

Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three and nine months ended September 30, 2019 and 2018

(Canadian Dollars)

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial results is provided by the management of Southern Energy Corp. ("Southern" or the "Company") and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2019 and 2018 (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.

All financial information presented has been rounded to the nearest thousand and is presented in Canadian dollars, unless otherwise indicated.

This MD&A is dated November 28, 2019.

Corporate Summary

Southern is an emerging natural gas and light oil producer having assets in Mississippi and Alabama (the "Southeast Gulf States") with a stable, low decline production base, significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern is looking to grow through strategic acquisitions in the Southeast Gulf States that complement the Company's current assets. The Company's management team has a long and successful history of working together as a team and have created significant shareholder value through high quality engineering and geoscience work. Southern's head office is located in Calgary, Alberta, Canada.

On November 13, 2018, the Company, under its former name "Standard Exploration Ltd.", announced: (i) a non-brokered private placement (the "Private Placement") in addition to a definitive reorganization and investment agreement with a new management team and board of directors (collectively, the "Recapitalization"); and (ii) a definitive agreement pursuant to which the Company would acquire all of the limited partnership units of Gulf Pine Energy Partners, LP ("Gulf Pine") for a total transaction value of US\$24.4 million (comprised of cash consideration of US\$3.4 million), including net debt (the "Transaction").

On December 19, 2018, Southern completed the Private Placement of 122,190,000 common shares of the Company (the "Common Shares") at a price of \$0.10 per Common Share and 57,920,000 units of the Company (the "Recap Units") at a price of \$0.10 per Recap Unit, for aggregate gross proceeds of \$18.0 million. Each Recap Unit is comprised of one Common Share and one performance-based Common Share purchase warrant (a "Recap Warrant"). The Transaction closed on the same day.

On December 31, 2018, Southern completed a consolidation of the Common Shares on the basis of one post-consolidated Common Share for every five pre-consolidated Common Shares (the "Consolidation"). On January 2, 2019 Southern changed its name from "Standard Exploration Ltd." to "Southern Energy Corp." and on January 7, 2019, the Common Shares commenced trading on the TSX Venture Exchange ("TSXV") under the new name and new trading symbol "SOU". All information related to issued and outstanding common shares, stock options and warrants, has been restated to reflect the Consolidation for all periods present.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



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

Southern's mission is to build a substantial light oil and natural gas company in the Southeast Gulf States through the consolidation and development of prolific reservoirs outside of the expensive shale basins. In these areas, Southern has access to major pipelines, significant Company-owned infrastructure, year-round access to drill, and the ability to shift focus on 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 and by making strategic, accretive acquisitions.

READER ADVISORIES

Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information

Certain statements and information contained within this MD&A may constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements include, without limitation, statements regarding the status of development or expenditures relating to Southern's business, plans to fund current activities, future operations, future oil and natural gas production estimates and weighting, future financial position, resolution of working capital deficiencies, strategies to improve the Company's financial position and the success thereof, future revenues, increased operating netbacks and Adjusted Funds Flow from Operations due to the Acquisition, projected costs (including anticipated operating expense savings from the Acquisition), resolution of title ownership issues in respect of royalty payables and planned capital expenditures. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", or the negative of such terms or other comparable terminology. We made a number of assumptions in the preparation of these forward-looking statements including, without limitation, future commodity prices, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, drilling results, the ability to obtain financing on acceptable terms, allocation of capital resources, the impact of increasing competition and the continuation of the current tax, royalty and regulatory regimes. You 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, risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, market demand, commodity price, interest rate and exchange rate volatility, the need for additional capital and the effect of capital market conditions and other factors, government regulation, the potential dilutive effects of any financing, the timing of exploration and development, the timing and costs of obtaining regulatory approvals, estimates regarding capital requirements and future revenues, the timing and amount of tax credits, and other risks detailed from time to time in Southern's public disclosure documents.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry,

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018

potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are outside the control of the Company. Also to be considered, are increased levels of political uncertainty and possible changes to existing international trading agreements and relationships. Legal challenges to asset ownership, limitations to rights of access and adequacy of pipelines or alternative methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of the Company are included in reports on file with applicable securities regulatory authorities, including but not limited to the Company's annual information form for the year ended December 31, 2018 (the "Annual Information Form"), 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") about Southern's increasing operating netbacks and Adjusted Funds Flow from Operations due to the Acquisition and anticipated operating expense savings due to the Acquisition, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "*Non-IFRS Measures*".

The forward-looking statements and FOFI contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Pro Forma Information

This MD&A includes certain pro forma information combining the Company's results from the nine months ended September 30, 2019 with results from the Acquisition (as defined herein) assets for the same period. Management believes that reviewing the Company's operating results by combining actual and pro forma results including the Acquisition is useful in reaching conclusions regarding the overall operating performance of the Company, as the Acquisition closed on June 14, 2019 and only contributed 16 days of results to the Financial Statements prior to Q3 2019. The pro forma information contained herein includes adjustments as if the Acquisition had occurred on January 1, 2019, including adjustments for the effects of acquisition accounting but do not include adjustments for costs related to integration activities, cost savings or synergies that might be achieved by the combined assets. The sources of these pro forma results are the Financial Statements combined with the internal, unaudited financial information of the Acquisition assets for the same period. These pro forma financial measures are not specified, defined or determined under IFRS accounting rules. Pro forma amounts to be presented are not necessarily indicative of what the Company's results would have been had we operated the Acquisition assets since January 1, 2019, nor will the historical pro forma amounts necessarily be indicative of future results. For more information, see "*Non-IFRS Measures*".

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

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



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.

