



**SOUTHERN ENERGY CORP.  
ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2023**

**April 26, 2024**

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## GLOSSARY

Certain terms and abbreviations used in this annual information form are defined below:

"**Abandonment**" means forecasted abandonment and site reclamation costs. For more detail, please see "*Other Oil and Gas Information – Additional Information concerning Abandonment and Reclamation Costs*".

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended from time to time.

"**AIM**" means the AIM market operated by the London Stock Exchange plc.

"**AIF**" means this annual information form dated April 26, 2024, for the financial year ended December 31, 2023.

"**BLM**" means the U.S. Department of the Interior – Bureau of Land Management.

"**Board**" means the board of directors of Southern.

"**Bonus Warrants**" has the meaning ascribed thereto in "*General Development of the Business – Financial Year Ended December 31, 2021*".

"**CBCA**" means the *Canada Business Corporations Act*, as amended from time to time.

"**Central Mississippi Assets**" means the oil and gas assets located in Covington, Hinds, Jasper, Jefferson Davis, Jones, Lawrence, Marion, Simpson, Smith and Yazoo Counties, Mississippi.

"**COGE Handbook**" means the most recent publication of the Canadian Oil and Gas Evaluation Handbook, as amended from time to time, maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).

"**Common Shares**" means common shares in the capital of the Corporation.

"**Credit Agreement**" has the meaning ascribed thereto in "*General Development of the Business – Three-Year History – Financial Year Ended December 31, 2021*".

"**Credit Facility**" has the meaning ascribed thereto in "*General Development of the Business – Three-Year History – Financial Year Ended December 31, 2021*".

"**Debentures**" has the meaning ascribed thereto in "*General Development of the Business – Three-Year History – Financial Year Ended December 31, 2021*".

"**EPA**" means the United States Environmental Protection Agency.

"**FERC**" means the United States Federal Energy Regulatory Commission.

"**GHG**" means greenhouse gas.

"**Gulf Pine LP**" means Gulf Pine Energy Partners, LP, a limited partnership formed under the laws of the State of Delaware.

"IFRS" means the International Financial Reporting Standards.

"NAFTA" means the North American Free Trade Agreement.

"NI 51-101" means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*.

"NI 51-102" means National Instrument 51-102 – *Continuous Disclosure Obligations*.

"NORM" has the meaning ascribed thereto under the heading "*Industry Conditions – Environmental Regulation*".

"NSAI" means Netherland, Sewell and Associates Inc., independent petroleum consultants.

"NSAI Report" means the report prepared by NSAI, evaluating the crude oil, natural gas and natural gas liquids reserves of Southern, as at December 31, 2023, with a preparation date of February 20, 2024.

"NSPS" has the meaning ascribed thereto under the heading "*Industry Conditions – Climate Change Regulation*".

"ONRR" means the United States Office of Natural Resources Revenue.

"OPEC" means the Organization of Petroleum Exporting Countries, and "OPEC+" refers to OPEC plus Russia, Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, South Sudan and Sudan.

"Options" means stock options to purchase new Common Shares issued under the Option Plan.

"Option Plan" means the Corporation's stock option plan.

"Paris Agreement" means the international treaty on climate change sponsored by the UNFCCC and adopted in 2015.

"PSA" means a performance share award issued under the Share Award Incentive Plan.

"RSA" means a restricted share award issued under the Share Award Incentive Plan.

"Shareholders" means the holders of Common Shares.

"Share Awards" includes RSAs and PSAs.

"Share Award Incentive Plan" means the Corporation's share award incentive plan.

"Southern" or "Corporation" means Southern Energy Corp., a corporation existing under the ABCA.

"Southern Delaware" means Southern Energy Corporation, a corporation existing under the laws of Delaware, a wholly-owned subsidiary of the Corporation.

"TSXV" means the TSX Venture Exchange.

"UNFCCC" means the United Nations Framework Convention on Climate Change.

"Warrants" has the meaning ascribed thereto in "General Development of the Business – Financial Year Ended December 31, 2021".

"U.S." or "United States" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia.

"USMCA" means the Canada-United States-Mexico Agreement.

## ABBREVIATIONS

In this AIF, the abbreviations set forth below have the following meanings:

bbl	Barrel	Mcf	thousand cubic feet
Mbbl	thousand barrels	MMcf	million cubic feet
bbl/d	barrels per day	Mcf/d	thousand cubic feet per day
NGLs	natural gas liquids	MMBTU	million British Thermal Units
Boe/d	barrels of oil equivalent per day	Tcf	Trillion cubic feet
API	American Petroleum Institute.		
°API	An indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.		
boe	Barrel of oil equivalent on the basis of 1 boe to 6 Mcf of natural gas. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 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.		
CO <sub>2</sub>	Carbon dioxide.		
GHG	Greenhouse gas emissions.		
Mboe	1,000 barrels of oil equivalent.		
M\$	Thousands of dollars.		
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade.		
NYMEX	Henry Hub, the reference price paid in U.S. dollars at Erath, Louisiana for natural gas.		

## CURRENCY

All currency amounts (\$) expressed herein, unless otherwise indicated, are expressed in U.S. dollars. Any references to "CAD\$" refer to Canadian dollars; references to "£" refer to UK pounds sterling.

## CONVERSIONS

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
bbls	Cubic metres	0.159
Cubic metres	bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Gigajoules	Mmbtu	0.949
Mmbtu	Gigajoules	1.055

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this AIF constitute forward-looking statements. The use of any of the words "anticipate", "intend", "continue", "estimate", "expect", "may", "will", "plan", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Southern believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forwarding-looking statements speak only as of the date of this AIF. In particular, this AIF may contain forward-looking statements pertaining to the following:

- the business strategy, objectives, strengths and focus of the Corporation;
- the performance characteristics of the Corporation's oil and natural gas properties;
- oil and natural gas production levels;
- capital expenditure programs and estimates;
- the quantity of oil and natural gas proved and probable reserves;
- projections of market prices and operating costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development;
- the ability of the Corporation to achieve drilling success consistent with management's expectations;
- the Corporation's ability to attract and retain qualified personnel;
- pressures of market prices and costs, including increased operating and capital costs due to inflationary pressures;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses; and
- expected uses of Credit Facility funds;
- expectations regarding future commodity prices;
- treatment under governmental regulatory and royalty regimes and tax laws; and
- the ability to remediate sites and remedy spills, releases or emissions of various substances that may be produced in association with the Corporation's petroleum and natural gas operations.

Although management of Southern believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this AIF:

- the ability of management to execute its business plan;
- volatility in market prices for oil and natural gas;
- risks and liabilities inherent in oil and natural gas industry, including environmental regulation;
- uncertainties associated with estimating oil and natural gas reserves, production, costs and expenses;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;

- actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs;
- risks inherent in marketing operations, including credit risk;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- changes in income tax laws and incentive programs relating to the oil and natural gas industry;
- unanticipated operating events which could reduce production or cause production to be shut- in or delayed;
- hazards such as fire, explosion, blowouts, cratering and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury;
- insufficient storage or transportation capacity;
- risks relating to the condition of the Corporation's assets, and costs relating to maintenance of same;
- encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations;
- the ability to add production and reserves through development and exploration activities;
- the possibility that government policies or laws, including laws and regulations related to the environment, may change or governmental approvals may be delayed or withheld;
- the potential termination or expiration of the licenses, leases and working interest in licenses and leases required by the Corporation, and the risk that the Corporation may not be able to obtain all necessary licenses and permits required for its business;
- failure to obtain industry partner and other third-party consents and approvals, as and when required;
- inflation, stock market volatility and market valuations;
- third party companies' inability to manage inflationary cost pressures;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- inability to identify and complete potential acquisitions and/or failure to achieve anticipated benefits from such acquisitions;
- inability to add production and reserves through development and exploration activities;
- termination of or failure to extend existing licenses by regulatory or governmental authorities;
- the availability of capital on acceptable terms or at all;
- failure to realize anticipated benefits of acquisitions; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

With respect to forward-looking statements contained in this AIF, Southern has made assumptions regarding, among other things:

- the legislative and regulatory environments of the jurisdictions where the Corporation carries on business or has operations;
- the ability of the Corporation to achieve drilling success consistent with management's expectations;
- the ability of the Corporation to market its oil and natural gas and to transport its oil and natural gas to market;

- the ability of the Corporation to obtain capital to finance its exploration, development and operations;
- commodity prices and royalty regimes;
- the impact of increasing competition;
- availability of skilled labour;
- timing and amount of capital expenditures;
- the price of oil and natural gas;
- conditions in general economic and financial markets;
- royalty rates and future operating costs; and
- the Corporation's ability to obtain additional financing to finance its exploration, development and operations, and its ability to secure such financing on satisfactory terms.

Southern has included the above summary of assumptions and risks related to forward-looking information provided in this AIF in order to provide investors with a more complete perspective on Southern's current and future operations and such information may not be appropriate for other purposes.

**Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this AIF are expressly qualified by this cautionary statement. Except as required by applicable securities laws, Southern does not undertake any obligation or is not under any duty to publicly update or revise any forward-looking statements. Readers should also carefully consider the matters discussed under the heading "Risk Factors" in this AIF.**

## NON-IFRS MEASURES

This AIF contains certain financial measures and ratios, as described below, which do not have standardized meanings prescribed by IFRS or GAAP. As these non-IFRS financial measures and ratios are commonly used in the oil and gas industry, Southern believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used. The non-IFRS financial measures and ratios used in this AIF, represented by the capitalized and defined terms outlined below, are used by the Corporation as key measures of financial performance.

"**Netback**" is calculated by deducting royalties paid and productions costs, including transportation costs, from prices received, excluding the effects of hedging.

<i>(\$000s)</i>	2023	2022	2023 (\$/boe)	2022 (\$/boe)
Revenue	\$19,313	\$45,217	\$19.47	\$59.02
Royalties	(3,737)	(9,763)	(3.77)	(12.74)
Production costs				
Transportation costs	(1,202)	(139)	(1.21)	(0.18)
Other production and operating costs	(6,435)	(6,446)	(6.49)	(8.41)
<b>Netback</b>	<b>\$7,939</b>	<b>\$28,869</b>	<b>\$8.00</b>	<b>\$37.69</b>

## NOTES ON RESERVES DATA AND OTHER OIL AND NATURAL GAS INFORMATION

### Caution Respecting Reserves Information

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved and probable reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery. The estimation and classification of reserves requires the application of professional judgment combined with geological and



engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

The recovery and reserve estimates of oil, natural gas liquids and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein. The estimated future net revenue from the production of the Corporation's natural gas and petroleum reserves does not represent the fair market value of the Corporation's reserves.

### **Caution Respecting BOE**

In this AIF, the abbreviation BOE means a barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas when converting natural gas to BOEs. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf to 1 BOE is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency conversion ratio of 6 Mcf to 1 BOE, utilizing a conversion ratio of 6 Mcf to 1 BOE may be misleading as an indication of value.

### **Reserves Categories**

**"Reserves"** are estimated remaining quantities of oil and natural gas and related substances anticipated to be economically recoverable from discovered resources, from a given date forward, based on: (a) analysis of drilling, geological, geophysical, and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

**"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.

**"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.

**"Developed Non-Producing"** reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

**"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 classification (proved, probable, possible) to which they are assigned. In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recorded from specific wells, facilities and completion intervals in the pool and their respective development and production status.

**"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.

## Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) for Proved reserves, at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimation; and
- (b) for Proved plus Probable reserves, at least a 50 percent probability that the quantities actually recovered will equal or exceed the estimation.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

## Drilling Locations

This AIF discloses drilling inventory in two categories: (a) Proved locations; and (b) Probable locations. Proved locations and probable locations are derived from the NSAI Report and account for drilling locations that have associated proved and/or probable reserves, as applicable. Of the 33 drilling locations identified herein, 11 are net proved locations, and 22 are net probable locations. The drilling locations on which the Corporation actually drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, commodity prices, costs, actual drilling results, additional reservoir information that is obtained and other factors.

## Additional Definitions

The following terms, used in the preparation of the NSAI Report in accordance with NI 51-101 and this AIF, have the following meanings:

**"Associated gas"** means the gas cap overlying a crude oil accumulation in a reservoir.

**"Crude oil"** or **"Oil"** means a mixture that consists mainly of pentanes and heavier hydrocarbons, which may contain sulphur and other non-hydrocarbon compounds, that is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated. It does not include solution gas or natural gas liquids.

**"Development costs"** means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;

- (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;
- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

**"Development well"** means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

**"Exploration costs"** means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as "prospecting costs") and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (a) to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as "geological and geophysical costs");
- (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defense, and the maintenance of land and lease records;
- (c) dry hole contributions and bottom hole contributions;
- (d) costs of drilling and equipping exploratory wells; and
- (e) costs of drilling exploratory type stratigraphic test wells.

**"Exploratory well"** means a well that is not a development well, a service well or a stratigraphic test well.

**"Field"** means an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to denote localized geological features, in contrast to broader terms such as "basin", "trend", "province", "state", "play" or "area of interest".

**"Future prices and costs"** means future prices and costs that are:

- (a) generally accepted as being a reasonable outlook of the future;
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Corporation is legally bound by a contractual or other obligation to supply a physical

product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

**"Future income tax expenses"** means future income tax expenses estimated (generally, year-by-year):

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, between oil and gas activities and other business activities;
- (b) without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income;
- (c) taking into account estimated tax credits and allowances (for example, royalty tax credits); and
- (d) applying to the future pre-tax net cash flows relating to the reporting issuer's oil and gas activities the appropriate year-end statutory tax rates, taking into account future tax rates already legislated.

**"Future net revenue"** means the estimated net amount to be received with respect to the development and production of reserves (including synthetic oil, coal bed methane and other non-conventional reserves) estimated using constant prices and costs or forecast prices and costs.

**"Gross"** means:

- (a) in relation to the Corporation's interest in production or reserves, its "Company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Corporation;
- (b) in relation to wells, the total number of wells in which the Corporation has an interest, and
- (c) in relation to properties, the total area of properties in which the Corporation has an interest.

**"Natural gas"** means the lighter hydrocarbons and associated non-hydrocarbon substances occurring naturally in an underground reservoir, which under atmospheric conditions are essentially gases but which may contain natural gas liquids. Natural gas can exist in a reservoir either dissolved in crude oil (solution gas) or in a gaseous phase (associated gas or non-associated gas). Non-hydrocarbon substances may include hydrogen sulphide, carbon dioxide and nitrogen.

**"Natural gas liquids"** means those hydrocarbon components that can be recovered from natural gas as liquids including, but not limited to, ethane, propane, butanes, pentanes plus, condensate and small quantities of non-hydrocarbons.

**"Net"** means:

- (a) in relation to the Corporation's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves;
- (b) in relation to the Corporation's interest in wells, the number of wells obtained by aggregating the Corporation's working interest in each of its gross wells; and
- (c) in relation to the Corporation's interest in a property, the total area in which the Corporation has an interest multiplied by the working interest owned by the Corporation.

"**Non-associated gas**" means an accumulation of natural gas in a reservoir where there is no crude oil.

"**ONRR**" means the Office of Natural Resources Revenue.

"**Operating costs**" or "**production costs**" means costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities.

"**Production**" means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and gas.

"**Property**" includes:

- (a) fee ownership or a lease, concession, agreement, permit, licence or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest;
- (b) royalty interests, production payments payable in oil or gas, and other non-operating interests in properties operated by others; and
- (c) an agreement with a foreign government or authority under which a reporting issuer participates in the operation of properties or otherwise serves as "producer" of the underlying reserves (in contrast to being an independent purchaser, broker, dealer or importer).

A property does not include supply agreements, or contracts that represent a right to purchase, rather than extract, oil or gas.

"**Proved property**" means a property or part of a property to which reserves have been specifically attributed.

"**Reservoir**" means a porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

"**Service well**" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for combustion.

