Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the years ended December 31, 2023 and 2022

(U.S. Dollars)

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial results is provided by the management ("Management") of Southern Energy Corp. ("Southern" or the "Company") and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2023 and 2022 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

Throughout this MD&A, "crude oil" or "oil" refers to light and medium crude oil product types as defined by National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). References to "NGLs" throughout this MD&A comprise pentane, butane, propane, and ethane, being all NGLs as defined by NI 51-101. References to "natural gas" throughout this MD&A refers to conventional natural gas as defined by NI 51-101.

This MD&A is dated April 26, 2024.

About Southern

Southern is a natural gas exploration and production company with assets in Mississippi characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern has a primary focus on acquiring and developing conventional natural gas and light oil resources in the southeast Gulf States of Mississippi, Louisiana, and East Texas (the "Southeast Gulf States"). Southern's mission is to build a socially responsible and environmentally conscious natural gas and light oil company in the Southeast Gulf States. In these areas, Southern has access to major pipelines, significant Company-owned infrastructure, year-round access to drill, and the ability to shift focus between natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk. Southern's goal is to continually grow shareholder value through organic growth opportunities and strategic, accretive acquisitions.

Management has a long and successful history of working together as a team and have created significant shareholder value through accretive acquisitions, optimizations of existing natural gas and oil fields and the utilization of re-development strategies utilizing horizontal drilling and multi-staged fracture completion techniques. Southern's head office is located in Calgary, Alberta, Canada.

FOURTH QUARTER AND YEAR END 2023 HIGHLIGHTS

- Average production of 16,755 Mcfe/d (2,793 boe/d) (96% natural gas) during Q4 2023 and 16,305 Mcfe/d (2,718 boe/d) (95% natural gas) for the year ended December 31, 2023, an increase of 4% and 5% from the same periods in 2022, respectively (see "*Production Summary*" below for a breakdown by product type)

- On June 1, 2023, Southern completed a strategic and highly synergistic acquisition in Gwinville of assets producing approximately 400 boe/d (99% natural gas) for cash consideration of $3.2 million (the "Gwinville Acquisition")

- Generated $0.8 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q4 2023 ($0.01 per share basic and diluted) and $3.2 million for the year ended December 31, 2023 ($0.02 per share basic and diluted)

- Petroleum and natural gas sales were $5.1 million in Q4 2023 and $19.3 million for the year ended December 31, 2023, a decrease of 48% and 57% from the same periods in 2022, respectively, largely due to a significant depreciation in the natural gas price

- Average realized natural gas and oil prices for Q4 2023 of $2.95/Mcf and $76.97/bbl, compared to $6.35/Mcf and $81.98/bbl in Q4 2022

- Net loss of $39.6 million ($0.26 per share basic and diluted) and $46.8 million ($0.33 per share basic and diluted) for the three and twelve months ended December 31, 2023, due to a $38.0 million non-cash impairment charge recorded at December 31, 2023

- Year-end 2023 proved developed producing ("PDP") reserves were 7.5 MMboe and total proved plus probable ("2P") reserves were 29.6 MMboe, an increase of 21% and 16% from year-end 2022 and reflecting a reserve life index of 8 years and 31 years, respectively

- Reserve replacement of 229% in PDP, 96% in 1P, and 521% in 2P 2023 reserve categories

- Drilled six net wells at Gwinville in Q1 2023 from three padsites, with each subsequent pad drilling operation resulting in fewer drilling days per well depth adjusted (see "*Operations Update*" for more information)

- On November 9, 2023, successfully closed the Fundraising (as defined below) raising aggregate gross proceeds of $5.0 million (see "*Shareholders' Equity – Share Capital*" for more details)

- In December 2023, Southern successfully completed the first of its four high quality uncompleted horizontal wells ("DUCs") from the Q1 2023 drilling program – the GH 14-06 #3 wellbore. The operation was completed safely and under budget

SUBSEQUENT EVENTS

- On February 28, 2024, entered into the sixth amendment (the "Sixth Amendment") to the Company's senior secured term loan (the "Credit Facility"), which among other amendments, included extending the term of the Credit Facility from August 31, 2025 to December 31, 2026 (see "*Liquidity and Capital Resources – Credit Facility*" for more details)

- Southern monetized its fixed price swap derivative contracts to take advantage of the positive unrealized gain position, realizing net proceeds of $1.1 million

- Entered into a fixed price swap derivative contract of 5,000 MMBtu/d for the period of May 2024 – December 2026 at a price of $3.40/MMBtu

Summary of Financial Information

	Three months ended December 31,		Year ended December 31,		
(000s, except $ per share)	**2023**	**2022**	**2023**	**2022**	**2021**
Petroleum and natural gas sales	$ 5,098	$ 9,830	$ 19,313	$ 45,217	$ 19,942
Net (loss) earnings	(39,563)	1,749	(46,817)	9,299	10,093
Net (loss) earnings per share					
Basic	(0.26)	0.01	(0.33)	0.09	0.24
Fully diluted	(0.26)	0.01	(0.33)	0.08	0.19
Adjusted funds flow from operations (1)	777	3,059	3,227	17,156	2,860
Adjusted funds flow from operations per share (1)					
Basic	0.01	0.02	0.02	0.16	0.07
Fully diluted	0.01	0.02	0.02	0.14	0.05
Capital expenditures and acquisitions	3,212	10,218	45,130	30,434	2,562
Weighted average shares outstanding					
Basic	154,140	137,378	142,747	108,144	42,545
Fully diluted	154,140	146,797	142,747	122,972	55,047
As at period end					
Common Shares outstanding	165,718	138,057	165,718	138,057	78,122
Total assets	67,305	97,652	67,305	97,652	46,212
Non-current liabilities	21,613	12,817	21,613	12,817	12,609
Positive net cash (net debt) (1)	$ (26,667)	$ 13,437	$ (26,667)	$ 13,437	$ (6,431)

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

Operations Update

In late December 2023, the Company brought on-line the first of its four drilled but uncompleted DUCs from the Q1 2023 drilling program, the GH 14-06 #3 wellbore. This lateral hole was drilled and completed in the Upper Selma Chalk reservoir and achieved an IP30 natural gas rate of 5.2 MMcf/d, in-line with pre-drill expectations.

Southern implemented a number of stimulation design changes for this latest Upper Selma Chalk horizontal completion that improved the predictability and efficiency of the fracture operation and, more importantly, reduced the overall completion cost down to $2.1 million, significantly below budget estimates. Costs for this completion operation were approximately 40% lower than the two previous 18-10 pad Upper Selma Chalk wells that were completed earlier in 2023.