NINE MONTHS ENDED SEPTEMBER 30, 2019 FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The three months ended March 31, 2019 represented Southern's first full quarter of operations focused on consolidating high-quality, robust-netback and low-decline oil and gas assets in underexploited basins in the Southeast Gulf States, which attract some of the best commodity pricing in the U.S.
- On May 2, 2019, the Company closed the sale of all its remaining Canadian oil and natural gas assets for \$0.5 million, firmly positioning Southern as a pure-play U.S. exploration and production company.
- On June 7, 2019, the Company closed the previously announced rights offering (the "Rights Offering"). Under the Rights Offering, shareholders of Southern (each, a "Shareholder") subscribed for and purchased an aggregate of 19,413,306 Common Shares at a price of \$0.10 per Common Share, resulting in proceeds of approximately \$1.9 million to the Company, net of issuance costs.
- On June 14, 2019, the Company closed an acquisition of high-quality and low-decline (less than 5%) operated assets in Mississippi with control of strategic facilities and infrastructure for cash consideration of US\$14.7 million (\$19.7 million), including customary adjustments of US\$1.8 million (\$2.4 million) for the period between February 1, 2019 to June 14, 2019 and the royalty suspense obligations related to the assets (the "Acquisition").
- Had the Acquisition closed on January 1, 2019, management estimates that Southern would have realized Pro Forma Adjusted Funds Flow from Operations¹ of \$3.9 million for the first nine months of 2019.
- On June 14, 2019, Southern closed the sale of 8,069 Debentures (as defined below in "*Liquidity and Capital Resources – Debenture Financing*") at a price of \$1,000 per Debenture and received net proceeds after share issuance costs of \$7.3 million.
- In Q3 2019, Southern voluntarily repaid \$0.7 million on its credit facility from excess Adjusted Funds Flow from Operations².
- Achieved record production averaging 15,832 Mcfe/d (91% natural gas) during Q3 2019 and 11,880 Mcfe/d (88% natural gas) for the first nine months of 2019, including the successful

¹ See "Non-IFRS Measures".

² See "Non-IFRS Measures".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



addition of 900 Mcfe/d due to costless well optimizations performed on the high-quality, low-decline Mississippi assets that were acquired by the Company in late Q2 2019 (the "Acquisition").

- Cost reduction efforts continued as Southern drove down operating expenses in Q3 2019 by approximately \$24 thousand per month through streamlined field operations and negotiated a \$0.36/Mcf transportation cost reduction on approximately two thirds of the production gained through the Acquisition.
- Southern's realized oil and natural gas prices for the three months ended September 30, 2019 averaged \$81.41/bbl and \$2.81/Mcf, respectively, reflecting the benefit of pricing at U.S. sales hubs, which currently trade at a premium to Canadian benchmark prices.

Selected Financial Information

(000s, except \$ per share)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Petroleum and natural gas sales	\$ 5,340	\$ -	\$ 14,147	\$ -
Net loss from continuing operations	(1,081)	-	(3,109)	-
Net loss per share from continuing operations				
Basic	(0.00)	-	(0.01)	-
Fully diluted	(0.00)	-	(0.01)	-
Total net loss	(1,081)	(134)	(3,086)	(327)
Total net loss per share				
Basic	(0.00)	(0.01)	(0.01)	(0.01)
Fully diluted	(0.00)	(0.01)	(0.01)	(0.01)
Adjusted funds flow from operations (1)	1,143	(29)	2,000	(29)
Capital expenditures	595	-	22,754	-
Weighted average shares outstanding				
Basic	223,770	24,247	212,321	24,247
Fully diluted	223,770	24,247	212,321	24,247
As at period end				
Common shares outstanding				
Basic	223,770	24,247	223,770	24,247
Fully diluted	223,770	24,247	223,770	24,247
Total assets	59,602	3,451	59,602	3,451
Non-current liabilities	12,493	1,096	12,493	1,096
Net debt (1)	\$ 32,130	\$ -	\$ 32,130	\$ -

(1) See "Non-IFRS Measures".

Presentation of Results from Operations

On May 2, 2019, Southern disposed of all of its Canadian oil and natural gas assets for \$0.5 million (the "Disposition"). As a result of the Disposition, the Canadian assets are presented as discontinued operations for the three and nine months ended September 30, 2019 as well as the comparative periods, unless otherwise noted. For more information, see "Discontinued Operations".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Production and Pricing Summary

Quarter-over-Quarter

	Q3 2019	Q2 2019
Daily production from continuing operations		
Oil (bbl/d)	198	179
NGLs (bbl/d)	34	38
Natural gas (Mcf/d)	14,440	8,687
Production from continuing operations (Mcfe/d)	15,832	9,989
Production from discontinued operations (Mcfe/d)	-	108
Total production (Mcfe/d)	15,832	10,097
Percentage of natural gas	91%	87%

Q3 2019 production from continuing operations increased 5,843 Mcfe/d, or 58%, from Q2 2019 due to recognizing a full quarter of volumes from the Acquisition that closed on June 14, 2019. Production from the Acquisition assets contributed approximately 6,900 Mcfe/d in Q3 2019.

There was no production from discontinued operations in Q3 2019 (108 Mcfe/d in Q2 2019) as the Disposition closed on May 2, 2019.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Daily production from continuing operations				
Oil (bbl/d)	198	-	180	-
NGLs (bbl/d)	34	-	39	-
Natural gas (Mcf/d)	14,440	-	10,439	-
Production from continuing operations (Mcfe/d)	15,832	-	11,753	-
Production from discontinued operations (Mcfe/d)	-	295	127	282
Total production (Mcfe/d)	15,832	295	11,880	282
Percentage of natural gas	91%	-	89%	-

Southern's Southeast Gulf State assets produced 11,753 Mcfe/d during the nine months ended September 30, 2019. Natural gas volumes made up 89% of the total volumes from continuing operations. Had the Acquisition closed on January 1, 2019, management estimates that production would have averaged approximately 15,300 Mcfe/d for the nine months ended September 30, 2019. In Q3 2019, Southern successfully opened up the chokes on two of the wells acquired through the Acquisition, significantly increasing production by 900 Mcfe/d in Q3 2019 compared to the average year-to-date production prior to June 14, 2019.