"**Solution gas**" means natural gas dissolved in crude oil.

"**Stratigraphic test well**" means a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Ordinarily, such wells are drilled without the intention of being completed for hydrocarbon production. They include wells for the purpose of core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic test wells are classified as (a) "exploratory type" if not drilled into a proved property; or (b) "development type", if drilled into a proved property. Development type stratigraphic wells are also referred to as "evaluation wells".

"**Support equipment and facilities**" means equipment and facilities used in oil and gas activities, including seismic equipment, drilling equipment, construction and grading equipment, vehicles, repair shops, warehouses, supply points, camps, and division, district or field offices.

"Unproved property" means a property or part of a property to which no reserves have been specifically attributed.

"Well abandonment costs" means costs of abandoning a well and surface lease reclamation. They do not include costs of abandoning the gathering system, suspended wells, batteries, plants, or processing facilities.

## CORPORATE STRUCTURE

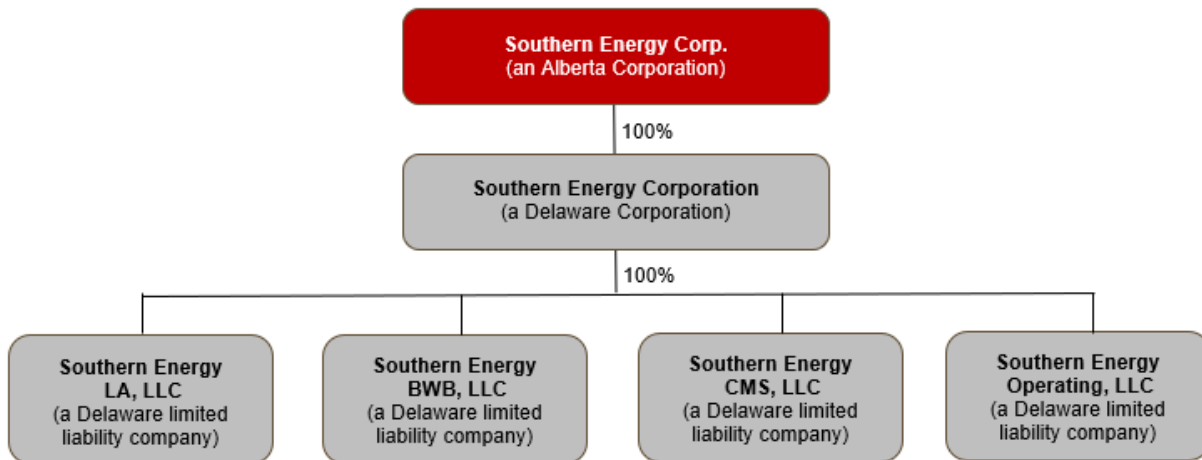
### Name, Address and Incorporation

The Corporation was incorporated as 7015321 Canada Limited pursuant to the provisions of the CBCA on July 22, 2008. On August 15, 2008, the name of the Corporation was changed to "MAX Minerals Ltd.". On October 8, 2010, the name of the Corporation was changed to "Standard Exploration Ltd.". On December 31, 2018, the issued and outstanding Common Shares were consolidated on the basis of one post-consolidated Common Share for every five pre-consolidated Common Shares. On January 2, 2019, the name of the Corporation was changed to "Southern Energy Corp.". On January 7, 2020, the Corporation continued out of the federal jurisdiction of Canada under the CBCA to the provincial jurisdiction of Alberta under the ABCA. In December 2021, the Corporation consolidated its Common Shares on the basis of one post-consolidation Common Share for every eight pre-consolidation Common Shares.

The head office of the Corporation is located at 2400, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 and the registered office of the Corporation is located at 4200 Bankers Hall West, 888 – 3<sup>rd</sup> Street S.W., Calgary, Alberta, T2P 5C5.

### Intercorporate Relationships

The following diagram describes the inter-corporate relationships among the Corporation and its subsidiaries as of the date hereof:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History

#### *Recent Development*

Effective February 28, 2024, Southern entered into a sixth amendment to the Credit Facility extending the maturity to December 31, 2026 from August 31, 2025, pausing monthly repayments of the principal amount outstanding from February 1, 2024 to September 30, 2024 and increasing the fixed per annum coupon from 12% to 15% per annum.

On January 2, 2024, the Corporation issued 779,273 new Common Shares to holders of its 8% convertible unsecured subordinated debentures issued on June 14, 2019 and January 15, 2021 (the "**Debentures**") as payment in kind of accrued interest on the Debentures due on December 31, 2023, in the aggregate amount of CAD\$171,440. For more information on the Debentures, see "*Description of Share Capital – Debentures*".

#### *Financial Year ended December 31, 2023*

On November 29, 2023, Andrew McCreath retired from the Corporation's Board. The Corporation did not appoint a replacement non-executive director at the time of Mr. McCreath's retirement.

On November 9, 2023, closed an equity financing raising aggregate gross proceeds of US\$5.0 million (approximately CAD\$6.9 million / £4.1 million) through the issuance of 26,630,000 new Common Shares at a price of CAD\$0.26 (approximately 15.5 pence) per Common Share, comprising of: (a) 10,712,387 Common Shares issued pursuant to a Canadian prospectus offering; (b) 15,853,097 Common Shares issued pursuant to a U.K. placing; and (c) 64,516 Common Shares issued pursuant to a direct subscription with the Corporation.

Effective September 29, 2023, Southern entered into a fifth amendment to the Credit Facility extending its Tranche B availability to August 31, 2025, and increasing its Tranche B commitment by US\$2.0 million for a total Tranche B commitment of US\$31.5 million. In connection with this amendment, the Corporation agreed to extend the term of 3,906,250 Bonus Warrants outstanding to August 31, 2025, from April 30, 2024.

On June 15, 2023, Michael Kohut and Paul Baay retired from the Board following their decision not to stand for re-election at the Corporation's annual general and special meeting of shareholders.

On June 6, 2023, the Corporation announced the closing of its acquisition of the remaining producing acreage in the Gwinville Field in Jefferson Davis County, Mississippi from PetroTX Energy, LLC for a cash purchase price of \$3.2 million.

#### *Financial Year ended December 31, 2022*

On November 18, 2022, the Corporation filed and obtained a final receipt for a final base shelf prospectus in each of the territories and provinces of Canada, other than Quebec. The base shelf prospectus enables the Corporation to qualify the distribution of up to CAD\$150.0 million of any combination of ordinary shares, warrants, subscription receipts, debt securities and units until December 18, 2024.

On October 14, 2022, the Corporation's Common Shares began trading on the OTCQX<sup>®</sup> Best Market under the ticker symbol "SOUTF" after Southern's Common Shares graduated from the Pink<sup>®</sup> Open Market.

On September 21, 2022, the Corporation issued, as part of its overall compensation and employee retention program: (a) 4,000,000 Options under the Option Plan; and (b) 2,495,700 RSAs under the Share Award Incentive Plan. Please see "*Prior Sales*" herein for further details.

On June 24, 2022, the Corporation issued: (a) 26,060,000 Common Shares at an issue price of CAD\$0.87 per Common Share for aggregate gross proceeds of \$17.5 million (approximately CAD\$22.7 million / £14.3 million) pursuant to an underwritten prospectus offering; and (b) 20,311,927 Common Shares at an issue price of 54.5 pence (approximately CAD\$0.87) per Common Share for aggregate gross proceeds of \$13.5 million (approximately CAD\$17.6 million / £10.9 million) pursuant to an accelerated bookbuild.

On June 15, 2022, at Southern's annual general and special meeting of shareholders, the Corporation's Shareholders approved the adoption of the Share Award Incentive Plan as approved by the Board on April 25, 2022. The Corporation adopted the Share Award Incentive Plan to incentivize Directors, officers, employees and consultants of the Corporation through the issuance of Share Awards.

On February 1, 2022, Southern disposed of all assets in its non-core, non-operated properties in Alabama for net proceeds of \$0.8 million.

On January 27, 2022, Southern entered into a first amendment to the Credit Agreement. The first amendment extended the \$3.0 million Tranche B availability to April 30, 2022. On April 8, 2022, Southern entered into a second amendment to the Credit Agreement. The second amendment increased Tranche B to \$4.5 million (\$4.0 million available to borrow) and extended the availability to June 30, 2022 to further support the Corporation's Gwinville program. On May 2, 2022, the Corporation entered into a third amendment to the Credit Agreement to increase flexibility in payment of interest of the Debentures. On September 1, 2022, the Corporation entered into a fourth amendment to the Credit Agreement to increase Tranche B of the Credit Facility to \$25.0 million, with a maximum draw of \$10.0 million in any rolling 60-day period, and an extension of the commitment period and maturity of the Credit Facility to September 30, 2023 and August 31, 2025 for Tranche A and Tranche B, respectively.

#### *Financial Year ended December 31, 2021*

On December 31, 2021, the Corporation issued 1,009,206 Common Shares to holders of its Debentures as payment in kind of accrued interest on the Debentures due on December 31, 2021 in the aggregate amount of CAD\$335,560.00. For more information on the Debentures, see "*Description of Share Capital – Debentures*".

On December 29, 2021, Southern disposed of its remaining non-core assets in the Black Warrior Basin property for net proceeds of \$0.6 million.

In December 2021, the Corporation consolidated its Common Shares on the basis of one (1) post-consolidation Common Share for every eight (8) pre-consolidation Common Shares.

On November 24, 2021, Southern completed an offering of Common Shares for aggregate gross proceeds of \$10.0 million.

On August 10, 2021, Southern was admitted to trading on AIM and the Corporation's Common Shares began trading under the symbol "SOUC". The dual listing of the Common Shares allows the Corporation



to broaden its shareholder base and public profile, and provides the Corporation the opportunity to take advantage of the strong market dynamics and its established position in the Gulf Coast.

On July 14, 2021, the Corporation issued 487,722 Common Shares (3,901,775 pre-Consolidation Common Shares) of Southern to holders of its Debentures as payment in kind of accrued interest on the Debentures due on June 30, 2021 in the aggregate amount of CAD\$335,560.00.

On June 28, 2021, the outstanding Debentures were amended to: (a) extend the maturity date of the Debentures by two years to June 30, 2024; (b) decrease the conversion price for the Debentures from CAD\$1.00 to CAD\$0.80 per share, on a post-Consolidation basis; and (c) allow the Corporation to satisfy its obligation to pay interest on the Debentures by, among other things, delivering freely tradeable Common Shares in the capital of the Corporation as a payment in-kind of accrued interest on the Debentures.

On May 3, 2021, Southern completed a non-brokered private placement of units for aggregate gross proceeds of \$4.4 million. Each unit was comprised of one Common Share and one Common Share purchase warrant (each, a "**Warrant**"). The Warrants issued in connection with this private placement expired on December 31, 2023.

On April 30, 2021, Southern Delaware retired its previous senior secured credit facility with a cash settlement payment of \$8.0 million, plus accrued interest. The \$8.0 million settlement was financed through a new senior secured term loan for an initial aggregate amount of up to \$8.5 million (the "**Credit Facility**") under a new credit agreement (the "**Credit Agreement**"). The Credit Facility is secured by the oil and gas properties of Southern. In connection with the Credit Facility, the Corporation issued 5,156,250 non-transferrable Common Share purchase warrants (the "**Bonus Warrants**") to the lender. Each Bonus Warrant entitles the lender to purchase one (1) Common Share at a price of \$0.40. There have since been six amending agreements to the Credit Agreement, all as further described under "*General Development of the Business – Three-Year History*".

### **Significant Acquisitions**

During the fiscal year ended December 31, 2023, the Corporation did not complete any significant acquisitions as defined in NI 51-102.

## **DESCRIPTION OF THE BUSINESS OF THE CORPORATION**

The business of the Corporation is focused on building value through the consolidation, development and exploration of oil and gas assets in the southeastern United States. The Corporation aims to build a high margin asset base of sufficient scale with significant low risk drilling inventory that continues to generate free cash flow. To accomplish this goal, Southern balances two primary growth drivers: (a) adding accretive proved developed producing acquisitions; and (b) executing low risk development drilling to achieve organic reserves growth. During periods of weaker commodity pricing, the Corporation will employ a disciplined acquisition strategy to add low decline assets that are synergistic with existing operations at attractive metrics, while paying only for proved developed producing reserves. During periods of stronger commodity pricing, Southern will focus on the infill development of our existing large-scale drilling inventory within assets exhibiting historically low recovery factors.

Southern's principal properties are the Central Mississippi Assets (approximately 38,000 acres). The Central Mississippi Assets contain oil and gas production at Gwinville, Mechanicsburg, Williamsburg and Mount Olive, Mississippi. For further information, see "*Description of the Business of the Corporation – Description of Principal Assets*", below.

As part of its acquisition growth strategy, Southern continues to strategically evaluate oil and gas properties throughout the southeastern United States that will result in meaningful reserve and production additions. Southern seeks to add high-quality, long-life reservoirs in proven growth areas that offer existing infrastructure, opportunities for meaningful operating cost reductions, low-cost oil and gas drilling opportunities and operational control.

### **Specialized Skill and Knowledge**

Southern relies on the specialized skill and knowledge of its permanent staff to compile, interpret and evaluate technical data, drill and complete wells, design and operate production facilities and numerous additional activities required to explore for and produce oil and natural gas. From time to time, Southern employs consultants and other service providers to provide complementary experience and expertise to carry out its oil and natural gas operations effectively. It is the belief of management that its officers and employees, who have significant technical, operational and financial experience in the oil and gas industry, hold the necessary skill sets to successfully execute Southern's business strategy in order to achieve its corporate objectives.

### **Competitive Conditions**

The oil and natural gas industry is intensely competitive in all of its phases. Southern competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Southern's competitors include resource companies which have greater financial resources, staff and facilities than those of Southern. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

### **Cyclical and Seasonal Nature of Industry**

Southern's financial performance and financial condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on Southern's financial condition. For more information, see "*Industry Conditions – Recent Developments*".

### **Environmental**

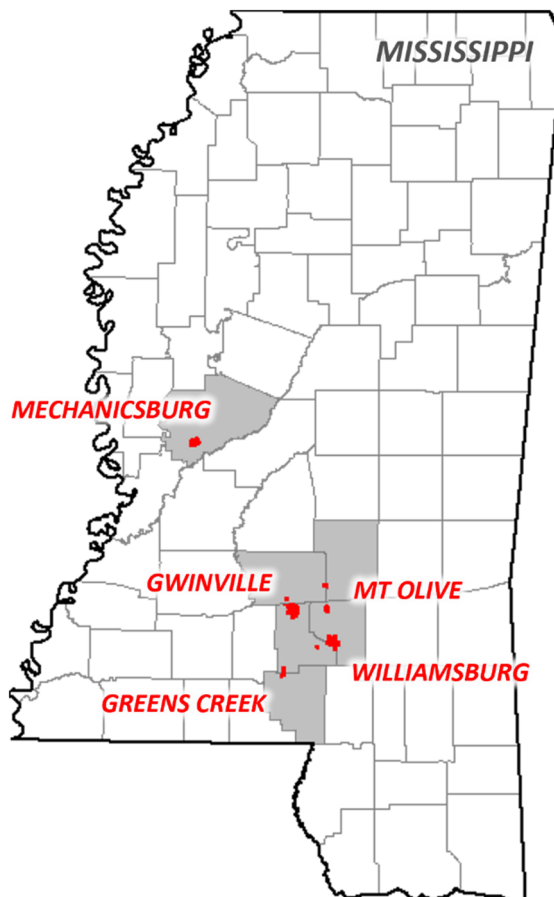
Southern will operate in compliance with applicable existing environmental laws and regulations and is not aware of any proposed environmental legislation or regulations with which it would not be in material compliance. Procedures are put in place to ensure that the utmost care is taken in the day-to-day management of Southern's oil and gas properties. However, in the future, the natural resources industry may become subject to more stringent environmental protection rules. This could increase the cost of doing business and may have a negative impact on future earnings.