Southern is planning to delay the completion timing of the remaining three DUC wells into the second half of 2024 when the Company expects natural gas pricing to be significantly elevated from current levels. The remaining DUC wellbores have been drilled in the Lower Selma Chalk (2) and City Bank formations.

Production Summary

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Average daily production from operations				
Oil (bbl/d)	98	107	115	116
NGLs (bbl/d)	11	11	12	14
Natural gas (Mcf/d)	16,101	15,376	15,543	14,804
Total production (Mcfe/d)	**16,755**	**16,084**	**16,305**	**15,584**
Total production (boe/d)	**2,793**	**2,681**	**2,718**	**2,597**
Percentage of natural gas	**96%**	**96%**	**95%**	**95%**

Production averaged 16,755 Mcfe/d in Q4 2023 and 16,305 Mcfe/d for the year ended December 31, 2023, an increase of 4% and 5%, from the same periods in 2022, respectively. The increase was primarily due to the impact of the Gwinville Acquisition, which was partially offset by the natural declines of the existing wells.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
(000s)				
Oil	$ 694	$ 807	$ 3,242	$ 3,988
NGLs	41	43	180	287
Natural gas	4,363	8,980	15,891	40,942
Total revenue	**$ 5,098**	**$ 9,830**	**$ 19,313**	**$ 45,217**

Realized commodity prices

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Oil ($/bbl)	$ 76.97	$ 81.98	$ 77.24	$ 94.19
NGLs ($/bbl)	40.51	42.49	41.10	56.16
Natural gas ($/Mcf)	2.95	6.35	2.80	7.58
Combined ($/Mcfe)	**$ 3.31**	**$ 6.64**	**$ 3.25**	**$ 7.95**
Benchmark prices				
Crude oil – LLS ($/bbl)	$ 80.79	$ 85.00	$ 80.06	$ 96.36
Crude oil – WTI ($/bbl)	78.32	82.65	77.63	94.23
Natural gas – NYMEX HH ($/MMBtu)	2.88	6.26	2.74	6.64

Southern sells the majority of its oil and natural gas at the wellhead. Southern receives Louisiana Light Sweet ("LLS") pricing (less adjustments for proximity and quality) for its oil, and NYMEX Henry Hub ("NYMEX HH") pricing (less minor proximity adjustments) for its natural gas.

In Q4 2023, Southern realized an oil price of $76.97/bbl which was a decrease of 6% from the same period in 2022. For the year ended December 31, 2023, Southern's realized oil price decreased 18% compared to the same period in 2022.

Southern realized a natural gas price of $2.95/Mcf in Q4 2023, a 54% decrease from Q4 2022. For the year ended December 31, 2023, Southern realized a price of $2.80/Mcf, a 63% decrease from the same period in 2022. Natural gas prices were impacted by a mild winter in North America resulting in elevated inventory levels coming out of winter compared to historical averages as well as record U.S. dry natural gas production in 2023. Natural gas production volumes in the U.S. have fallen from record highs to date in 2024 as U.S. natural gas producers have begun to reduce field activities and curtail production in response to current low natural gas prices. Southern has continued to receive a premium to NYMEX HH due to the strategic sales points that the Company sells its natural gas into. Through the Gwinville Acquisition, marketing arrangements assumed from the previous operator have given Southern access to another strategic sales point into the Florida Gas Transmission Zone #3.

Royalties

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
(000s)				
Oil	$ 144	$ 173	$ 654	$ 795
NGLs	7	8	32	51
Natural gas	831	1,963	3,051	8,917
Total royalties	**$ 982**	**$ 2,144**	**$ 3,737**	**$ 9,763**
Royalties as a % of revenue	**19.3%**	**21.8%**	**19.3%**	**21.6%**

Royalties were $1.0 million in Q4 2023 and $3.7 million for the year ended December 31, 2023, a decrease of 54% and 62%, respectively, from the same periods in 2022. The decrease was due to lower LLS and NYMEX HH prices partially offset from higher production volumes in 2023. Southern expects royalties as a percentage of revenue to average approximately 20% for 2024 as royalty agreements are based on a fixed royalty rate.

Production, Operating and Transportation Expenses

	Three months ended December 31,		Year ended December 31,	
	2023	**2022**	**2023**	**2022**
(000s)				
Operating expenses	$ 1,524	$ 1,165	$ 5,521	$ 4,336
Production taxes	248	488	914	2,110
Transportation expense	438	32	1,202	139
Total production, operating and transportation	**$ 2,210**	**$ 1,685**	**$ 7,637**	**$ 6,585**

Operating expenses were $1.5 million ($0.99/Mcfe) in Q4 2023, which were an increase of 31% on a dollar basis and $0.20 on a per Mcfe basis compared to the same period in 2022. For the year ended December 31, 2023, operating expenses were $5.5 million ($0.93/Mcfe), which were 27% higher on a dollar basis and $0.17/Mcfe compared to the same period in 2022. Since closing the Gwinville Acquisition, Southern has been very successful in quickly integrating the acquired assets. Immediate cost savings in the form of labour and supervision redundancies as well as reduced maintenance contracts have been realized. The Company will continue to consolidate infrastructure, staff and services between assets to keep operating costs low to help offset the current inflationary environment for labour and equipment.

Production taxes were $0.2 million and $0.9 million for the three and twelve months ended December 31, 2023, respectively. The State of Mississippi has a severance tax relief program, where new horizontal wells that are drilled are charged a severance tax rate of 1.3% on all oil and natural gas production for a period not to exceed 30 months from the date of the first sale of production from the wells or until the well reaches payout status, whichever occurs first. Payout is deemed to have occurred the first day of the next month after gross revenue, less royalties, severance taxes and operating expenses, equal the costs to drill, complete, equip and tie-in the well. All of the new wells drilled at Gwinville qualify for this reduced severance tax relief program and Southern expects that the four DUCs will also be eligible (see "*Operations Update*", for more information). The wells that do not qualify for the severance tax relief are charged a severance tax rate of 6.0%.