Compared to the prior year, average production from discontinued operations decreased 295 Mcfe/d, or 100%, in Q3 2019 and 155 Mcfe/d, or 55%, for the nine months ended September 30, 2019. The decrease is due to the Disposition, which closed on May 2, 2019.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Petroleum and Natural Gas Revenues

Quarter-over-Quarter

(000s)	Q3 2019	Q2 2019
Oil	\$ 1,483	\$ 1,442
NGLs	123	166
Natural gas	3,734	2,775
Revenue from continuing operations	5,340	4,383
Revenue from discontinued operations	-	115
Total revenue	\$ 5,340	\$ 4,498

Realized commodity prices for continuing operations

Oil (\$/bbl)	\$ 81.41	\$ 88.53
NGLs (\$/bbl)	39.32	48.00
Natural gas (\$/Mcf)	2.81	3.51
Combined (\$/Mcf)	\$ 3.67	\$ 4.82

Benchmark prices

Crude oil – LLS (\$/bbl)	\$ 79.95	\$ 89.62
Crude oil – LLS (US\$/bbl)	60.56	67.01
Crude oil – WTI (\$/bbl)	74.51	79.92
Crude oil – WTI (US\$/bbl)	56.45	59.79
Natural gas – HH (\$/MMbtu)	3.08	3.35
Natural gas – HH (US\$/MMbtu)	2.33	2.51
Exchange rate (US\$/£)	\$ 1.32	\$ 1.34

Southern's Southeast Gulf State assets receive Louisiana Light Sweet ("LLS") pricing (less minor pricing adjustments) for its oil, and Henry Hub ("HH") pricing (less minor proximity adjustments) for its natural gas. LLS pricing decreased US\$6.45/bbl in Q3 2019 compared to Q2 2019 while HH pricing decreased US\$0.18/MMbtu during the same period.

Revenue from continued operations in Q3 2019 increased \$957 thousand, or 22%, compared to Q2 2019 as a result of a full quarter of natural gas production from the Acquisition, partially offset by lower realized natural gas and oil pricing.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
(000s)				
Oil	\$ 1,483	\$ -	\$ 4,094	\$ -
NGLs	123	-	470	-
Natural gas	3,734	-	9,583	-
Revenue from continuing operations	5,340	-	14,147	-
Revenue from discontinued operations	-	276	334	741
Total revenue	\$ 5,340	\$ 276	\$ 14,481	\$ 741

Realized commodity prices for continuing operations

Oil (\$/bbl)	\$ 81.41	\$ -	\$ 83.31	\$ -
NGLs (\$/bbl)	39.32	-	44.14	-
Natural gas (\$/Mcf)	2.81	-	3.36	-
Combined (\$/Mcf)	\$ 3.67	\$ -	\$ 4.41	\$ -

Benchmark prices

Crude oil – LLS (\$/bbl)	\$ 79.95	\$ 96.49	\$ 84.05	\$ 91.23
Crude oil – LLS (US\$/bbl)	60.56	73.89	63.21	71.02
Crude oil – WTI (\$/bbl)	74.51	90.77	75.82	85.86
Crude oil – WTI (US\$/bbl)	56.45	69.49	57.03	66.74
Natural gas – HH (\$/MMbtu)	3.08	3.74	3.42	3.66
Natural gas – HH (US\$/MMbtu)	2.33	2.87	2.57	2.85
Exchange rate (US\$/£)	\$ 1.32	\$ 1.31	\$ 1.33	\$ 1.29

Southern's revenue from continuing operations was \$14.1 million for the nine months ended September 30, 2019, of which 68% was from natural gas sales. Had the Acquisition closed on January 1, 2019, management estimates that Pro Forma Revenue from Continuing Operations³ would have been \$17.7 million (an increase of approximately \$3.5 million) for the nine months ended September 30, 2019.

Revenue from discontinued operations decreased \$276 thousand, or 100%, in Q3 2019 and \$407 thousand, or 55%, for the nine months ended September 30, 2019, compared to the same periods in 2018. The decrease is due to the Disposition, which closed on May 2, 2019.

³ See "Non-IFRS Measures".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Royalties

Quarter-over-Quarter

(000s)	Q3 2019	Q2 2019
Oil	\$ 284	\$ 273
NGLs	15	23
Natural gas	703	507
Royalties from continuing operations	1,002	803
Royalties from discontinued operations	-	25
Total royalties	\$ 1,002	\$ 828
Royalties as a % of revenue for continuing operations	18.8%	18.3%

Royalties from continuing operations increased \$199 thousand, or 25%, in Q3 2019 compared to Q2 2019. Natural gas and oil royalties increased due to the higher sales volumes from the Acquisition, partially offset by lower HH and LLS pricing in Q3 2019. The royalty rate as a percentage of revenue increased slightly due to a higher royalty rate on the Acquisition wells.

Royalties from discontinued operations decreased \$25 thousand in Q3 2019 compared to Q2 2019, as the Disposition closed on May 2, 2019.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
(000s)	2019	2018	2019	2018
Oil	\$ 284	\$ -	\$ 782	\$ -
NGLs	15	-	64	-
Natural gas	703	-	1,775	-
Royalties from continuing operations	1,002	-	2,621	-
Royalties from discontinued operations	-	71	54	140
Total royalties	\$ 1,002	\$ 71	\$ 2,675	\$ 140
Royalties as a % of revenue for continuing operations	18.8%	-	18.5%	-

Royalties from continuing operations were \$2.6 million (18.5% of revenue) for the nine months ended September 30, 2019. Had the Acquisition closed on January 1, 2019, management estimates that Pro Forma Royalties from Continuing Operations⁴ would have been approximately \$3.4 million (an increase of approximately \$0.8 million) for the nine months ended September 30, 2019.

Royalties from discontinued operations decreased \$71 thousand, or 100%, in Q3 2019 and \$86 thousand, or 61%, for the nine months ended September 30, 2019, as the Disposition closed on May 2, 2019.

⁴ See "Non-IFRS Measures".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Production, Operating and Transportation Expenses

Quarter-over-Quarter

(000s)	Q3 2019	Q2 2019
Operating expenses	\$ 1,572	\$ 1,298
Production taxes	308	252
Transportation expense	350	302
Total from continuing operations	2,230	1,852
Total from discontinued operations	-	(6)
Total production, operating and transportation	\$ 2,230	\$ 1,846

Field expenses from continuing operations for Q3 2019 were \$378 thousand, or 20%, higher than Q2 2019 primarily due to the Acquisition that closed on June 14, 2019. On a per Mcfe basis, field expenses decreased \$0.51/Mcfe, or 25%, from Q3 2019 compared to Q2 2019 due to reduced field operators and lower negotiated marketing rates on the Acquisition assets.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
(000s)	2019	2018	2019	2018
Operating expenses	\$ 1,572	\$ -	\$ 4,227	\$ -
Production taxes	308	-	816	-
Transportation expense	350	-	957	-
Total from continuing operations	2,230	-	6,000	-
Total from discontinued operations	-	85	61	219
Total production, operating and transportation	\$ 2,230	\$ 85	\$ 6,061	\$ 219

Operating expenses from continuing operations for the nine months ended September 30, 2019 were \$4.2 million (\$1.32/Mcfe), driven primarily from field labour, chemicals and water disposal.

