

Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three and six months ended June 30, 2024 and 2023

(U.S. Dollars)

Southern Energy Corp

Management's Discussion and Analysis

For the three and six months ended June 30, 2024 and 2023



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 and six months ended June 30, 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 August 20, 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. 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.

SECOND QUARTER HIGHLIGHTS

- Petroleum and natural gas sales of \$3.9 million in Q2 2024, an increase of 4% compared to the same period in 2023
- Average production of 15,465 Mcfe/d (2,578 boe/d) (95% natural gas) during Q2 2024, a decrease of 3% from the same period in 2023 (see *"Production Summary"* below for a breakdown by product type)
- Generated \$0.8 million of Adjusted Funds Flow from Operations (see *"Reader Advisories – Specified Financial Measures"*) in Q2 2024 (\$0.00 per share - basic and fully diluted)
- Net loss of \$2.6 million in Q2 2024 (\$0.02 net loss per share - basic and fully diluted), compared to a net loss of \$3.8 million in Q2 2023
- Average realized natural gas and oil prices for Q2 2024 of \$2.26/Mcf and \$80.06/bbl compared to \$2.18/Mcf and \$72.83/bbl in Q2 2023
- 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
- Monetized excess inventory equipment in Q2 2024 for net proceeds of \$1.4 million
- Extended the maturity of the existing convertible debentures one year to June 30, 2025 (see *"Liquidity and Capital Resources – Debenture Financing"* for more details)

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Summary of Financial Information

<i>(000s, except \$ per share)</i>	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Petroleum and natural gas sales	\$ 3,889	\$ 3,741	\$ 8,683	\$ 8,930
Net loss	(2,622)	(3,767)	(5,743)	(4,887)
Net loss per share				
Basic	(0.02)	(0.03)	(0.03)	(0.04)
Fully diluted	(0.02)	(0.03)	(0.03)	(0.04)
Adjusted funds flow from operations ⁽¹⁾	770	(366)	2,932	1,379
Adjusted funds flow from operations per share ⁽¹⁾				
Basic	0.00	(0.00)	0.02	0.01
Fully diluted	0.00	(0.00)	0.02	0.01
Capital expenditures and acquisitions	60	5,292	329	40,184
Weighted average shares outstanding				
Basic	166,497	139,039	166,489	138,816
Fully diluted	166,497	139,039	166,489	138,816
As at period end				
Basic common shares outstanding	166,497	139,041	166,497	139,041
Total assets	59,269	104,075	59,269	104,075
Non-current liabilities	23,805	20,961	23,805	20,961
Net debt ⁽¹⁾	\$ (24,159)	\$ (26,158)	\$ (24,159)	\$ (26,158)

Notes:

(1) See "Reader Advisories – Specified Financial Measures"

Operations Update

Southern continues to evaluate the timing of bringing the remaining three drilled but uncompleted wells ("DUCs") into production, with one completion expected in Q4 2024, followed by two completions in the first half of 2025. The remaining three DUC wellbores have been drilled in the Lower Selma Chalk (2) and City Bank formations.

In response to continued low natural gas prices, 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 but will undertake some low-cost well workovers and recompletions in Q3 2024 to be funded out of Adjusted Funds Flow from Operations.

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Production Summary

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Average daily production from operations				
Oil (bbl/d)	112	102	112	108
NGLs (bbl/d)	9	14	9	14
Natural gas (Mcf/d)	14,739	15,211	16,034	15,047
Total production (Mcf/d)	15,465	15,907	16,760	15,779
Total production (boe/d)	2,578	2,651	2,793	2,630
Percentage of natural gas	95%	96%	96%	95%

Production averaged 15,465 Mcfe/d in Q2 2024 and 16,760 Mcfe/d for the first six months of 2024, a decrease of 3% and an increase of 6% respectively, from the same periods in 2023. The increase compared to the first six months of 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Oil	\$ 816	\$ 676	\$ 1,579	\$ 1,453
NGLs	37	48	75	103
Natural gas	3,036	3,017	7,029	7,374
Total revenue	\$ 3,889	\$ 3,741	\$ 8,683	\$ 8,930

