

Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2025 and 2024

(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 team ("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 as at and for the three months ended March 31, 2025 and 2024 (the "Financial Statements"), which have been prepared in accordance with IAS 34 - *Interim Financial Reporting* of the IFRS® Accounting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The MD&A should also be read in conjunction with Southern's disclosure under "*Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information*", "*Short Term Results*", "*Significant Judgments and Estimates*", and "*Specified Financial Measures*" below.

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 27, 2025.

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 of these factors 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

- Petroleum and natural gas sales of \$5.1 million during Q1 2025, an increase of 7% from the same period in 2024, largely due to the increase in natural gas pricing
- Average realized natural gas and oil prices for Q1 2025 of \$4.14/Mcf and \$71.19/bbl, compared to \$2.53/Mcf and \$74.86/bbl in Q1 2024. Southern achieved an average premium of \$0.49/Mcf (approximately 13%) above the NYMEX HH benchmark in Q1 2025
- Average production of 12,808 Mcfe/d (2,135 boe/d) (96% natural gas) during Q1 2025, a decrease of 29% from the same period in 2024 (see "*Production Summary*" below for a breakdown by product type)
- Generated \$0.9 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q1 2025 (\$0.00 per share basic and diluted), excluding \$0.3 million of one-time transaction costs (see "*General & Administrative and Transaction Costs*" for more details)
- Net loss of \$3.9 million (\$0.02 per share basic and diluted), compared to a net loss of \$3.1 million in Q1 2024
- Entered into various amendments to the Company's senior secured term loan (the "Credit Facility") which included an extension to the pausing of monthly repayments of principal to January 31, 2025 and a reduction of the repayment required from the eighth amendment to \$1.45 million as at January 31, 2025, which the Company paid. Amended the monthly repayment of the principal amount outstanding calculation beginning on February 28, 2025 and amended the asset coverage ratio down to 1.5x in 2025 as well as reducing the Tranche B capacity to \$5.0 million (see "*Liquidity and Capital Resources – Credit Facility*")

SUBSEQUENT EVENTS

- On April 8, 2025, Southern closed an equity financing raising aggregate gross proceeds of \$5.0 million (approximately £3.9 million, C\$7.2 million) through the issuance of a total of 102,482,673 new units (see "*Shareholders' Equity – Share Capital*")
- On April 8, 2025, Southern converted the remaining convertible debentures in the amount of \$3.1 million into 62,759,286 units and issued 1,627,170 units for all accrued and unpaid interest (see "*Liquidity and Capital Resources – Debenture Financing*")

Summary of Financial Information

<i>(000s, except \$ per share)</i>	Three months ended March 31,	
	2025	2024
Petroleum and natural gas sales	\$ 5,121	\$ 4,794
Net (loss) earnings	(3,879)	(3,121)
Net (loss) earnings per share		
Basic	(0.02)	(0.02)
Fully diluted	(0.02)	(0.02)
Adjusted Funds Flow from Operations ⁽¹⁾	629	2,162
Adjusted Funds Flow from Operations per share ⁽¹⁾		
Basic	0.00	0.01
Fully diluted	0.00	0.01
Capital expenditures and acquisitions	183	269
Weighted average shares outstanding		
Basic	169,386	166,480
Fully diluted	169,386	166,480
As at period end		
Common Shares outstanding	169,386	166,497
Total assets	51,237	61,865
Non-current liabilities	8,915	24,341
Net debt ⁽¹⁾	\$ (24,145)	\$ (25,274)

Note:

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

Operations Update

The Company continues to progress its plans to complete its first Gwinville drilled and uncompleted ("DUC") well and has finalized procuring key services. Field operations are scheduled to commence on the 13-13 #2 Lower Selma Chalk horizontal well in the next few weeks, and Southern expects first production from the well in June 2025. Timing for the second and third horizontal completions (one Lower Selma Chalk and one City Bank) will depend on the results of the first completion operation, but the Company expects to have all three wells completed before the end of the year.

