below) is $< 3.0x$ or DSCR (as defined below) is $< 1.4x$; or X equal to 0% if ACR is $> 5.0x$ and DSCR $> 1.7x$; otherwise 25%. A standby fee of 1.0% per annum on any undrawn Tranche B amounts.

Below are the financial covenant calculations on the Credit Facility for June 30, 2022 and December 31, 2021:

Financial covenant	Limit	As at	As at
		Jun 30, 2022	Dec 31, 2021
Asset Coverage ratio	Minimum 2.00	10.39	6.55
Debt Service Coverage ratio	Minimum 1.25	2.39	1.73

The asset coverage ratio ("ACR") of at least 2:1 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

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price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the Credit Facility.

The debt service coverage ratio ("DSCR") of greater than 1:25:1 is the ratio of EBITDAX to scheduled principal payments and interest expense.

As at June 30, 2022, Southern was in compliance with the above financial covenants.

Debenture Financing

As at June 30, 2022, Southern had 4,597 convertible debentures (the "Debentures") issued 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.

During the six months ending June 30, 2022, 4.7 million Common Shares were issued to satisfy the convertible debenture rights of 3,792 convertible debentures at a price of CAD\$0.80 per Common Share.

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, 2022:

	Total	2022	2023	2024	Thereafter
Long-term debt ⁽¹⁾	\$ 6,803	\$ 2,233	\$ 2,031	\$ 2,539	\$ -
Convertible debentures ⁽²⁾	3,567	-	-	3,567	-
Lease obligations ⁽³⁾	346	72	143	131	-
Total	\$ 10,716	\$ 2,305	\$ 2,174	\$ 6,237	\$ -

Notes:

- (1) Long-term debt consists of Credit 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;
- the ability of the Company to achieve drilling success consistent with management's expectations, including in respect of the Gwinville assets;
- global and regional supply and demand;
- 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;
- rising interest rates with further increases anticipated over the next 12 months;
- inflationary risks, including impacts on cost management, supply chain dynamics and government policies impacting operating and capital costs;
- 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;
- public sentiment towards the use of fossil fuels;
- availability of, and access to, capital on favourable or desirable terms;
- 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 and Comprehensive Income in the period of change.

Southern had the following commodity derivative contracts in place as at June 30, 2022:

Natural Gas	Volume	Pricing
<i>Fixed Price Swap</i>		
April 1, 2022 – December 31, 2022	4,000 MMBtu/d	NYMEX – HH \$3.100/MMBtu
April 1, 2022 – December 31, 2022	2,000 MMBtu/d	NYMEX – HH \$4.610/MMBtu
<i>Costless Collar</i>		
November 1, 2022 – March 31, 2023	2,000 MMBtu/d	NYMEX – HH \$3.50 - \$20.00/MMBtu
<i>Fixed Basis Swap</i>		
July 1, 2022 – July 31, 2022	8,000 MMBtu/d	NYMEX – HH + \$0.575/MMBtu
August 1, 2022 – September 30, 2022	8,000 MMBtu/d	NYMEX – HH + \$0.480/MMBtu
October 1, 2022 – December 31, 2022	8,000 MMBtu/d	NYMEX – HH + \$0.270/MMBtu

On June 28, 2022, Southern entered into a foreign currency put option on GBP10,000,000 with a strike price of 1.22 USD/GBP and premium of \$85 thousand with an expiration date of July 6, 2022. The put option was purchased to minimize foreign currency exposure during the financing process prior to settlement.

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Eight Quarter Analysis

(000s)	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Three months ended	2022	2022	2021	2021	2021	2021	2020	2020
Revenue	\$ 10,311	\$ 5,925	\$ 7,151	\$ 5,198	\$ 3,736	\$ 3,857	\$ 3,461	\$ 2,655
Net earnings (loss)	2,838	(1,855)	3,311	4,314	3,099	(631)	2,951	(2,220)
Per share:								
Basic	0.03	(0.02)	0.06	0.10	0.08	(0.02)	0.11	(0.08)
Diluted	0.03	(0.02)	0.04	0.07	0.06	(0.02)	0.08	(0.08)

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.
- At December 31, 2020, as a result of stronger future commodity forecast prices, Southern recorded an impairment recovery of \$3.6 million for the Central Mississippi ("CMS") and SO CGUs.
- On April 30, 2021, Southern recorded a \$4.5 million gain on debt retirement.
- 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.
- On February 1, 2022, Southern disposed of its non-core SO CGU resulting in a gain on sale of \$0.4 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 Credit Facility and lending vehicles thereunder, 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, future revenues, increased operating netbacks, projected costs, resolution of title ownership issues in respect of royalty payables, expectations in respect of inflationary and interest rate risks, 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, oil price differentials, actual prices received for the Company's products and the resulting effect on the Company's financial results, the Company's ability to obtain, retain and renew all requisite permits and licenses, 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, 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. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein. Changes in forecast commodity prices, differences in the timing of capital expenditures, and variances in average production estimates can have a significant impact on the key performance measures included in Southern's guidance. The Company's actual results may differ materially from these estimates.

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,		
	June 30, 2022	December 31, 2021	June 30, 2021
Cash flow from operating activities	\$ 1,916	\$ 1,515	\$ 442
Change in non-cash working capital	1,666	(95)	166
Cash decommissioning expenses	8	6	-
Adjusted Funds Flow from Operations	\$ 3,590	\$ 1,426	\$ 608

	Six months ended,	
	June 30, 2022	June 30, 2021
Cash flow from operating activities	\$ 3,505	\$ 1,300
Change in non-cash working capital	2,296	319
Cash decommissioning expenses	23	-
Adjusted Funds Flow from Operations	\$ 5,824	\$ 1,619

"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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Petroleum and natural gas revenue	\$ 10,311	\$ 3,736	\$ 16,236	\$ 7,593
Royalties	(2,100)	(755)	(3,301)	(1,539)
Production and operating	(1,511)	(1,177)	(2,889)	(2,333)
Transportation costs	(32)	(47)	(71)	(93)
Operating netback before derivatives	\$ 6,668	\$ 1,757	\$ 9,975	\$ 3,628
Realized loss on derivatives	(1,948)	(181)	(2,076)	(290)
Operating netback	\$ 4,720	\$ 1,576	\$ 7,899	\$ 3,338

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"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 June 31, 2022	As at December 31, 2021	As at June 30, 2021
Current assets	\$ 10,962	\$ 12,622	\$ 3,732
Current liabilities	(19,014)	(9,790)	(8,418)
Remove:			
Current derivative assets	(122)	(46)	-
Current portion of lease liabilities	119	128	139
Current portion of long-term debt	2,842	1,183	1,165
Current derivative liabilities	2,769	632	1,125
Adjusted working capital (deficiency)	\$ (2,444)	\$ 4,729	\$ (2,257)

	As at June 30, 2022	As at December 31, 2021	As at June 30, 2021
Long-term debt	\$ (6,803)	\$ (4,543)	\$ (5,266)
Convertible debentures – face value	(3,567)	(6,617)	(6,769)
Adjusted working capital (deficiency)	(2,444)	4,729	(2,257)
Net debt	\$ (12,814)	\$ (6,431)	\$ (14,292)

"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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net cash used by investing activities	\$ 7,744	\$ (76)	\$ 11,729	\$ (46)
Change in non-cash working capital	2,360	33	4,488	(47)
Net Capital Expenditures	\$ 10,104	\$ (43)	\$ 16,217	\$ (93)

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 the Company's AIF, are also available on SEDAR at www.sedar.com or online at www.southernenergycorp.com.