Realized commodity prices

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Oil (\$/bbl)	\$ 80.06	\$ 72.83	\$ 77.46	\$ 74.33
NGLs (\$/bbl)	45.18	37.68	45.79	40.65
Natural gas (\$/Mcf)	2.26	2.18	2.41	2.71
Combined (\$/Mcf)	\$ 2.76	\$ 2.58	\$ 2.85	\$ 3.13
Benchmark prices				
Crude oil – LLS (\$/bbl)	\$ 83.46	\$ 75.91	\$ 81.50	\$ 77.41
Crude oil – WTI (\$/bbl)	80.57	73.79	78.77	74.96
Natural gas – NYMEX HH (\$/MMBtu)	\$ 1.89	\$ 2.10	\$ 2.07	\$ 2.76

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.

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In Q2 2024, Southern realized an oil price of \$80.06/bbl which was an increase of 10% from the same period in 2023. For the first half of 2024, Southern's realized oil price increased 4% compared to the same period in 2023.

Southern realized a price of \$2.26/Mcf in Q2 2024, a 4% increase from Q2 2023. During the first half of 2024, Southern realized a price of \$2.41/Mcf, a 11% decrease from the same period in 2023. Natural gas prices remain under pressure due to storage levels remaining materially above the five-year average. Southern realized a \$0.37/Mcf premium (~20% basis premium) to NYMEX HH benchmark pricing in Q2 2024 due to the strategic sales points that the Company sells its natural gas into.

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Oil	\$ 168	\$ 135	\$ 324	\$ 289
NGLs	7	8	14	18
Natural gas	614	506	1,395	1,402
Total royalties	\$ 789	\$ 649	\$ 1,733	\$ 1,709
Royalties as a % of revenue	20.3%	17.3%	20.0%	19.1%

Royalties were \$0.8 million in Q2 2024, an increase of 22% from the same period in 2023, and \$1.7 million for the first six months of 2024, which was relatively flat from the same period in 2023. The increase was due to higher 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Operating expenses	\$ 1,275	\$ 1,324	\$ 2,745	\$ 2,486
Production taxes	170	167	352	418
Transportation expense	375	296	769	357
Total production, operating and transportation	\$ 1,820	\$ 1,787	\$ 3,866	\$ 3,261

Operating expenses were \$1.3 million (\$0.91/Mcfe) in Q2 2024, which were a decrease of 4% on a dollar basis and flat on a per Mcfe basis compared to the same period in 2023. For the first half of 2024, operating expenses were \$2.7 million (\$0.90/Mcfe), which were 10% higher on a dollar basis but only \$0.03/Mcfe higher 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 and 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.

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Production taxes were \$0.2 million and \$0.4 million for the three and six months ended June 30, 2024, 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 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 (\$0.27/Mcfe) in Q2 2024 and \$0.4 million (\$0.25/Mcfe) in the first six months of 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(\$/Mcfe)</i>				
Petroleum and natural gas revenue	\$ 2.76	\$ 2.58	\$ 2.85	\$ 3.13
Royalties	(0.56)	(0.45)	(0.57)	(0.60)
Production taxes	(0.12)	(0.12)	(0.12)	(0.15)
Operating expenses	(0.91)	(0.91)	(0.90)	(0.87)
Transportation costs	(0.27)	(0.20)	(0.25)	(0.13)
Operating netback per Mcfe before derivatives ⁽¹⁾	\$ 0.90	\$ 0.90	\$ 1.01	\$ 1.38
Realized gain on derivatives	0.38	0.02	0.60	0.04
Operating netback per Mcfe ⁽¹⁾	\$ 1.28	\$ 0.92	\$ 1.61	\$ 1.42
Operating netback % of revenue ⁽¹⁾	46%	36%	56%	45%

Note:

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

Southern's operating netbacks increased by 39% for the three months ended June 30, 2024 and 13% for the first half of 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 and the fixed price swap contract entered into beginning May 2024 (see "Risk Management – Commodity Derivative Contracts" below for more information), partially offset by higher transportation expenses.

