Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2023 and 2022

(U.S. 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 interim consolidated financial statements for the three months ended March 31, 2023 and 2022 (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 ("U.S.") dollar. The functional currency of Southern Energy Corp. is Canadian ("CAD") dollars, and its results and balance sheet items are translated to U.S. 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 U.S. 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 May 30, 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.

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.

FIRST QUARTER HIGHLIGHTS

- Generated $1.7 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q1 2023 ($0.01 per share basic and diluted)
- Net loss of $1.1 million in Q1 2023 ($0.01 loss per share – basic and diluted), compared to a net loss of $1.9 million in Q1 2022
- Petroleum and natural gas sales were $5.2 million in Q1 2023
- Maintained balance sheet strength with Net Debt[2] to Adjusted Funds Flow from Operations ratio of 1.2x on a trailing twelve month basis down from 2.6x in the first quarter of 2022
- Q1 2023 average production of 15,643 Mcfe/d (95% natural gas), an increase of 36% from the same period in 2022 (see "*Production Summary*" below for a breakdown by product type)
- Average realized natural gas and oil prices for Q1 2023 of $3.25/Mcf and $75.73/bbl, respectively, reflecting the benefit of strategic access to premium-priced U.S. sales hubs in a geographic region with strong industrial and power generation natural gas demand
- Drilled six net wells at Gwinville in Q1 2023 from three padsites, with each subsequent pad drilling operation resulting in fewer drilling days per well depth adjusted (see "*Operations Update*" for more information)
- 2022 Year End Reserves Upgrade:
    - Highlights of the Company's year end independent oil and gas reserves evaluation as at December 31, 2022 (the "NSAI Report") prepared by independent qualified reserves evaluator Netherland, Sewell & Associates, Inc. ("NSAI") include:
        - an increase in proved developed producing ("PDP") reserves of 25% to 6.2 MMboe
        - an increase in total proved ("1P") reserves of 44% to 14.1 MMboe
        - an increase in total proved plus probable ("2P") reserves by 31% to 25.5 MMboe in 2022
        - before-tax net present value ("NPV") of 2P reserves, discounted at 10% ("NPV10"), of $142.5 million (an increase of 61% on year end 2021)
- Top performing energy stock in the 2023 TSX Venture 50™ based on equal weighting of performance during 2022 across three key indictors: market capitalization growth, share price appreciation, and trading volume

SUBSEQUENT EVENTS

- As announced on May 23, 2023, Southern entered into a strategic and highly synergistic purchase and sale agreement to acquire ~400 boe/d (99% natural gas) for cash consideration of $3.2 million in Gwinville with an expected close date of June 1, 2023 (the "Gwinville Acquisition")

Summary of Financial Information

	Three months ended March 31,	
(000s, except $ per share)	**2023**	**2022**
Petroleum and natural gas sales	$ 5,189	$ 5,925
Net loss	(1,120)	(1,855)
Net loss per share		
Basic	(0.01)	(0.02)
Fully diluted	(0.01)	(0.02)
Adjusted funds flow from operations (1)	1,745	2,234
Adjusted funds flow from operations per share (1)		
Basic	0.01	0.03
Fully diluted	0.01	0.03
Capital expenditures	34,892	6,872
Weighted average shares outstanding		
Basic	138,591	78,153
Fully diluted	138,591	78,153
As at period end		
Basic common shares outstanding	139,010	78,200
Total assets	108,609	48,534
Non-current liabilities	14,543	11,777
Net debt (1)	$ (19,731)	$ (10,745)

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

Operations Update

On March 29, 2023, the Company concluded operations on the current drilling campaign which included seven new horizontal wells into three separate productive horizons from three distinct padsites in the Gwinville Field. The program added three Upper Selma Chalk wells, two Lower Selma Chalk wells and two City Bank wells. The drilling campaign was initially planned for 13 horizontal wells, but the Company paused the capital program in response to the weaker natural gas pricing in the first quarter of the year to maintain balance sheet discipline.

