

Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the years ended December 31, 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 ("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, 2022 and 2021 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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.

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 18, 2023.

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.

Management 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.

Annual Overview

Southern was positioned to capitalize on the strong natural gas prices realized in North America during 2022 as a result of the transactions the Company completed to improve its financial position and liquidity in 2021. In line with Southern's strategy of growing inorganically during times of lower natural gas prices and developing the large inventory of organic projects during elevated commodity prices, Southern completed a three horizontal well appraisal program at Gwinville targeting the Upper Selma Chalk formation in the first half of 2022. These wells were the first drilled in the Selma Chalk formation since 2010 by a large US E&P company that invested a substantial amount of capital into the Gwinville asset.

On February 1, 2022, Southern disposed of all of its properties in the Smackover ("SO") cash generating unit ("CGU") for net proceeds of \$0.8 million. Combined with the disposition at the end of 2021 in the Black Warrior Basin ("BWB") CGU, Southern monetized \$1.4 million of non-core assets that were deployed to the high impact organic growth program at Gwinville.

On July 7, 2022, Southern closed an equity financing raising aggregate gross proceeds of \$31.0 million through the issuance of a total of 46,371,927 common shares in the Company ("Common Shares"), 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 an equivalent price of 54.5 pence per Common Share.

In August 2022, following the success of the initial three well appraisal program at Gwinville, Southern's board of directors (the "Board") approved an accelerated capital budget of \$34.4 million for the balance of 2022. The approved capital expenditures allowed Southern to commence a long-term drilling program beginning in Q4 2022. The approved development program includes the first tests of the Lower Selma and City Bank formations.

With support from its current lender, on September 1, 2022, Southern's senior secured term loan (the "Credit Facility") was increased from \$10 million to \$35 million through an increase in Tranche B borrowing capacity of \$25 million and extended the maturity date of the Credit Facility to August 31, 2025. See "*Liquidity and Capital Resources – Credit Facility*" for more details.

On November 20, 2022, the first of the three planned horizontal wells was spud. The 18-10 padsite includes two Upper Selma Chalk horizontal wells, along with the first City Bank horizontal appraisal well. See "*Operations Update*" for more details.

In Q4 2022, Southern completed two strategic capital market initiatives: the graduation to trading on OTCQX from the Pink Open Market and receipt for a final base shelf prospectus (the "Prospectus"). The graduation to trading on the OTCQX will allow better access to Southern for US investors and the Prospectus provides the Company, as a dual listed entity, with future flexibility with respect to the issuance of various securities.

2022 was a volatile year for NYMEX Henry Hub ("NYMEX HH") natural gas prices, as the summer periods saw elevated prices not seen since 2008, including the September 2022 settlement of \$9.353/MMBtu.

The average NYMEX HH price in 2022 was \$6.64/MMBtu which was 73% higher than 2021. The primary factors driving the higher prices were domestic and global demand for natural gas through the domestic industrial and gas-fired power requirements, the expanded export of Liquefied Natural Gas out of the US Gulf Coast, and Europe's need to secure alternative long-term energy supply sources. Additionally, during the summer, the Southern US region saw sustained hot weather which increased natural gas demand and the typical natural gas to coal switching was limited due to coal inventory being lower than historical levels, which resulted in spot and basis premiums to NYMEX HH, including Transco 4, where Southern sells the majority of its natural gas. To take advantage of the basis premium to NYMEX HH, Southern entered into a basis swap from April 1, 2023 to October 31, 2023 to receive a premium to NYMEX HH of \$0.32/MMBtu. See the "*Risk Management – Commodity Derivative Contracts*" section below for specific details on Southern's hedge positions.