The Company has also advised that it has recently elected to voluntarily shut-in approximately 400 boe/d of production from the Mechanicsburg and Greens Creek Fields due to an ongoing transportation dispute with a third party pipeline operator. On April 29, 2025, Southern was pleased to receive confirmation that the pipelines subject to the dispute are regulated by the Federal Energy Regulatory Commission ("FERC") and the third party submitted the initial filing to the regulator which includes setting maximum allowable transportation rates, subject to FERC review and approval. Southern will work closely with FERC staff to expedite the rate determination process and, in parallel, will continue to engage with the pipeline operator to pursue an agreement on an equitable fee structure that would allow the resumption of gas flows from these assets while the regulatory process continues.

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Production Summary

	Three months ended March 31,	
	2025	2024
Daily production from operations		
Oil (bbl/d)	81	112
NGLs (bbl/d)	5	9
Natural gas (Mcf/d)	12,292	17,329
Total Production (Mcf/d)	12,808	18,055
Total production (boe/d)	2,135	3,009
Percentage of natural gas	96%	96%

Production averaged 12,808 Mcfe/d in Q1 2025, which was a decrease of 29% from the same period in 2024. The decrease compared to Q1 2024 was primarily due to the decline of the GH 14-06 #3 well which came online in late Q4 2023 and natural declines from the legacy assets due to minimum field activity because of the low commodity price environment.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended March 31,	
(000s)	2025	2024
Oil	\$ 519	\$ 763
NGLs	21	38
Natural gas	4,581	3,993
Total revenue	\$ 5,121	\$ 4,794

The Company's total revenue from oil and gas sales was \$5.1 million for the first quarter of 2025, up 7% compared to \$4.8 million in the first quarter of 2024. The increase in revenue was driven by higher natural gas prices in Q1 2025.

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Realized commodity prices

	Three months ended March 31,	
	2025	2024
Oil (\$/bbl)	\$ 71.19	\$ 74.86
NGLs (\$/bbl)	46.67	46.40
Natural gas (\$/Mcf)	4.14	2.53
Combined (\$/Mcf)	\$ 4.44	\$ 2.92
Benchmark prices		
Crude oil – LLS (\$/bbl)	\$ 74.39	\$ 79.54
Crude oil – WTI (\$/bbl)	71.42	76.96
Natural gas – NYMEX HH (\$/MMBtu)	3.65	2.24
Exchange rate (\$CAD/\$U.S.)	1.44	1.35

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 2025, Southern realized an oil price of \$71.19/bbl which was a decrease of 5% from the same period in 2024. The decline was primarily driven by market uncertainty related to potential changes in U.S. foreign trade policy, which weighed on global demand sentiment and contributed to softer West Texas Intermediate (“WTI”) pricing.

Southern realized a natural gas price of \$4.14/Mcf in Q1 2025, a 64% increase compared to the same period in 2024. The increase was primarily driven by colder-than-expected winter weather across key North American regions, which elevated residential and commercial heating demand, as well as tighter domestic supply conditions. Additionally, strong demand for U.S. LNG exports further reduced available domestic supply, supporting higher price levels. Southern realized an average premium of \$0.49/Mcf, or approximately 13% above the NYMEX HH benchmark, during the quarter. This premium reflects the Company’s marketing strategy, including optimizing sales points and targeting regional price differentials to enhance realized pricing.

Royalties

	Three months ended March 31,	
(000s)	2025	2024
Oil	\$ 105	\$ 156
NGLs	4	7
Natural gas	926	781
Total royalties	\$ 1,035	\$ 944
Royalties as a % of revenue	20.2%	19.7%

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Royalties are paid to holders of royalty interests in accordance with individual oil and gas leases and are calculated based on realized revenues. In Q1 2025, royalty expenses totaled \$1.0 million, a 10% increase compared to the same period in 2024. The increase was primarily driven by higher realized natural gas prices, partially offset by lower sales volumes. Southern expects royalties to remain approximately 20% of revenue for the full year, as royalty agreements are generally based on fixed rates tied to production revenue.