Southern is extremely happy with the field execution performance from this program, highlighted by drilling efficiencies which saw the average time from spud to total depth of the Selma Chalk wells reduced from approximately 20 days in Southern's three well appraisal program in 2022 to below 10 days by the final padsite in Q1 2023. The majority of the wells in the program came in at or below the initial drilling and completion cost estimates, despite more than 80% of the cost structure being fixed due to long term contracts for materials and major services locked in during the highly inflationary second half of 2022. With the learnings and efficiencies achieved in this campaign, Southern is planning for all future horizontal drilling in Gwinville to utilize an optimized wellbore design change that will remove the intermediate casing string and all associated costs which the Company expects will reduce the per-well drilling costs by 20-25%. This will allow the Company to reinitiate its organic growth plans at lower future gas prices than what was previously contemplated.

Comparing key performance indicators from the drilling and completion operations in this program to the appraisal program from 2022, Southern achieved a 6% reduction in drilling costs per lateral foot (down to $644/ft) and a greater than 22% reduction in completion costs per lateral foot (down to $615/ft). Further, compared to the early generation horizontal activity between 2005 and 2009 on the asset by the previous operator, one of the largest independent upstream oil and natural gas companies in the U.S., on an inflation adjusted basis, Southern achieved a greater than 30% reduction in both drilling and completion costs per lateral foot.

The Company continues to flow back its first City Bank Hz well at Gwinville 18-10 #1, with load fluid recovery of approximately 13%. Based on historical 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 Q2 2023. Gas rates are encouraging and continue to improve 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 18-10 #3 well was drilled to a total lateral length of 5,091 ft, achieved 80% of the lateral placed in the targeted porosity zone and was successfully completed in 44 stages prior to the mechanical issue.

The four wells that are awaiting completion include the first two Lower Selma Chalk laterals, along with the second City Bank lateral and one Upper Selma Chalk lateral. These four wells are some of Southern's longest laterals to-date. They were drilled with an average lateral length of approximately 5,400 ft 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. At current strip pricing, Southern could commence completion operations in Q4 2023.

Production Summary

	Three months ended March 31,	
	2023	**2022**
Daily production from operations		
Oil (bbl/d)	114	139
NGLs (bbl/d)	13	14
Natural gas (Mcf/d)	14,881	10,597
Total Production (Mcfe/d)	**15,643**	**11,515**
Total production (boe/d)	**2,607**	**1,919**
Percentage of natural gas	**95%**	**92%**

Production in Q1 2023 averaged 15,643 Mcfe/d, an increase of 36% from the same period in 2022. 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 and initial results of the Gwinville 18-10 #2 well which came online in February 2023, partially offset by the natural declines of the existing wells.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended March 31,	
(000s)	**2023**	**2022**
Oil	$ 777	$ 1,191
NGLs	55	86
Natural gas	4,357	4,648
Total revenue	**$ 5,189**	**$ 5,925**

Realized commodity prices

	Three months ended March 31,	
	2023	**2022**
Oil ($/bbl)	$ 75.73	$ 95.20
NGLs ($/bbl)	47.01	68.25
Natural gas ($/Mcf)	3.25	4.87
Combined ($/Mcfe)	**$ 3.69**	**$ 5.72**
Benchmark prices		
Crude oil – LLS ($/bbl)	$ 78.90	$ 96.55
Crude oil – WTI ($/bbl)	76.13	94.29
Natural gas – NYMEX HH ($/MMBtu)	3.42	4.95

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 Henry Hub ("NYMEX HH") pricing (less minor proximity adjustments) for its natural gas.

In Q1 2023, Southern realized an oil price of $75.73/bbl which was a decrease of 20% from the same period in 2022. Oil prices were under pressure in Q1 2023 due to market anticipation of a potential recession in the second half of 2023.

Southern realized a price of $3.25/Mcf in Q1 2023, a 33% decrease from Q1 2022. Natural gas prices were impacted by a mild winter in the North America resulting in elevated inventory levels coming out of winter compared to historical averages.