Transportation expenses of $0.4 million ($0.28/Mcfe) in Q4 2023 and $1.2 million ($0.20/Mcfe) for the year ended December 31, 2023 are related to pipeline fees for the transportation of Southern's natural gas volumes to the sales meter. In Q2 2023, Southern changed natural gas purchasers in Gwinville and Greens Creek, resulting in a reclassification of some pricing adjustments to transportation expenses. Additionally, Southern is involved in an ongoing dispute around transportation fees being charged by a third party midstream company. Management believes that these transportation lines are regulated by the Federal Energy Regulatory Commission ("FERC"), should be governed by an approved rate, and that the Company is entitled to receive the portion of the fees it has paid, beginning in May 2023, that are in excess of the maximum allowable rates approved by FERC.

Operating Netback

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
($/Mcfe)				
Petroleum and natural gas revenue	$ 3.31	$ 6.64	$ 3.25	$ 7.95
Royalties	(0.64)	(1.45)	(0.63)	(1.72)
Production taxes	(0.16)	(0.33)	(0.15)	(0.37)
Operating expenses	(0.99)	(0.79)	(0.93)	(0.76)
Transportation costs	(0.28)	(0.02)	(0.20)	(0.02)
Operating netback per Mcfe before derivatives (1)	**$ 1.24**	**$ 4.05**	**$ 1.34**	**$ 5.08**
Realized loss on derivatives	0.11	(0.99)	0.05	(1.27)
Operating netback per Mcfe (1)	**$ 1.35**	**$ 3.06**	**$ 1.39**	**$ 3.81**
Operating netback % of revenue (1)	**41%**	**46%**	**43%**	**48%**

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

Southern's operating netbacks decreased by 56% and 64% for the three and twelve months ended December 31, 2023, compared to the same periods in 2022. The decrease was driven primarily from lower commodity prices, partially offset by decreased royalties and realized commodity hedging gains in 2023.

General & Administrative and Transaction Costs

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
(000s)				
General and administrative	$ 1,203	$ 1,145	$ 4,843	$ 4,098
Transaction costs	65	184	264	265
Total	**$ 1,268**	**$ 1,329**	**$ 5,107**	**$ 4,363**
General and administrative per Mcfe	**$ 0.78**	**$ 0.77**	**$ 0.81**	**$ 0.72**

General and administrative costs were $1.2 million in Q4 2023 and $4.8 million for the year ended December 31, 2023, an increase of 5% and 18%, respectively, from the same periods in 2022. The increase for the 12 months ended December 31, 2023 was primarily due to expenses of $0.5 million related to a 2022 employee bonus program. Transaction costs of $0.3 million in 2023 are related to a transaction contemplated by Southern that was not completed.

Finance Expense

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
(000s)				
Bank Interest, net	$ 571	$ 125	$ 1,513	$ 599
Convertible debenture interest	63	64	254	369
Lease interest	4	7	22	36
Accretion	256	107	766	558
Total finance expense	**$ 894**	**$ 303**	**$ 2,555**	**$ 1,562**
Finance expense per Mcfe	**$ 0.58**	**$ 0.20**	**$ 0.43**	**$ 0.27**

Finance expenses were higher for the three and twelve months ended December 31, 2023, compared to the same periods in 2022. The increase in 2023 is due to higher interest expenses as the Credit Facility was utilized to fund a portion of the capital program and higher accretion expenses were partially offset by lower convertible debenture interest as a result of some conversions in 2022. For more information, see "*Liquidity and Capital Resources*", below.

Share-based Compensation

Southern recorded share-based compensation of $44 thousand and $0.9 million for the three and twelve months ended December 31, 2023, respectively, compared to $0.5 million and $1.2 million in the same periods in 2022, related to the issuance of stock options and restricted share awards. For more information, see “*Shareholders’ Equity – Share Award Incentive Plan*”.

Depletion, Depreciation and Amortization

	Three months ended December 31, 2023	Three months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
(000s)				
Depletion	$ 2,241	$ 2,467	$ 9,416	$ 6,442
Depreciation	43	44	175	164
Total depletion, depreciation and amortization	**$ 2,284**	**$ 2,511**	**$ 9,591**	**$ 6,606**
DD&A expense per Mcfe	**$ 1.48**	**$ 1.70**	**$ 1.61**	**$ 1.16**

Depletion expense was $2.2 million ($1.45/Mcfe) in Q4 2023, a decrease of 9% on a dollar basis and 13% on a per Mcfe basis, compared to Q4 2022 ($1.67/Mcfe). The decrease reflects the moderation of costs to add reserves compared to Q4 2022 as inflation has eased resulting in a decrease to Southern’s capital costs, partially offset by higher production volumes in Q4 2023. Depletion expense for the year ended December 31, 2023 was $9.4 million ($1.58/Mcfe) which was 46% higher on a dollar basis 40% higher on a per Mcfe basis compared to the same periods in 2022. The increased expense both on a dollar basis and per Mcfe reflects the full year of higher costs to add reserves in the current business environment compared to the original acquisition of the assets at the end of 2018, as well as higher production volumes compared to 2022.

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

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the cash generating units ("CGUs") that comprise oil and natural gas properties.

At December 31, 2023, Southern viewed the deterioration of current and future natural gas prices as well as the reduction of Southern's market capitalization below the net assets of the Company as indications of impairment. Southern estimated the recoverable amount of all CGUs at December 31, 2023. Southern determined that the carrying value of the Central Mississippi CGU ("CMS CGU") exceeded its recoverable amount. A non-cash impairment charge of $38.0 million was recorded in the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

The Company estimated the recoverable amounts as fair value less costs of disposal, using the net present value of the cash flows from proved developed producing oil and gas reserves of each CGU, and a 7% discount rate (equivalent to 10% pre-tax), based on reserves estimated by Southern's independent reserves evaluator at December 31, 2023.

Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended December 31,		Year ended December 31,	
	2023	**2022**	**2023**	**2022**
(000s)				
Land, acquisitions and lease rentals	$ 64	$ 725	$ 3,522	$ 859
Drilling and completions	1,903	8,503	28,662	25,759
Geological and geophysical	-	2	7	27
Facilities, equipment and pipelines	1,244	979	12,884	3,596
Other	1	9	55	193
Capital expenditures, before Dispositions	**3,212**	**10,218**	**45,130**	**30,434**
Dispositions	**-**	**-**	**-**	**(759)**
Net capital expenditures (1)	**$ 3,212**	**$ 10,218**	**$ 45,130**	**$ 29,675**

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

Southern incurred $28.7 million of expenses during 2023 related to the drilling program at Gwinville (see "*Operations Update*", for more information). Southern also invested $12.9 million of capital towards long term infrastructure related to the future development of the Gwinville field, primarily related to the purchase of compression and other field equipment.