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General & Administrative and Transaction Costs

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
General and administrative	\$ 1,054	\$ 1,713	\$ 2,006	\$ 2,663
Transaction costs	-	1	-	199
Total	\$ 1,054	\$ 1,714	\$ 2,006	\$ 2,862
General and administrative per Mcfe	\$ 0.75	\$ 1.18	\$ 0.66	\$ 0.93

General and administrative costs were \$1.1 million in Q2 2024 and \$2.0 million for the first six months of 2024, a decrease of 39% and 30%, respectively, from the same periods in 2023. The decrease in 2024 is primarily due to expenses of \$0.5 million related to a 2022 employee bonus program that were incurred 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Credit facility interest	\$ 671	\$ 370	\$ 1,268	\$ 571
Convertible debenture interest	63	63	126	126
Interest Income	(10)	(22)	(19)	(174)
Lease interest	3	6	6	13
Accretion	33	166	172	309
Total finance expense	\$ 760	\$ 583	\$ 1,553	\$ 845
Finance expense per Mcfe	\$ 0.54	\$ 0.40	\$ 0.51	\$ 0.30

Finance expenses were higher for the three and six months ended June 30, 2024, compared to the same periods in 2023. The increase in 2024 is due to higher interest expenses as the senior secured term loan ("Credit Facility") was utilized to fund a portion of the capital program. With the Sixth Amendment to the Credit Facility, which was 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 \$0.2 million for the three and six months ended June 30, 2024, respectively, compared to \$0.4 million and \$0.5 million in the same periods in 2023. The decrease is primarily related to lower stock option expenses in 2024 related to the September 2022 stock option grant. For more information, see "Shareholders' Equity – Share Award Incentive Plan".

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Depletion, Depreciation and Amortization

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
(000s)				
Depletion	\$ 1,733	\$ 2,320	\$ 3,774	\$ 4,615
Depreciation	41	47	80	88
Total depletion, depreciation and amortization	\$ 1,774	\$ 2,367	\$ 3,854	\$ 4,703
DD&A expense per Mcfe	\$ 1.26	\$ 1.64	\$ 1.26	\$ 1.65

Depletion expense was \$1.7 million (\$1.23/Mcfe) in Q2 2024, a decrease of 25% on a dollar basis and 23% on a per Mcfe basis, compared to Q2 2023 (\$1.60/Mcfe). Depletion expense for the first half of 2024 was \$3.8 million (\$1.24/Mcfe) which was 18% lower on a dollar basis and 23% on a per Mcfe basis compared to the same periods in 2023. The decrease is primarily due to the impairment charge recorded in Q4 2023.

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

Impairment and Impairment Recovery

At June 30, 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
(000s)				
Land, acquisitions and lease rentals	\$ -	\$ 3,354	\$ -	\$ 3,441
Drilling and completions	12	19	415	26,843
Geological and geophysical	-	-	-	-
Facilities, equipment and pipelines	48	1,894	(91)	9,858
Other	-	25	5	42
Capital expenditures, before Dispositions	60	5,292	329	40,184
Dispositions	(1,360)	-	(1,360)	-
Net capital expenditures ⁽¹⁾	\$ (1,300)	\$ 5,292	\$ (1,031)	\$ 40,184

Note:

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

Capital expenditures of \$0.3 million for the first half of 2024 were primarily related to the completion of the GH 14-06 #3 well in the Gwinville field.

In Q2 2024 Southern sold excess equipment for net proceeds of \$1.4 million.

On June 1, 2023, Southern closed the Gwinville 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.

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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 June 30, 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	128
Balance as at June 30, 2024	166,497,433	\$ 79,892

On January 2, 2024, the December 31, 2023 accrued interest payment 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.

On July 2, 2024, the June 30, 2024 accrued interest payment was settled in-kind through the issuance of 745,391 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 June 30, 2024.