### **Employees**

As at the end of the most recent financial year-end, Southern had thirteen employees in Canada and six in the United States.

## Description of Principal Assets

Southern has an interest in approximately 38,000 net acres of land located in Mississippi, the majority of which are controlling operated interests in properties in the Mississippi Interior Salt Basin. There are a total of 429 net producing wells comprising approximately 2,718 boe/d (approximately 5% oil and NGL) of working interest production based on full year 2023 average and 145 net non-producing wells.



*Figure 1: Map of Southern's interests in Mississippi*

Southern's principal assets are the Central Mississippi Assets. The Mississippi Interior Salt Basin ranks as one of the most productive basins in the Gulf Coast region with cumulative production of over 1.5 billion bbls of oil and 8 Tcf of gas. Major structural features affecting strata in the area are salt structures, normal faults and basement ridges which were created by salt flowage and extensional rift tectonics. Movement of the Jurassic Louann Salt serves as the principal trapping mechanism and has produced a complex array of structures including pillows, anticlines, domes, piercements and graben systems. Terrigenous clastic sediments derived from northern sources dominate the Upper Jurassic (Smackover, Haynesville and Cotton Valley) and Lower Cretaceous sections (Hosston, Sligo, Rodessa and Paluxy), while Upper Cretaceous strata (Lower Tuscaloosa, Eutaw and Selma Chalk) are represented by sandstones, shales, marls and chinks of a coastal plain environment. Excellent reservoir quality and numerous structural traps have resulted in a basin that continues to deliver stacked pay targets and an opportunity to extend known fields with the use of modern log analysis techniques and 3D seismic.<sup>1</sup>

<sup>1</sup> Sources: Mississippi Oil and Gas Board, <http://www.ogb.state.ms.us/> and I.H.S. Market Production data,

The majority of the production and wellbores in the Central Mississippi Assets are concentrated in six fields: Gwinville, Mechanicsburg, Mount Olive, Greens Creek, Magee and Williamsburg. For more information, see "Other Oil and Gas Information – Oil and Gas Properties", below.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

### Reserves Data (Forecast Prices and Costs)

The reserves data set forth below is based upon the NSAI Report. The reserves data summarizes the crude oil, NGL and natural gas reserves of the Corporation and the net present values of future net revenue for these reserves using forecast prices and costs. The NSAI Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101 and the COGE Handbook. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which Southern believes is important to the readers of this information. The Corporation engaged NSAI to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

The net present value of future net revenue attributable to the Corporation's reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures, and well abandonment costs for only those wells assigned reserves by NSAI. It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained, and variances could be material. The recovery and reserve estimates of the Corporation's crude oil, NGL 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 NGL reserves may be greater than or less than the estimates provided herein.

The properties evaluated are located in the State of Mississippi, U.S. **All monetary values are expressed in U.S. dollars, unless stated otherwise. Numbers may not add due to rounding.**

### SUMMARY OF OIL AND GAS RESERVES (Forecast Costs and Prices)

Company Reserves												
Total Company	Heavy Oil (Mbbbl)		Light and Medium Oil (Mbbbl)		Condensate (Mbbbl)		NGL (Mbbbl)		Conventional Natural Gas (MMcf)		Total Oil Equivalent (Mboe)	
Reserves Category	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Proved Developed Producing	-	-	10.0	7.6	188.2	149.2	37.4	30.4	43,560.0	34,136.5	7,495.6	5,876.6
Proved Developed Non-Producing	-	-	55.1	43.3	57.6	44.0	0.9	0.8	8,775.6	6,741.9	1,576.2	1,211.7
Proved Undeveloped	-	-	-	-	360.8	292.6	108.8	88.7	27,222.6	21,902.7	5,006.7	4,031.7
<b>Total Proved</b>	-	-	<b>65.0</b>	<b>51.0</b>	<b>606.6</b>	<b>485.7</b>	<b>147.1</b>	<b>119.8</b>	<b>79,558.2</b>	<b>62,781.1</b>	<b>14,078.4</b>	<b>11,120.0</b>
Probable	-	-	16.5	13.4	233.7	186.0	19.2	15.6	91,720.6	72,849.8	15,556.2	12,356.7
<b>Total Proved Plus Probable</b>	-	-	<b>81.5</b>	<b>64.4</b>	<b>840.3</b>	<b>671.8</b>	<b>166.3</b>	<b>135.4</b>	<b>171,278.8</b>	<b>135,630.9</b>	<b>29,634.6</b>	<b>23,476.8</b>

<https://ihsmarkit.com/index.html>

## NET PRESENT VALUE SUMMARY

### NET PRESENT VALUES OF FUTURE NET REVENUE BEFORE INCOME TAXES DISCOUNTED AT (%/YEAR) (Forecast Costs and Prices)

Net Present Value of Future Net Revenue							
Total Company	Before Income Taxes, Discounted at (% / year)					Unit Value Before Income Tax, Discounted at 10% / year	
Reserves Category	0% (US M\$)	5% (US M\$)	10% (US M\$)	15% (US M\$)	20% (US M\$)	US \$/boe	US \$/Mcf
Proved Developed Producing	67,584	49,792	39,865	33,471	28,974	6.78	1.13
Proved Developed Non-Producing	20,667	12,841	9,478	7,486	6,124	7.82	1.30
Proved Undeveloped	47,202	25,456	14,043	7,197	2,805	3.48	0.58
<b>Total Proved</b>	<b>135,454</b>	<b>88,088</b>	<b>63,386</b>	<b>48,153</b>	<b>37,902</b>	<b>5.70</b>	<b>0.95</b>
Probable	204,579	100,784	55,929	32,049	17,653	4.53	0.75
<b>Total Proved Plus Probable</b>	<b>340,033</b>	<b>188,871</b>	<b>119,315</b>	<b>80,202</b>	<b>55,555</b>	<b>5.08</b>	<b>0.85</b>

Note:

- Unit values are based on Corporation Net Reserves.

## NET PRESENT VALUE SUMMARY

### NET PRESENT VALUES OF FUTURE NET REVENUE AFTER INCOME TAXES DISCOUNTED AT (%/YEAR) (Forecast Costs and Prices)

Net Present Value of Future Net Revenue							
Total Company	After Income Taxes, Discounted at (% / year)					Unit Value After Income Tax, Discounted at 10% / year	
Reserves Category	0% (US M\$)	5% (US M\$)	10% (US M\$)	15% (US M\$)	20% (US M\$)	US \$/boe	US \$/Mcf
Proved Developed Producing	57,676	42,492	34,021	28,564	24,726	5.79	0.96
Proved Developed Non-Producing	16,748	10,406	7,681	6,066	4,963	6.34	1.06
Proved Undeveloped	39,792	21,459	11,838	6,067	2,365	2.94	0.49
<b>Total Proved</b>	<b>114,217</b>	<b>74,357</b>	<b>53,540</b>	<b>40,697</b>	<b>32,053</b>	<b>4.81</b>	<b>0.80</b>
Probable	167,188	82,363	45,707	26,191	14,426	3.70	0.62
<b>Total Proved Plus Probable</b>	<b>281,405</b>	<b>156,721</b>	<b>99,247</b>	<b>66,888</b>	<b>46,480</b>	<b>4.23</b>	<b>0.70</b>

Note:

- Unit values are based on Corporation Net Reserves.

## FUTURE NET REVENUE (UNDISCOUNTED)

Reserves Category	Company Revenue (US M\$)	Burden and NPI (US M\$)	Property and Severance Tax (US M\$)	Development Costs (US M\$)	Abandonment Costs (US M\$)	Operating Expense (US M\$)	Future Net Revenue (US M\$)	Income Tax (US M\$)	Future Net Revenue After Income Tax (US M\$)
Proved Developed Producing	208,265	44,777	9,994	-	11,373	74,537	67,584	9,908	57,676
<b>Total Proved</b>	<b>411,060</b>	<b>86,181</b>	<b>18,984</b>	<b>55,686</b>	<b>12,505</b>	<b>102,251</b>	<b>135,454</b>	<b>21,237</b>	<b>114,217</b>
<b>Total Proved Plus Probable</b>	<b>877,182</b>	<b>181,994</b>	<b>36,541</b>	<b>161,789</b>	<b>13,552</b>	<b>143,274</b>	<b>340,033</b>	<b>58,628</b>	<b>281,405</b>

## FUTURE NET REVENUE BY PRODUCT TYPE

Reserves Category	Production Group	Future Net Revenue Before Income Tax, Discounted at 10%/Year (US M\$)	Unit Value Before Income Tax, Discounted at 10%/Year (US \$/boe)	Unit Value Before Income Tax, Discounted at 10%/Year (US \$/Mcfe)
<b>Proved Developed Producing</b>				
	Heavy Oil	-	-	-
	Light / Medium Oil	137	17.92	2.99
	Condensate	2,969	19.90	3.32
	NGL	325	10.71	1.78
	Conventional Natural Gas	36,435	6.40	1.07
<b>Total: Proved Developed Producing</b>		<b>39,865</b>	<b>6.78</b>	<b>1.13</b>
<b>Total Proved</b>				
	Heavy Oil	-	-	-
	Light / Medium Oil	734	14.41	2.40
	Condensate	7,608	15.66	2.61
	NGL	996	8.32	1.39
	Conventional Natural Gas	54,047	5.17	0.86
<b>Total: Total Proved</b>		<b>63,386</b>	<b>5.70</b>	<b>0.95</b>
<b>Total Proved Plus Probable</b>				
	Heavy Oil	-	-	-
	Light / Medium Oil	817	12.69	2.12
	Condensate	9,510	14.16	2.36
	NGL	1,017	7.51	1.25
	Conventional Natural Gas	107,971	4.78	0.80
<b>Total: Total Proved Developed Producing</b>		<b>119,315</b>	<b>5.08</b>	<b>0.85</b>

**Notes:**

- Unit values are based on Corporation Net Reserves.

## PRICING ASSUMPTIONS

The following pricing assumptions were provided by taking an average of four qualified Canadian reserves evaluator pricing forecasts. All evaluators are independent of the Corporation.

Forecast prices used in estimates, effective January 1, 2024:

Year	WTI Cushing Oklahoma (US \$/bbl)	NYMEX Henry Hub (US \$/MMBTU)
Forecast		
2024	73.25	2.75
2025	74.09	3.62
2026	74.79	4.05
2027	76.28	4.14
2028	77.81	4.23
2029	79.37	4.30
2030	80.96	4.39
2031	82.57	4.48
2032	84.22	4.57
2033	85.91	4.66
Thereafter	+ 2.0%/Year	+ 2.0%/Year

Forecast case oil (heavy and light/medium), condensate, and NGL prices are based on the above forecast of WTI prices adjusted by field for quality, transportation fees, and market differentials. Forecast Case gas prices are based on the above forecast of NYMEX Henry Hub prices adjusted by field for energy content, transportation fees, and market differentials.

## RECONCILIATION OF CHANGES IN RESERVES

### Reserves Reconciliation

The following table sets forth a reconciliation of the changes in the Corporation's gross reserves as at December 31, 2023, against such reserves as at December 31, 2022 (summarized in the tables above) based on the forecast price and cost assumptions evaluated in accordance with NI 51-101 definitions:

Total Company	Heavy Oil			Light / Medium Oil			Condensate		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)
<b>December 31, 2022</b>	-	-	-	134.1	41.3	175.4	636.7	188.1	824.8
Discoveries	-	-	-	-	-	-	-	-	-
Extensions	-	-	-	-	-	-	-	-	-
Infill Drilling	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	(54.7)	(24.7)	(79.5)	(5.2)	(13.2)	(18.4)
Acquisitions	-	-	-	-	-	-	12.2	62.6	74.8
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	(0.1)	-	(0.1)	(9.3)	(3.9)	(13.2)
Production	-	-	-	(14.3)	-	(14.3)	(27.7)	-	(27.7)
<b>December 31, 2023</b>	-	-	-	<b>65.0</b>	<b>16.5</b>	<b>81.5</b>	<b>606.6</b>	<b>233.7</b>	<b>840.3</b>

Total Company	NGL			Conventional Natural Gas			Total BOE		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (Mboe)	Gross Probable (Mboe)	Gross Proved Plus Probable (Mboe)
<b>December 31, 2022</b>	165.8	12.5	178.4	79,084.3	66,578.6	145,662.8	14,117.3	11,338.4	25,455.7
Discoveries	-	-	-	-	-	-	-	-	-
Extensions	-	-	-	-	-	-	-	-	-
Infill Drilling	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	(11.9)	7.5	(4.5)	(1,910.7)	(8,853.2)	(10,763.9)	(390.3)	(1,506.0)	(1,896.3)
Acquisitions	-	-	-	9,652.8	34,345.4	43,998.2	1,621.0	5,786.8	7,407.8
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	(2.5)	(0.8)	(3.3)	(1,591.7)	(350.2)	(1,941.9)	(277.2)	(63.1)	(340.3)
Production	(4.3)	-	(4.3)	(5,676.4)	-	(5,676.4)	(992.4)	-	(992.4)
<b>December 31, 2023</b>	<b>147.1</b>	<b>19.2</b>	<b>166.3</b>	<b>79,558.2</b>	<b>91,720.6</b>	<b>171,278.8</b>	<b>14,078.4</b>	<b>15,556.2</b>	<b>29,634.6</b>

#### Reserve Change Category Descriptions:

Discoveries:	Additions in fields/reservoirs where no reserves were previously booked.
Extensions:	Additions for step-out drilling in previously discovered/booked reservoirs.
Infill Drilling:	Additions for infill drilling in previously discovered/booked reservoirs. Not related to enhanced recovery schemes.
Improved Recovery:	Additions resulting from the initiation of improved recovery schemes.
Technical Revisions:	Positive or negative changes resulting from new technical data or revised interpretations of previously assigned reserves. Majority of Gross Proved Plus Probable downward revisions associated with revised assumption of drilling lateral success of 85% and 95% "in-zone" for the Gwinville Upper and Lower Selma Chalk locations, respectively.
Acquisitions:	Additions related to purchasing oil and gas assets. 2023 acquisition was an operated natural gas asset in the Gwinville Field – production of approximately 2,400 Mcfe/d (99% natural gas). 10 PROB Lower Selma Chalk locations were booked with this acquisition.
Dispositions:	Reductions related to selling oil and gas assets. No asset dispositions in 2023.
Economic Factors:	Changes due to different price forecasts, inflation rates, and regulatory changes.
Production:	Reductions due to production during the time period being reconciled.

## ADDITIONAL INFORMATION RELATING TO RESERVES DATA

### Undeveloped Reserves

The following discussion generally describes the basis on which Southern attributes proved and probable undeveloped reserves and its plans for developing those undeveloped reserves.

### Proved Undeveloped Reserves

Proved undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells further away from gathering systems. In addition, such reserves may relate to planned infill-drilling locations. The new proved undeveloped reserves in the NSAI Report relate to horizontal, infill drilling locations in the Selma Chalk formation at the Gwinville Field. The majority of these reserves are planned to be on stream within a two-year timeframe. For more information, see "*Notes on Reserves Data and Other Oil and Natural Gas Information*".

### SUMMARY OF PROVED UNDEVELOPED RESERVES (Forecast Prices & Costs)

Year	Company Gross Reserves											
	Heavy Oil (Mbbbl)		Light and Medium Oil (Mbbbl)		Condensate (Mbbbl)		NGL (Mbbbl)		Conventional Natural Gas (MMcf)		Total Oil Equivalent (Mboe)	
	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total
December 31, 2021	-	-	-	-	-	312.2	-	135.5	-	15,476.3	-	3,027.1
December 31, 2022	-	-	-	-	56.6	368.8	(22.9)	112.6	18,533.9	34,010.2	-	6,149.8
December 31, 2023	-	-	-	-	(8.0)	360.8	(3.8)	108.8	(6,787.6)	27,222.6	(1,143.1)	5,006.7

### Probable Undeveloped Reserves

Probable reserves are generally reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. The majority of the probable reserves in the NSAI Report relate to horizontal, infill drilling locations in the Selma Chalk formation at the Gwinville field.