On June 1, 2023, Southern closed an acquisition to acquire the remaining producing acreage in the Gwinville Field not already owned by the Company for a cash purchase price of $3.2 million.

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

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

Decommissioning Provisions

The total decommissioning provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provision, is approximately $20.3 million at December 31, 2023 (December 31, 2022 - $14.8 million), which was inflated using a rate of 2.4% (December 31, 2022 – 2.4%) and discounted using a risk-free interest rate of 3.9% at December 31, 2023 (December 31, 2022 – 3.9%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 50 years into the future and will be funded from general corporate resources at the time of abandonment.

Shareholders' Equity

Share Capital

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

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

	Number of Shares	Share Capital
Balance as at December 31, 2021	78,121,858	$ 41,018
July issuance of Common Shares by 2022 Offering	46,371,927	30,715
Issuance of Common Shares to satisfy unit warrant exercise	7,184,375	2,232
Issuance of Common Shares to satisfy conversion of convertible debentures	5,128,750	3,259
Issuance of Common Shares to satisfy bonus warrant exercise	1,250,000	490
Share issuance costs	-	(2,443)
Balance as at December 31, 2022	**138,056,910**	**$ 75,271**
November issuance of Common Shares by Fundraising	26,630,000	5,001
Issuance of Common Shares to satisfy unit warrant exercise	1,031,250	310
Share issuance costs	-	(818)
Balance as at December 31, 2023	**165,718,160**	**$ 79,764**

On November 9, 2023, Southern closed an equity financing raising aggregate gross proceeds of $5.0 million through the issuance of a total of 26,630,000 new Common Shares (the "Fundraising"). The Fundraising consisted of gross proceeds of $2.8 million through a placing of 15,853,097 new Common Shares at a price of 15.5 pence per Common Share, $2.2 million pursuant to a prospectus offering of 10,712,387 new Common Shares at a price of CAD$0.26 per Common Share and the remaining $0.01 million pursuant to a subscription offering of new 64,516 Common Shares at a price of 15.5 pence per Common Share.

On July 7, 2022, Southern closed an equity financing raising aggregate gross proceeds of $31.0 million through the issuance of a total of 46,371,927 new Common Shares (the "2022 Offering"), of which $17.5 million was raised pursuant to a bought deal prospectus offering of 26,060,000 new Common Shares at a price of CAD$0.87 per Common Share and the remaining $13.5 million was raised pursuant to an accelerated bookbuild of 20,311,927 new Common Shares at a price of 54.5 pence per Common Share.

Warrants

In connection with the Fifth Amendment (see "*Liquidity and Capital Resources – Credit Facility*" for more details), the Company extended the term of 3,906,250 outstanding Common Share purchase warrants previously issued to the lender from April 30, 2024 until August 31, 2025.

The performance-based Common Share purchase warrants issued in connection with the non-brokered private placement completed on December 19, 2018, expired on December 19, 2023.
The Common Share purchase warrants issued in connection with the non-brokered private placement completed on May 3, 2021, expired on December 31, 2023.

Stock Option Plan

Under the Company's security based compensation arrangement, which includes the stock option plan and share award incentive plan, the Company may grant options or share awards to its directors, officers, employees and consultants.

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

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2022	7,628,125	$ 0.87
Granted	60,000	$ 0.39
Forfeited	(573,750)	$ 0.87
Balance at December 31, 2023	**7,114,375**	**$ 0.86**

The forfeiture of 573,750 stock options in 2023 are related to the retirement of three directors.

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

Exercise Price ($CAD/share)	Number of options outstanding (000s)	Weighted average remaining terms (years)	Weighted average exercise price for options outstanding ($CAD/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($CAD/share)
$0.39 - $1.01	**7,114**	**2.6**	**$0.86**	**5,846**	**$0.83**

Share Award Incentive Plan

On June 6, 2023, Southern issued 1.3 million restricted share awards ("RSAs") under its Share Award Incentive Plan. The RSAs vest as to one third on each of the first, second and third anniversaries of the grant date. On the vesting dates of such RSAs, the holder is entitled to receive a cash payment or its equivalent in fully paid Common Shares, at the Company's discretion, equal to the closing market value per Common Share on the TSXV on the business day prior to such payment. On June 15, 2023, 59,950 RSAs were forfeited due to the retirement of two directors and on November 29, 2023, 19,984 RSAs were forfeited due to the retirement of a director.

Liquidity and Capital Resources

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

Southern had a total capital program of $41.9 million during 2023, excluding the Gwinville Acquisition (see "*Capital Expenditures, Property Acquisitions and Dispositions*", above for more details). The majority of the expenses were incurred in Q1 2023 to complete the moderated Gwinville organic growth program which consisted of the drilling of seven horizontal wells with completion of three wells, leaving four drilled, DUCs. The updated program included compression additions, pad construction, in-field pipelines and water disposal well conversions that will be ready when Southern determines it would make economic sense to continue further Gwinville development. In December 2023, Southern successfully completed the first of its four DUCs from the Q1 2023 drilling program – the GH 14-06 #3 wellbore. The operation was completed safely and under budget at approximately $2.1 million. Southern funded the capital expenditures through excess adjusted funds flow from operations (see "*Reader Advisories – Specified Financial Measures*"), availability from Tranche B of the Credit Facility, net proceeds from the July 2022 equity financing and net proceeds from the November 2023 Fundraising (see "*Shareholders' Equity – Share Capital*" for more details).

Southern closed the $3.2 million Gwinville Acquisition on June 1, 2023, and completed a small recompletion and infrastructure program (the "Recompletion Program") in Q3 2023 to enhance the production profile and reduce operating costs of the acquired assets. The acquisition was funded through existing availability from Tranche B of the Credit Facility, which will also be utilized for the Recompletion Program.

Southern anticipates a much smaller capital program in 2024 compared to 2023, consisting of completing two DUCs towards the end of 2024, dependent on natural gas prices and a minimal maintenance capital program. The completion of the DUCs would be funded primarily from borrowings from the Credit Facility and any maintenance capital work would be funded by excess adjusted funds flow from operations (see "Reader Advisories – Specific Financial Measures").