Production, Operating and Transportation Expenses

(000s)	Three months ended March 31,	
	2025	2024
Operating expenses	\$ 1,543	\$ 1,470
Production taxes	261	182
Transportation expense	293	394
Total production, operating and transportation	\$ 2,097	\$ 2,046

Operating expenses were \$1.5 million (\$1.34/Mcfe) in Q1 2025, which was an increase of 5% compared to the same period in 2024. The increase in Q1 2025 is primarily due to some compressor maintenance that was required in the Gwinville and Mechanicsburg fields.

Production taxes were \$0.3 million for the three months ended March 31, 2025. 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 were \$0.3 million (\$0.25/Mcfe) in Q1 2025, a decrease of 26% compared to Q1 2024 due to lower sales volumes. Southern is involved in an ongoing dispute around transportation fees being charged by a third party midstream company. On April 29, 2025, Southern received confirmation that the pipelines subject to the dispute are regulated by the FERC. The third party made its initial filing to the regulator which includes setting maximum allowable transportation rates, subject to FERC review and approval. Southern believes it 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.

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Operating Netback

(\$/Mcf)	Three months ended March 31,	
	2025	2024
Petroleum and natural gas revenue	\$ 4.44	\$ 2.92
Royalties	(0.90)	(0.57)
Production taxes	(0.23)	(0.11)
Operating expenses	(1.34)	(0.89)
Transportation costs	(0.25)	(0.24)
Operating netbacks per Mcfe before derivatives ⁽¹⁾	\$ 1.72	\$ 1.11
Realized (loss) gain on derivatives	(0.16)	1.88
Operating netback per Mcfe ⁽¹⁾	\$ 1.56	\$ 2.99
Operating netback % of revenue ⁽¹⁾	35%	102%

Southern's operating netbacks decreased by 48% for the three months ended March 31, 2025, compared to the same period in 2024. The decrease was driven primarily by the monetization of the fixed price swap derivative contracts in Q1 2024 to take advantage of the positive unrealized gain position, higher operating expenses and lower sales volumes, partially offset by higher natural gas prices in Q1 2025.

General & Administrative and Transaction Costs

(000s)	Three months ended March 31,	
	2025	2024
General and administrative	\$ 892	\$ 952
Transaction costs	300	-
Total	\$ 1,192	\$ 952
General and administrative costs per Mcfe	\$ 0.77	\$ 0.58

General and administrative costs were \$0.9 million in Q1 2025, a decrease of 6% from the same period in 2024. The decrease is primarily due an overall focus on cost cutting measures within the Company.

Transaction costs of \$0.3 million in Q1 2025 relate to a transaction contemplated by Southern that was not completed.

Finance Expense

(000s)	Three months ended March 31,	
	2025	2024
Credit Facility interest	\$ 620	\$ 597
Convertible debenture interest	71	63
Interest income	(3)	(9)
Lease interest	14	3
Accretion	(28)	139
Total finance expense	\$ 674	\$ 793
Finance expense per Mcfe	\$ 0.58	\$ 0.48

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Finance expenses were \$0.7 million in Q1 2025, a decrease of 15% compared to the same period in 2024, due to lower accretion amounts as a result of the non-cash debt modifications in Q1 and Q4 2024, partially offset by higher interest on the Credit Facility as the fixed per annum coupon increased from 12% to 15% per annum on February 28, 2024 as part of the sixth amendment.

Share-based Compensation

Southern recorded share-based compensation recovery of \$29 thousand for the three months ended March 31, 2025, compared to \$63 thousand of expenses in the same period in 2024, related to the issuance of stock options and restricted share awards. The recovery in Q1 2025 related to the remeasured fair value of the restricted share awards at March 31, 2025. For more information, see *"Shareholders' Equity – Share Award Incentive Plan"*.

Depletion, Depreciation and Amortization

(000s)	Three months ended March 31,	
	2025	2024
Depletion	\$ 1,443	\$ 2,041
Depreciation	38	39
Total depletion, depreciation and amortization	\$ 1,481	\$ 2,080
DD&A expense per Mcfe	\$ 1.28	\$ 1.27

Depletion expense was \$1.4 million (\$1.25/Mcfe) in Q1 2025, a decrease of 29% on a dollar basis and flat on a per Mcfe basis, compared to Q1 2024 (\$1.24/Mcfe). The decrease is due to lower production volumes in Q1 2025 compared to Q1 2024.