### SUMMARY OF PROBABLE UNDEVELOPED RESERVES (Forecast Prices & Costs)

Year	Company Gross Reserves											
	Heavy Oil (Mbbbl)		Light and Medium Oil (Mbbbl)		Condensate (Mbbbl)		NGL (Mbbbl)		Conventional Natural Gas (MMcf)		Total Oil Equivalent (Mboe)	
	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total	Attributed	Current Total
December 31, 2021	-	-	-	-	-	84.3	-	-	-	49,889.8	-	8,399.3
December 31, 2022	-	-	-	-	13.1	97.4	-	-	7,606.9	57,496.7	-	9,680.2
December 31, 2023	-	-	-	-	44.7	142.1	-	-	23,494.1	80,990.8	3,960.4	13,640.6

### Significant Factors or Uncertainties

The evaluated oil and gas properties of the Corporation have no material extraordinary risks or uncertainties beyond those which are inherent of an oil and gas producing company. Some of these risks are noted below.

The process of estimating reserves is complex. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates



may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and natural gas prices and costs change. Estimates are reviewed and revised, either upward or downward, as warranted by newly acquired information.

The evaluation and drilling of hydrocarbon targets may be curtailed, delayed or cancelled by the unavailability or prevailing cost of drilling rigs or technical contractors, mechanical difficulties, adverse weather and ocean conditions, environmental issues, political or social unrest, technical hazards, such as unusual or unexpected formations or pressures or because of issues related to compliance with government regulations or requirements. Drilling may result in unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some hydrocarbons, are not sufficiently productive to economically justify commercial development. Furthermore, the successful completion of a well does not assure a profit on investment or the recovery of drilling, completion and operating costs.

### Future Development Costs

The following table shows the development costs anticipated in the next five years, which have been deducted in the estimation of the Corporation's future net revenues of the reserves evaluated in the NSAI Report for the year ended December 31, 2023.

#### Future Development Costs Estimated Using Forecast Prices and Costs (Undiscounted)

Reserves Category	Year				
	2024 (M\$)	2025 (M\$)	2026 (M\$)	2027 (M\$)	2028 (M\$)
Proved Developed Producing	-	-	-	-	-
Proved Developed Non-Producing	36	2,175	2,300	-	-
Proved Undeveloped	5,895	14,113	27,654	-	-
<b>Total Proved</b>	<b>5,931</b>	<b>16,287</b>	<b>29,954</b>	-	-
Probable	17,185	65,681	23,237	-	-
<b>Total Proved Plus Probable</b>	<b>23,116</b>	<b>81,968</b>	<b>53,190</b>	-	-

All Future Development Costs are attributed to Southern's U.S. assets. Southern will use internally-generated cash flow, as well as combination of debt and equity financings, to fund these future capital programs. The costs for these external sources of funding will be dependent on market conditions at the time of the financings.

### OTHER OIL AND GAS INFORMATION

#### Oil and Gas Properties

The following table sets forth the number of wells in which the Corporation held a working interest as at December 31, 2023:

Property Description	Oil		Gas	
	Gross	Net	Gross	Net
<b>USA</b>				
Black Warrior Basin - MS				
Producing	-	-	-	-
Non-Producing	-	-	5	4
Gwinville – MS				
Producing	-	-	399	389
Non-Producing	-	-	122	118

Property Description	Oil		Gas	
	Gross	Net	Gross	Net
Greens Creek - MS				
Producing	-	-	2	2
Non-Producing	-		1	1
Magee – MS				
Producing	1	1	-	-
Non-Producing	3	3	-	-
Mechanicsburg – MS				
Producing	-	-	15	15
Non-Producing	-	-	3	3
Mount Olive – MS				
Producing	-	-	4	4
Non-Producing	-		-	-
Williamsburg – MS				
Producing	-	-	18	17
Non-Producing	-	-	17	16
MS – Other				
Producing	-	-	2	2
Non-Producing	-	-	-	-
<b>Total</b>	<b>4</b>	<b>4</b>	<b>588</b>	<b>570</b>
Producing	<b>1</b>	<b>1</b>	<b>440</b>	<b>428</b>
Non-Producing	<b>3</b>	<b>3</b>	<b>148</b>	<b>142</b>

**Notes:**

1. "Gross" wells mean the number of wells in which Southern has a working interest or a royalty interest that may be converted into a working interest.
2. "Net" wells mean the aggregate number of wells obtained by multiplying each gross well by Southern percentage working interest therein.

*Gwinville, Mississippi*

The Gwinville property is located in Township 9N, Ranges 18-19W in Jefferson-Davis County, Mississippi. The Corporation holds a > 95% working interest in ~ 20,400 gross (~ 20,400 net) acres of developed land. These petroleum and natural gas interests contain a total of 521 gross (507 net) operated wells (399 producing and 122 non-producing). Production from this property is from the Selma Chalk and Eutaw formations and is approximately 2,000 barrels of oil equivalent per day (company working interest) at December 31, 2023.

*Mechanicsburg, Mississippi*

The Mechanicsburg property is located in Township 9N, Range 3W in Yazoo County, Mississippi. The Corporation holds a > 98% working interest in ~ 3,400 gross (~ 3,400 net) acres of developed land. These petroleum and natural gas interests contain a total of 18 gross (18 net) operated wells (15 producing). Production from this property is from the Lower Cotton Valley formation and is approximately 250 barrels of oil equivalent per day (company working interest) at December 31, 2023.

*Mount Olive, Mississippi*

The Mount Olive property is located in Township 9N, Range 16W in Covington County, Mississippi. The Corporation holds a > 85% working interest in ~ 1,200 gross (~ 1,200 net) acres of developed land. These petroleum and natural gas interests contain a total of 4 gross (4 net) operated wells (all producing). Production from this property is from the Eutaw formation and is approximately 490 barrels of oil equivalent per day (company working interest) at December 31, 2023.

### *Greens Creek, Mississippi*

The Greens Creek property is located in Township 5N, Range 19W in Jefferson-Davis and Marion Counties, Mississippi. The Corporation holds a > 90 % average working interest in ~ 1,300 gross (~ 1,300 net) acres of developed land. These petroleum and natural gas interests contain a total of 3 gross (3 net) operated wells (2 producing). Production from this property is from the Hosston formation and is approximately 225 barrels of oil equivalent per day (company working interest) at December 31, 2023.

### *Magee, Mississippi*

The Magee property is located in Township 10N, Range 17W in Simpson County, Mississippi. The Corporation holds a > 98 % working interest in ~ 350 gross (~ 310 net) acres of developed land. These petroleum and natural gas interests contain a total of 4 gross (4 net) operated wells (1 producing). Production from this property is from the Sligo and Hosston formations and is approximately 35 barrels of oil equivalent per day (company working interest) at December 31, 2023.

### *Williamsburg, Mississippi*

The Williamsburg property is located in Township 7N, Range 16W in Covington County, Mississippi. The Corporation holds 100% working interest in ~ 9,400 gross (~ 9,400 net) acres of developed land. These petroleum and natural gas interests contain a total of 35 gross (33 net) operated wells (18 producing). Production from this property is from the Sligo and Hosston formations and is approximately 110 barrels of oil equivalent per day (company working interest) at December 31, 2023.

## **Properties With No Attributed Reserves**

The Corporation does not have any properties without attributed reserves.

## **Forward Contracts**

The Corporation is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used by Southern from time to time to reduce its exposure to fluctuations in commodity prices and foreign exchange rates. The Corporation is exposed to losses in the event of default by the counterparties to these derivative instruments. The Corporation manages this risk by contracting with large, well-capitalized counterparties.

Southern may use certain financial instruments to hedge exposure to commodity price fluctuations on a portion of its future crude oil and natural gas production. For further information, see "*Risk Factors – Hedging*".

Details of commodity price contracts in respect of Southern's hedging activities can be found in Note 11, "*Financial Instruments and Financial Risk Management*", to Southern's audited consolidated financial statements for the year ended December 31, 2023, which have been filed on the Corporation's SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca).

## **Additional Information Concerning Abandonment and Reclamation Costs**

The Corporation performs an annual review of its forecasted abandonment and site reclamation ("**Abandonment**") costs. These costs are estimated utilizing the Mississippi Oil and Gas Board Rule Book and the Alberta Energy Regulator's abandonment and liability calculation spreadsheet as a basis, but the Corporation's review is further augmented with adjustments on an individual well and facility basis. The

review considers the following factors in assessing liability: well depth, nature of the production stream, the nature, location and condition of the surface lease, age of the well and/or facility, number of zones to be abandoned, and presence of salvageable equipment such as tanks, tubing, and rods. The Abandonment cost determined is net of salvage. The Abandonment costs estimated here include non-producing wellbores that have no attributed reserves.

Total Abandonment costs are included in the reserves data summarized as follows:

Year	Proved Developed Producing (M\$)	Total Proved (M\$)	Total Proved Plus Probable (M\$)
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	176	176	176
2028	162	162	162
2029	199	221	178
2030	206	206	165
2031	189	189	253
2032	172	172	172
2033	323	349	325
2034	790	826	767
2035	894	894	875
2036	816	816	816
2037	668	692	648
2038	626	626	626
Subtotal:	5,221	5,329	5,163
Remainder:	6,153	7,176	8,389
<b>Total:</b>	<b>11,373</b>	<b>12,505</b>	<b>13,552</b>

## Tax Horizon

Based on the tax attributes of Southern, income taxes may become payable in 2026 or beyond depending on the level of capital spending undertaken by the Corporation.

## Costs Incurred

The following table summarizes the capital expenditures related to the Corporation's activities for the year ended December 31, 2023, related to exploration, development, and evaluation expenditures and property and equipment:

Year ended Dec. 31, 2023	Property Acquisition Costs		Exploration Costs (M\$)	Development Costs (M\$)
	Proved Properties (M\$)	Unproved Properties (M\$)		
Country				
United States	3,347	-	-	41,783

The Corporation has no interests in or expenditures for non-conventional oil and gas properties.

## Exploration and Development Activities

The following table sets forth the number of wells in which the Corporation drilled during the most recent financial year:

Activity	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
<i>United States</i>				
Oil Wells	-	-	4	4.0
Gas Wells	-	-	-	-
Service Wells	-	-	-	-
Dry Holes	-	-	-	-
<b>Total Wells</b>	-	-	4	4.0
<b>Company Total</b>	-	-	4	4.0

### Notes:

- "Gross Wells" are the total number of wells in which the Corporation has an interest.
- "Net Wells" are the number of wells obtained by aggregating the Corporation's working interest in each of its gross wells.

The Corporation will continue to develop its lands where Southern operates its activities.

## Production Estimates

The following table discloses for each product type the total volume of production estimated by NSAI for 2024 in the estimates of future net revenue from the forecast case of proved plus probable reserves disclosed above under the heading "Oil and Natural Gas Reserves and Net Present Value of Future Net Revenue".

Company Gross (2024)												
Total Company	Heavy Oil (bbl/d)		Light / Medium Oil (bbl/d)		Condensate (bbl/d)		NGL (bbl/d)		Conventional Natural Gas (Mmcf/d)		Total Oil Equivalent (boe/d)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Total Proved	-	-	33.9	25.8	60.3	47.5	9.8	8.0	16,340.8	12,742.5	2,827.5	2,205.0
Gwinville	-	-	-	-	13.2	10.3	-	-	10,104.5	7,904.0	1,697.2	1,327.6
Mechanicsburg	-	-	-	-	20.1	16.3	9.8	8.0	1,294.8	1,052.1	245.7	199.7
Mount Olive	-	-	-	-	8.4	6.3	-	-	2,522.3	1,909.8	428.8	324.6
Probable	-	-	-	-	5.4	4.3	0.2	0.2	1,001.7	781.8	172.6	134.8
<b>Total Proved Plus Probable</b>	-	-	33.9	25.8	65.7	51.8	10.1	8.2	17,342.5	13,524.3	3,000.1	2,339.8

## Production History

The following tables set forth certain information in respect of production, product prices received, royalties, production costs and netbacks received by the Corporation for each quarter of its most recently completed financial year:

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
<b>Company Gross Production</b>				
Heavy Oil (bbl/d)	-	-	-	-
L/M Oil (bbl/d)	35	37	35	48
Condensate (bbl/d)	79	65	109	50
NGL (bbl/d)	13	14	9	11
Natural Gas (Mcf/d)	14,881	15,211	15,963	16,101
Boe/d	2,607	2,651	2,814	2,793

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
<b>Average Prices</b>				
Heavy Oil (\$/bbl)	-	-	-	-
L/M Oil (\$/bbl)	78.45	72.99	80.71	78.02
Condensate (\$/bbl)	74.40	72.66	83.08	75.49
NGL (\$/bbl)	47.01	37.68	43.48	40.51
Natural Gas (\$/bbl)	3.25	2.18	2.83	2.95
\$/boe	<b>22.12</b>	<b>15.50</b>	<b>20.42</b>	<b>19.85</b>

## Royalties

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Royalties (\$)	1,059,545	649,699	1,045,664	982,433
\$/boe	4.52	2.69	4.04	3.82
Percent of Revenue (%)	20.4%	17.3%	19.8%	19.3%

## Transportation Expenses

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Transportation Expense (\$)	61,458	295,808	406,295	438,716
\$/boe	0.26	1.23	1.57	1.71
Percent of Revenue (%)	1.2%	7.9%	7.7%	8.6%

## Operating Expenses

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Operating Expense (\$)	1,161,935	1,324,305	1,511,389	1,524,147
\$/boe	4.95	5.49	5.84	5.93
Percent of Revenue (%)	22.4%	35.4%	28.6%	29.9%

## Severance Tax

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Severance Tax (\$)	250,874	166,834	247,690	247,539
\$/boe	1.07	0.69	0.96	0.96
Percent of Revenue (%)	4.8%	4.5%	4.7%	4.9%

## Netbacks

Total Company	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Production (boe/d)	2,607	2,651	2,814	2,793
Revenue	22.12	15.50	20.42	19.85
Royalties	4.52	2.69	4.04	3.82
Transportation Expense	0.26	1.23	1.57	1.71
Operating Expense	4.95	5.49	5.84	5.93
Severance Tax	1.07	0.69	0.96	0.96
Operating Netback	<b>11.32</b>	<b>5.40</b>	<b>8.01</b>	<b>7.43</b>

## Production Volume by Field

The following table discloses for each important field and in total, the Corporation's production volume for the year ended December 31, 2023, for each product type:

Field	2023 Company Gross					
	Heavy Oil (bbl/d)	L/M Oil (bbl/d)	Condensate (bbl/d)	NGL (bbl/d)	Natural Gas (Mcf/d)	Total (boe/d)
<b>USA</b>						
<b>Mississippi</b>						
Greens Creek	-	-	9	-	1,363	236
Gwinville	-	-	16	-	8,342	1,407
Magee	-	39	-	-	-	39
Mechanicsburg	-	-	26	12	1,576	301
Mount Olive	-	-	10	-	3,050	518
MS – Other	-	-	6	-	574	102
Williamsburg	-	-	8	-	637	114
<b>Total</b>	-	<b>39</b>	<b>76</b>	<b>12</b>	<b>15,543</b>	<b>2,718</b>

## INDUSTRY CONDITIONS

Outlined below are some of the principal aspects of the legislation, regulations, agreements, orders, directives and a summary of other pertinent conditions that impact the oil and gas industry in the United States, specifically in the state of Mississippi, where Southern's assets are primarily located.