	December 31, 2023	December 31, 2022
Long-term debt	$ (17,864)	$ (4,800)
Convertible debentures – face value	(3,241)	(3,164)
Adjusted working capital (deficiency)	(5,562)	21,401
Positive net cash (net debt)	**$ (26,667)**	**$ 13,437**

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

As at December 31, 2023, Southern had adjusted working capital deficiency (see "*Reader Advisories – Specified Financial Measures*") of $5.6 million. Included in the adjusted working capital deficiency is $6.4 million of non-interest-bearing royalty payables related to unresolved title or ownership issues. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time. The royalty suspense account is made up of balances from approximately 6,500 royalty holders with over 95% of the balances being greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

Southern's net debt (see "*Reader Advisories – Specified Financial Measures*") was $26.7 million as at December 31, 2023. This compares to positive net cash of $13.4 million as at December 31, 2022. The increase in net debt during 2023 was expected because of expenditures under the organic development program at Gwinville. Southern incurred approximately $13.8 million in Q1 2023, drilling four wells that were not completed due to low natural gas pricing. In addition, Southern has invested approximately $12.9 million in infrastructure and capital equipment to be utilized with the four DUCs and future wells. As Southern begins to bring the four DUCs online, with the first having come online at the end of December 2023, the overall net debt is expected to decrease in a rising commodity price environment. Southern could further reduce net debt through equity financing, non-core asset sales, or sale of excess equipment inventory.

Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at December 31, 2023. The Credit Facility is comprised of Tranche A of $5.5 million that was advanced at closing on April 30, 2021 and Tranche B of $31.5 million with an availability until December 31, 2026. Effective February 28, 2024, interest on the Credit Facility is 15% per annum (previously 12% per annum) on amounts outstanding and includes a 1% per annum standby fee on the unused portion of Tranche B, both paid monthly in arrears on the last day of the month. The Credit Facility is secured against the oil and gas properties of Southern and matures on December 31, 2026. As at December 31, 2023, Southern had $17.9 million drawn on the Credit Facility and $10.0 million available from Tranche B.

On September 29, 2023, Southern entered into the fifth amendment to the Credit Facility (the "Fifth Amendment"). The Fifth Amendment included an increase of $2.0 million to Tranche B of the Credit Facility, bringing the total Tranche B commitment to $31.5 million, and an extension of the commitment period for Tranche B until August 31, 2025. The amendment also extended the principal amortization period by an additional twelve months, reset the DSCR (as defined below) covenant calculation to an annualized basis beginning in Q4 2023, reduced the DSCR (as defined below) in Q3 2023 to 1.20:1, reverting back to 1.25:1 in Q4 2023 and all future periods, and allowed for repayment and reborrowing under the Tranche B facility.

Subsequent to December 31, 2023, Southern entered into the Sixth Amendment to the Credit Facility, effective February 28, 2024. The Sixth Amendment includes an extension of the maturity of the Credit Facility to December 31, 2026, resets the DSCR (as defined below) covenant calculation to an annualized basis beginning in Q1 2024, reduces the repayments based on a FCF grid (as described below) and increases the fixed per annum coupon from 12% to 15% per annum. The amendment also pauses the monthly repayment of the principal amount outstanding (as described below) for the period from February 1, 2024 to September 30, 2024.

Quarterly positive free cash flow ("FCF") (as described below) repayments are based on a FCF grid whereby quarterly repayments are X% of the preceding quarter where X is equal to 30% (previously 50%) if the ACR (as defined below) is < 3.0x or DSCR (as defined below) is < 1.4x; or X is equal to 0% if the ACR is > 5.0x and DSCR > 1.7x; otherwise is 15% (previously 25%). A standby fee of 1.0% per annum on any undrawn Tranche B amounts.

The Credit Facility includes a monthly repayment of the principal amount outstanding computed as the sum of: (a) outstanding amount multiplied by 1/A, where A equals the number of whole or part months remaining to the maturity date plus 24 months; and (b) on the last day of the second month following each fiscal quarter, the amount determined by the FCF grid (as described above). FCF is calculated as Earnings Before Interest, Taxes, Depreciation, Amortization, and Impairment ("EBITDAX"), less the aggregate of the Credit Facility principal and interest payments.

Below are the financial covenant calculations for the Credit Facility for December 31, 2023 and December 31, 2022:

Financial covenant	**Limit**	**As at Dec 31, 2023**	**As at Dec 31, 2022**
Asset Coverage ratio	Minimum 2.00	2.48	9.77
Debt Service Coverage ratio	Minimum 1.25	0.43	3.87

On December 19, 2023, Southern obtained a waiver for the DSCR (as defined below) for the fiscal quarter ending December 31, 2023.

The asset coverage ratio ("ACR") of at least 2:1 is calculated as the ratio of the net present value of proved developed producing oil and gas properties as determined by an independent qualified engineer, using a price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the Credit Facility.

The debt service coverage ratio ("DSCR") of greater than 1.25:1 is the ratio of EBITDAX to scheduled principal payments and interest expense.

As at December 31, 2023, Southern was in compliance with the ACR and had obtained a waiver for the DSCR.

Debenture Financing

As at December 31, 2023, Southern had 4,286 convertible debentures ("Debentures") issued at a price of CAD$1,000 per Debenture that accrue interest at the rate of 8.00% per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date"). The Debentures have a maturity date ("Maturity Date") of June 30, 2024.

At the Company's election, interest on the Debentures, on the date it is payable can be settled a) in cash; b) by delivering freely tradeable, treasury Common Shares to a trustee for sale, in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Common Shares; or c) any combination of a) and b) above. At the holder's option, the Debentures are convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, or (ii) if called for redemption, the date specified for redemption by the Company, at a conversion price of CAD$0.80 per Common Share, subject to adjustment in certain events. This represents a conversion rate of approximately 1,250 Common Shares for each CAD$1,000 principal amount of Debentures, subject to the operation of certain anti-dilution provisions contained in the indenture governing the Debentures. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the last Interest Payment Date prior to the date of conversion to the date of conversion.

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

Prior to the Maturity Date, the Debentures are redeemable by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 102.5% of their principal amount plus accrued and unpaid interest, if any.

On January 2, 2024, the accrued interest payment due on December 31, 2023, was settled in-kind through the issuance of 779,273 new Common Shares. The number of Common Shares issued is equal to the amount of interest, divided by the volume weighted average trading price per Common Share for the 20 consecutive trading days ending on the fifth trading day preceding December 31, 2023.

Contractual Obligations and Commitments

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

	Total	2024	2025	2026	Thereafter
Long-term debt[1]	$ 17,864	$ 4,985	$ 12,879	$ -	$ -
Convertible debentures[2]	3,241	3,241	-	-	-
Lease obligations[3]	128	128	-	-	-
Total	**$ 21,233**	**$ 8,354**	**$ 12,879**	**$ -**	**$ -**

Notes:

(1) Long-term debt consists of the Credit Facility – see "*Liquidity and Capital Resources*" for more information
(2) Debentures have a maturity date of June 30, 2024.
(3) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16.

Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

Risk Management

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Southern's operations. These risks include but are not limited to:

- volatility of commodity prices;
- outbreak of military hostilities, including armed conflict between Russia and Ukraine and the potential destabilizing effect such conflict may pose for the European continent or the global oil and natural gas markets;
- the ability of the Company to achieve drilling success consistent with Management's expectations, including in respect of the Gwinville assets;
- expectations regarding completion of the Company's current and anticipated drilling projects including those related to the Gwinville assets and the timing in respect thereof;
- the Company's ability to comply with obligations under the Debentures;
- expectations regarding pricing including in respect of the Company's continued receipt of premiums at Transco Zone 4 and Florida Gas Zone 3;
- global and regional supply and demand;
- reservoir quality and uncertainty of reserves estimates;
- geological and engineering risks;
- operating hazards and other difficulties inherent in the exploration for and production of oil and gas;
- timing and success of integrating the business and operations of acquired companies and assets;
- the uncertainty of discovering commercial quantities of new reserves;
- ability to obtain all necessary licences and permits required for the business of the Company;
- interest rate and foreign exchange risks;
- rising interest rates with further increases anticipated over the next 12 months;
- inflationary risks, including impacts on cost management, supply chain dynamics and government policies impacting operating and capital costs;
- competition;
- credit risk related to non-payment for sales contracts or non-performance by counterparties to contracts, including derivative financial instruments and physical sales contracts;
- public sentiment towards the use of fossil fuels;
- availability of, and access to, capital on favourable or desirable terms;
- environmental impact risk;
- future legislative and regulatory changes;
- changing royalty regimes and the Company's expectations in respect of 2024 royalty rates;
- business interruptions due to unexpected events;
- access to markets; and

- risk of interruption or failure of information technology systems and data.

All of these risks influence the controls and management at the Company.
Southern manages these risks by:

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

For additional details on the risks relating to Southern's business, see "*Risk Factors*" in the Company's most recent Annual Information Form for the year ended December 31, 2023 (the "AIF"), which is available on SEDAR+ at www.sedarplus.ca.

Commodity Derivative Contracts

Southern utilizes oil and natural gas derivative contracts to mitigate its exposure to commodity price risk associated with future oil and natural gas production. Typical derivative contracts could consist of options, in the form of price floors, collars or three-way collars and fixed-price swaps. The derivative financial instruments are recorded on the Consolidated Statement of Financial Position as either an asset or a liability measured at fair value. Southern does not apply hedge accounting to its commodity derivative contracts; accordingly, changes in the fair value of these instruments are recognized in the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) in the period of change.

Southern had the following commodity derivative contracts in place as at December 31, 2023:

Natural Gas	Volume	Pricing
Fixed Price Swap		
January 1, 2024 – December 31, 2025	1,000 MMBtu/d	NYMEX – HH $3.880/MMBtu
April 1, 2024 – October 31, 2024	1,500 MMBtu/d	NYMEX – HH $3.208/MMBtu
April 1, 2024 – October 31, 2024	1,500 MMBtu/d	NYMEX – HH $3.420/MMBtu
April 1, 2025 – October 31, 2025	1,500 MMBtu/d	NYMEX – HH $3.420/MMBtu
Costless Collar		
January 1, 2024 – March 31, 2024	2,000 MMBtu/d	NYMEX – HH $3.00 - $3.98/MMBtu
January 1, 2024 – March 31, 2024	1,000 MMBtu/d	NYMEX – HH $3.00 - $4.60/MMBtu
November 1, 2024 – March 31, 2025	1,000 MMBtu/d	NYMEX – HH $3.50 - $5.20/MMBtu

Subsequent to December 31, 2023, Southern monetized the above fixed price swap derivative contracts to take advantage of the positive unrealized gain position, realizing net proceeds of $1.1 million.

In addition, subsequent to December 31, 2023, Southern entered into the following commodity derivative contracts:

Natural Gas	Volume	Pricing
Fixed Price Swap		
May 1, 2024 – December 31, 2026	5,000 MMBtu/d	NYMEX – HH $3.400/MMBtu

Eight Quarter Analysis

(*000s*) **Three months ended**	**Dec 31 2023**	**Sep 30 2023**	**Jun 30 2023**	**Mar 31 2023**	**Dec 31 2022**	**Sep 30 2022**	**Jun 30 2022**	**Mar 31 2022**
Revenue	$ 5,098	$ 5,285	$ 3,741	$ 5,189	$ 9,830	$ 19,151	$ 10,311	$ 5,925
Adjusted Funds Flow from Operations	777	1,071	(366)	1,745	3,059	8,273	3,590	2,234
Net earnings (loss)	(39,563)	(2,367)	(3,767)	(1,120)	1,749	6,567	2,838	(1,855)
Per share:								
Basic	(0.26)	(0.02)	(0.03)	(0.01)	0.01	0.05	0.03	(0.02)
Diluted	(0.26)	(0.02)	(0.03)	(0.01)	0.01	0.04	0.03	(0.02)

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

- Volatility in commodity prices and the resultant effect on revenue and net earnings (loss)
- On February 1, 2022, Southern disposed of its non-core SO CGU resulting in a gain on sale of $0.4 million
- Production from the initial three well appraisal program at Gwinville online at the end of Q2 2022
- On June 1, 2023, Southern acquired approximately 400 boe/d (99% natural gas) with the consolidation of the remaining producing acreage in the Gwinville Field
- On December 31, 2023, Southern recorded an impairment expense of $38.0 million for the CMS CGU