For the nine months ended September 30, 2019, production taxes of \$816 thousand (5.8% as a percentage of revenue) were related to a 6% severance tax charged by the State of Mississippi on all oil and natural gas production. Horizontal wells that are drilled receive a severance tax relief at a rate of 1.3% for: (a) a period not to exceed thirty months from the date of the first sale of production from the wells; or (b) until the well reaches payout status, whichever occurs first. Payout is deemed to have occurred on the first day of the next month after gross revenues, less royalties and severance taxes, equal the cost to drill and complete the well.

Transportation expenses of \$957 thousand (\$0.30/Mcfe) are related to fees based on agreements in place to truck Southern's oil production volumes (approximately \$5.75/bbl) and pipeline fees for the transportation of natural gas sales volumes (approximately \$0.20/Mcf).

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018

Had the Acquisition closed on January 1, 2019, management estimates that operating expenses, production taxes and transportation expenses from continuing operations would have increased approximately \$0.9 million⁵ for the nine months ended September 30, 2019. In Q3 2019, Southern realized operating expense savings of approximately \$24 thousand per month from: (a) reduced field operators; (b) negotiating \$0.36/Mcf lower marketing rates on approximately two thirds of the production acquired through the Acquisition; and (c) implementing other operational synergies.

Total production, operating and transportation costs from discontinued operations decreased \$85 thousand in Q3 2019 and \$158 thousand for the nine months ended September 30, 2019, compared to the same periods in 2018. The decrease is due to the Disposition, which closed on May 2, 2019.

Operating Netback

Quarter-over-Quarter

(\$/Mcf)	Q3 2019	Q2 2019
Petroleum and natural gas revenue	\$ 3.67	\$ 4.82
Royalties	(0.69)	(0.88)
Production and operating	(1.29)	(1.71)
Transportation costs	(0.24)	(0.33)
Realized gain (loss) on derivatives	0.19	0.08
Operating netback per Mcfe⁽⁶⁾	\$ 1.64	\$ 1.98
Operating netback % of revenue	45%	41%

Southern's operating netback decreased in Q3 2019 by \$0.34/Mcfe, or 17%, compared to Q2 2019 primarily due to lower realized natural gas and oil pricing, partially offset by higher production from the Acquisition with lower operating and transportation expenses and a higher gain on derivatives in Q3 2019. Significant production and operating cost savings of \$0.42/Mcfe, or 25%, were realized in Q3 2019 compared to Q2 2019 due to operational synergies achieved from the Acquisition.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
(\$ per Mcfe)	2019	2018	2019	2018
Petroleum and natural gas revenue	\$ 3.67	\$ -	\$ 4.41	\$ -
Royalties	(0.69)	-	(0.82)	-
Production and operating	(1.29)	-	(1.57)	-
Transportation costs	(0.24)	-	(0.30)	-
Realized gain / (loss) on derivatives	0.19	-	0.06	-
Operating netback per Mcfe⁽⁶⁾	\$ 1.64	\$ -	\$ 1.78	\$ -
Operating netback % of revenue	45%	-	40%	-

⁵ See "Non-IFRS Measures".

⁶ See "Non-IFRS Measures".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Southern realized an operating netback of \$1.78/Mcfe for the nine months ending September 30, 2019 from continuing operations.

General & Administrative and Transaction Costs

Quarter-over-Quarter

<i>(000s)</i>	Q3 2019	Q2 2019
General and administrative	\$ 1,056	\$ 1,202
Transaction costs	192	223
Total from continuing operations	1,248	1,425
Total from discontinued operations	-	50
Total	\$ 1,248	\$ 1,475

Q3 2019 general and administrative costs decreased \$146 thousand, or 12%, from Q2 2019 primarily due to lower legal and financial advisor fees. Transaction costs decreased \$31 thousand in Q3 2019 compared to Q2 2019.

There were no general and administrative costs relating to the discontinued operations in Q3 2019, as the Disposition closed on May 2, 2019.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
<i>(000s)</i>	2019	2018	2019	2018
General and administrative	\$ 1,056	\$ -	\$ 3,220	\$ -
Transaction costs	192	-	580	-
Total from continuing operations	1,248	-	3,800	-
Total from discontinued operations	-	123	150	376
Total	\$ 1,248	\$ 123	\$ 3,950	\$ 376

For the nine months ended September 30, 2019, general and administrative costs for continuing operations were \$3.2 million and transaction costs were \$580 thousand.

General and administrative expenses relating to discontinued operations decreased \$123 thousand, or 100%, in Q3 2019 and \$226 thousand, or 60%, for the nine months ended September 30, 2019, compared to same periods in 2018.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Finance Expense

Quarter-over-Quarter

(000s)	Q3 2019	Q2 2019
Bank Interest	\$ 303	\$ 177
Convertible debenture interest	163	30
Lease interest	14	15
Accretion	117	30
Total from continuing operations	597	252
Total from discontinued operations	-	-
Total finance expense	\$ 597	\$ 252

Finance expenses from continuing operations increased \$345 thousand in Q3 2019 compared to Q2 2019. The increase was attributable to higher bank interest in Q3 2019 due to a higher average debt balance following the Acquisition and higher interest and accretion expenses from a full quarter of the Debentures that were issued on June 14, 2019.

There were no finance expenses in Q3 2019 related to the discontinued operations that were disposed of on May 2, 2019.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
(000s)	2019	2018	2019	2018
Bank debt interest	\$ 303	\$ -	\$ 711	\$ -
Convertible debenture interest	163	-	193	-
Lease interest	14	-	46	-
Accretion	117	-	152	-
Total from continuing operations	597	-	1,102	-
Total from discontinued operations	-	3	6	8
Total finance expense	\$ 597	\$ 3	\$ 1,108	\$ 8

Finance expenses from continuing operations for the nine months ended September 30, 2019 were \$1.1 million.

Share-based Compensation

Southern recorded \$100 thousand in share-based compensation in Q3 2019 relating to the stock option issuance on June 20, 2019. For more information, see "Shareholders' Equity – Stock Option Plan".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Depletion, Depreciation and Amortization

Quarter-over-Quarter

(000s)	Q3 2019	Q2 2019
Depletion	\$ 1,698	\$ 1,067
Depreciation	96	96
Total from continuing operations	1,794	1,163
Total from discontinued operations	-	-
Total depletion, depreciation and amortization	\$ 1,794	\$ 1,163

Depletion expense from continuing operations was \$631 thousand, or 59%, higher in Q3 2019 compared to Q2 2019 due to a full quarter of production volumes associated with the Acquisition assets that were acquired on June 14, 2019.