### Recent Developments

Following the COVID-19 pandemic, oil markets began to rebalance in 2021, with oil prices reaching their highest levels in six years. The rebound continued into 2022 with a surge in oil prices in early 2022 largely in response to the impact of the Russian invasion of Ukraine and the OPEC+ decision to adhere to previously agreed upon production cuts, together with the improvement of global economic conditions and outlook in respect of COVID-19 and related restrictions. However, prices began to drop in the latter half of 2022 amid fears of a global recession, increasing interest ratings, continuing waves of COVID-19 and related restrictions, lower demand and continuing sanctions and price limits placed on Russian oil. Further, Saudi Arabia capped production and the Group of Seven nations agreed to put a price cap on Russian oil. At a meeting in early December 2022, OPEC+ decided to maintain its oil output targets following its decision in October 2022 to cut output by 2 million barrels per day. In December 2022, the ban placed on seaborne exports of Russian crude oil by the European Union came into effect. The European Union and the G7 also announced a price cap of US\$60 on Russian oil in December 2022. In June 2023, OPEC+ producers agreed to target lower oil supply up until the end of 2024 in order to stabilize the price of oil. In anticipation of a potential surplus, in November 2023, OPEC+ producers agreed to a voluntary cut in output for the first quarter of 2024.

While the trajectory of oil prices continues to be subject to uncertainty and volatility, factors such as transportation disruptions, supply constraints and the conflicts in Ukraine and the Middle East continue to be unpredictable and may have an ongoing impact on oil demand and prices. Please see "*Risk Factors – Commodity Price Volatility*" and "*Risk Factors – Public Health Crises*".

### Legislation and Regulation

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas, all of which should be carefully considered by investors in the oil and natural gas industry. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and natural gas producers of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

The Corporation owns oil and natural gas properties and related assets in the United States, and its operations are subject to various types of regulation at the federal, state, provincial and local levels. Such regulation includes requiring permits for drilling wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells and the composition or disposal of chemicals and fluids used in connection with operations. Southern's operations are also subject to various conservation laws and regulations. These include regulation of the size of drilling, spacing or proration units and the density of wells that may be drilled in those units, and the unitization or pooling of oil and gas properties. In addition, federal and state conservation laws, which establish maximum rates of production from oil and gas wells, generally prohibit or restrict the venting or flaring of natural gas and impose certain requirements regarding the rateability of production. The effect of these laws and regulations may limit the amount of oil and natural gas Southern can produce from its wells and may limit the number of wells or the locations at which Southern can drill. Regulatory requirements and compliance relative to the oil and gas industry increase Southern's costs of doing business and, consequently, affect profitability.

### **Availability of Services**

The availability of services and personnel necessary to carry out the reactivation, re-entry, optimization and abandonment operations that form a substantial portion of the Corporation's planned 2024 development program is reasonably healthy. The Corporation will take necessary steps to adjust its program in the event external conditions arise that may constrain availability of services and personnel due to, among other things, increased demand and competition.

### **Pricing and Marketing**

The producers of oil and natural gas are entitled to negotiate sales contracts directly with purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance, and contractual terms of sale.

The transportation of, and certain sales with respect to, natural gas in interstate commerce are heavily regulated by agencies of the U.S. federal government and are affected by, among other things, the availability, terms and cost of transportation. Notably, the price and terms of access to pipeline transportation are subject to extensive U.S. federal and state regulation. The Federal Energy Regulatory Commission ("FERC") is continually proposing and implementing new and/or modified rules and regulations affecting the natural gas industry, some of which may adversely affect the availability and reliability of interruptible transportation service on interstate pipelines. Southern's ability to transport and sell oil and natural gas is dependent on certain pipelines whose rates, terms and conditions of service are subject to FERC regulation. Additional proposals and proceedings that might affect the natural gas industry are considered from time to time by the United States Congress, FERC, state regulatory bodies and courts, and Southern cannot predict when or if any such proposals or proceedings might become effective and their effect or impact, if any, on Southern's operations.

The prices and terms of access to intrastate pipeline transportation are subject to state regulation. FERC has proposed and implemented new rules and regulations affecting gas transportation in recent years. Management does not believe that Southern will be affected by any such rules or changes to existing rules in a manner materially different than any other similarly situated natural gas producer.

Rates and service conditions for the interstate transportation of oil and natural gas liquids are also regulated by FERC. In general, these rates must be cost-based or based on an indexing system of transportation rates



that allows pipelines to take an annual inflation-based rate increase. FERC has also established market-based rates and settlement rates as alternative forms of ratemaking in certain circumstances. Southern cannot predict with any certainty what effect, if any, these regulations will have, but other factors being equal, the regulations may over time tend to increase transportation costs which may have the effect of reducing net prices for oil and natural gas liquids.

### **Land Tenure and Royalties**

Crude oil and natural gas located in the U.S. is predominantly owned by private owners. The United States Bureau of Land Management ("**BLM**") and the state in which the minerals are located also may hold ownership to such rights. These owners, from governmental bodies to private individuals, grant rights to explore for and produce oil and gas pursuant to leases, licenses and permits for varying periods and on conditions including requirements to perform specific work or make payments. As to those rights held by private owners, all terms and conditions may be negotiated. For those rights held by governmental agencies, typically the terms and conditions of the oil and gas lease have been predetermined by each governing or regulatory body.

A lease generally may be continued after the initial term provided certain minimum levels of exploration or production have been achieved and all lease rentals have been timely paid, subject to certain exceptions. To develop minerals, including oil and natural gas, it is necessary for the mineral estate owner to have access to the surface estate. Under common law, the mineral estate is considered the "dominant" estate with the right to extract minerals subject to reasonable use of the surface.

Each jurisdiction has developed and adopted its own statutes that operators must follow both prior to and following drilling, including notification requirements and the obligation to provide compensation for lost land use and surface damage. The surface rights required for pipelines and facilities are generally governed by leases, easements, rights-of-way, permits or licenses granted by landowners or governmental authorities.

In addition to federal regulations, each U.S. state has put into force statutes and regulations which govern oil and gas lease terms, including tenure, royalties, production rates and other provisions. Oil and gas lessees are often required to pay annual rental payments to comply with federal, state, provincial and private lease provisions until production begins or the lease term expires. Upon commencement of production, royalties and production taxes are paid on revenue received from oil and natural gas produced from federal, state and private lands. The royalty and production tax regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than federal and state lands in the United States are determined by negotiations between the private mineral owner and the lessee. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the produced product. Other royalties and royalty-like interests are from time to time carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties or net profits or net carried interests.

From time to time, the federal and state governments in the U.S. have established incentive programs which have included royalty rate or production tax reductions (including for specific wells), royalty holidays, and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced planning projects. If applicable, oil and natural gas royalty holidays, reductions and tax credits would effectively reduce the amount of royalties paid by oil and gas producers to the applicable governmental entities.

The BLM has issued a new rule, titled the "Proposed Onshore Oil and Gas Leasing Rule", which intends to update its oil and gas leasing process. The proposed rule includes increases to fees, royalty rates, minimum rental rates, minimum lease bids and bonding requirements for new federal oil and gas leases. While the

BLM has issued the proposed rule, the rule has not been finalized. If finalized, any increase in the fees related to oil and gas development on federal lands will increase the Corporation's costs of doing business and, consequently, affect its profitability.

### **Environmental Regulation**

In the U.S., both federal and state authorities have in recent years proposed new regulations to limit the emission of GHGs as part of climate change initiatives. For example, both the EPA and the BLM have issued regulations for the control of methane emissions. The EPA has promulgated regulations requiring permitting for certain sources of GHGs and the reduction of methane and volatile organic compound emissions from the oil and gas sector. Enforcement of these regulations may impose additional costs related to compliance with new emission limits, as well as inspections and maintenance of several types of equipment used in our operations.

Southern's oil and natural gas production, saltwater disposal operations, injection of CO<sub>2</sub>, and the processing, handling and disposal of materials such as hydrocarbons and naturally occurring radioactive materials ("**NORM**") are subject to stringent regulation. The Corporation could incur significant costs, including cleanup costs resulting from a release of product, third-party claims for property damage and personal injuries or penalties and other sanctions as a result of any violations or liabilities under environmental laws and regulations or other laws and regulations applicable to its operations. Changes in, or more stringent enforcement of, environmental laws and other laws applicable to Southern's operations could also result in delays or additional operating costs and capital expenditures.

Various federal, state and local laws and regulations controlling the discharge of materials into the environment, or otherwise relating to the protection of the environment and human health, directly impact Southern's oil and gas exploration, development and production operations. These include, among others: (a) regulations adopted by the EPA and various state agencies regarding approved methods of disposal for certain hazardous and nonhazardous wastes; (b) the *Comprehensive Environmental Response, Compensation, and Liability Act* and analogous state laws that regulate the removal or remediation of previously disposed wastes (including wastes disposed of or released by prior owners or operators), property contamination (including groundwater contamination), and remedial plugging operations to prevent future contamination; (c) the *Clean Air Act* and comparable state and local requirements already applicable to our operations and new restrictions on air emissions from our operations, including greenhouse gas emissions and those that could discourage the production of fossil fuels that, when used, ultimately release CO<sub>2</sub>; (d) the *Clean Water Act* and comparable state and local requirements already applicable to the Corporation's operations and new restrictions on wastewater discharges; (e) the *Oil Pollution Act of 1990*, which contains numerous requirements relating to the prevention of, and response to, oil spills into waters of the United States; (f) the *Resource Conservation and Recovery Act*, which is the principal federal statute governing the treatment, storage and disposal of hazardous wastes; (g) the *Endangered Species Act* and counterpart state legislation, which protects certain species (and their related habitats); and (h) state regulations and statutes governing the handling, treatment, storage and disposal of NORM and other wastes.

### **Climate Change Regulation**

Climate change legislation at each of the provincial, state and federal levels has the potential to significantly affect the oil and gas industry regulatory environment and impose significant financial obligations.

The U.S. was part of the United Nations Framework Convention on Climate Change ("**UNFCCC**") meeting in Paris in 2015. A binding commitment was signed by all panel countries that set a target of no more than a two-degree Celsius warming of the earth based on GHG levels in the atmosphere (the "**Paris**

**Agreement").** In June of 2017, the U.S. announced its intention to withdraw from the Paris Agreement, delivering written notice of such to the United Nations on August 4, 2017. Although the United States announced its withdrawal from the Paris Agreement, federally the EPA has issued GHG emissions regulations pursuant to the *Clean Air Act* that establish a reporting program for CO<sub>2</sub>, methane and other GHG emissions. It has also established a permitting program for certain large GHG emissions sources. In early 2021 the United States rejoined the Paris Agreement.

With respect to reporting GHG emissions, on November 30, 2010, the EPA published a final rule that expands its rule on mandatory reporting of GHG emissions to include owners and operators of petroleum and natural gas systems with GHG emissions above certain threshold levels (25,000 tons or more of GHG emissions per year). With respect to permitting, there has been considerable uncertainty surrounding regulation of methane emissions in the United States. As described in the *Environmental Regulation* section, in 2012 and 2016, the EPA published final regulations under the *Clean Air Act* establishing new source performance standards ("NSPS") for reduction of volatile organic compounds and methane from certain new, modified or reconstructed oil and natural gas facility sources. The EPA under former President Trump's administration took several measures to delay or restrict implementation of those standards, including publishing in September 2020 final rule policy and technical amendments to the NSPS, for stationary sources of air emissions. In particular, the policy amendments removed the transmission and storage sector from the regulated source category and rescinded methane and volatile organic compound requirements for the remaining sources, and the technical amendments included changes to fugitive emissions monitoring and repair schedules for gathering and boosting compressor stations and low-production wells, recordkeeping and reporting requirements. Various states, industry groups and environmental groups are challenging both the 2016 rules and the 2020 rules (that sought to roll back the 2016 rules).

On January 20, 2021, the Biden Administration issued Executive Order 13990, directing agencies to review all agency actions related to emissions and climate change taken under the Trump Administration. On June 30, 2021, President Biden signed into law a joint Congressional resolution disapproving the EPA's 2020 policy rules related to greenhouse gas emissions from oil and gas industry activities under the Clean Air Act. In 2023, the Supreme Court denied a request to take up a lawsuit by the state of Missouri attempting to block the Biden administration's social cost of carbon measure that originated under Executive Order 13990. While the United States Congress has considered numerous legislative initiatives to reduce or tax GHG emissions, to date, no laws in that regard have been enacted. On a state level, some states have enacted laws concerning GHG emissions. However, many of them are being challenged.

On November 2, 2021, as supplemented in November 2022, the EPA proposed New Source Performance Standard Subpart OOOOb, which seeks to impose more stringent methane and volatile organic compound emission standards for new, reconstructed, and modified sources in the oil and natural gas industry. The EPA also proposed New Source Performance Standard Subpart OOOOc, which would create, for the first-time, emission guidelines for existing oil and natural gas sources to be included in individual states' implementation plans. These Subpart OOOOb and OOOOc standards expand upon previously issued New Source Performance Standards, Subpart OOOO and Subpart OOOOa published by the EPA in 2012 and 2016, respectively. On December 2, 2023, the EPA issued a "final rule" to finalize the proposals made in 2021 and 2022.

Policy makers at both the federal and state levels continue to propose more stringent Environmental Regulations designed to further limit GHG and other air emissions. Many state and local officials have stated their intent to intensify efforts to regulate GHG and other air emissions, including methane, from the oil and natural gas industry and it is anticipated that the Biden Administration will propose additional Environmental Regulations that may impose new costs on the oil and natural gas industry in an effort to accelerate reductions of GHG and other air emissions from both the production and consumption of energy.

## RISK FACTORS

There are a number of inherent risks associated with the exploration and production of oil and gas reserves. Many of these risks are beyond the control of the Corporation. Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings available under the Corporation's SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca) before making an investment decision.

The risks described below are not the only risks facing the Corporation. Additional risks not presently known to Southern or that Southern currently deems immaterial may also impair Southern's business operations. If any of the following risks actually occur, Southern's business, financial condition and financial performance could be materially and adversely affected.

### **Nature of the Business**

An investment in Southern should be considered highly speculative due to the nature of Southern's involvement in the exploration for, and the acquisition, production and marketing of, oil and natural gas reserves and its current stage of development. Oil and gas operations involve many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Southern.

### **Commodity Price Volatility**

Southern's financial performance and financial condition are dependent on the prevailing prices of crude oil and natural gas. Crude oil and natural gas prices have fluctuated widely in the recent past and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Corporation's control.

Crude oil and natural gas prices are impacted by a number of factors including, but not limited to: the global supply of and demand for crude oil and natural gas; global economic conditions; the actions of OPEC and OPEC+; government regulation; political stability; the ability to transport crude to markets; developments related to the market for liquefied natural gas; the availability and prices of alternate fuel sources; and weather conditions. Concerns over global economic conditions, fluctuations in interest rates and foreign exchange rates, stock market volatility, energy costs, geopolitical issues, Russia's military invasion of Ukraine, conflict in the Middle East, Israel and the Gaza Strip, OPEC+ actions, inflation, the availability and cost of credit, the deceleration of economic growth in the People's Republic of China, trade disputes between the United States and the People's Republic of China, and civil unrest in Venezuela and Iran have contributed to increased economic uncertainty and diminished expectations for the global economy. In addition, significant growth in crude production volumes has resulted in pressure on transportation and pipeline capacity, resulting in fluctuations in the price of oil and natural gas. All of these factors are beyond the Corporation's control and can result in a high degree of price volatility.

Fluctuations in the price of commodities may impact the value of Southern's assets and the ability to maintain its business and to fund growth projects. Prolonged periods of commodity price depression and volatility may also negatively impact Southern's ability to meet guidance targets and meet all of its financial obligations as they come due. Any substantial and extended decline in the price of oil and gas would have an adverse effect on Southern's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on Southern's business, financial condition, results of operations, prospects and the level of expenditures for the development of oil and

natural gas reserves, including delay or cancellation of existing or future drilling or development programs or curtailment in production.

Any material or sustained decline in prices could result in a reduction of Southern's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or gas and a reduction in the volumes of Southern's reserves. Southern might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Southern's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities.