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

Impairment

As at March 31, 2025, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

Capital Expenditures, Property Acquisitions and Dispositions

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

(000s)	Three months ended March 31,	
	2025	2024
Land, acquisitions and lease rentals	\$ -	\$ -
Drilling and completions	-	403
Geological and geophysical	-	-
Facilities, equipment and pipelines	183	(139)
Other	-	5
Net capital expenditures ⁽¹⁾	\$ 183	\$ 269

Note:

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

Southern incurred \$0.2 million of expenses during Q1 2025, which were primarily related to the maintenance capital in the field on existing operations. Q1 2025 capital expenditures were slightly lower than Q1 2024 due to the completion of GH 14-06 #3 well in the Gwinville field.

Decommissioning Provisions

The total decommissioning provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risk cash flows required to settle the provision, is approximately \$17.6 million at March 31, 2025 (December 31, 2024 – \$17.6 million). The decommissioning provision was inflated using a rate of 2.1% (December 31, 2024 – 2.1%) and discounted using a risk-free interest rate of 4.6% at March 31, 2025 (December 31, 2024 – 4.9%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 50 years into the future and will be funded from general corporate resources at the time of abandonment.

Shareholders' Equity

Share Capital

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

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The following table reflects the Company's outstanding Common Shares at March 31, 2025 and December 2024:

	Number of Shares	Share Capital (\$000s)
Balance as at December 31, 2024	169,385,824	\$ 80,166
Transaction costs on convertible debenture modification	-	(1)
Balance as at March 31, 2025	169,385,824	\$ 80,165

Subsequent to March 31, 2025, on April 8, 2025, Southern closed an equity financing raising aggregate gross proceeds of \$5.0 million through the issuance of a total of 102,482,673 new units (the "Fundraising"). The Fundraising consisted of a public offering of new units ("Units") in Canada at a price of CAD\$0.07 per Unit (the "Prospectus Offering") and a concurrent placing of new Units to new and existing investors on AIM market of the London Stock Exchange at a price of 3.8 pence per Unit (the "Placing"). Each Unit consists of one new Common Share and one Common Share purchase warrant ("Fundraising Warrant"). Each Fundraising Warrant entitles the holder to subscribe for and purchase one Common Share at an exercise price of CAD\$0.09 per Common Share (in the case of the Prospectus Offering) or 4.8 pence (in the case of the Placing) for a period of 36 months following closing of the Fundraising. The Fundraising consisted of gross proceeds of \$3.2 million pursuant to a Prospectus Offering of 65,435,521 new Units at a price of CAD\$0.07 per Unit and \$1.8 million through a Placing of 37,047,152 new Units at a price of 3.8 pence per Unit.

Warrants

Subsequent to March 31, 2025, as part of the Fundraising, 4,932,804 compensation warrants ("Compensation Warrants") were issued. Each Compensation Warrant is exercisable for one Common Share at an exercise price of CAD\$0.07 for a period of 36 months from the closing date.

Stock Option Plan

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

The following table reflects the Company's outstanding common stock options at March 31, 2025 and December 31, 2024:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2024	8,166,875	\$ 0.62
Balance at March 31, 2025	8,166,875	\$ 0.62

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The following table summarizes information regarding stock options outstanding as at March 31, 2025:

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	8,167	3.0	\$0.62	6,079	\$0.77

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.

As described above, Southern raised aggregate gross proceeds of \$5.0 million through the Fundraising in April 2025, which materially strengthens the balance sheet and in combination with the amendments to the Credit Facility (see below) and cash flow from operations, provides the Company the ability to resume its organic development program in 2025, beginning with the three Gwinville DUCs. In addition to the DUCs, Southern intends to drill two vertical Cotton Valley wells on its Mechanicsburg acreage.