There were no depletion expenses in Q3 2019 related to the discontinued operations as the assets were sold on May 2, 2019.

Year-over-Year

	Three months ended September 30,		Nine months ended September 30,	
(000s)	2019	2018	2019	2018
Depletion	\$ 1,698	\$ -	\$ 3,701	\$ -
Depreciation	96	-	288	-
Total from continuing operations	1,794	-	3,989	-
Total from discontinued operations	-	100	39	283
Total depletion, depreciation and amortization	\$ 1,794	\$ 100	\$ 4,028	\$ 283

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the cash generating units ("CGUs") that comprise oil and natural gas properties. The assessment of indicators is subjective in nature and requires management to make judgments based on the information available at the reporting date. The market capitalization of the Company continued to deteriorate in the third quarter and was again below the net assets of the Company. The current and forward commodity price for natural gas has decreased since December 31, 2018. Management identified these as impairment indicators and estimated the recoverable amount of all CGUs at September 30, 2019 to be greater than the net book value of the CGUs.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<i>(000s)</i>				
Acquisitions	\$ 449	\$ -	\$ 21,324	\$ -
Drilling and completions	36	-	449	-
Geological and geophysical	-	-	153	-
Facilities, equipment and pipelines	110	-	824	-
Other	-	-	4	-
Total Capital Expenditures	595	-	22,754	-
Net dispositions	-	-	(504)	-
Total Capital	\$ 595	\$ -	\$ 22,250	\$ -

Asset Acquisition

On June 14, 2019, Southern closed the previously announced Acquisition with an arm's length private company to acquire assets in the State of Mississippi for cash consideration of US\$14.7 million (\$19.7 million), including customary adjustments of US\$1.8 million (\$2.4 million) for the period between February 1, 2019 to June 14, 2019 and the royalty suspense obligations relating to the assets.

The assets include high-quality, low-decline wells that produced approximately 6,900 Mcfe/d (97% gas) in Q3 2019 and include control of strategic facilities and infrastructure that are complementary to Southern's existing Mississippi operations. The Acquisition represents a continuation of Southern's strategy to develop conventional light oil and natural gas resources in the Southeast Gulf States.

The Acquisition was funded from: (a) the Debenture Financing (as described below in "*Liquidity and Capital Resources – Debenture Financing*"), which raised net proceeds of \$7.3 million; (b) cash on hand; and (c) available capacity on the expanded Credit Facility (as described below in the "*Liquidity and Capital Resources – Credit Facility*").

Capital Expenditures

Southern spent \$110 thousand in Q3 2019 relating to facility and well site equipment and asset optimization projects in both the Central Mississippi and Black Warrior Basin CGUs.

There were no capital expenditures from discontinued operations for the three or nine months ended September 30, 2019 or comparable periods in 2018.

Net dispositions of \$504 thousand relate to the Disposition of all of Southern's Canadian assets.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Shareholders' Equity

Share Capital

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

The following table reflects the Company's outstanding Common Shares at September 30, 2019 and December 31, 2018:

	Number of Shares	Share Capital
Balance as at December 31, 2018	204,356,973	\$ 33,860
Issuance of Common Shares by Rights Offering, net of issue costs	19,413,306	1,881
Balance as at September 30, 2019	223,770,279	\$ 35,741

Warrants

The Company issued 57,920,000 Recap Warrants in conjunction with the December 19, 2018 Private Placement. The Recap Warrants vest and become exercisable as to one-third upon the 20-day volume weighted average trading price of the Common Shares (the "Market Price") equaling or exceeding \$0.15, an additional one-third upon the Market Price equaling or exceeding \$0.20 and a final one-third upon the Market Price equaling or exceeding \$0.25. In addition, in the event the Market Price equals or exceeds \$0.40, each Recap 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 Recap Warrant, the Common Shares are listed on the facilities of a recognized stock exchange (other than the TSXV), the Common Shares are acquired for cash or for the securities of a company listed on a recognized stock exchange (other than the TSXV). As at September 30, 2019, 19,306,667 Recap Warrants had vested as the Market Price had exceeded \$0.15.

Rights Offering

On June 7, 2019, the Company closed the previously announced Rights Offering. Under the Rights Offering, Shareholders subscribed for and purchased an aggregate of 19,413,306 Common Shares at a price of \$0.10 per Common Share, resulting in proceeds to the Company, net of issuance costs, of approximately \$1.9 million.

Stock Option Plan

Pursuant to the Company's Stock Option Plan, on June 20, 2019, Southern granted 19,400,000 stock options to purchase common shares of the Company ("Options") to directors, officers and employees. The Options expire five years from the date of grant and are exercisable at a price of \$0.10 per common share. The Options vest in equal instalments annually over three years from the date of grant. This is the first grant of Options since Southern's Recapitalization in December of 2018.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



	Number of stock options	Weighted average exercise price
Balance at December 31, 2018	-	\$ -
Granted	19,400,000	0.10
Balance at September 30, 2019	19,400,000	\$ 0.10

	Outstanding and Exercisable	
Exercise price	Number of stock options	Weighted average remaining life (years)
\$ 0.10	19,400,000	4.7
\$ 0.10	19,400,000	4.7

Liquidity and Capital Resources

During Southern's initial stages of growth, the Company is dependant on cash on hand, operating cash flows, the issuance of equity/debt securities and bank debt to finance capital expenditures and property acquisitions. The Company will manage borrowings in relation to credit capacity and the ability to generate future operating cash flows to service such debt. The Company can also explore dispositions of its non-core oil and gas properties to provide further capital resources.

The Company continuously monitors production, commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing its capital spending levels by reducing its drilling and completion activity on its operated properties. Due to the persistently low natural gas pricing environment, Southern has decided to postpone the drilling of the Gwinville well planned for 2019 until pricing improves. There are no expiry issues pertaining to the well, as the land is held by production. The only capital expenditures the Company is planning on incurring for the remainder of 2019 is \$0.3 million to maintain capacity. The Company will monitor its financial capacity and commodity prices before proceeding with additional development drilling on its growth and development program.