READER ADVISORIES

Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information

Certain statements and information contained within this MD&A may constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements include, without limitation, statements regarding the status of development or expenditures relating to Southern's business, the plans and intentions of Management, drilling and completion plans, plans to fund current activities, future operations, future strategic acquisitions and growth strategy, future oil and natural gas production estimates and weighting, Southern's future financial position, the resolution of adjusted working capital deficiencies, future corporate strategies and the success thereof, the availability and renewal of the Credit Facility and lending vehicles thereunder, the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and exchange rates, plans regarding Southern's capital programs and well drilling programs, expectations with respect to the four DUCs (including that they will be brought online and that overall net debt will decrease as Southern begins to bring the four DUCs online), projected costs, sources and uses of funding, future revenues, expectation that natural gas pricing will be significantly elevated from current levels in the second half of 2024 and plans to delay completion of the remaining three DUC wells until such time, estimated decommissioning obligations and expectations in respect thereof including that they will be funded through general corporate resources upon abandonment and anticipated settlement timing, reserve life index of 8 and 31 years for 2023 PDP and 2P reserves, respectively, plans and expected resolutions of title ownership issues in respect of royalty payables, expectations as to inflation and interest rates, expectations regarding commodity prices and global demand and supply for natural gas, forecasted operational results, capital expenditures and drilling plans and locations, expected cost savings resulting from the Gwinville Acquisition and subsequent consolidation of gathering systems including corresponding cost and fuel savings, intention to divert savings from operational synergies at the Gwinville site towards added sales volumes, eligibility of new wells drilled at Gwinville for the State of Mississippi's reduced severance tax relief program and implications thereof, planned capital expenditures, Southern's plans to further realize benefits from the Gwinville Acquisition including that the Company will continue to consolidate infrastructure, staff and services between assets to keep operating costs low to help offset the current inflationary environment for labour and equipment, the Company's intention to enhance production and reduce operating costs of the acquired assets in Gwinville, funding of the Recompletion Program, plans to provide results from Southern's work program within the full year operating results, the continued consolidation of infrastructure, staff and services between assets and benefits thereof including the reduction of operating costs in light of the current inflationary environment for labour and equipment. Forward-looking statements are often, but not always identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", "likely", "believe", "becoming", "positioned for", "forecast", "foresee", "intend", "continue", "target" or the negative of such terms or other comparable terminology. Statements relating to "reserves" are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Southern has made a number of assumptions in the preparation of these forward-looking statements including, without limitation, those regarding future commodity prices, future foreign exchange rates, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, the continued availability of capital and skilled personnel, drilling results, the ability to obtain financing on acceptable terms, the ability to comply with ongoing obligations under the Credit Facility and the Debentures and other sources of financing, allocation of capital resources, the business plan of Southern, including in respect of the assets acquired pursuant to the Gwinville Acquisition, and successful integration of recently acquired assets into the Company's operations, the Company's ability to execute its plans and strategies, the Company's ability to enter into future derivative contracts on acceptable terms, the impact of increasing competition within the resource market, the continuation of the current tax, royalty and regulatory regimes, the volatility in commodity prices, oil price differentials, actual prices received for the Company's products and the resulting effect on the Company's financial results, the Company's ability to obtain, retain and renew all requisite permits and licenses, the actions of OPEC and non-OPEC oil and gas exporting countries to set production levels and the influence thereof on oil prices and global demand, the impact of inflation on costs, and the evolving impact of pandemics and uncertainty regarding the full impact of pandemics on global economies and oil demand and commodity prices. Readers should not place undue reliance on forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, the material uncertainties and risks described under the headings "*Risk Management*" and "*Specified Financial Measures*", risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, uncertainty of reserves estimates, environmental impact risks, market demand, competition, inclement and severe weather events and natural disasters, including fire, drought and flooding and corresponding effects, commodity prices, interest rate and exchange rate volatility, credit risk, the need for additional capital and the effect of capital market conditions and other factors, changes in tax, royalty or environmental legislation, government regulation and policy generally, geo-political risks, political and economic instability both domestically and abroad, wars (including the Russo-Ukrainian war and the Israel-Hamas conflict), hostilities, civil insurrections, increased operating and capital costs due to inflationary pressures, the potential dilutive effects of any financing, the timing of exploration and development, the timing and costs of obtaining regulatory approvals, estimates regarding capital requirements and future revenues, the timing and amount of tax credits, adverse effects on general economic conditions in Canada, the U.S. and globally, including due to pandemics and other risks detailed from time to time in Southern's public disclosure documents. The Russo-Ukrainian war and the Israel-Hamas conflict are particularly noteworthy, as these conflicts have the potential to disrupt the global supply of oil and gas, and their full impact remains uncertain.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are beyond the control of the Company. Also to be considered, are increased levels of political uncertainty both domestically and abroad, and possible changes to existing international trading agreements and relationships. Legal challenges related to title and ownership issues, limitations to rights of access, and adequacy of pipelines or alternative methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of the Company are included in reports on file with applicable securities regulatory authorities, including but not limited to the AIF, which may be accessed on the Company's SEDAR+ profile at www.sedarplus.ca or on the Company's website at www.southernenergycorp.com.

This MD&A also contains future oriented financial information and financial outlook information (collectively, "FOFI") with respect to budgeted capital expenditures, revenue and the components thereof, expenses and cost estimates, natural gas pricing, royalty rates, balance sheet resiliency, net present value of cash flow from operations using a 7% discount rate, net debt, tax rates, payout of wells, and prospective results of operations and production, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "*Specified Financial Measures*".

The forward-looking statements and FOFI contained in this MD&A were approved by Management as of the date of this document and were provided for the purpose of providing further information about Southern's future business operations. Southern and its Management believe that forward-looking statements and FOFI have been prepared on a reasonable basis, reflecting Management's best estimates and judgments, and represent, to the best of Management's knowledge and opinion, the Company's expected course of action. However, because this information is highly subjective, it should not be relied on as necessarily indicative of future results. Southern disclaims any intention or obligation to update or revise any forward-looking statements or FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein. Changes in forecast commodity prices, differences in the timing of capital expenditures, and variances in average production estimates can have a significant impact on the key performance measures included in Southern's guidance. The Company's actual results may differ materially from these estimates.

Short Term Results

References in this MD&A to peak rates, production rates since inception, current production rates, IP30 and other short-term production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production of Southern. The Company cautions that such results should be considered to be preliminary.

Independent reserves evaluation

Estimates of the Company's reserves and related estimates of net present value of future net revenues as at December 31, 2023, are based upon reports prepared by Netherland, Sewell & Associates, Inc. ("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, unless otherwise noted. The estimates of reserves provided in this document are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided in this in this document, and the difference may be material. There are numerous uncertainties inherent in estimating quantities of crude oil, reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. There is no assurance that the forecast price and cost assumptions applied by NSAI in evaluating Southern's reserves will be attained and variances could be material. For important additional information regarding the independent reserves evaluation that was conducted by NSAI, please refer to the AIF, which is available on SEDAR+.

Certain oil and gas terms

Certain terms used in this MD&A that are not otherwise defined herein are provided below:

- 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 reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low

expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
- reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. 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.
- 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.

