Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2024 and 2023

(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 unaudited condensed interim consolidated financial statements for the three months ended March 31, 2024 and 2023 (the “Financial Statements”), which have been prepared in accordance with IAS 34 – *Interim Financial Reporting* of the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

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

This MD&A is dated May 28, 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.

FIRST QUARTER HIGHLIGHTS

- Average production of 18,055 Mcfe/d (3,009 boe/d) (96% natural gas) during Q1 2024, an increase of 15% from the same period in 2023 (see "*Production Summary*" below for a breakdown by product type)

- Petroleum and natural gas sales of $4.8 million in Q1 2024, a decrease of 8% compared to the same period in 2023, largely due to the decline in natural gas pricing

- Generated $2.2 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q1 2024 ($0.01 per share - basic and fully diluted)

- Net loss of $3.1 million in Q1 2024 ($0.02 net loss per share - basic and fully diluted), compared to a net loss of $1.1 million in Q1 2023

- Average realized natural gas and oil prices for Q1 2024 of $2.53/Mcf and $74.86/bbl compared to $3.25/Mcf and $75.73/bbl in Q1 2023

- 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)

- Monetized the Company's fixed price swap derivative contracts to take advantage of the positive unrealized gain position, realizing net proceeds of $1.1 million

SUBSEQUENT EVENTS

- 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

(000s, except $ per share)	Three months ended March 31, 2024	2023
Petroleum and natural gas sales	$ 4,794	$ 5,189
Net loss	(3,121)	(1,120)
Net loss per share		
Basic	(0.02)	(0.01)
Fully diluted	(0.02)	(0.01)
Adjusted funds flow from operations (1)	2,162	1,745
Adjusted funds flow from operations per share (1)		
Basic	0.01	0.01
Fully diluted	0.01	0.01
Capital expenditures	269	34,892
Weighted average shares outstanding		
Basic	166,480	138,591
Fully diluted	166,480	138,591
As at period end		
Basic Common Shares outstanding	166,497	139,010
Total assets	61,865	108,609
Non-current liabilities	24,341	14,543
Net debt (1)	$ (25,274)	$ (19,731)

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

Operations Update

Production in Q1 2024 was positively impacted by bringing online the first of its four drilled but uncompleted wells ("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, with declines in the quarter in-line with pre-drill expectations.

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

In response to the low natural gas prices experienced in Q1 2024, Southern has been actively reducing and optimizing both operating costs and maintenance capital to maximize its field netbacks. The Company expects to continue these initiatives throughout 2024.

Production Summary

	Three months ended March 31,	
	2024	**2023**
Daily production from operations		
Oil (bbl/d)	112	114
NGLs (bbl/d)	9	13
Natural gas (Mcf/d)	17,329	14,881
Total Production (Mcfe/d)	**18,055**	**15,643**
Total production (boe/d)	**3,009**	**2,607**
Percentage of natural gas	**96%**	**95%**

Production averaged 18,055 Mcfe/d in Q1 2024, which was an increase of 15% from the same period in 2023. The increase compared to Q1 2023 was primarily due to the GH 14-06 #3 well coming online in late Q4 2023.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended March 31,	
(000s)	**2024**	**2023**
Oil	$ 763	$ 777
NGLs	38	55
Natural gas	3,993	4,357
Total revenue	**$ 4,794**	**$ 5,189**

Realized commodity prices

	Three months ended March 31,	
	2024	**2023**
Oil ($/bbl)	$ 74.86	$ 75.73
NGLs ($/bbl)	46.40	47.01
Natural gas ($/Mcf)	2.53	3.25
Combined ($/Mcfe)	**$ 2.92**	**$ 3.69**
Benchmark prices		
Crude oil – LLS ($/bbl)	$ 79.54	$ 78.90
Crude oil – WTI ($/bbl)	76.96	76.13
Natural gas – NYMEX HH ($/MMBtu)	2.24	3.42

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

In Q1 2024, Southern realized an oil price of $74.86/bbl which was a decrease of 1% from the same period in 2023.

Southern realized a natural gas price of $2.53/Mcf in Q1 2024, a 22% decrease from Q1 2023. Natural gas production volumes in the U.S. have fallen from 2023 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 realized a $0.29/MCF premium to NYMEX HH benchmark pricing in Q1 2024 due to the strategic sales points that the Company sells its natural gas into.