As at September 30, 2019, excluding the current portion of the lease obligations, bank debt and the current derivative assets and liabilities, Southern had a working capital deficiency of \$4.2 million. The working capital deficiency is primarily a result of \$5.7 million (US\$4.3 million) of non-interest bearing royalty payables related to unresolved title or ownership issues not expected to be settled within the operating cycle unless claimants demand repayment and provide proof of ownership. Southern would have positive working capital of \$1.5 million excluding the royalty payables. 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 96% of the balances being greater than 120 days, 34% of the balance being greater than 10 years. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Credit Facility

On June 14, 2019, Southern Energy Corp. (Delaware) ("Southern Delaware"), a wholly-owned subsidiary of Southern, entered into a Fourth amendment (the "Fourth Amendment") to the credit agreement providing Southern with a US\$150 million senior secured credit facility (the "Credit Facility"). The Fourth Amendment included an increase to the borrowing base related to the closing of the Acquisition from US\$12.5 million (\$16.4 million) to US\$17.0 million (\$22.2 million), a quarterly borrowing base reduction beginning September 1, 2019 of US\$0.9 million (\$1.2 million) and amendments to the covenant calculations. The February 1, 2021, maturity date of the Credit Facility remained the same with the execution of the Fourth Amendment.

Interest on borrowings under the Credit Facility is determined by reference to the London Interbank Offered Rate ("LIBOR") plus a margin that ranges from 2.50% to 3.50%, based on utilization. Southern pays a commitment fee of 0.50% on the undrawn borrowing base. During the nine months ended September 30, 2019, the effective interest rate, excluding commitment and other fees, was 5.65%.

As at September 30, 2019, the Credit Facility was subject to the following financial covenants, calculated quarterly:

Financial covenant	Limit	As at Sep 30, 2019	As at Dec 31, 2018
Leverage ratio (Debt / Bank EBITDAX)	Maximum 3.5	3.7	4.1
Interest coverage ratio (Bank EBITDAX / Cash Interest)	Minimum 3.0	4.4	4.2
Current ratio (Current Assets / Current Liabilities)	Minimum 1.0	0.7	2.1

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

- Debt includes only the Credit Facility drawings at the period end;
- Bank EBITDAX is defined as Earnings before Interest, Taxes, Depreciation, Depletion, Amortization, Exploration Expenses and other non-cash charges such as, Impairment, Unrealized (gain) / loss on derivatives, Stock-based compensation and Foreign exchange (gain) / loss;
- Current Assets is calculated by taking the total current assets from the consolidated statement of financial position less the current derivative asset and adding the unused portion of the available credit facility;
- Current Liabilities is calculated by taking the total current liabilities from the consolidated statement of financial position less the current derivative liability and the current portion of the lease liability.

As part of the Fourth Amendment, the Leverage ratio and Interest Coverage ratio covenants were not calculated for the test period ending June 30, 2019. The covenant calculation for Bank EBITDAX and Cash Interest will be calculated using the consolidated results of Southern for the previous four consecutive fiscal quarters. However, for the test period of September 30, 2019, Bank EBITDAX and Cash Interest was annualized by taking the results of the quarter ended September 30, 2019 and multiplying them by four. For the test period of December 31, 2019, Bank EBITDAX and Cash Interest will be annualized by taking

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



the results of the two fiscal quarters ending December 31, 2019 and multiplying them by two. For the test period of March 31, 2020, Bank EBITDAX and Cash Interest will be annualized by taking the results of the three fiscal quarters ending March 31, 2020 and multiplying them by four and dividing them by three.

As at September 30, 2019, the Company was non-compliant with the current ratio covenant or the leverage ratio covenant of the Credit Facility. As at December 31, 2018, the Company was non-compliant with the leverage ratio covenant of the Credit Facility. As such, all outstanding bank debt as at September 30, 2019 and December 31, 2018 has been classified under current liabilities. Southern has identified various options to improve the financial position of the Company. Strategies to manage liquidity include having adequate sources of financing available through its Credit Facility, estimating future cash flows generated from operations based on reasonable production and pricing assumptions, reducing capital spending and utilizing equity to settle interest payments on Debentures. Southern may also consider the sale of non-core oil and gas assets along with alternative sources of financing. The Company has obtained written waivers for non-compliance for the period ended September 30, 2019 and December 31, 2018.

Subsequent to September 30, 2019, as part of the semi-annual borrowing base review, Southern Delaware entered into a Fifth amendment ("Fifth Amendment") to the Credit Facility reducing the borrowing base to US\$15.0 million (\$19.9 million). Beginning January 1, 2020, the borrowing base will be reduced monthly by US\$250 thousand (\$330 thousand) until the completion of the next borrowing base review scheduled for March 1, 2020. The February 1, 2021, maturity date of the Credit Facility remained the same with the execution of the Fifth Amendment.

As part of the Fifth Amendment, the current ratio covenant calculation, beginning with the test period ending December 31, 2019 and ending with the test period of December 31, 2020, will exclude royalty suspense balances that are at least one year old, as at the test period date. Had this amendment been in place at September 30, 2019, the royalty suspense balance would have been decreased by \$5.5 million, resulting in a current ratio of 1.9:1.0.

As at September 30, 2019, the borrowing base was US\$16.1 million (\$21.3 million) and Southern had US\$15.0 million (\$19.9 million) drawn. In Q3 2019, the Company voluntarily paid down US\$0.5 million (\$0.7 million) on the Credit Facility. As at December 31, 2018, the borrowing base was US\$16.0 million (\$21.8 million) and Southern had US\$15.4 million (\$21.0 million) drawn.

As of November 27, 2019, Southern had US\$14.7 million (\$19.5 million) drawn.

Debenture Financing

On June 14, 2019, Southern closed the sale of 8,069 convertible debentures (the "Debentures") at a price of \$1,000 per Debenture and received net proceeds of \$7.3 million (the "Debenture Financing"), which was used to finance the Acquisition.

The Debentures will mature and be repayable on June 30, 2022 (the "Maturity Date") and 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"), with the first such payment to be made December 31, 2019. 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

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



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 \$0.125 per Common Share, subject to adjustment in certain events. This represents a conversion rate of approximately 8,000 Common Shares for each \$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. In addition to the foregoing, in the event of a change of control of the Company, subject to certain terms and conditions, holders of Debentures will be entitled to convert their Debentures and, subject to certain limitations, receive, in addition to the number of Common Shares they would otherwise be entitled to receive, an additional number of Common Shares per \$1,000 principal amount of Debentures.