FOURTH QUARTER AND YEAR END 2022 HIGHLIGHTS

- \$3.1 million of Adjusted Funds Flow from Operations (see “Reader Advisories – Specified Financial Measures”) in Q4 2022 (\$0.02 per share basic and diluted) compared \$1.4 million in Q4 2021 (\$0.02 per share basic and diluted) and \$17.2 million for the year ended December 31, 2022 (\$0.16 per share basic and \$0.14 per share diluted), an increase of 500% from the same period in 2021
- Net earnings of \$1.7 million (\$0.01 per share basic and diluted) and \$9.3 million (\$0.09 per share basic and \$0.08 per share diluted) for the three and twelve months ended December 31, 2022; as compared to net earnings of \$3.3 million (\$0.06 per share basic and \$0.05 per share diluted) and \$10.1 million (\$0.24 per share basic and \$0.19 per share diluted) in the same period of 2021. 2021 results included the one-time recognition of an impairment recovery and gain on debt retirement
- Petroleum and natural gas sales were \$9.8 million in Q4 2022 and \$45.2 million for the full year 2022, an increase of 37% and 127% from the same periods in 2021, respectively
- Average production of 16,084 Mcfe/d (2,681 boe/d) (96% natural gas) during Q4 2022 and 15,584 Mcfe/d (2,597 boe/d) (95% natural gas) for the full year 2022, an increase of 26% and 24% from the same periods in 2021, respectively (see “Production Summary” below for a breakdown by product type)
- Average realized natural gas and oil prices for Q4 2022 of \$6.35/Mcf and \$81.98/bbl, respectively, reflecting the benefit of strategic access to premium-priced US sales hubs in a geographic region with strong industrial and power generation natural gas demand
- On July 7, 2022, successfully closed a \$17.5 million bought deal prospectus offering in Canada and a \$13.5 million placing in the UK, raising aggregate gross proceeds of \$31.0 million
- Successfully negotiated an increase of \$25.0 million borrowing capacity with its current lender in respect of the Credit Facility to increase the total Credit Facility to \$35.0 million
- Exited Q4 2022 with Positive Net Cash (see “Reader Advisories – Specified Financial Measures”) of \$13.4 million
- In November 2022, spud three horizontal wells from the 18-10 padsite at Gwinville which includes the first City Bank appraisal well

Southern Energy Corp
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Summary of Financial Information

<i>(000s, except \$ per share)</i>	Three months ended December 31,		Year ended December 31,		
	2022	2021	2022	2021	2020
Petroleum and natural gas sales	\$ 9,830	\$ 7,151	\$ 45,217	\$ 19,942	\$ 10,431
Net earnings (loss)	1,749	3,311	9,299	10,093	(7,813)
Net earnings (loss) per share					
Basic	0.01	0.06	0.09	0.24	(0.28)
Fully diluted	0.01	0.05	0.08	0.19	(0.28)
Adjusted funds flow from operations ⁽¹⁾	3,059	1,426	17,156	2,860	2,656
Adjusted funds flow from operations per share ⁽¹⁾					
Basic	0.02	0.02	0.16	0.07	0.10
Fully diluted	0.02	0.02	0.14	0.05	0.10
Capital expenditures	10,218	1,755	30,434	2,562	179
Weighted average shares outstanding					
Basic	137,378	58,087	108,144	42,545	27,596
Fully diluted	146,797	73,895	122,972	55,047	27,596
As at period end					
Basic common shares outstanding	138,057	78,122	138,057	78,122	27,596
Total assets	97,652	46,212	97,652	46,212	30,354
Non-current liabilities	12,817	12,609	12,817	12,609	10,138
Positive net cash (net debt) ⁽¹⁾	\$ 13,437	\$ (6,431)	\$ 13,437	\$ (6,431)	\$ (23,064)

Note:

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

Operations Update

On March 29, 2023 the Company released initial results on the current drilling campaign which was a follow up to the successful three well Upper Selma Chalk appraisal program at Gwinville in early 2022 (see March 29, 2023 press release for additional information).

The Company continues to flow back the Gwinville 18-10 #1 City Bank well, with load fluid recovery of approximately 9%. Based on historic vertical and early generation horizontal well completions in the City Bank reservoir in Gwinville, peak gas rates are not expected until the load fluid recovery is closer to 20%, which is expected to be towards the end of this quarter. Early gas rates are encouraging and Southern is excited to provide further operational updates in Q2 2023 as the modern generation City Bank type curve results are established.

Remediation plans for the 18-10 #3 Upper Selma Chalk well that experienced a mechanical integrity issue with the production casing during completion operations continue to be finalized, with field execution expected in late Q2 2023.

The four wells that are awaiting completion include our first two Lower Selma Chalk laterals, along with our second City Bank lateral and one Upper Selma Chalk lateral. These four wells are some of our longest laterals to-date. They were drilled with an average lateral length of approximately 5,400' and were steered within the high-graded intervals for an average of 95% of the wellbore length. The two padsites can be brought on production within a matter of weeks once completion operations are resumed.

Production Summary

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
Average daily production from operations				
Oil (bbl/d)	107	160	116	150
NGLs (bbl/d)	11	21	14	23
Natural gas (Mcf/d)	15,376	11,667	14,804	11,554
Total production (Mcf/d)	16,084	12,753	15,584	12,592
Total production (boe/d)	2,681	2,126	2,597	2,099
Percentage of natural gas	96%	91%	95%	92%

Production averaged 16,084 Mcfe/d in Q4 2022 and 15,584 Mcfe/d for the year ended December 31, 2022, an increase of 26% and 24%, from the same periods in 2021, respectively. The increase was primarily due to the impact of the three well appraisal program at Gwinville that came online at the end of Q2 2022, partially offset by the small non-core dispositions of the BWB CGU at the end of 2021, the SO CGU on February 1, 2022 and the natural declines of the existing wells.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
(000s)				
Oil	\$ 807	\$ 1,092	\$ 3,988	\$ 3,597
NGLs	43	99	287	355
Natural gas	8,980	5,960	40,942	15,990
Total revenue	\$ 9,830	\$ 7,151	\$ 45,217	\$ 19,942