Royalties

	Three months ended March 31,	
(000s)	**2023**	**2022**
Oil	$ 154	$ 237
NGLs	10	15
Natural gas	896	949
Total royalties	**$ 1,060**	**$ 1,201**
Royalties as a % of revenue	**20.4%**	**20.3%**

Royalty expenses were $1.1 million in Q1 2023, a decrease of 12%, from the same period in 2022. The decrease was due to lower NYMEX HH and LLS prices. Southern expects royalties as a percentage of revenue to average approximately 21% for the remainder of 2023 as royalty agreements are based on a fixed royalty rate.

Production, Operating and Transportation Expenses

	Three months ended March 31,	
(000s)	**2023**	**2022**
Operating expenses	$ 1,162	$ 1,021
Production taxes	251	357
Transportation expense	61	39
Total production, operating and transportation	**$ 1,474**	**$ 1,417**

Operating expenses were $1.2 million ($0.83/Mcfe) in Q1 2023, which was an increase of 14% on a dollar basis and a decrease of $0.16/Mcfe compared to the same period in 2022. 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.

Q1 2023 production taxes of $251 thousand (4.8% as a percentage of revenue), 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. All of the new wells drilled at Gwinville qualify for this reduced severance tax relief program and Southern expects that the four DUCs will also be eligible (see "*Operations Update*", for more information).

Transportation expenses of $61 thousand ($0.04/Mcfe) in Q1 2023 related to pipeline fees at Mechanicsburg for the transportation of Southern's natural gas volumes to the sales meter (approximately $0.30/Mcf).

Operating Netback

	Three months ended March 31,	
($/Mcfe)	**2023**	**2022**
Petroleum and natural gas revenue	$ 3.69	$ 5.72
Royalties	(0.75)	(1.16)
Production taxes	(0.18)	(0.34)
Operating expenses	(0.83)	(0.99)
Transportation costs	(0.04)	(0.04)
Operating netbacks per Mcfe before derivatives [1]	**$ 1.89**	**$ 3.19**
Realized gain (loss) on derivatives	0.06	(0.12)
Operating netback per Mcfe [1]	**$ 1.95**	**$ 3.07**
Operating netback % of revenue [1]	**53%**	**54%**

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

Southern's operating netbacks decreased by 36% for the three months ended March 31, 2023, compared to the same period in 2022. The decrease was driven primarily from lower commodity prices, partially offset by decreased royalties and operating expenses.

General & Administrative and Transaction Costs

	Three months ended March 31,	
(000s)	**2023**	**2022**
General and administrative	$ 950	$ 937
Transaction costs	198	-
Total	**$ 1,148**	**$ 937**
General and administrative costs per Mcfe	**$ 0.67**	**$ 0.90**

General and administrative costs were $1.0 million in Q1 2023, flat compared to the same period in 2022. Transaction costs of $0.2 million in Q1 2023 related to a potential transaction contemplated by Southern.

Finance Expense

	Three months ended March 31,	
(000s)	**2023**	**2022**
Credit facility interest	$ 201	$ 128
Convertible debenture interest	63	131
Interest income	(152)	-
Lease interest	7	11
Accretion	143	154
Total finance expense	**$ 262**	**$ 424**
Finance expense per Mcfe	**$ 0.19**	**$ 0.41**

Finance expenses were 38% lower for the three months ended March 31, 2023, compared to the same period in 2022. The decrease was primarily related to lower interest expenses due to interest income earned from cash on hand in Q1 2023 and lower convertible debenture interest. For more information, see "*Liquidity and Capital Resources*", below.