The Debentures are direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company, including the Credit Facility, 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.

The Debentures are not redeemable by the Company prior to June 30, 2020. On or after June 30, 2020 and prior to June 30, 2021, the Debentures will be 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 105% of their principal amount plus accrued and unpaid interest, if any. On or after June 30, 2021 and prior to the Maturity Date, the Debentures will be redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 102.5% of their principal amount plus accrued and unpaid interest, if any. The securities issued and sold in the Debenture Financing are subject to a four month hold period under applicable securities legislation.

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. These costs include royalties paid to governments or mineral rights owners, surface lease rentals and decommissioning obligations. These costs are highly dependent on the future operating environment and are subject to changes in commodity prices, ownership, production volumes and government policies. At September 30, 2019, Southern's total contractual obligations and commitments were \$19.9 million, consisting of the outstanding bank loan balance, excluding interest and bank fees. Operating leases previously included in Southern's contractual obligations and commitments are now disclosed on the balance sheet with the adoption of IFRS 16 – *Leases*.

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.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



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

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

Southern manages these risks by:

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

For additional details on the risks relating to Southern's business, see "Risk Factors" in the Company's most recent Annual Information Form, which is available on SEDAR at www.sedar.com.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Commodity Derivative Contracts

Southern is exposed to commodity price risk as prices for oil and natural gas products fluctuate in response to many factors including local and global supply and demand, weather patterns, pipeline transportation, political stability, and economic factors. Commodity price fluctuations are an inherent part of the oil and gas business. 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 Condensed 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 Condensed Consolidated Statement of Loss and Comprehensive Loss in the period of change.

Southern had the following commodity derivative contracts in place as at September 30, 2019:

Natural Gas	Volume	Pricing (US\$)
<i>Fixed Price Swap</i>		
October 1, 2019 – December 31, 2019	3,900 MMBtu/d	NYMEX – HH \$2.840/MMBtu
January 1, 2020 – December 31, 2020	1,000 MMBtu/d	NYMEX – HH \$2.600/MMBtu
January 1, 2020 – December 31, 2020	1,500 MMBtu/d	NYMEX – HH \$2.748/MMBtu
January 1, 2020 – December 31, 2020	2,000 MMBtu/d	NYMEX – HH \$2.575/MMBtu
January 1, 2021 – December 31, 2021	1,500 MMBtu/d	NYMEX – HH \$2.575/MMBtu

Costless Collar

October 1, 2019 – December 31, 2019	1,000 MMBtu/d	NYMEX – HH \$2.10 - \$2.98/MMBtu
-------------------------------------	---------------	----------------------------------

Crude Oil	Volume	Pricing (US\$)
<i>Fixed Price Swap</i>		
October 1, 2019 – December 31, 2019	50 bbl/d	WTI \$55.25/bbl

Subsequent to September 30, 2019, Southern entered into the following commodity derivative contracts:

Natural Gas	Volume	Pricing (US\$)
<i>Fixed Price Swap</i>		
January 1, 2020 – March 31, 2020	1,000 MMBtu/d	NYMEX – HH \$2.700/MMBtu
Crude Oil	Volume	Pricing (US\$)
<i>Fixed Price Swap</i>		
January 1, 2020 – December 31, 2020	50 bbl/d	WTI \$55.25/bbl

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



Discontinued Operations

On May 2, 2019, Southern disposed of all of its Canadian oil and natural gas assets for \$0.64 million, prior to customary purchase price adjustments.

Results of Discontinued Operations

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues				
Petroleum and natural gas revenue	\$ -	\$ 276	\$ 334	\$ 741
Royalties	-	(71)	(54)	(140)
	-	205	280	601
Expenses				
Production and operating	-	74	42	184
Transportation	-	11	19	35
Exploration evaluation	-	28	1	42
Depletion, depreciation and amortization	-	100	39	283
Finance	-	3	6	8
General and administrative	-	123	150	376
	-	339	257	928
Net (loss) earnings from discontinued operations	\$ -	\$ (134)	\$ 23	\$ (327)

Eight Quarter Analysis

(000s)	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Three months ended	2019	2019	2019	2018	2018	2018	2018	2017
Revenue	\$ 5,340	\$ 4,383	\$ 4,424	\$ 806	\$ -	\$ -	\$ -	\$ -
Net loss from continuing operations	(1,081)	(354)	(1,674)	(2,160)	-	-	-	-
Per share, basic and diluted	(0.00)	(0.00)	(0.01)	(0.05)	-	-	-	-
Total net loss	(1,081)	(308)	(1,697)	(2,368)	(134)	(83)	(110)	(79)
Per share, basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.05)	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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

- Volatility in commodity prices and the resultant effect on revenue and net loss;
- On December 19, 2018, Southern purchased the units of Gulf Pine Energy Partners, LP. The above revenue and net loss from continuing operations for the quarter ending December 31, 2018 reflect the twelve days of production from the acquired assets;

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



- On May 2, 2019, Southern disposed of all of its Canadian assets and operating results for prior periods have been classified as discontinued operations;
- On June 14, 2019, Southern closed a strategic Acquisition, which contributed revenue of \$361 thousand and an operating netback of \$216 thousand in Q2 2019; and
- Southern recorded transaction costs of \$1.1 million for the fourth quarter of 2018, \$165 thousand for the first quarter of 2019 and \$233 thousand for the second quarter of 2019 related to the Recapitalization and acquisition of Gulf Pine.

Change in Accounting Policies:

Assets Held for Sale and Discontinued Operations

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are tested for impairment prior to transfer and measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the profit or loss in the period measured. Non-current assets and disposal groups held for sale are presented in current assets and liabilities on the statement of financial position.

Individual non-current assets or disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held-for-sale. The results of discontinued operations are shown separately in the consolidated statements of operations with comparative figures restated. Detailed disclosure of revenue, expenses and net earnings (loss) are disclosed in the notes.

Convertible Debentures

The Debentures are a non-derivative financial instrument that creates financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares of the Company. The liability component of the Debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially, net of deferred taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not remeasured. The carrying amounts of the liability and equity components of the Debentures are reclassified to Shareholders' capital on conversion to Common Shares.