Realized commodity prices

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
Oil (\$/bbl)	\$ 81.98	\$ 74.18	\$ 94.19	\$ 65.70
NGLs (\$/bbl)	42.49	51.24	56.16	42.29
Natural gas (\$/Mcf)	6.35	5.55	7.58	3.79
Combined (\$/Mcf)	\$ 6.64	\$ 6.09	\$ 7.95	\$ 4.34
Benchmark prices				
Crude oil – LLS (\$/bbl)	\$ 85.00	\$ 78.40	\$ 96.36	\$ 69.48
Crude oil – WTI (\$/bbl)	82.65	77.19	94.23	67.92
Natural gas – NYMEX HH (\$/MMBtu)	6.26	5.83	6.64	3.84

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 NYMEX HH pricing (less or plus minor proximity adjustments) for its natural gas.

In Q4 2022, Southern realized an oil price of \$81.98/bbl which was an increase of 10% from the same period in 2021. For the year ended December 31, 2022, Southern’s realized oil price increased 43% compared to the same period in 2021. WTI benchmark oil prices have seen downward pressure from the highs in Q2 2022 as worries of global economic conditions deteriorating and a potential recession in North America persist. Overall oil prices continued to remain elevated in 2022 compared to 2021 due to global concerns over oil supply as a result of lack of investment and supply chain issues.

Southern realized a natural gas price of \$6.35/Mcf in Q4 2022, a 14% increase from Q4 2021. For the year ended December 31, 2022, Southern realized a price of \$7.58/Mcf, a 100% increase from the same period in 2021. Natural gas prices remained strong in the fourth quarter of 2022, driven by the continued domestic gas-fired power requirements and demand expectations heading into the oncoming winter heating demand season. Southern continued to receive a premium where it sells its natural gas at Transco Zone 4 compared to the NYMEX HH benchmark in Q4 2022 and based on current future strip pricing, expects this to continue into and throughout 2023.

Royalties

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
(000s)				
Oil	\$ 173	\$ 224	\$ 795	\$ 736
NGLs	8	17	51	63
Natural gas	1,963	1,229	8,917	3,265
Total royalties	\$ 2,144	\$ 1,470	\$ 9,763	\$ 4,064
Royalties as a % of revenue	21.8%	20.6%	21.6%	20.4%

Royalties were \$2.1 million in Q4 2022 and \$9.8 million for the year ended December 31, 2022, an increase of 46% and 140%, 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 NYMEX HH prices. Southern expects royalties as a percentage of revenue to average approximately 22% for 2023 as royalty agreements are based on a fixed royalty rate.

Production, Operating and Transportation Expenses

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
(000s)				
Operating expenses	\$ 1,165	\$ 919	\$ 4,336	\$ 3,791
Production taxes	488	432	2,110	1,199
Transportation expense	32	44	139	183
Total production, operating and transportation	\$ 1,685	\$ 1,395	\$ 6,585	\$ 5,173

Operating expenses were \$1.2 million (\$0.79/Mcfe) in Q4 2022, which were an increase of 27% on a dollar basis but flat on a per Mcfe basis compared to the same period in 2021. For the year ended December 31, 2022, operating expenses were \$4.3 million (\$0.76/Mcfe), which were 14% higher on a dollar basis but a decrease of \$0.06/Mcfe compared to the same period in 2021. The three new wells in Gwinville utilize existing Company owned infrastructure, allowing Southern to add this new production with a minimal increase to fixed 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. In 2022, Southern received \$116 thousand for the Employee Retention Credit ("ERC") under Section 2301 of the Coronavirus Aid, Relief, and Economic Security Act in the US, which were recognized against production and operating expenses. Southern did not receive any grants in 2021.

Production taxes of \$0.5 million and \$2.1 million for the three and twelve months ended December 31, 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,

severance taxes, and operating expenses, equal the costs to drill, complete, equip and tie-in the well. The three new wells at Gwinville qualify for this reduced severance tax relief program, which resulted in a corporate severance tax rate of 5.0% in Q4 2022.

Transportation expenses of \$32 thousand (\$0.02/Mcfe) in Q4 2022 and \$139 thousand (\$0.02/Mcfe) for the twelve 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 natural declines at Mechanicsburg.