Crude oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies and OPEC+ actions. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to Southern may, in part, be determined by Southern's borrowing base. A sustained material decline in prices from historical average prices could reduce Southern's borrowing base, therefore reducing the bank credit available to Southern which could require that a portion, or all, of Southern's bank debt be repaid.

Southern will conduct regular assessments of the carrying value of its assets. If crude oil and natural gas prices decline significantly and remain at low levels for an extended period of time, the carrying value of Southern's assets may be subject to impairment.

### **Public Health Crises**

A pandemic, epidemic or other widespread outbreak of an infectious disease, and resulting restrictive measures implemented by governments in the jurisdictions the Corporation operates could negatively impact the Canadian, US, and global economies; disrupt Canadian, US, and global supply chains; disrupt financial markets; contribute to a decrease in interest rates; result in ratings downgrades, credit deterioration and defaults in many industries; force the closure of many businesses, leading to loss of revenues, increased unemployment and bankruptcies; and necessitate the imposition of quarantines, physical distancing, business closures, travel restrictions, and sheltering-in-place requirements in Canada, the US, and other countries similar to the outcomes of the COVID-19 pandemic. Additionally, concerns over the prolonged negative effects of a pandemic, epidemic or other widespread outbreak of an infectious disease on global economic and business prospects have at times and may in the future contribute to decreased demand for oil, NGLs and natural gas; increased volatility in capital and commodity markets, including volatility in the prices of oil, NGLs and natural gas; substantial fluctuations in currency exchange rates, inflation rates and interest rates; increased counterparty credit and performance risk; and reduced levels of general investing and consumption.

### **Borrowings**

The Corporation has incurred indebtedness to finance its operations and may incur further indebtedness in the future. The level of Southern's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise, especially if its above industry standards.

The Corporation's ability to meet its debt service obligations will depend on its future operations which will be subject to prevailing industry conditions and other factors, many of which are beyond the control of Southern. In addition, the Corporation will be required to comply with the financial and other covenants included in its borrowing facilities.

As certain of the indebtedness may bear interest at rates which fluctuate with prevailing interest rates, increases in such rates would increase its interest payment obligations and could have a material adverse effect on its financial condition and results of operations. Further, the Corporation's indebtedness is secured by substantially all of its assets. In the event of a violation by the Corporation of any of its loan covenants or any other default on its obligations relating to its indebtedness, the lender could declare such indebtedness to be immediately due and payable, and in certain cases, foreclose on Southern's assets.

### **Repayment of Debentures**

As of the date hereof, the Corporation has [4,286] Debentures issued and outstanding. The Debentures mature and become repayable on June 30, 2024. In the event the Corporation is unable to repay or refinance these debt obligations (or if the Corporation must refinance these debt obligations on less favourable terms), it may adversely affect the Corporation's ability to fund its ongoing operations. There is no certainty that the Corporation will be in a position to make such repayment if required. Even if the Corporation is able to obtain new financing in order to satisfy any obligations relating to the Debentures, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Debentures, or refinance these obligations, the lenders could seek legal recourse against the Corporation for amounts owed.

### **Availability of Capital**

As a result of recent economic uncertainties in the oil and gas industry and, in particular, the lack of risk capital available to the junior resource sector, Southern, along with other junior resource entities, may have reduced access to bank debt and to equity. Southern anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Corporation intends that these capital expenditures will be financed out of funds generated from operations, bank borrowings, if available, and possible issuances of debt or equity securities, Southern's ability to fund future capital expenditures is dependent on, among other factors, the overall state of lending and capital markets and investor and lender appetite for investments in the energy industry, generally, and Southern's securities in particular.

To the extent that external sources of capital become limited, unavailable or available only on onerous terms, Southern's ability to invest and to maintain existing assets and to undertake or complete future drilling programs may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

There can be no assurance that debt or equity financing, or cash flow from operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Southern. Moreover, future activities may require Southern to alter its capitalization significantly. To the extent that external sources of capital become limited, unavailable or available only on onerous terms, Southern's ability to invest and to maintain existing assets and to undertake or complete future drilling programs may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

## **Compliance with Licences, Contracts and Other Obligations**

The Corporation's assets are held in the form of licences and leases and working interests in licences and leases. The Corporation's operations must be carried out in accordance with the terms of these licences, operating agreements, annual work programs and budgets together with any conditions incumbent on the Corporation at the time the relevant asset was acquired such as ongoing royalty and other rental payments. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire.

In addition, the operations of the Corporation require licences and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licences and permits that are required to carry out exploration and development at its properties. The permitting process can take significant time, meaning that exploration and development projects have a longer cycle time to completion than they might elsewhere.

Relevant legislation provides that fines may be imposed and a licence may be suspended or terminated if a licence holder, or party to a related agreement, fails to comply with its obligations under such licence or agreement, or fails to make timely payments of levies and taxes for the licensed activity, provide the required geological information or meet other reporting requirements.

It may from time to time be difficult to ascertain whether the Corporation has complied with obligations under licences as the extent of such obligations may be unclear or ambiguous and regulatory authorities in jurisdictions in which the Corporation does business, or in which it may do business in the future, may not be forthcoming with confirmatory statements that work obligations have been fulfilled, which can lead to further operational uncertainty.

In addition, the Corporation and its commercial partners, as applicable, have obligations to operate assets in accordance with specific requirements under their licences and related agreements, field development agreements, laws and regulations. If the Corporation or its partners were to fail to satisfy such obligations with respect to a specific field, the licence or related agreements for that field may be suspended, revoked or terminated.

Regulations and policies relating to licences and permits may change, be implemented in a way that the Corporation does not currently anticipate or take significantly greater time to obtain. These licences and permits are subject to numerous requirements, including compliance with the environmental regulations of the local governments.

The suspension, revocation, withdrawal or termination of any of the licences or related agreements pursuant to which the Corporation may conduct business, as well as any delays in the continuous development of or production at the Corporation's fields caused by the issues detailed above could materially and adversely affect the business, results of operations, financial condition or prospects. In addition, failure to comply with the obligations under the licences or agreements pursuant to which the Corporation conducts business, whether inadvertent or otherwise, may lead to fines, penalties, restrictions, withdrawal of licences and termination of related agreements.

## **Exploration Risks**

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on exploration by Southern will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various

drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long term commercial success of Southern depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Southern will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Southern may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

### **Production Risks**

The Corporation's gas and oil production operations are subject to numerous risks common to its industry, including, but not limited to, premature decline of reservoirs, incorrect production estimates, invasion of water into producing formations, geological uncertainties such as unusual or unexpected rock formations and abnormal geological pressures, low permeability of reservoirs, contamination of gas and oil, blowouts, oil and other chemical spills, explosions, fires, equipment damage or failure, natural disasters, uncontrollable flows of oil, gas or well fluids, adverse weather conditions, shortages of skilled labour, delays in obtaining regulatory approvals or consents, pollution and other environmental risks.

In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Any of these events could lead to environmental damage, injury to persons or property and other species, failure to produce gas, natural gas liquids and oil in commercial quantities or an inability fully to produce reserves, all of which could cause substantial damage to Southern or its reputation and put at risk some or all its interests in licences, which enable the Corporation to produce, and could result in incurrence of fines or penalties, criminal sanctions potentially being enforced against the Corporation and its management, as well as other governmental and third-party claims. Consequent production delays and declines in field operating conditions and other adverse actions taken by third parties may result in the Corporation's revenue and cash flow levels being adversely affected.

Should any of these risks materialise, the Corporation could incur legal defence costs, remedial costs and substantial losses, including those due to injury or loss of life, human health risks, severe damage to or destruction of property, natural resources and equipment, environmental damage, unplanned production outages, clean-up responsibilities, regulatory investigations and penalties, increased public interest in the Corporation's operational performance and suspension of operations



## **Fiscal, Royalty Regimes and Exchange Rates**

In addition to federal regulation, most U.S. states have legislation and regulations which govern land tenure, drilling and construction permits, royalties, production rates, environmental protection and other matters. The applicable royalty regime is a significant factor in the profitability of oil and natural gas production.

As of the date hereof, there are no significant restrictions on the repatriation of capital and distribution of earnings that will affect Southern's U.S. operations. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings will not affect Southern in the future. Amendments to domestic or foreign taxation laws and regulations in the countries in which Southern will have assets or operations which alter tax rates and/or capital allowances could have a material adverse impact on Southern.

Southern is subject to the risk that currencies will not be convertible at satisfactory rates, that fluctuations in the conversion rates between Canadian and U.S. currencies may result in higher general and administrative expenses or may not accurately reflect the relative value of goods and services available or required. An increase in interest rates could result in a significant increase in the amount Southern pays to service debt. Variations in foreign exchange rates and interest rates could have a material adverse impact on the business and operations of the Corporation.

Funds raised through equity issuances are generally raised in Canadian dollars whereas the majority of Southern's expenditures will be typically incurred in other currencies and therefore currency fluctuations could have a material impact on Southern's results of operations. The exchange rates between the Canadian and U.S. currencies have varied substantially recently. Southern does not currently anticipate using exchange rate derivatives to manage exchange rate risks.

## **Trade Relations**

World-wide political and economic risks seem to be intensifying and there are added risks and uncertainties around the impact of new policies proposed by the U.S. government, including, but not limited to, the renegotiation of international trade agreements; the potential changes to U.S. trade policies; and tax reform. Major developments in these areas could have a material adverse effect on Southern.

The North American Free Trade Agreement ("NAFTA") has been renegotiated and on November 30, 2018, Canada, the U.S. and Mexico signed the Canada-United States-Mexico Agreement ("USMCA") which has replaced NAFTA. The USMCA was ratified by Mexico's Senate in June 2019, by the United States' Senate in January 2020 and by the Canadian Parliament in March 2020. The former U.S. administration also took action with respect to reduction of regulation which affected relative competitiveness of other jurisdictions.

## **Operational Health and Safety and Environmental Regulations and Requirements**

The Corporation operates in an industry that has certain hazardous risks and consequently is subject to comprehensive laws and regulations, especially with regard to the protection of health, safety and the environment. The terms of licences, permits, regulatory orders, or permissions may include more stringent operational, environmental or health and safety requirements. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

In early 2021, the Biden administration recommitted the United States to the Paris Climate Agreement and targeted a reduction of 50-52% greenhouse gas emissions by the year 2030. In order to achieve such goal, in 2021, the Biden administration introduced initiatives, which include policies to address climate change,

energy efficiency, and clean energy. If the Biden administration and the United States Congress adopt stricter standards for, and increase oversight and regulation over, the exploration and production industry at the federal level, these measures could lead to increased costs or additional operating restrictions. Also, there is the potential for climate change legislation which could affect demand for oil on a long-term basis.

Any failure by the Corporation or one of its sub-contractors, whether inadvertent or otherwise, to comply with applicable legal or regulatory requirements or the terms of licenses or permits may give rise to civil, administrative or criminal liabilities, civil fines and penalties, delays or restrictions in acquiring or disposing of assets or delays in securing or maintaining the required permits, licences and approvals. A lack of regulatory compliance may even lead to denial or termination of licences the Corporation requires for operating its sites or could result in other operational restrictions or obligations.

Further, any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage its reputation in the areas in which it operates. Negative sentiment towards the Corporation could result in a lack of willingness of municipal authorities to grant the necessary licences or permits for Southern to operate its business and in opposition to the Corporation's further operations in the area. If the Corporation develops a reputation of having an unsafe work site it may also impact Southern's ability to attract and retain the necessary skilled employees and consultants to operate its business.

The Corporation's operations have the potential to impact soil, air and water quality, biodiversity and ecosystems. Obtaining development or production licences and permits may become more difficult or may be delayed due to governmental, regional or local environmental consultation, scientific studies, approvals or other considerations or requirements. Furthermore, third-parties such as environmental organizations may judicially contest licences and permits already granted by relevant authorities and operations may be subject to other administrative or judicial challenges.

New laws and regulations, new national executive orders, the imposition of more stringent requirements in licences, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licences, or the discovery of previously unknown contamination or hazards may require further high cost expenditures in order for the Corporation to achieve compliance or may result in a material increase in the cost of production or development activities or even a curtailment of production

## **Insurance**

Southern's involvement in the exploration for and development of oil and gas properties may result in Southern becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although Southern will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Southern may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to Southern. The occurrence of a significant event that Southern is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Southern's financial position, results of operations or prospects.

## **Project Risks**

Southern is expected to manage and participate in a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Project cost estimates may not be accurate due to a lack of history of comparable projects. Furthermore, significant project cost over runs could make a project uneconomic.

Southern's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond Southern's control, including: the availability of processing capacity; the availability and proximity of pipeline capacity; the availability of storage capacity; the supply of and demand for oil and natural gas; the availability of alternative fuel sources; the effects of inclement weather; the availability of drilling and related equipment; unexpected cost increases; accidental events; currency fluctuations; changes in regulations; the availability and productivity of skilled labour; and the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Southern could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

### **Inflation and Cost Management**

Southern's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. The Corporation's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and funds from operations.

The cost or availability of oil and gas field equipment may adversely affect the Corporation's ability to undertake exploration, development and construction projects. The oil and gas industry is cyclical in nature and is prone to shortages of supply of equipment and services including drilling rigs, geological and geophysical services, engineering and construction services, major equipment items for infrastructure projects and construction materials generally. These materials and services may not be available when required at reasonable prices. A failure to secure the services and equipment necessary to Southern's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Corporation's financial performance and funds from operations.

### **Competition**

Southern actively competes for acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than Southern. Southern's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. Southern's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities include companies that have greater financial and personnel resources available to them than Southern.

Southern's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

### **Cost of New Technologies**

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and

may in the future allow them to implement new technologies before Southern. There can be no assurance that Southern will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by Southern or implemented in the future may become obsolete. In such case, Southern's business, financial condition and results of operations could be materially adversely affected. If Southern is unable to utilize the most advanced commercially available technology, its business, financial condition and results of operations could be materially adversely affected.

### **Title to Assets**

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise. Southern's actual interest in properties may vary from its records. If a title defect does exist, it is possible that Southern may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on Southern's business, financial condition, results of operations and prospects. There may be valid challenges to title, or proposed legislative changes which affect title, to the oil and natural gas properties Southern controls that, if successful or made into law, could impair Southern's activities on them and result in a reduction of the revenue received by Southern.

Vendors of oil and gas interests have not in the past and may not in the future warrant title to assets acquired by Southern in the United States. The nature of the oil and gas leasing and title regime in the U.S. basins in which Southern will hold an interest is such that interests in large tracts of acreage may be represented by hundreds or thousands of leases and obtaining absolute confirmation of chain of title would be time consuming and expensive. Southern will conduct such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties and will conduct an extensive title review of a particular area prior to commencement of drilling. However, there can be no assurance of title. Title may be subject to unregistered liens and other defects which, if affecting a core area, could have a material adverse effect on Southern, its financial condition, results of operations and prospects.

### **Condition of Assets**

The Corporation seeks to optimise or refurbish producing assets where possible to maximise the efficiency of its operations while avoiding significant expenses associated with purchasing new equipment. The Corporation's assets require ongoing maintenance to ensure continued operational integrity. There can be no guarantee that the Corporation's assets or the assets used by the Corporation will continue to operate without fault and not suffer material damage through, for example, wear and tear, severe weather conditions, natural disasters or industrial accidents. If the Corporation's assets or the assets used by the Corporation do not operate at or above expected efficiencies, the Corporation may be required to invest substantial expenditure beyond the amounts budgeted. Any material damage to these assets or significant capital expenditure on these assets for improvement or maintenance may have a material adverse effect on the Corporation's business, results of operations, financial condition or prospects. In addition, as with planned operating and capital expenditure, there is no guarantee that the amounts expended will ensure continued operation without fault or address the effects of wear and tear, severe weather conditions, natural disasters or industrial accidents.