Share-based Compensation

Southern recorded share-based compensation of $140 thousand in Q1 2023, compared to $40 thousand in the same period in 2022, 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 March 31,	
(000s)	**2023**	**2022**
Depletion	$ 2,295	$ 1,016
Depreciation	41	34
Total depletion, depreciation and amortization	**$ 2,336**	**$ 1,050**
DD&A expense per Mcfe	**$ 1.66**	**$ 1.01**

Depletion expense was $2.3 million ($1.63/Mcfe) in Q1 2023, an increase of 126% on a dollar basis and 66% on a per Mcfe basis, compared to Q1 2022 ($0.98/Mcfe). The increase is primarily due to an increase in production volumes from the Gwinville drilling program and higher costs to add reserves in the current business environment compared to the original acquisition of assets at the end of 2018.

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

Impairment

As at March 31, 2023, 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:

(000s)	Three months ended March 31, 2023	2022
Land, acquisitions and lease rentals	$ 87	$ 1
Drilling and completions	26,824	5,834
Geological and geophysical	-	11
Facilities, equipment and pipelines	7,964	1,023
Other	17	3
Capital expenditures, before Dispositions	**34,892**	**6,872**
Dispositions	**-**	**(759)**
Net capital expenditures [(1)]	**$ 34,892**	**$ 6,113**

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

Southern incurred $26.8 million of expenses in Q1 2023 related to the drilling program at Gwinville (see "*Operations Update*", for more information). Southern also invested $8.0 million of capital towards long term infrastructure related to the future development of the Gwinville field, primarily related to the purchase of compression and other field equipment.

Shareholders' Equity

Share Capital

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

The following table reflects the Company's outstanding common shares as at March 31, 2023 and December 31, 2022:

	Number of Shares	Share Capital
Balance as at December 31, 2022	138,056,910	$ 75,271
Issuance of common shares to satisfy unit warrant exercise	953,125	287
Share issuance costs	-	(1)
Balance as at March 31, 2023	**139,010,035**	**$ 75,557**

Subsequent to March 31, 2023, 31,250 Common Shares were issued related to the exercise of Common Share purchase warrants ("Unit Warrant") at a price of CAD$0.32 per Unit Warrant from the April 2021 non-brokered private placement for proceeds of CAD$0.5 million. Additionally, Southern received approval from the TSX Venture Exchange to extend the expiration date of its Unit Warrants from April 29, 2023 until December 31, 2023. There are 8,746,875 Unit Warrants remaining with an exercise price of CAD$0.32.

Warrants

As at March 31, 2023, 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.

Stock Option Plan

The following table reflects the Company's outstanding options to purchase Common Shares at March 31, 2023 and December 31, 2022:

The following table summaries the change in stock options outstanding:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2022	7,628,125	$ 0.87
Balance at March 31, 2023	**7,628,125**	**$ 0.87**

The following table summarizes information regarding stock options outstanding at March 31, 2023:

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**	**3.3**	**$0.87**	**4.485**	**$0.81**

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 had a total capital program of $34.9 million in Q1 2023 (see "*Capital Expenditures, Property Acquisitions and Dispositions"*, above for more details). Southern funded the capital expenditures through excess adjusted funds flow from operations (see "*Reader Advisories – Specified Financial Measures"*), availability from Tranche B of the Credit Facility and net proceeds from the July 2022 equity financing.

In response to the current low natural gas prices and guided by principles focused on full-cycle value creation, Southern moderated the Gwinville organic growth program in Q1 2023 from the planned capital budget of $101.0 million announced in November 2022, to approximately $55.0 million. The updated Gwinville development program consisted 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 from the July 2022 equity financing, borrowings from the Credit Facility and excess adjusted funds flow from operations (see "*Reader Advisories – Specified Financial Measures"*).

	March 31, 2023	December 31, 2022	March 31, 2022
Long-term debt	$ (6,466)	$ (4,800)	$ (3,948)
Convertible debentures – face value	(3,167)	(3,164)	(6,713)
Adjusted working capital (deficiency)	(10,098)	21,401	(84)
Positive net cash (net debt)	**$ (19,731)**	**$ 13,437**	**$ (10,745)**
Trailing twelve months adjusted funds flow	$ 16,667	$ 17,156	$ 4,083
Net debt to trailing twelve months adjusted funds flow	**1.18x**	**n/a**	**2.63x**

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

As at March 31, 2023, Southern had adjusted working capital deficiency (see "*Reader Advisories – Specified Financial Measures"*) of $10.1 million. Included in the adjusted working capital deficiency 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 5,500 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 $19.7 million as at March 31, 2023. This compares to positive net cash of $13.4 million as at December 31, 2022. The increase in net debt during Q1 2023 was expected because of the organic development program at Gwinville.

Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at March 31, 2023. 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 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 March 31, 2023, Southern had $6.5 million drawn on the Credit Facility.

Quarterly positive free cash flow ("FCF") (as described below) repayments are based on a 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 March 31, 2023 and December 31, 2022:

Financial covenant	Limit	As at Mar 31, 2023	As at Dec 31, 2022
Asset Coverage ratio	Minimum 2.00	6.43	9.77
Debt Service Coverage ratio	Minimum 1.25	3.93	3.87

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 March 31, 2023, Southern was in compliance with the above covenants.

Debenture Financing

As at March 31, 2023, Southern had 4,286 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. The Debentures have a maturity date of June 30, 2024.

Contractual Obligations and Commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term as at March 31, 2023:

	Total	2023	2024	2025	Thereafter
Long-term debt(1)	$ 6,466	$ 1,455	$ 1,940	$ 3,071	$ -
Convertible debentures(2)	3,167	-	3,167	-	-
Lease obligations(3)	227	102	125	-	-
Total	**$ 9,860**	**$ 1,557**	**$ 5,232**	**$ 3,071**	**$ -**

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) 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 March 31, 2023:

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

Subsequent to March 31, 2023, Southern entered into the following commodity derivative contract:

Natural Gas	Volume	Pricing
Fixed Price Swap		
January 1, 2024 – December 31, 2025	1,000 MMBtu/d	NYMEX – HH $3.88/MMBtu

Eight Quarter Analysis

(*000s*) **Three months ended**	**Mar 31 2023**	**Dec 31 2022**	**Sep 30 2022**	**Jun 30 2022**	**Mar 31 2022**	**Dec 31 2021**	**Sep 30 2021**	**Jun 30 2021**
Revenue	$ 5,189	$ 9,830	$ 19,151	$ 10,311	$ 5,925	$ 7,151	$ 5,198	$ 3,736
Adjusted Funds Flow from Operations	1,745	3,059	8,273	3,590	2,234	1,426	(185)	608
Net earnings (loss)	(1,120)	1,748	6,567	2,838	(1,855)	3,311	4,314	3,099
Per share:								
Basic	(0.01)	0.01	0.05	0.03	(0.02)	0.06	0.10	0.08
Diluted	(0.01)	0.01	0.04	0.03	(0.02)	0.05	0.07	0.06

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).
- 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.

<u>READER ADVISORIES</u>

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, including the completion of the Gwinville Acquisition and the timing thereof, anticipated benefits of the Gwinville Acquisition, including anticipated natural gas production levels, decline rates and cash flow in respect of the assets to be acquired as part of the Gwinville Acquisition, anticipated operational results, capital expenditures and drilling plans and locations, and anticipated operational synergies and cost savings resulting from the Gwinville Acquisition, 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", "likely", "believe", "becoming", "positioned for", "forecast", "intend", "continue", "target" 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 business plan of Southern, including in respect of the assets to be acquired pursuant to the Gwinville Acquisition, the receipt of all approvals, and satisfaction of all conditions to the completion of the Gwinville Acquisition, 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 and uncertainty regarding the full impact of pandemics on global economies and oil demand and commodity prices. 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, non-completion of the Gwinville Acquisition or other previously announced acquisitions and consolidations, 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 U.S. and globally, including due to the COVID-19 pandemic 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,		
	March 31, 2023	**December 31, 2022**	**March 31, 2022**
Cash flow from operating activities	$ 3,464	$ 4,262	$ 1,589
Change in non-cash working capital	(1,719)	(1,253)	630
Cash decommissioning expenses	-	50	15
Adjusted Funds Flow from Operations	**$ 1,745**	**$ 3,059**	**$ 2,234**