Operating Netback

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
<i>(\$/Mcfe)</i>				
Petroleum and natural gas revenue	\$ 6.64	\$ 6.09	\$ 7.95	\$ 4.34
Royalties	(1.45)	(1.25)	(1.72)	(0.88)
Production taxes	(0.33)	(0.37)	(0.37)	(0.26)
Operating expenses	(0.79)	(0.78)	(0.76)	(0.83)
Transportation costs	(0.02)	(0.04)	(0.02)	(0.04)
Operating netback per Mcfe before derivatives ⁽¹⁾	\$ 4.05	\$ 3.65	\$ 5.08	\$ 2.33
Realized loss on derivatives	(0.99)	(1.44)	(1.27)	(0.59)
Operating netback per Mcfe ⁽¹⁾	\$ 3.06	\$ 2.21	\$ 3.81	\$ 1.74
Operating netback % of revenue ⁽¹⁾	46%	36%	48%	40%

Note:

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

Southern's operating netbacks improved by 38% and 119% for the three and twelve months ended December 31, 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.

General & Administrative and Transaction Costs

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
<i>(000s)</i>				
General and administrative	\$ 1,145	\$ 1,037	\$ 4,098	\$ 3,049
Transaction costs	184	217	265	2,154
Total	\$ 1,329	\$ 1,254	\$ 4,363	\$ 5,203
General and administrative per Mcfe	\$ 0.77	\$ 0.88	\$ 0.72	\$ 0.66

General and administrative costs were \$1.1 million in Q4 2022 and \$4.1 million for the full year of 2022, an increase of 10% and 34%, respectively, from the same periods in 2021. The increase for the full year of 2022 compared to 2021 was primarily related to the ongoing costs of compliance associated with the Company's quotation on the AIM, a market operated by the London Stock Exchange plc (the "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 \$184 thousand in Q4 2022 and \$265 thousand for the full year of 2022 were related to expenses incurred in the graduation to trading on OTCQX from the Pink Open Market, completion of the final base shelf prospectus and legal fees on business development activities. Transaction costs of \$0.2 million and \$2.2 million for the three and twelve months ended December 31, 2021, were primarily related to the AIM admission process.

Finance Expense

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
<i>(000s)</i>				
Bank Interest, net	\$ 125	\$ 151	\$ 599	\$ 662
Convertible debenture interest	64	134	369	535
Lease interest	7	12	36	35
Accretion	107	160	558	644
Total finance expense	\$ 303	\$ 457	\$ 1,562	\$ 1,876
Finance expense per Mcfe	\$ 0.20	\$ 0.39	\$ 0.27	\$ 0.41

Finance expenses were lower on both an absolute basis and per Mcfe for the three and twelve months ended December 31, 2022, compared to the same periods in 2021. The decrease was primarily related to lower interest and accretion expenses from the convertible debentures (the "Debentures") as 4,103 Debentures were converted to Common Shares in 2022 and \$90 thousand of interest income in Q4 2022 partially offset by higher interest expense related to the Credit Facility in 2022. For more information, see "Liquidity and Capital Resources", below.

Share-based Compensation

Southern recorded share-based compensation of \$0.5 million and \$1.2 million for the three and twelve months ended December 31, 2022, respectively, compared to \$0.1 million and \$0.2 million in the same periods in 2021, related to the issuance of stock options and restricted share awards. For more information, see "Shareholders' Equity – Share Award Incentive Plan".

Depletion, Depreciation and Amortization

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
<i>(000s)</i>				
Depletion	\$ 2,467	\$ 1,076	\$ 6,442	\$ 3,815
Depreciation	44	41	164	195
Total depletion, depreciation and amortization	\$ 2,511	\$ 1,117	\$ 6,606	\$ 4,010
DD&A expense per Mcfe	\$ 1.70	\$ 0.95	\$ 1.16	\$ 0.87

Depletion expense was \$2.5 million (\$1.67/Mcfe) in Q4 2022, an increase of 129% on a dollar basis and 82% on a per Mcfe basis, compared to Q4 2021 (\$0.92/Mcfe). The increased expense per Mcfe reflects

the higher costs to add reserves in the current business environment compared to the original acquisition of the assets at the end of 2018. Depletion expense for the full year of 2022 was \$6.4 million (\$1.13/Mcfe) which was 69% higher on a dollar basis and 36% higher on a per Mcfe basis compared to the same periods in 2021. The increase on a dollar basis was primarily due to an increase of production volumes from the Gwinville appraisal program.

Depreciation expense is primarily related to the Right-of-Use assets associated with the office space lease. Depreciation expense in 2022 was lower than 2021 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 CGUs that comprise oil and natural gas properties. At December 31, 2022, Southern did not identify any indicators of impairment for any of its CGUs.