Royalties

	Three months ended March 31,	
(000s)	**2024**	**2023**
Oil	$ 156	$ 154
NGLs	7	10
Natural gas	781	896
Total royalties	**$ 944**	**$ 1,060**
Royalties as a % of revenue	**19.7%**	**20.4%**

Royalty expenses were $0.9 million in Q1 2024, a decrease of 11%, from the same period in 2023. The decrease was due to lower NYMEX HH and LLS prices. Southern expects royalties as a percentage of revenue to remain around 20% for 2024 as royalty agreements are based on fixed royalty rates.

Production, Operating and Transportation Expenses

	Three months ended March 31,	
(000s)	**2024**	**2023**
Operating expenses	$ 1,470	$ 1,162
Production taxes	182	251
Transportation expense	394	61
Total production, operating and transportation	**$ 2,046**	**$ 1,474**

Operating expenses were $1.5 million ($0.89/Mcfe) in Q1 2024, which were an increase of 27% on a dollar basis and an increase of $0.06/Mcfe compared to the same period in 2023. The increase in operating expenses is a result of the asset acquisition in Gwinville (the "Gwinville Acquisition"), which closed in June 2023. 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. Southern continues to focus on optimizing certain fields and utilizing company owned equipment where possible to keep operating costs low.

Production taxes were $0.2 million for the three months ended March 31, 2024. 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 three 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 ($0.24/Mcfe) in Q1 2024 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 recover 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 March 31,	
($/Mcfe)	**2024**	**2023**
Petroleum and natural gas revenue	$ 2.92	$ 3.69
Royalties	(0.57)	(0.75)
Production taxes	(0.11)	(0.18)
Operating expenses	(0.89)	(0.83)
Transportation costs	(0.24)	(0.04)
Operating netbacks per Mcfe before derivatives [(1)]	**$ 1.11**	**$ 1.89**
Realized gain on derivatives	1.88	0.06
Operating netback per Mcfe [(1)]	**$ 2.99**	**$ 1.95**
Operating netback % of revenue [(1)]	**102%**	**53%**

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

Southern's operating netbacks increased by 53% for the three months ended March 31, 2024, compared to the same periods in 2023. The increase was driven primarily from the monetization of the fixed price swap derivative contracts to take advantage of the positive unrealized gain position, partially offset by lower natural gas prices.

General & Administrative and Transaction Costs

	Three months ended March 31,	
(000s)	**2024**	**2023**
General and administrative	$ 952	$ 950
Transaction costs	-	198
Total	**$ 952**	**$ 1,148**
General and administrative costs per Mcfe	**$ 0.58**	**$ 0.67**

General and administrative costs were $1.0 million in Q1 2024, flat compared to the same periods in 2023.

Transaction costs of $0.2 million in 2023 are related to a transaction contemplated by Southern that was not completed.

Finance Expense

	Three months ended March 31,	
(000s)	**2024**	**2023**
Credit facility interest	$ 597	$ 201
Convertible debenture interest	63	63
Interest income	(9)	(152)
Lease interest	3	7
Accretion	139	143
Total finance expense	**$ 793**	**$ 262**
Finance expense per Mcfe	**$ 0.48**	**$ 0.19**

Finance expenses were 203% higher for the three months ended March 31, 2024, compared to the same period in 2023. The increase in 2024 is due to higher interest expenses as the Credit Facility was utilized to fund a portion of the capital program. With the Sixth Amendment to the Credit Facility, executed on February 28, 2024, the fixed per annum coupon increased from 12% to 15% per annum.

Share-based Compensation

Southern recorded share-based compensation of $63 thousand in Q1 2024, compared to $140 thousand in the same period in 2023, primarily related to the issuance of stock options and restricted share awards in 2023. For more information, see "*Shareholders' Equity – Share Award Incentive Plan*".

Depletion, Depreciation and Amortization

	Three months ended March 31,	
(000s)	**2024**	**2023**
Depletion	$ 2,041	$ 2,295
Depreciation	39	41
Total depletion, depreciation and amortization	**$ 2,080**	**$ 2,336**
DD&A expense per Mcfe	**$ 1.27**	**$ 1.66**

Depletion expense was $2.0 million ($1.24/Mcfe) in Q1 2024, a decrease of 11% on a dollar basis and 24% on a per Mcfe basis, compared to Q1 2023 ($1.63/Mcfe). The decrease is primarily due to the impairment charge recorded in Q4 2023, partially offset by higher production volumes in Q1 2024.

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

Impairment and Impairment Recovery

At March 31, 2024, Southern did not identify any indicators of impairment or impairment recovery for any of its cash generating units ("CGUs").

Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended March 31,	
(000s)	**2024**	**2023**
Land, acquisitions and lease rentals	$ -	$ 87
Drilling and completions	403	26,824
Geological and geophysical	-	-
Facilities, equipment and pipelines	(139)	7,964
Other	5	17
Net capital expenditures (1)	**$ 269**	**$ 34,892**

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

Capital expenditures of $269 thousand for the three months ended March 31, 2024 were primarily related to the completion of the GH 14-06 #3 well in the Gwinville field.

Shareholders' Equity

Share Capital

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

The following table reflects the Company's outstanding Common Shares as at March 31, 2024 and December 31, 2023:

	Number of Shares	**Share Capital**
Balance as at December 31, 2023	165,718,160	$ 79,764
Issuance of Common Shares to settle convertible debenture interest	779,273	129
Balance as at March 31, 2024	**166,497,433**	**$ 79,893**

Warrants

In connection with the fifth amendment of the Credit Facility, 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.

Stock Option Plan

The following table reflects the Company's outstanding options to purchase Common Shares at March 31, 2024 and December 31, 2023:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2023	7,114,375	$ 0.86
Balance at March 31, 2024	**7,114,375**	**$ 0.86**

The following table summarizes information regarding stock options outstanding at March 31, 2024:

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**	**2.4**	**$0.86**	**5,846**	**$0.83**

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 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").

	March 31, 2024	December 31, 2023	March 31, 2023
Long-term debt	$ (17,449)	$ (17,864)	$ (6,466)
Convertible debentures – face value	(3,163)	(3,241)	(3,167)
Adjusted working capital deficiency	(4,662)	(5,562)	(10,098)
Net debt	**$ (25,274)**	**$ (26,667)**	**$ (19,731)**

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

As at March 31, 2024, Southern had adjusted working capital deficiency (see "*Reader Advisories – Specified Financial Measures"*) of $4.7 million. Included in the adjusted working capital deficiency is $6.5 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 6,700 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 $25.3 million as at March 31, 2024. This compares to a net debt balance of $26.7 million as at December 31, 2023. The decrease in net debt during the first three months of 2024 was expected as Southern brought the first DUC online at the end of December 2023. 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 March 31, 2024. 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 March 31, 2024, Southern had $17.4 million drawn on the Credit Facility and $10.0 million available from Tranche B.

Effective February 28, 2024, Southern entered into the sixth amendment to the Credit Facility. The Sixth Amendment included an extension of the maturity of the Credit Facility to December 31, 2026, reset the DSCR (as defined below) covenant calculation to an annualized basis beginning in Q1 2024, reduced the repayments based on a FCF grid (as described below) and increased the fixed per annum coupon from 12% to 15% per annum. The amendment also paused the monthly repayment of the principal amount outstanding (as described below) for the period from February 1, 2024 to September 30, 2024. The Sixth Amendment was accounted for as a debt modification under IFRS 9, resulting in a non-cash loss of $1.3 million in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss at March 31, 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% 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%. 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 March 31, 2024 and December 31, 2023:

Financial covenant	**Limit**	**As at Mar 31, 2024**	**As at Dec 31, 2023**
Asset Coverage ratio	Minimum 2.00	2.24	2.48
Debt Service Coverage ratio	Minimum 1.25	2.09	0.43

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.

On December 19, 2023, Southern obtained a waiver for the DSCR for the fiscal quarter ending December 31, 2023.

As at March 31, 2024, Southern was in compliance with the above covenants.

Debenture Financing

As at March 31, 2024, 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. The Debentures have a maturity date of June 30, 2024.

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 was 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 March 31, 2024:

	Total	2024	2025	2026	Thereafter
Long-term debt[1]	$ 17,449	$ 1,337	$ 4,028	$ 12,084	$ -
Convertible debentures[2]	3,163	3,163	-	-	-
Lease obligations[3]	91	91	-	-	-
Total	**$ 20,703**	**$ 4,591**	**$ 4,028**	**$ 12,084**	**$ -**

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 Loss and Comprehensive Loss in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2024:

Natural Gas	Volume	Pricing
Costless Collar		
November 1, 2024 – March 31, 2025	1,000 MMBtu/d	NYMEX – HH \$3.50 - \$5.20/MMBtu

In Q1 2024, Southern monetized the fixed price swap derivative contracts to take advantage of the positive unrealized gain position, realizing net proceeds of \$1.1 million.

