

Management's Discussion and Analysis of

## SOUTHERN ENERGY CORP.

For the three and nine months ended September 30, 2025 and 2024

(U.S. Dollars)

# Southern Energy Corp

Management's Discussion and Analysis

For the three and nine months ended September 30, 2025 and 2024

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## 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 and nine months ended September 30, 2025 and 2024 (the "Financial Statements"), which have been prepared in accordance with IAS 34 - *Interim Financial Reporting* of the IFRS<sup>®</sup> 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"). The Company has disclosed condensate as combined with crude oil and/or separately from other natural gas liquids in this document since the price of condensate as compared to other natural gas liquids is currently significantly higher and the Company believes that this crude oil and condensation presentation provides a more accurate description of its operations and results therefore. 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 November 18, 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

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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 has 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.

## THIRD QUARTER HIGHLIGHTS

- Petroleum and natural gas sales of \$4.3 million during Q3 2025, an increase of 25% from the same period in 2024, largely due to the 50% increase in Q3 2025 natural gas pricing over Q3 2024
- Average production of 12,457 Mcfe/d (2,076 boe/d) (97% natural gas) during Q3 2025, a decrease of 11% from the same period in 2024 and an increase of 10% from Q2 2025 (see "*Production Summary*" below for a breakdown by product type)
- Average realized natural gas and oil prices for Q3 2025 of \$3.59/Mcf and \$63.53/bbl, compared to \$2.40/Mcf and \$73.78/bbl in Q3 2024. Southern achieved an average premium of \$0.52/Mcf (approximately 17%) above the NYMEX HH benchmark in Q3 2025
- Generated \$1.0 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q3 2025 (\$0.00 per share basic and diluted)
- Net earnings of \$0.5 million (\$0.00 per share basic and diluted) in Q3 2025, compared to a net loss of \$2.1 million in Q3 2024

## SUBSEQUENT EVENTS

- The Company successfully completed an oil well in the Magee Field at the end of September 2025. The well produced approximately 3,000 bbl of oil in the month of October and is currently producing at steady rates ~ 85 bbl/d of oil. The final costs for the completion were \$85,000, which resulted in a payout of less than three weeks on the project.

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## Summary of Financial Information

<i>(000s, except \$ per share)</i>	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Petroleum and natural gas sales	\$ 4,340	\$ 3,480	\$ 13,450	\$ 12,163
Net income (loss)	462	(2,062)	(3,828)	(7,805)
Net income (loss) per share				
Basic	0.00	(0.01)	(0.01)	(0.05)
Fully diluted	0.00	(0.01)	(0.01)	(0.05)
Adjusted Funds Flow from Operations <sup>(1)</sup>	1,030	552	2,251	3,484
Adjusted Funds Flow from Operations per share <sup>(1)</sup>				
Basic	0.00	0.00	0.01	0.02
Fully diluted	0.00	0.00	0.01	0.02
Capital expenditures and acquisitions	340	487	2,808	816
Weighted average shares outstanding				
Basic	336,255	167,227	276,353	166,737
Fully diluted	336,255	167,227	276,353	166,737
<b>As at period end</b>				
Common shares outstanding	336,255	167,243	336,255	167,243
Total assets	50,626	56,970	50,626	56,970
Non-current liabilities	19,826	9,036	19,826	9,036
Net debt <sup>(1)</sup>	\$ (19,739)	\$ (22,710)	\$ (19,739)	\$ (22,710)

Note:

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

## Operations Update

In late June 2025, Southern brought online the first of its three remaining drilled but uncompleted ("DUC") horizontal wells from the Q1 2023 drilling program, and its first Lower Selma Chalk ("LSC") lateral – the GH LSC 13-13 #2 wellbore. Over the first 30 days of production the well averaged natural gas rates of 3.6 MMcfe/d (99% gas), which is an increase of over 100% compared to the average of the original LSC horizontal wells in Gwinville that were drilled and completed by the previous operators. The well has continued to flow throughout the quarter as per expectations, achieving an IP90 rate of 2.9 MMcfe/d.

Southern implemented stimulation design changes that improved the predictability and speed of the fracture operations, and most importantly, reduced the Company's overall expected completion cost for future horizontal wells down to ~ \$1.8 million per well. Incorporating planned design changes on the drilling side, Southern now expects the full drill, complete, equip and tie-in cost for future Gwinville horizontal wells (5,000' lateral) to be ~ \$4.0 million, which is 20% lower than the current capital estimates in the Company's third-party reserve report.