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 Central Mississippi ("CMS") and SO CGUs exceeded their carrying values, resulting in a non-cash full 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		Year ended	
	December 31,		December 31,	
	2022	2021	2022	2021
<i>(000s)</i>				
Land, acquisitions and lease rentals	\$ 725	\$ -	\$ 859	\$ -
Drilling and completions	8,503	1,288	25,759	1,288
Geological and geophysical	2	-	27	-
Facilities, equipment and pipelines	979	436	3,596	1,234
Other	9	31	193	40
Capital expenditures, before Dispositions	10,218	1,755	30,434	2,562
Dispositions	-	(604)	(759)	(790)
Net capital expenditures ⁽¹⁾	\$ 10,218	\$ 1,151	\$ 29,675	\$ 1,772

Note:

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

Southern incurred \$10.2 million of capital expenditures in Q4 2022 and \$30.4 million for the twelve months ended December 31, 2022. Q4 2022 capital expenditures were primarily related to the commencement of the three well horizontal drilling program at the 18-10 padsite. For the full year 2022, capital expenditures were related to the three well appraisal program at Gwinville, commencement of the follow up drilling program and long term infrastructure related to the future development of the Gwinville field, including a gathering pipeline and frac pond.

On October 3, 2022, Southern closed an acquisition to acquire assets in its core area in the CMS CGU for \$0.6 million.

On February 1, 2022, Southern disposed of all its non-core properties in the SO CGU for net proceeds of \$0.8 million.

Decommissioning Provisions

The total decommissioning provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provision, is approximately \$14.8 million at December 31, 2022 (December 31, 2021 - \$4.3 million), which was inflated using a rate of 2.4% (December 31, 2021 - 2.3%) and discounted using a risk-free interest rate of 3.9% at December 31, 2022 (December 31, 2021 - 1.5%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 50 years into the future and will be funded from general corporate resources at the time of abandonment.

In Q4 2022, Southern completed the abandonment of three non-producing wellbores to repurpose the existing tubing and wellhead equipment to the current Gwinville development program. These abandonments were completed on a stand-alone basis rather than part of a larger abandonment program because the fair market value of the salvaged equipment was greater than the costs to abandon the wells. The provision for these abandonments was calculated using a longer time horizon and a lower cost estimate due to current inflationary environment for oilfield services and expectation that the abandonments would be part of a larger program, which would have cost efficiencies. As a result, the costs of the abandonments were materially higher than the provision. The abandonment costs in excess of the provision were recorded in the statement of earnings and comprehensive income. To reflect the actual abandonment costs in the current inflationary environment, Southern has increased the cost estimates for the decommissioning provision at December 31, 2022, which resulted in an increase of \$3.5 million to the provision.

Shareholders' Equity

Share Capital

The authorized share capital of the Company consists of an unlimited number of Common Shares and an unlimited number of preferred shares.

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

	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	268
Issuance of common shares to satisfy unit warrant exercise	162,500	55
November issuance of common shares by 2021 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
July issuance of common shares by 2022 offering	46,371,927	30,715
Issuance of common shares to satisfy unit warrant exercise	7,184,375	2,232
Issuance of common shares to satisfy conversion of convertible debentures	5,128,750	3,259
Issuance of common shares to satisfy bonus warrant exercise	1,250,000	490
Share issuance costs	-	(2,443)
Balance as at December 31, 2022	138,056,910	\$ 75,271

On April 30, 2021, Southern completed a non-brokered private placement of 17.1 million units of the Company (the "Units") at a price of CAD\$0.32 per Unit, for aggregate gross proceeds of \$4.4. Each Unit is comprised of one (1) Common Share and one (1) Common Share purchase warrant (a "Unit Warrant"). The Unit Warrants are exercisable at CAD\$0.32 and expire on April 29, 2023.

On August 10, 2021, the Company's Common Shares were admitted to trading on AIM under the symbol "SOUC". Southern incurred \$2.0 million in transaction costs as part of the AIM admission process that is included in the consolidated statement of earnings and comprehensive income as transaction costs.

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 "2021 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.

On July 7, 2022, Southern closed an equity financing raising aggregate gross proceeds of \$31.0 million through the issuance of a total of 46,371,927 Common Shares (the "2022 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.

Subsequent to December 31, 2022, 984,375 Common Shares were issued related to the exercise of Unit Warrants at a price of CAD\$0.32 from the April 2021 non-brokered private placement for proceeds of CAD\$0.3 million. There are 8,746,875 remaining Unit Warrants with an expiry date of April 30, 2023.

Warrants

As at December 31, 2022, 7,346,875 of the 17,078,125 Unit Warrants had been exercised at a price of CAD\$0.32 for proceeds of CAD\$2.4 million.

As at December 31, 2022, 1,250,000 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) April 30, 2024.

As at December 31, 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 and expire on December 19, 2023.

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 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.