	March 31, 2025	December 31, 2024	March 31, 2024
Credit Facility	\$ (15,258)	\$ (17,119)	\$ (17,449)
Convertible debentures – face value	(2,981)	(2,979)	(3,163)
Adjusted working capital deficiency	(5,906)	(3,856)	(4,662)
Net debt	\$ (24,145)	\$ (23,954)	\$ (25,274)

Note:

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

As at March 31, 2025, Southern had adjusted working capital deficiency (see "Reader Advisories – Specified Financial Measures") of \$5.9 million. Included in the adjusted working capital deficiency is \$6.7 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 \$24.1 million as at March 31, 2025. This compares to a net debt balance of \$24.0 million as at December 31, 2024. The slight

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increase in net debt during 2025 was due to the minimal maintenance capital program in Q1 2025. Southern could further reduce net debt through equity financing, non-core asset sales, or additional sales of excess equipment inventory.

Credit Facility

Southern Energy Corporation (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at March 31, 2025. 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 \$26.5 million with an availability until December 31, 2026. Interest on the Credit Facility is 15% 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, 2025, Southern had \$15.3 million drawn on the Credit Facility and \$5.0 million available from Tranche B.

Effective January 31, 2025, Southern entered into the ninth amendment ("Ninth Amendment") to the Credit Facility. The Ninth Amendment included an extension to the pause of the monthly repayments of principal to January 31, 2025 and adjusted the \$1.7 million repayment required from the Eighth Amendment to \$1.45 million at January 31, 2025, which Southern paid.

Effective February 28, 2025, Southern entered into the tenth amendment ("Tenth Amendment") to the Credit Facility. The Tenth Amendment amended the monthly repayment of the principal amount outstanding calculation beginning on February 28, 2025, to the aggregate principal amount then outstanding on all loans multiplied by 60% multiplied by the fraction $1 / A$, where A equals the sum of the number of whole or partial calendar months remaining to the maturity date plus 24 months. In addition, the Tenth Amendment amended both of the financial covenant calculations beginning with the period ending March 31, 2025. The ACR was lowered to 1.75x for all fiscal quarters in 2025 and returns back to 2.00x beginning on March 31, 2026. The debt service coverage ratio ("DSCR") was reset to an annualized basis beginning with the March 31, 2025 calculation.

Effective March 31, 2025, Southern entered into the eleventh amendment ("Eleventh Amendment") to the Credit Facility. The Eleventh Amendment amended the ACR down to 1.5x from 1.75x in 2025, reduced Tranche B capacity to \$5.0 million and provided a maximum annual permitted general and administrative expense amount of \$3.7 million in 2025 and \$3.4 million for future years.

Due to the amendments to IAS 1 Presentation of Financial Statements, which Southern adopted effective January 1, 2024, \$12.6 million of non-current long-term debt has been reclassified to current as at December 31, 2024 and March 31, 2025. The reclassification was required as Southern is unable to defer the right to settlement of the liability for at least twelve months after the reporting date due to being offside with financial covenants at March 31, 2025. However, with the execution of the Tenth and Eleventh Amendments, Southern has reset the financial covenants, that proactively would allow Southern to defer the right to settlement of the liability for at least twelve months, provided there are no future covenant violations.

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Quarterly positive FCF repayments (as described below) are based on a FCF grid whereby quarterly repayments are X% of the preceding quarter where X is equal to 30% if the ACR is < 3.0x or DSCR 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 60% 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. 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, 2025 and December 31, 2024:

Financial covenant	Limit	As at	As at
		Mar 31, 2025	Dec 31, 2024
Asset Coverage ratio	Minimum 1.50	1.90	1.80
Debt Service Coverage ratio	Minimum 1.25	0.25	0.77

The ACR of at least 1.50:1 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 adjusted EBITDAX, which includes cash equity contributions received by the borrower to scheduled principal payments and interest expense.

Southern obtained a waiver for the March 31, 2025 DSCR covenant violation for the period through to and including May 31 2025.

Debenture Financing

As at March 31, 2025, Southern had 4,286 convertible debentures ("Debentures") issued at a price of CAD\$1,000 per Debenture that accrue interest at the rate of 10.00% 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, 2025.