Amendments to IFRS 3 "Business Combinations" – Definition of a Business ("IFRS 3")

Southern elected to early adopt the amendments to IFRS 3 effective January 1, 2019, which will be applied retrospectively to acquisitions that occur on or after January 1, 2018. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments do not result in changes to the application of the acquisition method. The Company retrospectively adopted the amendments to IFRS 3, which did not result in any adjustments to the prior issued financial statements.

Adoption of IFRS 16 — Leases (“IFRS 16”)

Effective January 1, 2019, the Company adopted IFRS 16. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognized the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption, Southern elected to use the following practical expedients permitted under the standard:

- Account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use (“ROU”) asset if the underlying asset is of a lower dollar value (less than \$5 thousand); and
- Recognize lease liabilities at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company’s incremental borrowing rate as at January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on date of transition.

As a result of the adoption of IFRS 16 as at January 1, 2019, Southern recorded a current lease liability of \$405 thousand and a long-term lease liability of \$714 thousand with an associated ROU Asset of \$1.1 million. The difference in operating lease commitments disclosed as at December 31, 2018 and lease liabilities recognised in the statement of financial position at January 1, 2019 is primarily due to the discounting of the future lease payments using Southern’s incremental borrowing rate.

Non-IFRS Measures

This MD&A contains terms commonly used in the oil and natural gas industry, such as adjusted funds flow from operations, operating netback, working capital, net debt and pro forma financial measures. These terms are not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these non-IFRS measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The non-IFRS measures and their manner of reconciliation to IFRS financial measures are discussed below. These non-IFRS measures provide additional information that management believes is meaningful in describing the Company’s operational performance, liquidity and capacity to fund capital expenditures and other activities. Management uses adjusted funds flow from operations as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices. Management monitors working capital and net debt as part of its capital structure in order to fund current operations and future growth of the Company.

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



“Adjusted Funds Flow from Operations”

Adjusted funds flow from operations is calculated based on cash flow from operating activities before changes in non-cash working capital and cash decommissioning expenditures. The reconciliation between funds flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash flow from operating activities	\$ 2,313	\$ 7	\$ 2,163	\$ (2)
Change in non-cash working capital	(1,175)	(37)	(174)	(39)
Cash decommissioning expenses	5	1	11	12
Adjusted Funds Flow from Operations (1)	\$ 1,143	\$ (29)	\$ 2,000	\$ (29)

(1) Includes results from discontinued operations

“Operating Netback”

Operating Netback is calculated as oil and natural gas sales less royalties, production taxes, operating expenses, transportation costs and realized gain / (loss) on derivatives.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 5,340	\$ -	\$ 14,147	\$ -
Royalties	(1,002)	-	(2,621)	-
Production and operating	(1,880)	-	(5,043)	-
Transportation costs	(350)	-	(957)	-
Realized (loss) on derivatives	283	-	206	-
Operating netback (1)	\$ 2,391	\$ -	\$ 5,732	\$ -

(1) Excludes results from discontinued operations

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



"Working Capital" and "Net Debt"

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

	As at September 30, 2019	As at December 31, 2018
Current assets	\$ 5,013	\$ 16,710
Current liabilities	(28,868)	(29,227)
Remove:		
Current derivative assets	(602)	(332)
Current portion of lease liabilities	388	-
Current bank debt	19,865	21,009
Current derivative liabilities	8	166
Working capital (deficiency) surplus	\$ (4,196)	\$ 8,326

	As at September 30, 2019	As at December 31, 2018
Bank debt	\$ 19,865	\$ 21,009
Convertible debentures – face value	8,069	-
Working capital deficiency (surplus)	4,196	(8,326)
Net debt	\$ 32,130	\$ 12,683

"Pro Forma Financial Measures"

Pro Forma Operating Netback (including Pro Forma Royalties from Continuing Operations and Pro Forma Revenue from Continuing Operations) and Pro Forma Adjusted Funds Flow from Operations are financial measures that are not defined under IFRS. The Company defines these non-IFRS pro forma financial measures as if certain business combinations, acquisitions or transactions occurred on dates prior to their actual dates for the purposes of comparing financial results from period to period. The Company believes they enhance an investor's understanding of the Company's financial and operating performance across periods, because they provide a direct comparison of financial performance from period to period for the assets currently owned by the Company. For further information, see "Reader Advisories – Pro Forma Information".

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



The table below reconciles Operating Netback to Pro Forma Operating Netback for the nine months ended September 30, 2019:

	Nine Months Ended September 30, 2019		
	As Reported	Pro Forma Contributions (2)	Pro Forma Total
Revenue	\$ 14,147	\$ 3,517	\$ 17,664
Royalties	(2,621)	(754)	(3,375)
Production and operating	(5,043)	(869)	(5,912)
Transportation costs	(957)	(31)	(988)
Realized gain on derivatives	206	-	206
Operating netback (1)	\$ 5,732	\$ 1,863	\$ 7,595

(1) Excludes results from discontinued operations

(2) Includes results as if the Acquisition had occurred on January 1, 2019

The table below reconciles Adjusted Funds Flow from Operations to Pro Forma Adjusted Funds Flow from Operations for the nine months ended September 30, 2019:

	Nine Months Ended September 30, 2019		
	As Reported	Pro Forma Contributions (2)	Pro Forma Total
Cash flow from operating activities	\$ 2,163	\$ 1,863	\$ 4,026
Change in non-cash working capital	(174)	-	(174)
Cash decommissioning expenses	11	-	11
Adjusted Funds Flow from Operations (1)	\$ 2,000	\$ 1,863	\$ 3,863

(1) Includes results from discontinued operations

(2) Includes results as if the Acquisition had occurred on January 1, 2019

Abbreviations

bbl/d	barrels per day
Mcf/d	thousand cubic feet per day
Mcfe/d	thousand cubic feet equivalent per day
MMBtu/d	million British thermal units per day
boe/d	barrels of oil equivalent per day
NGLs	natural gas liquids
Gas	natural gas
Liquids	oil and NGLs
NYMEX – HH	New York Mercantile Exchange – Henry Hub
WTI	West Texas Intermediate
LLS	Louisiana Light Sweet

Southern Energy Corp

Management's Discussion and Analysis

For the nine months ended September 30, 2019 and 2018



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 ("Mcf") 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, 2018 and 2017 and Annual Information Form is also available on SEDAR at www.sedar.com or www.southernenergycorp.com.