Stock Option Plan

Under the Company's security based compensation arrangement, which includes the stock option plan and share award incentive plan, the Company may grant options or share awards to its directors, officers, employees and consultants, up to a maximum of 10% of the issued and outstanding Common Shares at the time of the grant, with a maximum of 5% of the Company's issued and outstanding shares reserved for any one (1) person on a yearly basis. The maximum stock option term is 10 years from the grant date with vesting terms set at the discretion of the Board.

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

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2021	3,628,125	\$ 0.71
Granted	4,000,000	1.01
Balance at December 31, 2022	7,628,125	\$ 0.87

The following table summarizes information regarding stock options outstanding as at December 31, 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 - \$1.01	7,628	3.6	\$0.87	4,485	\$0.81

On September 12, 2022, pursuant to the Company's stock option plan, an aggregate of 4.0 million stock options to purchase Common Shares were granted to directors, officers and employees of Southern. The stock options expire in five years from the date of grant and are exercisable at a price of CAD\$1.01 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.

Share Award Incentive Plan

On September 12, 2022, Southern issued 2.5 million restricted share awards ("RSAs") under its Share Award Incentive Plan. The RSAs vest as to one third on each of the first, second and third anniversaries of the grant date. On the vesting dates of such RSAs, the holder is entitled to receive a cash payment or its equivalent in fully paid Common Shares, at the Company's discretion, equal to the closing market value per Common Share on the TSXV on the business day prior to such payment.

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. 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.

Southern Energy Corp
Management's Discussion and Analysis
For the years ended December 31, 2022 and 2021



Southern had a total capital program of \$30.4 million during 2022 (see “*Capital Expenditures, Property Acquisitions and Dispositions*”, above for more details). Southern funded the capital expenditures through a combination of non-core asset dispositions, excess adjusted funds flow from operations (see “*Reader Advisories – Specified Financial Measures*”), availability from Tranche B of the Credit Facility and aggregate gross proceeds from the 2021 and 2022 Offerings.

In response to the current low natural gas prices and guided by principles focused on full-cycle value creation, Southern plans to moderate the Gwinville organic growth program from the planned capital budget of \$101.0 million announced in November 2022, to approximately \$55.0 million. Due to a delay in receiving the drilling rig from the previous operator, resulting in a later start to the Q4 drilling program, \$11.4 million of the previously approved \$34.4 million second half 2022 capital budget has been deferred into 2023 and is included in the \$55.0 million 2023 program. The updated Gwinville development program will consist of the drilling of seven horizontal wells with completion of three wells, leaving four drilled, uncompleted wells (“DUCs”). Southern chose to continue drilling and leave four DUCs as the drilling efficiency has continued to improve with each well drilled, resulting in shorter drilling days and lower costs. Additionally, the lead time to get completion equipment and workers is much shorter than securing a drilling rig, allowing these wells to be brought on quickly at higher natural gas prices. The updated program will still include compression additions, pad construction, in-field pipelines and water disposal well conversions that will be ready, when Southern determines it would make economic sense to continue further Gwinville development. This capital budget will be funded through the net proceeds of the 2022 Offering (see “*Shareholder’s Equity*”), borrowings from the Credit Facility and excess adjusted funds flow from operations (see “*Reader Advisories – Specified Financial Measures*”).

	December 31, 2022	December 31, 2021
Long-term debt	\$ (4,800)	\$ (4,543)
Convertible debentures – face value	(3,164)	(6,617)
Adjusted working capital (deficiency)	21,401	4,729
Positive net cash (net debt)	\$ 13,437	\$ (6,431)
Quarterly adjusted funds flow from operations	3,059	1,426
Annualized factor	4	4
Annualized adjusted funds flow	12,236	5,704
Net debt to annualized adjusted funds flow⁽¹⁾	n/a	1.13x

Note:

(1) See “*Reader Advisories – Specified Financial Measures*”.

As at December 31, 2022, Southern had adjusted working capital (see “*Reader Advisories – Specified Financial Measures*”) of \$21.4 million. Included in the adjusted working capital is \$5.1 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 had a positive net cash (see “Reader Advisories – Specified Financial Measures”) of \$13.4 million as at December 31, 2022. This compares to a net debt balance of \$6.4 million as at December 31, 2021. Southern moved from a net debt position to a positive net cash in Q3 2022 as a result of the \$31.0 million of aggregate gross proceeds received from the Offering (see “Shareholder’s Equity” for more information).
Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at December 31, 2022. The Credit Facility is comprised of Tranche A of \$5.5 million that was advanced at closing on April 30, 2021 and effective September 1, 2022, Tranche B of \$29.5 million (\$4.5 million drawn as of December 31, 2022) with an availability until September 30, 2023. Interest on the Credit Facility is 12% per annum on amounts outstanding and includes a 1% per annum standby fee on the unused portion of Tranche B, both 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 August 31, 2025. As at December 31, 2022, Southern had \$4.8 million drawn on the Credit Facility.