### **Reserve and Resource Estimates**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids resources, reserves and cash flows to be derived therefrom, including many factors beyond Southern's control. In estimating reserves, the chance of commerciality is effectively 100%. For prospective resources, the chance of commerciality will be the product of the chance that a project will result in a discovery of

petroleum or natural gas and the chance that an accumulation will be commercially developed. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

The reserve and associated cash flow information and estimates represent estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Southern's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Further, the evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluation.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

Actual production and revenues derived from the Corporation's assets will vary from the estimates, potentially materially, including as a result of actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond Southern's control, and no assurance can be given that the indicated level of resources will be realized. In general, estimates of recoverable resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable natural gas and the classification of such resources based on risk of recovery prepared by different engineers or by the same engineers at different times may vary substantially.

Geological risking of prospective resources addresses the probability of success for the discovery of petroleum; this risk analysis is conducted independently of probabilistic estimates of petroleum volumes and without regard to the chance of development. Principal risk elements of the petroleum system include: (i) trap and seal characteristics; (ii) reservoir presence and quality; (iii) source rock capacity, quality and maturity; and (iv) timing, migration and preservation of petroleum in relation to trap and seal formation. Geological risk assessment is a highly subjective process dependent upon the experience and judgment of the evaluators.

Estimates with respect to resources that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of resources, rather than upon actual production

history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same resources based upon production history will result in variations, which may be material, in the estimated resources.

Resources estimates may require revision based on actual production experience. Market price fluctuations of natural gas prices may render uneconomic the recovery of the resources.

### **Abandoned Royalties**

The Corporation has significant liability in respect of abandoned royalties in respect of its oil and gas leases in accordance with State laws in the United States. Although the Corporation has taken legal advice from local counsel to support its treatment of the abandoned royalties, there can be no guarantee that such abandoned royalties will not be claimed or become payable to the applicable State government earlier than project by Southern. If that were to occur in respect of a material portion of the abandoned royalties currently on the Corporation's balance sheet, Southern's financial condition and working capital could be materially adversely affected.

### **Abandonment**

The Corporation may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which it uses for the processing of gas and oil reserves. Such abandonment costs will be incurred by the Corporation at the end of the operating life of some of Southern's properties. The ultimate abandonment costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, any shortage of plugging contractors, difficult terrain or weather conditions or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves, wells losing commercial viability sooner than forecasted or changes in laws and regulations or their interpretation.

As a result, there could be significant adjustments to provisions for abandonment established by the Corporation which would affect future financial results. The use of other funds to satisfy such abandonment costs may impair the Corporation's ability to focus capital investment in other areas of its business, which could materially and adversely affect the Corporation's business, results of operations, financial condition or prospects.

### **Climate Change Legislation**

Southern's exploration and production facilities and other operations and activities will emit greenhouse gases and Southern may be required to comply with greenhouse gas emissions legislation at the state or federal level. Global climate issues continue to attract public and scientific attention. Continued public concern regarding climate change, the extent to which it is caused by human activity and potential mitigation through regulation could have a material impact on Southern's business, international agreements, national and regional legislation, and regulatory measures to limit greenhouse ("GHG") emissions are currently in place or in various stages of discussion or implementation. The majority of countries across the globe, including Canada and the United States, have agreed to reduce their carbon emissions in accordance with the Paris Agreement. Given that certain of the Corporation's operations are associated with emissions of GHGs, these and other GHG emissions-related laws, policies and regulations may result in substantial capital, compliance, operating and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and expected to vary depending on the laws enacted by particular countries.

The emission reduction targets and other provisions of legislative or regulatory initiatives and policies enacted in the future by the United States or states in which the Corporation operates, could adversely impact Southern's business by imposing increased costs in the form of higher taxes or rises in the prices of emission allowances, limiting the Corporation's ability to develop new gas and oil reserves, transport hydrocarbons through pipelines or other methods to market, decreasing the value of the Southern's assets, or reducing the demand for hydrocarbons and refined petroleum products. It is not possible to predict what measures foreign and domestic governments may implement in this regard, nor is it possible to predict the requirements that such measures may impose or when such measures may be implemented.

In addition, the Corporation may be subject to activism from groups campaigning against fossil fuel extraction, which could affect Southern's reputation, disrupt its campaigns or programs, require the Corporation to incur significant, unplanned expense to respond or react to intentionally disruptive campaigns, result in limitations or restrictions on certain sources of funding (including investment from current or other potential investors as well as funding from commercial banks), create blockades to interfere with operations or otherwise negatively impact the Corporation's business or prospects. Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to reduced demand for the crude oil, natural gas and NGL that third party producers produce, which would have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Reserve Replacement**

Southern's future oil and natural gas reserves, production, and cash flows to be derived therefrom will be dependent on Southern successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Southern may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Southern's reserves will depend not only on Southern's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Southern's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

### **Anticipated Benefits of Acquisitions and Dispositions**

Southern is expected to make acquisitions and dispositions of businesses and assets. Achieving the benefits of these acquisitions will depend in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as realizing the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Southern. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters.

Management of Southern will assess the value and contribution of individual properties and other assets. In this regard, non-core assets are expected to be periodically disposed of, so that Southern can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of Southern, if disposed of, could realize less than their carrying amount on the financial statements of Southern.

### **Reliance on Third Parties**

The Corporation's ability to market its crude oil and natural gas can depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Various production, marketing and transportation conditions may cause delays in gas, natural gas liquids and oil production and adversely affect the Corporation's business. The Corporation relies on gas and oil field suppliers and contractors to

provide materials and services that facilitate its production activities, including plugging and abandonment contractors. Any competitive pressures on the oil field suppliers and contractors could result in a material increase of costs for the materials and services required to conduct the Corporation's business.

Where other companies operate assets in which the Corporation has an interest, Southern will have limited ability to exercise influence over the operation of those assets or their associated costs. Therefore, the Corporation's return on assets operated by others may therefore depend upon a number of factors that may be outside its control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

The Corporation and its off-takers rely upon the availability of pipeline and storage capacity systems, including such infrastructure systems that are owned and operated by third parties. As a result, the Corporation may be unable to access the infrastructure and systems which it currently uses or plans to use, or source alternatives or otherwise be subject to interruptions or delays in the availability of infrastructure and systems necessary for the delivery of its gas, natural gas liquids and oil to commercial markets. In addition, such infrastructure may be close to its design life and decisions may be taken to decommission such infrastructure or perform life extension work to maintain continued operations. Any of these events could result in disruptions to the Corporation's projects thereby impacting its ability to deliver gas, natural gas liquids and oil to commercial markets or may increasing the Corporation's costs associated with the production of gas, natural gas liquids and oil reliant upon such infrastructure/systems.

Further, the Corporation's off-takers could become subject to increased tariffs imposed by government regulators or the third-party operators or owners of the transportation systems available for the transport of the Corporation's gas, natural gas liquids and oil, which could result in decreased off-taker demand and downward pricing pressure.

If the Corporation is unable to access infrastructure systems facilitating the delivery of its gas, natural gas liquids and oil to commercial markets due to its contractors or primary off-takes being unable to access the necessary equipment or transportation systems, the Corporation's operations will be adversely affected. If the Corporation is unable to source the most efficient and expedient infrastructure systems for its assets then delivery of its gas, natural gas liquids and oil to the commercial markets may be negatively impacted, as may its costs associated with the production of gas, natural gas liquids and oil reliant upon such infrastructure and systems.

### **Reliance on Key Personnel**

Southern's success will depend in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Southern's business, financial condition, results of operations and prospects. Southern may not have any key person insurance in effect. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Southern will be able to attract and retain all personnel necessary for the development and operation of its business.



## **Management of Growth**

Southern may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of Southern to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Southern to deal with this growth could have a material adverse impact on its business, operations and prospects.

## **Hedging**

From time to time, Southern may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Southern will not benefit from such increases.

## **Litigation**

From time to time, the Corporation may be subject, directly or indirectly, to litigation arising out of its operations and the regulatory environments in its areas of operations. Categories of litigation that the Corporation may face include actions by royalty owners over payment disputes, personal injury claims and property related claims, including claims over property damage, trespass or nuisance.

Although the Corporation currently faces no material litigation, damages claimed under such litigation in the future may be material or may be indeterminate. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to Southern and as a result, could have a material adverse effect on Southern's assets, liabilities, business, financial condition and results of operations. In addition, the Corporation may be required to incur significant expenses or devote significant resources to defending against litigation. Adverse publicity surrounding litigation could also have a material effect on the Corporation's business.

## **Aboriginal Claims**

Aboriginal peoples have claimed aboriginal title and rights to portions of the United States. Southern is not aware that any claims have been made in respect of its assets; however, if a claim arose in respect of such assets, or any of Southern's future properties or assets, and was successful, such claim may have a material adverse effect on Southern's business, financial condition, results of operations and prospects.

## **Breach of Confidentiality**

While discussing potential business relationships or other transactions with third parties, Southern may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put Southern at competitive risk and may cause significant damage to its business. The harm to Southern's business from a breach of confidentiality cannot presently be quantified but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, Southern will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

## **Conflicts of Interest**

Directors and officers of Southern may also be directors and officers of other oil and gas companies involved in oil and gas exploration and development, and conflicts of interest may arise between their duties as officers and directors of Southern and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with and are subject to such other procedures and remedies as apply under the ABCA.

## **Active Trading Market**

The liquidity of the Common Shares on the TSXV and the AIM will be influenced by a large number of factors, some specific to the Corporation and its operations and others outside its control and unrelated to the Corporation's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Corporation, speculation about the Corporation in the press or the investment community, strategic actions by competitors, changes in market conditions and regulatory changes in any number of countries. There can be no guarantee that an active trading market for the Common Shares will be maintained.

## **Dilution of holders of Common Shares**

Southern may seek to raise financing to fund future acquisitions or other growth opportunities. The Corporation may, for these and other purposes, issue additional equity or convertible equity securities. As a result, existing holders of Common Shares may suffer dilution in their percentage ownership or the market price of the Common Shares may be adversely affected.

The Corporation has outstanding Options, Bonus Warrants and Debentures. The Corporation may, in the future, issue further options, warrants or convertible debentures. The exercise or conversion of any such options, warrants or convertible debentures would result in dilution of the holdings of other Shareholders.

In addition, the Corporation may decide to offer additional Common Shares in the future. Subject to any applicable pre-emption right, any future issues of Common Shares by the Corporation may have a dilutive effect on the holdings of Shareholders and could have a material adverse effect on the market price of the Common Shares as a whole.

## **Investment Risk**

An investment in a quoted company is highly speculative, involves a considerable degree of risk, and is suitable only for persons or entities which have substantial financial means and who can afford to hold their ownership interests for an indefinite amount of time or to lose their investment principal. Potential investors should also consider the risks that are relevant to the industry in which the Corporation operates.

## **Seasonality and Weather Conditions**

The level of activity in the oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Southern's operations may be subjected to adverse weather conditions such as hurricanes, flooding and tropical storms in and around the Gulf of Mexico that can damage oil and natural gas facilities and delivery systems and disrupt operations, which can also increase costs and have a negative effect on Southern's results of operations.

There can be no assurance that these seasonal factors will not adversely affect the timing and scope of Southern's exploration and development activities, which could in turn have a material adverse impact on Southern's business, operations and prospects.

### **IT and Cyber-Security**

The Corporation depends on digital technology, among other things, to process and record financial and operating data, communicate with its employees and business partners, analyze seismic and drilling information, and estimate quantities of oil and gas resources and reserves. Accordingly, the Corporation is susceptible to cyber incidents (both deliberate and unintentional).

The unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information could disrupt the Corporation's business plans and negatively impact its operations in a number of ways. As cyber threats continue to evolve, the Corporation may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities.

### **Third Party Credit Risk**

Southern may be exposed to third party credit risk through its contractual arrangements with current or future joint venture partners, marketers of its petroleum and natural gas production, counterparts to its financial instruments, including its hedging activities, and other parties. In the event that any such entity fails to meet its contractual obligations to Southern, such failures could have a material adverse effect on Southern and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in Southern's ongoing capital program, potentially delaying the program and the results of such program until Southern finds a suitable alternative partner.

### **Alternatives to and Changing Demand for Petroleum Products**

Globally there is an increasing focus on transitioning to a low-carbon economy resulting in a number of policies and initiatives designed to shift resources and investment away from fossil fuels towards low carbon sources. Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. Southern cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Southern's business, financial condition, results of operations and cash flows.

## **Changing Investor Sentiment**

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, concerns of the impact of oil and gas operations on the environment, concerns of environmental damage relating to spills of petroleum products during transportation and concerns of indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Corporation, its management and employees. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Corporation or not investing in the Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, the Corporation, may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares.

## **Taxation of the Corporation**

There can be no certainty that the current taxation regime within which the Corporation currently operates or may operate in the future will remain in force or that the current levels of corporation taxation will remain unchanged. For example, in the US certain localities maintain a severance or impact tax on the removal of oil and natural gas from the ground. Such tax rates may be increased or new severance or impact taxes implemented.

In addition, the Corporation has, to date, been able to offset its tax burden against net operating losses. The nature and amount of tax which members of the Corporation expect to pay and the reliefs expected to be available to any member of the Corporation are each dependent upon several assumptions, any one of which may change and which would, if so changed, affect the nature and amount of tax payable and reliefs available. In particular, the nature and amount of tax payable is dependent on the availability of relief under tax treaties and is subject to changes to the tax laws or practice in any of the jurisdictions affecting the Corporation. Any limitation in the availability of relief under these treaties, any change in the terms of any such treaty or any changes in tax law, interpretation or practice could increase the amount of tax payable by the Corporation.

Southern is subject to income taxes in the US and Canada, and its domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. The Corporation's effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from stock option compensation, the valuation of deferred tax assets and liabilities and changes in federal, state or international tax laws and accounting principles.

As Southern's parent company is a Canadian entity with operations and assets in the US, any changes in US federal tax law or tax rulings unfavourable to the corporate structure related to non-US owned parent companies could negatively impact the Corporation's effective tax rate and cash flows.

## **Expansion into New Activities**

In the future, Southern may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase Southern's exposure to one or more existing risk factors, which may in turn result in Southern's future operational and financial conditions being adversely affected.

## **Forward Looking Information May Prove to be Inaccurate**

Investors are cautioned not to place undue reliance on forward looking information. By its nature, forward looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumptions and uncertainties are found herein under the heading "*Special Note Regarding Forward Looking Statements*" above.

## **DIVIDENDS**

The Corporation has not declared or paid any dividends for each of the three most recently completed financial years. It is the intention of the Corporation to retain any earnings to finance the growth and development of the Corporation's business, and, therefore the Corporation does not anticipate paying any dividends in the immediate or foreseeable future.

## **DESCRIPTION OF SHARE CAPITAL**

As of the date hereof, Southern is authorized to issue an unlimited number of preferred shares and Common Shares, of which 166,497,433 Common Shares and nil preferred shares are issued and outstanding.

### **Common Shares**

The holders of Common Shares are entitled to dividends as and when declared by the Board, a right to one vote per Common Share at meetings of the Shareholders and, upon liquidation, to share in the remaining assets of Southern as are distributable to such holders.

### **Preferred Shares**

Preferred shares may be issued by the Corporation from time to time in one or more series and the Board may fix the number of preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each such series. The preferred shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation be entitled to preference over the Common Shares.

### **Bonus Warrants**

As of the date hereof, 3,906,250 Bonus Warrants have been issued and are outstanding. Each Bonus Warrant entitles the lender under the Corporation's Credit Facility to purchase one (1) Common Share at an exercise price of CAD\$0.40, with such entitlement expiring on August 31, 2025.