Subsequent to March 31, 2024, 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**	**Mar 31 2024**	**Dec 31 2023**	**Sep 30 2023**	**Jun 30 2023**	**Mar 31 2023**	**Dec 31 2022**	**Sep 30 2022**	**Jun 30 2022**
Revenue	\$ 4,794	\$ 5,098	\$ 5,285	\$ 3,741	\$ 5,189	\$ 9,830	\$ 19,151	\$ 10,311
Adjusted Funds Flow from Operations	2,162	777	1,071	(366)	1,745	3,059	8,273	3,590
Net earnings (loss)	(3,121)	(39,563)	(2,367)	(3,767)	(1,120)	1,749	6,567	2,838
Per share:								
Basic	(0.02)	(0.26)	(0.02)	(0.03)	(0.01)	0.01	0.05	0.03
Diluted	(0.02)	(0.26)	(0.02)	(0.03)	(0.01)	0.01	0.04	0.03

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).
- 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.
- In Q1 2024, Southern monetized the fixed price swap derivative contracts to take advantage of the positive unrealized gain position, realizing net proceeds of \$1.1 million.
- In Q1 2024, Southern recorded a non-cash loss on debt modification of \$1.3 million as a result of the Sixth Amendment

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, future corporate strategies and the success thereof, the availability 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 three DUCs including the timing and funding thereof, Southern's plans to complete two DUCs towards the end of 2024 dependent on natural gas prices and a minimal maintenance capital program, Southern's continued focus on optimizing certain fields and utilizing company owned equipment where possible, Southern's beliefs surrounding the ongoing dispute around transportation fees being charged by a third party midstream company (including in respect of fee recovery), Southern's ability to reduce debt (including through equity financing, non-core asset sales or sale of excess equipment inventory), 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, 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, 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, the Company's intention to enhance production and reduce operating costs of the acquired assets in Gwinville, 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, 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, field netbacks, natural gas pricing, royalty rates and royalties as a percentage of revenue, capital program, balance sheet arrangements and resiliency, net present value, cash flow from operations, capital expenditures, 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.

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 "Net Debt". These terms are not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these specified financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The specified financial measures and their manner of reconciliation to IFRS financial measures are discussed below. These specified financial measures provide additional information that Management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities.

"Adjusted Funds Flow from Operations"

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

	Three months ended,		
	March 31, 2024	**December 31, 2023**	**March 31, 2023**
Cash flow from operating activities	$ 2,531	$ (70)	$ 3,464
Change in non-cash working capital	(369)	845	(1,719)
Cash decommissioning expenses	-	2	-
Adjusted Funds Flow from Operations	**$ 2,162**	**$ 777**	**$ 1,745**

"Operating Netback"

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

	Three months ended March 31, 2024	2023
Revenue	$ 4,794	$ 5,189
Royalties	(944)	(1,060)
Production taxes	(182)	(251)
Operating expenses	(1,470)	(1,162)
Transportation costs	(394)	(61)
Operating netback before derivatives	**$ 1,804**	**$ 2,655**
Realized gain on derivatives	1,288	87
Operating netback	**$ 3,092**	**$ 2,742**

"Adjusted Working Capital" and "Net Debt"

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

	As at March 31, 2024	**As at December 31, 2023**	**As at March 31, 2023**
Current assets	$ 4,540	$ 7,357	$ 15,476
Current liabilities	(14,711)	(19,881)	(27,352)
Remove:			
Current derivative assets	(86)	(1,022)	(33)
Current portion of lease liabilities	87	121	104
Current portion of long-term debt	2,344	4,657	1,703
Current derivative liabilities	23	10	4
Current portion of convertible debentures	3,141	3,196	-
Adjusted working capital deficiency	**$ (4,662)**	**$ (5,562)**	**$ (10,098)**

	As at March 31, 2024	**As at December 31, 2023**	**As at March 31, 2023**
Long-term debt	$ (17,449)	$ (17,864)	$ (6,466)
Convertible debentures – face value	(3,163)	(3,241)	(3,167)
Adjusted working capital deficiency	(4,662)	(5,562)	(10,098)
Net debt	**$ (25,274)**	**$ (26,667)**	**$ (19,731)**

"Net Capital Expenditures"

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

	Three months ended March 31,	
	2024	**2023**
Net cash used by investing activities	$ 2,648	$ 21,597
Change in non-cash working capital	(2,379)	13,295
Net Capital Expenditures	**$ 269**	**$ 34,892**

Abbreviations

bbl	barrels
bbl/d	barrels per day
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet equivalent
Mcfe/d	thousand cubic feet equivalent per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
boe	barrels of oil
boe/d	barrels of oil equivalent per day
NGLs	natural gas liquids
Gas	natural gas
IP30	average hydrocarbon production rate for the first 30 days of a well's life
NYMEX – HH	New York Mercantile Exchange – Henry Hub
WTI	West Texas Intermediate
LLS	Louisiana Light Sweet

Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

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

Additional Information

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