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.

Effective September 1, 2022, Southern entered into the fourth amendment to the Credit Facility (the “Fourth Amendment”). The Fourth Amendment includes an increase of \$25.0 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 positive free cash flow (“FCF”) (as described below) repayments that were 50% of the previous quarter’s FCF are now replaced by a quarterly FCF grid whereby quarterly repayments are X% of the preceding quarter where X is equal to 50% if the ACR (as defined below) is < 3.0x or DSCR (as defined below) is < 1.4x; or X is equal to 0% if the ACR is > 5.0x and DSCR >1.7x; otherwise is 25%. A standby fee of 1.0% per annum on any undrawn Tranche B amounts.

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 determined by the FCF grid (as described above). FCF is calculated as Earnings Before Interest, Taxes, Depreciation, Amortization, and Impairment (“EBITDAX”), less the aggregate of the Credit Facility principal and interest payments.

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

Financial covenant	Limit	As at	As at
		Dec 31, 2022	Dec 31, 2021
Asset Coverage ratio	Minimum 2.00	9.77	6.55
Debt Service Coverage ratio	Minimum 1.25	3.87	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 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 December 31, 2022, Southern was in compliance with the above covenants.

Debenture Financing

The Debentures were 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 (each an "Interest Payment Date"). The Debentures have a maturity date ("Maturity Date") of June 30, 2024.

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

During the year ending December 31, 2022, 5.1 million Common Shares were issued to satisfy the Debenture rights of 4,103 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 December 31, 2022:

	Total	2023	2024	2025	Thereafter
Long-term debt ⁽¹⁾	\$ 4,800	\$ 1,340	\$ 1,340	\$ 2,120	\$ -
Convertible debentures ⁽²⁾	3,164	-	3,164	-	-
Capital commitments ⁽³⁾	3,000	3,100	-	-	-
Lease obligations ⁽⁴⁾	261	136	125	-	-
Total	\$ 11,225	\$ 4,476	\$ 4,629	\$ 2,120	\$ -

Notes:

- (1) Long-term debt consists of the Credit Facility – see “*Liquidity and Capital Resources*” for more information
- (2) Debentures have a maturity date of June 30, 2024.
- (3) Includes drilling rig commitments for early termination and amounts for capital equipment.
- (4) 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;
- expectations regarding completion of the Company's current and anticipated drilling projects including those related to the Gwinville assets and the timing in respect thereof;
- expectations regarding pricing including in respect of the Company's continued receipt of premiums at Transco Zone 4;

- 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 and the Company's expectations in respect of 2023 royalty rates;
- 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, 2022 (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 December 31, 2022:

Natural Gas	Volume	Pricing
<i>Costless Collar</i>		
January 1, 2023 – March 31, 2023	2,000 MMBtu/d	NYMEX – HH \$3.50 - \$20.00/MMBtu

Subsequent to December 31, 2022, Southern entered into the following commodity derivative contract:

Natural Gas	Volume	Pricing
<i>Fixed Basis Swap</i>		
April 1, 2023 – October 31, 2023	1,000 MMBtu/d	NYMEX – HH + \$0.320/MMBtu

Eight Quarter Analysis

(000s)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Three months ended	2022	2022	2022	2022	2021	2021	2021	2021
Revenue	\$ 9,830	\$ 19,151	\$ 10,311	\$ 5,925	\$ 7,151	\$ 5,198	\$ 3,736	\$ 3,857
Net earnings (loss)	1,748	6,567	2,838	(1,855)	3,311	4,314	3,099	(631)
Per share:								
Basic	0.01	0.05	0.03	(0.02)	0.06	0.10	0.08	(0.02)
Diluted	0.01	0.04	0.03	(0.02)	0.05	0.07	0.06	(0.02)

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 earnings (loss).
- 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.
- Production from the initial three well appraisal program at Gwinville online at the end of Q2 2022.