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 ("Bonus 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 June 30, 2024 and December 31, 2023:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2023	7,114,375	\$ 0.86
Expired	(2,200,000)	\$ 0.80
Balance at June 30, 2024	4,914,375	\$ 0.89

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The following table summarizes information regarding stock options outstanding at June 30, 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	4,914	3.0	\$0.89	3,816	\$0.85

Subsequent to June 30, 2024, Southern issued 3,102,500 stock options as part of the overall compensation and employee retention program.

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 potentially completing one DUC towards the end of 2024, dependent on natural gas prices, and a minimal maintenance capital program. The completion of the DUC would be funded primarily through 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").

	June 30, 2024	December 31, 2023	June 30, 2023
Long-term debt	\$ (17,119)	\$ (17,864)	\$ (16,966)
Convertible debentures – face value	(3,131)	(3,241)	(3,237)
Adjusted working capital deficiency	(3,909)	(5,562)	(5,955)
Net debt	\$ (24,159)	\$ (26,667)	\$ (26,158)

Note:

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

As at June 30, 2024, Southern had adjusted working capital deficiency (see "Reader Advisories – Specified Financial Measures") of \$3.9 million. Included in the adjusted working capital deficiency is \$6.3 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

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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 \$24.2 million as of June 30, 2024. This compares to a net debt balance of \$26.7 million as at December 31, 2023. The \$2.5 million decrease in net debt during the first half of 2024 was due to excess equipment inventory dispositions, monetization of the fixed price swap in Q1 2024 and bringing the first DUC online at the end of December 2023. Southern could further reduce net debt through equity financing, non-core asset sales, or additional sales of excess equipment inventory.

Credit Facility

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at June 30, 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 June 30, 2024, Southern had \$17.1 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 debt service coverage ratio ("DSCR") (as defined below) covenant calculation to an annualized basis beginning in Q1 2024, reduced the repayments based on a free cash flow ("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 June 30, 2024.

Quarterly positive 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%.

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.

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Below are the financial covenant calculations for the Credit Facility for June 30, 2024 and December 31, 2023:

Financial covenant	Limit	As at	As at
		Jun 30, 2024	Dec 31, 2023
Asset Coverage ratio	Minimum 2.00	2.12	2.48
Debt Service Coverage ratio	Minimum 1.25	1.42	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 DSCR of greater than 1.25:1 is the ratio of EBITDAX to scheduled principal payments and interest expense.

As at June 30, 2024, Southern was in compliance with the above covenants.

Debenture Financing

On June 26, 2024, Southern amended its outstanding convertible unsecured subordinated debentures ("Debentures") to extend the maturity date of the 4,286 outstanding Debentures by one year to June 30, 2025, and increase the interest on the Debentures from 8.00% to 10.00% per annum commencing on June 30, 2024 pursuant to a second supplemental debenture indenture.

In connection with the second supplemental debenture indenture the Company issued a total of 1,863,478 Common Share purchase warrants ("Warrants") to the holders of the Debentures ("Debentureholders") for no additional consideration, with each Warrant entitling the Debentureholder to purchase one Common Share of the Company at a price of CAD\$0.25 for a period of 12 months from the date of issuance. The Warrants, and any Common Shares issued upon the exercise of the Warrants, are subject to a statutory four month and one day hold period from the date of issuance.

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 June 30, 2024:

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	Total	2024	2025	2026	2027	Thereafter
Long-term debt ⁽¹⁾	\$ 17,119	\$ 1,007	\$ 4,028	\$ 12,084	\$ -	\$ -
Convertible debentures ⁽²⁾	3,131	-	3,131	-	-	-
Lease obligations ⁽³⁾	576	58	93	174	174	77
Total	\$ 20,826	\$ 1,065	\$ 7,252	\$ 12,258	\$ 174	\$ 77

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, 2025.
- (3) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16.

On May 27, 2024, Southern entered into a new office space lease for a term of three years, with the option for one extension period for an additional three years. The new lease commences on December 1, 2024, the day after the current office lease expires.

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.