"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 March 31, 2023	2022
Revenue	$ 5,189	$ 5,925
Royalties	(1,060)	(1,201)
Production taxes	(251)	(357)
Operating expenses	(1,162)	(1,021)
Transportation costs	(61)	(39)
Operating netback before derivatives	**$ 2,655**	**$ 3,307**
Realized gain (loss) on derivatives	87	(128)
Operating netback	**$ 2,742**	**$ 3,179**

"Net Debt to Adjusted Funds Flow (capital management measures)"

Southern uses certain industry benchmarks, such as net debt to adjusted funds flow, to analyze financial and operating performance. This benchmark is calculated as net debt divided by the trailing twelve months adjusted funds flow starting with the most recently completed quarter. Management considers net debt to 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 adjusted funds flow can be seen starting on page 12 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 March 31, 2023	As at December 31, 2022	As at March 31, 2022
Current assets	$ 15,476	$ 37,638	$ 9,658
Current liabilities	(27,352)	(17,433)	(14,784)
Remove:			
Current derivative assets	(33)	(17)	-
Current portion of lease liabilities	104	107	126
Current portion of long-term debt	1,703	1,106	1,445
Current derivative liabilities	4	-	3,471
Adjusted working capital (deficiency)	**$ (10,098)**	**$ 21,401**	**$ (84)**

	As at March 31, 2023	As at December 31, 2022	As at March 31, 2022
Long-term debt	$ (6,466)	$ (4,800)	$ (3,948)
Convertible debentures – face value	(3,167)	(3,164)	(6,713)
Adjusted working capital (deficiency)	(10,098)	21,401	(84)
Positive net cash (net debt)	**$ (19,731)**	**$ 13,437**	**$ (10,745)**

"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 March 31, 2023	2022
Net cash used by investing activities	$ 21,597	$ 3,985
Change in non-cash working capital	13,295	2,128
Net Capital Expenditures	**$ 34,892**	**$ 6,113**

Reserves and Future Net Revenue Disclosure

All reserves values, future net revenue and ancillary information contained in this press release are derived from the NSAI Report unless otherwise noted. The NSAI Report was prepared in accordance with definitions, standards and procedures contained in NI 51-101 and the most recent publication of the Canadian Oil and Gas Evaluation Handbook (the "COGEH"). Additional reserves information as required under NI 51-101 is included in the Company's AIF, which is available on the Company's SEDAR profile at www.sedar.com.

All reserve references in this press release are "Company gross reserves". Company gross reserves are the Company's total working interest reserves before the deduction of any royalties payable by the Company. There is no assurance that the forecast price and cost assumptions applied by NSAI in evaluating Southern's reserves will be attained, and variances could be material. All reserves assigned in the NSAI Report are located in the State of Mississippi and presented on a consolidated basis.

All evaluations and summaries of future net revenue are stated prior to the provision for interest, debt service charges or general and administrative expenses and after deduction of royalties, operating costs, estimated well abandonment and reclamation costs and estimated future capital expenditures. It should not be assumed that the estimates of future net revenues represent the fair market value of the reserves. The recovery and reserve estimates of Southern's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein. There are numerous uncertainties inherent in estimating quantities of crude oil, reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only.

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Proved developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty. Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable, possible) to which they are assigned. Certain terms used in this press release but not defined are defined in NI 51-101, CSA Staff Notice 51-324 – Revised Glossary to NI 51-101, Revised Glossary to NI 51-101, Standards of Disclosure for Oil and Gas Activities ("CSA Staff Notice 51-324") and/or the COGEH and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101, CSA Staff Notice 51-324 and the COGEH, as the case may be.

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 Company's audited financial statements for the years ended December 31, 2022 and 2021, and the AIF, are also available on SEDAR at www.sedar.com or online at www.southernenergycorp.com.