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 plans and intentions of Management, plans to fund current activities, future operations, future strategic acquisitions, future oil and natural gas production estimates and weighting, Southern's future financial position, the resolution of adjusted working capital deficiencies, future corporate strategies 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, projected costs, sources and uses of funding, future revenues, future operating netbacks, plans and expected resolutions of title ownership issues in respect of royalty payables, expectations as to inflation and interest rates, expectations regarding commodity prices and global demand and supply for natural gas, 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, those regarding 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, the ability to comply with ongoing obligations under the Credit Facility and other sources of financing, allocation of capital resources, the ability to enter into future derivative contracts on acceptable terms, the impact of increasing competition within the resource market, 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 evolving impact of the COVID-19 pandemic of COVID-19 and uncertainty regarding the full impact of COVID-19 on global economies and oil demand and commodity prices, including the effects of recent outbreaks of COVID-19 in China. 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 prices, 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 both domestically and abroad, wars (including the Russo-Ukrainian War), 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 US and globally, including due to the outbreak of COVID-19 and other risks detailed from time to time in Southern's public disclosure documents. The Russo-Ukrainian War is particularly noteworthy, as this conflict has the potential to disrupt the global supply of oil and gas, and its full impact 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 beyond the control of the Company. Also to be considered are increased levels of political uncertainty both domestically and abroad, and possible changes to existing international trading agreements and relationships. Legal challenges related to title and ownership issues, 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 AIF, 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 were approved by Management as of the date of this document and were provided for the purpose of providing further information about Southern's future business operations. Southern and its Management believe that forward-looking statements and FOFI have been prepared on a reasonable basis, reflecting Management's best estimates and judgments, and represent, to the best of Management's knowledge and opinion, the Company's expected course of action. However, because this information is highly subjective, it should not be relied on as necessarily indicative of future results. Southern disclaims any intention or obligation to update or revise any forward-looking statements or FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document 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," "Net Debt to Annualized Adjusted Funds Flow", "Adjusted Working Capital," "Net Capital Expenditures" and "Positive Net Cash (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,	
	2022	2021	2022	2021
Cash flow from operating activities	\$ 4,262	\$ 1,515	\$ 18,603	\$ 2,907
Change in non-cash working capital	(1,253)	(95)	(1,524)	(78)
Cash decommissioning expenses	50	6	77	31
Adjusted Funds Flow from Operations	\$ 3,059	\$ 1,426	\$ 17,156	\$ 2,860

"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,		Year ended December 31,	
	2022	2021	2022	2021
Petroleum and natural gas revenue	\$ 9,830	\$ 7,151	\$ 45,217	\$ 19,942
Royalties	(2,144)	(1,470)	(9,763)	(4,064)
Production taxes	(488)	(432)	(2,110)	(1,199)
Operating expenses	(1,165)	(919)	(4,336)	(3,791)
Transportation costs	(32)	(44)	(139)	(183)
Operating netback before derivatives	\$ 6,001	\$ 4,287	\$ 28,869	\$ 10,705
Realized loss on derivatives	(1,469)	(1,684)	(7,238)	(2,719)
Operating netback	\$ 4,532	\$ 2,603	\$ 21,631	\$ 7,986

"Net Debt to Annualized Adjusted Funds Flow (Capital Management Measures)"

Southern uses certain industry benchmarks, such as net debt to annualized adjusted funds flow, to analyze financial and operating performance. This benchmark is calculated as net debt divided by the annualized adjusted funds flow for the most recently completed quarter. Management considers net debt to annualized adjusted funds flow as a key measure as it provides a snapshot of the overall financial health of the Company and its ability to fund capital requirements, pay off debt and take on new debt, if

necessary. The calculation of the Company's net debt to annualized adjusted funds flow can be seen starting on page 27 in the section titled "Liquidity and Capital Resources.

"Adjusted Working Capital" and "Positive Net Cash (Net Debt)"

The below tables outline Southern's calculation of adjusted working capital and positive net cash (net debt). Management monitors adjusted working capital (capital management measure) and positive net cash (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, 2022	As at December 31, 2021	As at December 31, 2020
Current assets	\$ 37,638	\$ 12,622	\$ 2,838
Current liabilities	(17,433)	(9,790)	(19,973)
Remove:			
Current derivative assets	(17)	(46)	(6)
Current portion of lease liabilities	107	128	299
Current portion of long-term debt	1,106	1,183	13,179
Current derivative liabilities	-	632	372
Adjusted working capital (deficiency)	\$ 21,401	\$ 4,729	\$ (3,291)

	As at December 31, 2022	As at December 31, 2021	As at December 31, 2020
Long-term debt	\$ (4,800)	\$ (4,543)	\$ (13,200)
Convertible debentures – face value	(3,164)	(6,617)	(6,573)
Adjusted working capital (deficiency)	21,401	4,729	(3,291)
Positive net cash (net debt)	\$ 13,437	\$ (6,431)	\$ (23,064)

"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,	
	2022	2021	2022	2021
Net cash used by investing activities	\$ 11,288	\$ 661	\$ 29,084	\$ 831
Change in non-cash working capital	(1,070)	490	591	941
Net Capital Expenditures	\$ 10,218	\$ 1,151	\$ 29,675	\$ 1,772

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
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 Financial Statements, and the AIF, are also available on SEDAR at www.sedar.com or online at www.southernenergycorp.com.