Subsequent to March 31, 2025, upon completion of the equity financing, pursuant to a third supplemental debenture indenture, Southern converted the remaining outstanding Debentures at an amount equal to 102.5% into 62,759,286 new Units at CAD\$0.07 (the "Prospectus Price"). Additionally, all accrued and unpaid interest was settled in-kind through the issuance of 1,627,170 new Units at the Prospectus Price.

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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, 2025:

	Total	2025	2026	2027	Thereafter
Credit Facility ⁽¹⁾	\$ 15,258	\$ 2,840	\$ 12,418	\$ -	\$ -
Convertible debentures ⁽²⁾	2,981	2,981	-	-	-
Lease obligations ⁽³⁾	485	85	164	164	72
Total	\$ 18,724	\$ 5,906	\$ 12,582	\$ 164	\$ 72

Notes:

- (1) 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

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;
- changes in the political landscape both domestically and abroad;
- 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;
- 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;
- ability to find and employ qualified personnel or management;
- 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;
- changes in industry regulations and legislation (including, but not limited to, tax laws, royalties, and environmental regulations);
- the imposition or expansion of tariffs imposed by domestic and foreign governments or the imposition of other restrictive trade measures, retaliatory or countermeasures implemented by such governments, including the introduction of regulatory barriers to trade and the potential effect on the demand and/or market price for the Company's products and/or otherwise adversely affects the Company;
- 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;
- changing royalty regimes and the Company's expectations in respect of 2025 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 AIF for the year ended December 31, 2024, which is available on SEDAR+ at www.sedarplus.ca.

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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 unaudited condensed interim 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 unaudited condensed interim consolidated statement of earnings and comprehensive income in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2025:

Natural Gas	Volume	Pricing
<i>Fixed Price Swap</i>		
April 1, 2025 – December 31, 2026	5,000 MMBtu/d	NYMEX – HH \$3.400/MMBtu

Eight Quarter Analysis

(000s)	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Three months ended	2025	2024	2024	2024	2024	2023	2023	2023
Revenue	\$ 5,121	\$ 3,917	\$ 3,480	\$ 3,889	\$ 4,794	\$ 5,098	\$ 5,285	\$ 3,741
Adjusted Funds Flow from Operations	629	(725)	552	770	2,162	777	1,071	(366)
Net earnings (loss)	(3,879)	(3,715)	(2,062)	(2,622)	(3,121)	(39,563)	(2,367)	(3,767)
Per share:								
Basic	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.26)	(0.02)	(0.03)
Diluted	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.26)	(0.02)	(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 loss.
- Production from the first seven wells in the appraisal program at Gwinville online between Q2 2022 and Q1 2024.
- 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.
- In Q4 2024, Southern recorded \$1.1 million in transaction costs related to a transaction that the Company contemplated but did not complete.
- As a result of improving future strip natural gas prices at December 31, 2024 and March 31, 2025, Southern recorded a \$0.8 million and \$2.1 million loss on unrealized derivatives, respectively.

READER ADVISORIES

Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information

Certain statements and information contained within this MD&A may constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements include, without limitation, statements regarding the status of development or expenditures relating to Southern's business, the plans and intentions of Management, drilling and completion plans, plans to fund current activities, future operations, future strategic acquisitions and growth strategy, future oil and natural gas production estimates and weighting, Southern's future financial position, the resolution of adjusted working capital deficiencies, future corporate strategies and the success thereof, the availability and renewal of the Credit Facility and lending vehicles thereunder, the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and exchange rates, Southern's ability to re-initiate growth in deploying the net proceeds from the equity financing on capital expenditures, projected costs, sources and uses of funding, future revenues, expectation that natural gas pricing, estimated decommissioning obligations and expectations in respect thereof including that they will be funded through general corporate resources upon abandonment and anticipated settlement timing, 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, intention to divert savings from operational synergies at the Gwinville site towards added sales volumes, the Company's expectations regarding completion of the three remaining DUCs and the drilling operations in the Mechanicsburg Field (including the timing thereof and anticipated costs and funding), eligibility of new wells drilled at Gwinville for the State of Mississippi's reduced severance tax relief program and implications thereof, planned capital expenditures, the Company's intention to enhance production and reduce operating costs of the acquired assets in Gwinville, 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" and "recovery" 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 other sources of financing, allocation of capital resources, the business plan of Southern, including in respect of the Gwinville assets, and successful integration of acquired assets into the Company's operations, the Company's ability to execute its plans and strategies, the Company's ability to enter into future derivative contracts on acceptable terms, the impact of increasing competition within the resource market, the continuation of the current tax, royalty and regulatory regimes, the volatility in