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Southern had the following commodity derivative contracts in place as at June 30, 2024:

Natural Gas	Volume	Pricing
<i>Costless Collar</i>		
November 1, 2024 – March 31, 2025	1,000 MMBtu/d	NYMEX – HH \$3.50 - \$5.20/MMBtu
<i>Fixed Price Swap</i>		
July 1, 2024 – December 31, 2026	5,000 MMBtu/d	NYMEX – HH \$3.400/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.

Eight Quarter Analysis

(000s)	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Three months ended	2024	2024	2023	2023	2023	2023	2022	2022
Revenue	\$ 3,889	\$ 4,794	\$ 5,098	\$ 5,285	\$ 3,741	\$ 5,189	\$ 9,830	\$ 19,151
Adjusted Funds Flow from Operations	770	2,162	777	1,071	(366)	1,745	3,059	8,273
Net earnings (loss)	(2,622)	(3,121)	(39,563)	(2,367)	(3,767)	(1,120)	1,749	6,567
Per share:								
Basic	(0.02)	(0.02)	(0.26)	(0.02)	(0.03)	(0.01)	0.01	0.05
Diluted	(0.02)	(0.02)	(0.26)	(0.02)	(0.03)	(0.01)	0.01	0.04

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 completion of three DUCs 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 expectations with respect to the outcome of an 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, 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. 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 (including greenhouse gas emission reduction requirements and other decarbonization or social policies and including uncertainty with respect to the interpretation of omnibus Bill C-59 and the related amendments to the *Competition Act* (Canada)), 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.

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.

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.

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"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,		
	June 30, 2024	December 31, 2023	June 30, 2023
Cash flow from operating activities	\$ (149)	\$ (70)	\$ (174)
Change in non-cash working capital	913	845	(200)
Cash decommissioning expenses	6	2	8
Adjusted Funds Flow from Operations	\$ 770	\$ 777	\$ (366)

	Six months ended,	
	June 30, 2024	June 30, 2023
Cash flow from operating activities	\$ 2,382	\$ 3,290
Change in non-cash working capital	544	(1,919)
Cash decommissioning expenses	6	8
Adjusted Funds Flow from Operations	\$ 2,932	\$ 1,379

"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 Jun 30,		Six months ended Jun 30,	
	2024	2023	2024	2023
Petroleum and natural gas revenue	\$ 3,889	\$ 3,741	\$ 8,683	\$ 8,930
Royalties	(789)	(649)	(1,733)	(1,709)
Production taxes	(170)	(167)	(352)	(418)
Operating expenses	(1,275)	(1,324)	(2,745)	(2,486)
Transportation costs	(375)	(296)	(769)	(357)
Operating netback before derivatives	\$ 1,280	\$ 1,305	\$ 3,084	\$ 3,960
Realized gain on derivatives	533	23	1,821	110
Operating netback	\$ 1,813	\$ 1,328	\$ 4,905	\$ 4,070

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“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 June 30, 2024	As at December 31, 2023	As at June 30, 2023
Current assets	\$ 5,644	\$ 7,357	\$ 5,514
Current liabilities	(15,234)	(19,881)	(19,881)
Remove:			
Current derivative assets	(636)	(1,022)	(88)
Current portion of lease liabilities	55	121	103
Current portion of long-term debt	3,021	4,657	5,247
Current derivative liabilities	149	10	-
Current portion of convertible debentures	3,092	3,196	3,150
Adjusted working capital deficiency	\$ (3,909)	\$ (5,562)	\$ (5,955)

	As at June 30, 2024	As at December 31, 2023	As at June 30, 2023
Long-term debt	\$ (17,119)	\$ (17,864)	\$ (16,966)
Convertible debentures – face value	(3,131)	(3,241)	(3,237)
Adjusted working capital deficiency	(3,909)	(5,562)	(5,955)
Net debt	\$ (24,159)	\$ (26,667)	\$ (26,158)

“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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net cash used by investing activities	\$ (849)	\$ 18,565	\$ 1,799	\$ 40,162
Change in non-cash working capital	(451)	(13,273)	(2,830)	22
Net Capital Expenditures	\$ (1,300)	\$ 5,292	\$ (1,031)	\$ 40,184

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
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.