### **Debentures**

As of the date hereof, 4,286 Debentures are issued and outstanding. The Debentures will mature and be repayable on June 30, 2024 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, with the first such payment made on December 31, 2019 and the last payment date to fall on June 30, 2024. At the Corporation's election, interest on the Debentures on the date it is payable can be settled: (a) in cash; (b) by delivering freely tradeable, treasury Common

Shares to a trustee for sale, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares; or (c) any combination of (a) and (b) above. At the holder's option, the Debentures are convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (a) June 30, 2024, or (b) if called for redemption (as described below), the date specified for redemption by the Corporation, at a conversion price of CAD\$0.80 per Common Share, subject to adjustment in certain events. This represents a conversion rate of approximately 1,250 Common Shares for each CAD\$1,000 principal amount of Debentures, subject to the operation of certain anti-dilution provisions contained in the indenture governing the Debentures. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the last interest payment date prior to the date of conversion to the date of conversion. In addition to the foregoing, in the event of a change of control of the Corporation, 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 CAD\$1,000 principal amount of Debentures.

The Debentures are direct, subordinated unsecured obligations of the Corporation, subordinated to any senior indebtedness of the Corporation, including the Credit Facility, and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Corporation to the extent subordinated on the same terms.

The Debentures are redeemable by the Corporation at any time prior to June 30, 2024, 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.

On December 31, 2020, the holders of the Debentures agreed to an in-kind payment of accrued interest due on December 31, 2020 in the amount of CAD\$322,760 through the issuance of additional Debentures in the principal amount of CAD\$320,000 and a cash payment of CAD\$2,760. On July 14, 2021, the Corporation issued approximately 487,722 Common Shares of Southern to holders of its Debentures issued on June 14, 2019 and January 15, 2021 as payment in kind of accrued interest on the debentures due on June 30, 2021 in the aggregate amount of CAD\$335,560. On December 31, 2021, the Corporation issued an additional 1,009,206 Common Shares to holders of its Debentures issued on June 14, 2019 and January 15, 2021 as payment in kind of accrued interest in the aggregate amount of CAD\$335,560. On January 2, 2024, the Corporation issued 779,273 Common Shares to holders of its Debentures as payment in kind of accrued interest in the aggregate amount of CAD\$171,440. For more information, please refer to "General Developments of the Business" above.

## MARKET FOR SECURITIES AND TRADING HISTORY

The Common Shares are listed on the TSXV under the symbol "SOU". The following table sets forth the price range and trading volume of the Common Shares as reported by TMX Group Limited for the periods indicated.

Period	High (CAD\$)	Low (CAD\$)	Volume
January 2023	0.82	0.69	4,137,996
February 2023	0.69	0.54	3,650,455
March 2023	0.60	0.31	11,455,042
April 2023	0.34	0.29	5,293,987
May 2023	0.38	0.37	6,771,532
June 2023	0.46	0.36	4,381,337
July 2023	0.41	0.36	993,302

August 2023	0.41	0.35	3,036,665
September 2023	0.37	0.33	2,374,455
October 2023	0.35	0.30	2,517,649
November 2023	0.30	0.23	5,938,626
December 2023	0.24	0.20	4,049,952

The Common Shares are listed on the AIM under the symbol "SOUC". The following table sets forth the price range and trading volume of the Common Shares as reported by the AIM for the periods indicated.

Period	High (£)	Low (£)	Volume
January 2023	0.505	0.425	3,845,961
February 2023	0.445	0.340	2,663,915
March 2023	0.360	0.180	6,301,830
April 2023	0.205	0.180	5,881,975
May 2023	0.238	0.223	1,065,728
June 2023	0.278	0.213	5,177,792
July 2023	0.238	0.218	1,877,239
August 2023	0.243	0.195	3,890,793
September 2023	0.218	0.198	2,280,641
October 2023	0.205	0.185	1,382,112
November 2023	0.181	0.135	5,722,291
December 2023	0.140	0.110	3,679,612

The Common Shares are also listed on the OTCQX® Best Market under the symbol "SOUTF". The following table sets forth the price range and trading volume of the Common Shares as reported by TMX Group Limited for the periods indicated.

Period	High (\$)	Low (\$)	Volume
January 2023	0.605	0.501	56,606
February 2023	0.506	0.405	109,664
March 2023	0.445	0.223	247,030
April 2023	0.251	0.212	111,560
May 2023	0.282	0.275	376,376
June 2023	0.346	0.265	164,590
July 2023	0.309	0.277	40,757
August 2023	0.313	0.254	168,704
September 2023	0.268	0.248	28,100
October 2023	0.260	0.216	51,262
November 2023	0.216	0.170	1,237,623
December 2023	0.174	0.150	305,539

## PRIOR SALES

During the twelve months preceding the date hereof, no securities have been issued by the Corporation that are outstanding but not listed or quoted on a marketplace, except as set forth below.

Date of Issuance	Class of Securities	Number of Securities Issued <sup>(1)</sup>	Price per Security / Exercise Price
<b>Q1 2024</b> (Jan. 1, 2024 – Mar. 31, 2024)	--	--	--

Date of Issuance	Class of Securities	Number of Securities Issued <sup>(1)</sup>	Price per Security / Exercise Price
<b>Q4 2023</b> (Oct. 1, 2023 – Dec. 31, 2023)	--	--	--
<b>Q3 2023</b> (July 1, 2023 – Sept. 30, 2023)	--	--	--
<b>Q2 2023</b> (Apr. 1, 2023 – June 30, 2023)	Grant of RSAs <sup>(2)</sup> Grant of Options <sup>(3)</sup>	1,345,800 RSAs 60,000 Options	CAD\$ -- CAD\$ 0.385
<b>Q1 2023</b> (Jan. 1, 2023 – Mar. 31, 2023)	--	--	--

**Notes:**

- Please note that this table does not include Common Shares issued pursuant to the Corporation's employee share purchase plan.
- On June 6, 2023, the Corporation granted 1,345,800 restricted share awards (RSAs) to certain employees, officers and/or directors as part of the Corporation's overall compensation and employee retention program pursuant to the Corporation's share award incentive plan. The RSAs vest as to one third on each of the first, second and third anniversaries of the grant date. On the vesting dates of such RSAs, the holder is entitled to receive a cash payment or its equivalent in fully paid Common Shares, at the Corporation's discretion, equal to the closing market value per Common Share on the TSX-V on the Business Day prior to such payment.
- On June 6, 2023, the Corporation granted 60,000 to certain employees, officers and/or directors pursuant to the Corporation's Option Plan. The Options expire on the date which is five (5) years from the date of the grant and are exercisable at a price of CAD\$0.385 per Common Share. The Options vest as to one-third on the grant date, and one-third on each of the first and second anniversaries of the grant date. Of the 60,000 Options granted on June 6, 2023, Nil options were issued to directors and persons discharging managerial responsibilities of the Corporation.

## DIRECTORS AND OFFICERS

The name, municipality of residence, shareholdings and principal occupation for the past 5 years of each of the Corporation's directors and senior officers are as follows. The term of office for each director named below will expire at the next annual meeting of Shareholders of the Corporation.

Name, Residence and Position	Director Since	Principal Occupation During the Last Five Years	Number and Percentage of Common Shares <sup>(1)</sup>
<b>Ian Atkinson</b> <i>Calgary, Alberta</i> Director, President and Chief Executive Officer	December 11, 2018	President and Chief Executive Officer of the Corporation. Mr. Atkinson was the founder, President and Chief Executive Officer of Gulf Pine LP from November 2014 to December 2018. Prior thereto, Mr. Atkinson was a founder and Senior Executive Officer of Athabasca Oil Corporation (" <b>Athabasca</b> ").	<b>4,037,077</b> (2.42%)
<b>Calvin Yau</b> <i>Calgary, Alberta</i> Chief Financial Officer	N/A	Chief Financial Officer of the Corporation. Mr. Yau was a co- founder of Gulf Pine LP and Vice President, Finance and Chief Financial Officer since 2014. Prior thereto, Mr. Yau was the Vice President, Finance and Chief Financial Officer of Dixie Energy Trust.	<b>569,121</b> (0.34%)
<b>Gary McMurren</b> <i>Calgary, Alberta</i> Chief Operating Officer	N/A	Chief Operating Officer of the Corporation. Mr. McMurren was a co-founder of Gulf Pine LP and Vice President, Engineering since 2014. Prior thereto, Mr. McMurren was the Director of Light Oil at Athabasca.	<b>706,863</b> (0.42%)



Name, Residence and Position	Director Since	Principal Occupation During the Last Five Years	Number and Percentage of Common Shares <sup>(1)</sup>
<b>Sanjib Gill</b> <i>Calgary, Alberta</i> Corporate Secretary	N/A	Partner at Stikeman Elliott LLP, a national law firm, practicing primarily in the areas of corporate finance, securities and mergers and acquisitions transactions. Prior thereto, Mr. Gill was a partner at another national law firm.	Nil (0%)
<b>Bruce Beynon<sup>(2)</sup></b> <i>Calgary, Alberta</i> Director and Chairman of the Board	December 19, 2018	Vice President, Light Oil at Athabasca since December 2023. President of Tiburon Exploration Corporation since December 2018. Prior thereto, Executive Vice President, Exploration and Corporate Development at Baytex Energy Corp. from August 2018 to December 2018. President of Raging River Exploration Inc. from June 2017 to August 2018 and Executive Vice President from February 2012 to June 2017. Mr. Beynon is a Director of Lycos Energy Inc.	<b>936,328</b> (0.56%)
<b>Tamara MacDonald<sup>(2)(3)</sup></b> <i>Calgary, Alberta</i> Director	December 19, 2018	Director of Spartan Delta Corp., Rubellite Energy Inc. and Cache Island Corp. Prior thereto, Senior Vice President, Corporate and Business Development of Crescent Point from October 2004 to July 2018.	<b>125,000</b> (0.08%)
<b>C. Neil Smith<sup>(2)(3)</sup></b> <i>Calgary, Alberta</i> Director	December 19, 2018	President of WCF Holdings Corp. since January 2019. Prior thereto, Mr. Smith was the Chief Operating Officer at Crescent Point from January 2013 to June 2018.	<b>291,571</b> (0.18%)
<b>R. Steven Smith<sup>(3)(4)</sup></b> <i>Calgary, Alberta</i> Director	December 11, 2018	Director of Journey Energy Inc, Karve Energy Inc. and Jasper Brewing Inc. Prior thereto, Mr. Smith was a Director of Broadview Energy Inc. from 2014 to 2019 and the Chief Financial Officer for the last 2 years. He was a Portfolio Manager and Chief Financial Officer at NCM Investments from 2007 to 2017.	<b>1,519,712</b> (0.91%)
<b>John Joseph Nally</b> <i>Lagos, Portugal</i> Director	August 10, 2021	Mr. Nally is an independent businessman. Prior thereto, Mr. Nally was the Head of Natural Resources at Cenkos Securities PLC a company he co-founded. He also acts as Non-Executive Chairman to Falcon Oil & Gas Ltd.	<b>369,618</b> (0.22%)

**Notes:**

- Information provided as of the date hereof.
- Messrs. Neil Smith (Chair), Beynon and Ms. MacDonald form Southern's Reserves, Health, Safety and Environment Committee.
- Ms. MacDonald (Chair) and Messrs. Steven Smith, Neil Smith, and Nally form Southern's Corporate Governance and Compensation Committee.
- Messrs. Steven Smith (Chair), Nally and Neil Smith form Southern's Audit Committee.

As of the date hereof, the directors and officers of the Corporation as a group, beneficially own, or exercise control or direction over, an aggregate of approximately 8,555,290 Common Shares representing approximately 5.14% of the issued and outstanding Common Shares.

The information as to Common Shares beneficially owned, directly or indirectly or over which control or direction is exercised, is based upon information furnished to the Corporation by each of the individuals listed above.

### **Corporate Cease Trade Orders or Bankruptcies**

No director or officer of Southern, has, within ten years before the date hereof, been a director or officer of any person or company that, while such person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the other issuer access to any exemptions under applicable securities law, for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Penalties or Sanctions**

No director or officer of Southern, has been:

- (a) subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered material.

### **Personal Bankruptcies**

No director or officer of Southern, has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Conflicts of Interest**

There are potential conflicts of interest to which some of the directors or officers of Southern will be subject in connection with the operations of Southern. Some of the directors or officers are engaged in and will continue to be engaged in companies or businesses which may be in competition with the business of Southern. Accordingly, situations may arise where some or all of the directors or officers will be in direct competition with Southern. Conflicts, if any, will be subject to the procedures and remedies as provided under the ABCA. See also "*Risk Factors*".

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of the Corporation, there are no legal proceedings or regulatory actions material to the Corporation to which the Corporation is a party, or was a party to during the most recently completed financial year, or of which any of its properties is the subject matter, or was the subject matter of during the most recently completed financial year, nor are there any such proceedings known to the Corporation to be contemplated. There have been no penalties or sanctions imposed against the Corporation by a court relating

to securities legislation or by a securities regulatory authority and the Corporation has not entered to any settlement agreements with a court or securities regulatory authority.

### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as provided below, there are no material interests, direct or indirect, of directors or executive officers of the Corporation, or any shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding Common Shares, or any other Informed Person (as defined in NI 51-102) or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial that has materially affected or would materially affect the Corporation or any of its subsidiaries.

Sanjib Gill, the Corporate Secretary of the Corporation, is a partner of the national law firm Stikeman Elliott LLP, which law firm rendered legal services to the Corporation.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar of the Corporation is Odyssey Trust Company, 1230 – 300 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3C4.

### **MATERIAL CONTRACTS**

Other than the Credit Agreement, as amended, the Corporation has not entered into any material contracts within the most recently completed financial year or before the most recently completed financial year which are still in effect.

### **INTERESTS OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than NSAI, independent reserve evaluators and Deloitte LLP, the Corporation's auditors.

None of the principals of NSAI had any registered or beneficial interests, direct or indirect, in any securities or other property of the Corporation or of the Corporation's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

Deloitte LLP is independent of the Corporation in accordance with the rules of professional conduct of the Chartered Professional Accountants of Alberta.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation can be found on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's information circular for the Corporation's most recent shareholders meeting that involved the election of directors. Additional financial information is contained in the Corporation's financial statements and the related management's discussion and analysis.

Additional copies of this AIF and the materials listed in the preceding paragraph are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) and upon request by contacting the Corporation at its offices at 2400, 333 – 7th Avenue S.W., Calgary, Alberta T2P 2Z1 or by phone at 587-287-5400.

**FORM 51-101F2 - REPORT ON RESERVES DATA  
BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR**

To the board of directors of Southern Energy Corp. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2023. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2023, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "**COGE Handbook**") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated for the year ended December 31, 2023, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management.

Independent Qualified Reserves Evaluator or Auditor	Effective Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate) (US\$)			
			Audited	Evaluated	Reviewed	Total
Netherland, Sewell & Associates Inc.	December 31, 2023	United States	nil	119,315,100	nil	119,315,100

6. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after the effective date of our report.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

**NETHERLAND, SEWELL & ASSOCIATES, INC.**  
Texas Registered Engineering Firm F-2699  
Dallas, Texas, USA  
February 20, 2024

*(signed) "Richard B. Talley, Jr."*

Richard B. Talley, Jr., P.E.  
Chief Executive Officer

**FORM 51-101F3 - REPORT OF MANAGEMENT AND DIRECTORS  
ON RESERVES DATA AND OTHER INFORMATION**

Management of Southern Energy Corp. (the "**Company**") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data.

Netherland, Sewell & Associates, Inc., independent qualified reserves evaluators, has evaluated the Company's reserves data. The report of the independent qualified reserves evaluators will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;
- (b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Reserves Committee of the board of directors of the Company has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors of the Company has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluators on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

*(signed) "Ian Atkinson"*

**Ian Atkinson**  
President & Chief Executive Officer

*(signed) "Gary McMurren"*

**Gary McMurren**  
Chief Operating Officer

*(signed) "C. Neil Smith"*

**C. Neil Smith**  
Director & Chair of the Reserves Committee

*(signed) "Bruce Beynon"*

**Bruce Beynon**  
Director & Chair of the Board

February 20, 2024