commodity prices, oil price differentials, actual prices received for the Company's products and the resulting effect on the Company's financial results, the Company's ability to obtain, retain and renew all requisite permits and licenses, the actions of the Organization of Petroleum Exporting Countries ("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 and volatility, fluctuations and uncertainty with respect to interest rates and commodity prices (including pursuant to determinations by OPEC and other countries (collectively referred to as OPEC+) regarding production levels); stock market and financial system volatility, changes to market valuations, competition, the lack of availability of qualified personnel or management, the lack of availability of or access to services, the results of exploration and development drilling related activities, 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, changes in industry regulations and legislation (including, but not limited to, tax laws, royalties, and environmental regulations); geo-political risks, political and economic instability both domestically and abroad, the imposition or expansion of tariffs imposed by domestic and foreign governments or the imposition of other restrictive trade measures, retaliatory or countermeasures implemented by such governments, including the introduction of regulatory barriers to trade and the potential effect on the demand and/or market price for the Company's products and/or otherwise adversely affects the Company, 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") about the Company's guidance for 2025, including with respect to budgeted capital expenditures, revenue and the components thereof, expenses and cost estimates, natural gas pricing, royalty rates, balance sheet resiliency, net present value of cash flow from operations using a 7% discount rate, net debt, tax rates, payout of wells, and prospective results of operations and production, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "*Specified Financial Measures*".

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

Short Term Results

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

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, 2025	December 31, 2024	March 31, 2024
Cash flow from operating activities	\$ 1,124	\$ 196	\$ 2,531
Change in non-cash working capital	(495)	(920)	(369)
Cash decommissioning expenses	-	(1)	-
Adjusted Funds Flow from Operations	\$ 629	\$ (725)	\$ 2,162

"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.

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	Three months ended March 31,	
	2025	2024
Revenue	\$ 5,121	\$ 4,794
Royalties	(1,035)	(944)
Production taxes	(261)	(182)
Operating expenses	(1,543)	(1,470)
Transportation costs	(293)	(394)
Operating netback before derivatives	\$ 1,989	\$ 1,804
Realized (loss) gain on derivatives	(180)	1,288
Operating netback	\$ 1,809	\$ 3,092

“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, 2025	As at December 31, 2024	As at March 31, 2024
Current assets	\$ 4,243	\$ 5,756	\$ 4,540
Current liabilities	(31,428)	(30,678)	(14,711)
Remove:			
Current derivative assets	-	(166)	(86)
Current portion of lease liabilities	122	79	87
Current portion of Credit Facility	16,073	17,814	2,344
Current derivative liabilities	2,085	349	23
Current portion of convertible debentures	2,999	2,990	3,141
Adjusted working capital deficiency	\$ (5,906)	\$ (3,856)	\$ (4,662)

	As at March 31, 2025	As at December 31, 2024	As at March 31, 2024
Credit Facility	\$ (15,258)	\$ (17,119)	\$ (17,449)
Convertible debentures – face value	(2,981)	(2,979)	(3,163)
Adjusted working capital deficiency	(5,906)	(3,856)	(4,662)
Net debt	\$ (24,145)	\$ (23,954)	\$ (25,274)

“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

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activities. The following table details the composition of capital expenditures and its reconciliation to cash used in investing activities:

	Three months ended March 31,	
	2025	2024
Net cash used by investing activities	\$ 210	\$ 2,648
Change in non-cash working capital	(27)	(2,379)
Net Capital Expenditures	\$ 183	\$ 269

Abbreviations

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

Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

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

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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, 2024 and 2023, and the AIF, are also available on SEDAR+ at www.sedarplus.ca or online at www.southernenergycorp.com.