Significant Judgments and Estimates

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the Company's financial results. Significant judgments in the Financial Statements include going concern, financing arrangements, impairment indicators, asset acquisition and joint arrangements. Significant estimates in the Financial Statements include income taxes and deferred taxes, commitments, provision for future decommissioning obligations, exploration and evaluation assets and accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond Management's control and the effect on future consolidated financial statements from changes in such estimates could be significant.

Specified Financial Measures

This MD&A contains various specified financial measures, including non-IFRS financial measures, non-IFRS financial ratios and capital management measures. Management has incorporated certain specified financial measures commonly used in the oil and natural gas industry, such as "Adjusted Funds Flow From Operations," "Operating Netback," "Adjusted Working Capital," "Net Capital Expenditures" and "Positive Net Cash (Net Debt)". These terms are not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these specified financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The specified financial measures and their manner of reconciliation to IFRS financial measures are discussed below. These specified financial measures provide additional information that Management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities.

"Adjusted Funds Flow from Operations"

Adjusted funds flow from operations (non-IFRS financial measure) is calculated based on cash flow from operating activities before changes in non-cash adjusted working capital and cash decommissioning expenditures. Management uses adjusted funds flow from operations as a key measure to assess the ability of the Company to finance operating activities, capital expenditures and debt repayments. Adjusted funds flow from operations per share is calculated using the same weighted average basic and diluted shares that are used in calculating net earnings (loss) per share. The reconciliation between funds flow from operations and cash flow from operating activities, as defined by IFRS, is as follows:

	Three months ended December 31,		Year ended December 31,	
	2023	**2022**	**2023**	**2022**
Cash flow from operating activities	$ (70)	$ 4,262	$ 3,703	$ 18,603
Change in non-cash working capital	845	(1,253)	(521)	(1,524)
Cash decommissioning expenses	2	50	45	77
Adjusted Funds Flow from Operations	**$ 777**	**$ 3,059**	**$ 3,227**	**$ 17,156**

"Operating Netback"

Operating netback (non-IFRS financial measure) is calculated as oil and natural gas sales less royalties, production taxes, operating expenses, transportation costs and realized gain (loss) on derivatives. Operating netback may also be calculated on a per Mcfe basis and as a percentage of revenue. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices.

	Three months ended December 31,		Year ended December 31,	
	2023	**2022**	**2023**	**2022**
Petroleum and natural gas revenue	$ 5,098	$ 9,830	$ 19,313	$ 45,217
Royalties	(982)	(2,144)	(3,737)	(9,763)
Production taxes	(248)	(488)	(914)	(2,110)
Operating expenses	(1,524)	(1,165)	(5,521)	(4,336)
Transportation costs	(438)	(32)	(1,202)	(139)
Operating netback before derivatives	**$ 1,906**	**$ 6,001**	**$ 7,939**	**$ 28,869**
Realized gain (loss) on derivatives	174	(1,469)	317	(7,238)
Operating netback	**$ 2,080**	**$ 4,532**	**$ 8,256**	**$ 21,631**

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

The below tables outline Southern's calculation of adjusted working capital and positive net cash (net debt). Management monitors adjusted working capital (capital management measure) and positive net cash (net debt) (capital management measure) as part of its capital structure in order to fund current operations and future growth of the Company.

	As at December 31, 2023	As at December 31, 2022	As at December 31, 2021
Current assets	$ 7,357	$ 37,638	$ 12,622
Current liabilities	(19,881)	(17,433)	(9,790)
Remove:			
Current derivative assets	(1,022)	(17)	(46)
Current portion of lease liabilities	121	107	128
Current portion of long-term debt	4,657	1,106	1,183
Current derivative liabilities	10	-	632
Current portion of convertible debentures	3,196	-	-
Adjusted working capital (deficiency)	**$ (5,562)**	**$ 21,401**	**$ 4,729**

	As at December 31, 2023	As at December 31, 2022	As at December 31, 2021
Long-term debt	$ (17,864)	$ (4,800)	$ (4,543)
Convertible debentures – face value	(3,241)	(3,164)	(6,617)
Adjusted working capital (deficiency)	(5,562)	21,401	4,729
Positive net cash (net debt)	**$ (26,667)**	**$ 13,437**	**$ (6,431)**

"Net Capital Expenditures"

Southern uses "Net Capital Expenditures" (capital management measure) to measure its capital investment level compared to the Company's annual budgeted capital expenditures after dispositions. "Net Capital Expenditures" is calculated by subtracting proceeds from dispositions from capital expenditure costs. The directly comparable IFRS measure is net cash (used) provided by investing activities. The following table details the composition of capital expenditures and its reconciliation to cash used in investing activities:

	Three months ended December 31, 2023	2022	Year ended December 31, 2023	2022
Net cash used by investing activities	$ 2,467	$ 11,288	$ 43,341	$ 29,084
Change in non-cash working capital	745	(1,070)	1,789	591
Net Capital Expenditures	**$ 3,212**	**$ 10,218**	**$ 45,130**	**$ 29,675**

Abbreviations

2P	proved plus probable reserves
bbl	barrels
bbl/d	barrels per day
boe	barrels of oil
boe/d	barrels of oil equivalent per day
Gas	natural gas
IP30	average hydrocarbon production rate for the first 30 days of a well's life
LLS	Louisiana Light Sweet

Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet equivalent
Mcfe/d	thousand cubic feet equivalent per day
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
NGLs	natural gas liquids
NYMEX – HH	New York Mercantile Exchange – Henry Hub
PDP	proved developed producing reserves
WTI	West Texas Intermediate

Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

Natural gas liquids volumes are recorded in barrels of oil ("bbl") and are converted to a thousand cubic feet equivalent ("Mcfe") using a ratio of six (6) thousand cubic feet to one (1) barrel of oil. Natural gas volumes recorded in thousand cubic feet ("Mcf") are converted to barrels of oil equivalent ("boe") using the ratio of six (6) thousand cubic feet to one (1) barrel of oil. Mcfe and boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf may be misleading as an indication of value.

Additional Information

Additional information about the Company can be obtained by contacting the Company at Suite 2400, 333 7th Avenue SW, Calgary, Alberta T2P 2Z1 or by email at info@southernenergycorp.com. Additional information, including the Company's audited financial statements for the years ended December 31, 2023 and 2022, and the AIF, are also available on SEDAR+ at www.sedarplus.ca or online at www.southernenergycorp.com.