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Southern will continue to monitor regional natural gas pricing over the upcoming months before making a decision on the completion timing of the remaining two DUC wells.

Southern continues to work with Federal Energy Regulatory Commission (“FERC”) staff to resolve the ongoing transportation dispute that resulted in the shut-in of approximately 400 boe/d of production from the Mechanicsburg and Greens Creek fields. In September 2025, FERC requested certain data from the pipeline operator. Based on prescribed FERC resolution timelines and past rate determination processes, the Company now expects this issue to be resolved sometime in Q4 2025, at which point these production volumes will come back on-line. The ongoing US government shutdown has contributed to further unforeseen delays in the process.

### Production Summary

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
<b>Average daily production from operations</b>				
Oil (bbl/d) <sup>(1) (2)</sup>	58	66	68	96
NGLs (bbl/d) <sup>(2)</sup>	-	9	4	9
Natural gas (Mcf/d) <sup>(2)</sup>	12,109	13,568	11,756	15,206
<b>Total production (Mcf/d)</b>	<b>12,457</b>	<b>14,018</b>	<b>12,188</b>	<b>15,836</b>
<b>Total production (boe/d)</b>	<b>2,076</b>	<b>2,336</b>	<b>2,031</b>	<b>2,639</b>
<b>Percentage of natural gas</b>	<b>97%</b>	<b>97%</b>	<b>96%</b>	<b>96%</b>

Notes:

- (1) Includes condensate volumes of 35 bbl/d in Q3 2025, 38 bbl/d in Q3 2024, 45 bbl/d for nine months Q3 2025 and 68 bbl/d for nine months Q3 2024.
- (2) “Oil” refers to light and medium crude oil, and condensate combined. “NGLs” refers to ethane, propane, butane and pentane combined. “Natural gas” refers to conventional natural gas.

Production averaged 12,457 Mcfe/d in Q3 2025 and 12,188 Mcfe/d for the first nine months of 2025, a decrease of 11% and 23% respectively, from the same periods in 2024. The decrease was primarily due to Southern’s decision to shut in the Mechanicsburg and Greens Creek fields beginning early May 2025 due to the dispute and excessive transportation fees being charged by a third party midstream company, and the decline of the GH 14-06 #3 well, which came online in late Q4 2023, partially offset by production from the GH LSC 13-13 #2 well which started producing on June 26, 2025. The Company is pursuing resolution of the transportation fees dispute through the ongoing FERC rate determination process.

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## Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
(000s)				
Oil	\$ 339	\$ 448	\$ 1,234	\$ 2,027
NGLs	-	36	39	111
Natural gas	4,001	2,996	12,177	10,025
<b>Total revenue</b>	<b>\$ 4,340</b>	<b>\$ 3,480</b>	<b>\$ 13,450</b>	<b>\$ 12,163</b>

The Company's total revenue from oil and gas sales was \$4.3 million in Q3 2025 and \$13.5 million for the first nine months of 2025, an increase of 25% and 11% respectively, from the same periods in 2024. The increase in revenue was driven by higher natural gas prices in 2025 compared to 2024, partially offset by lower sales volumes.

## Realized commodity prices

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Oil (\$/bbl)	\$ 63.53	\$ 73.78	\$ 66.47	\$ 77.06
NGLs (\$/bbl)	-	43.48	35.71	45.01
Natural gas (\$/Mcf)	3.59	2.40	3.79	2.41
<b>Combined (\$/Mcf)</b>	<b>\$ 3.79</b>	<b>\$ 2.70</b>	<b>\$ 4.04</b>	<b>\$ 2.80</b>
<b>Benchmark prices</b>				
Crude oil – LLS (\$/bbl)	\$ 67.15	\$ 77.22	\$ 69.24	\$ 80.08
Crude oil – WTI (\$/bbl)	64.93	75.09	66.70	77.54
Natural gas – NYMEX HH (\$/MMBtu)	3.07	2.16	3.39	2.10
Exchange rate (\$CAD/\$U.S.)	1.38	1.36	1.40	1.36

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 Q3 2025, Southern realized an oil price of \$63.53/bbl, which was a decrease of 14% from the same period in 2024. For the first nine months of 2025, Southern's realized oil price decreased 14% compared to 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 increased supply from the Organisation of the Petroleum Exporting Countries and other oil-exporting nations ("OPEC+"), which contributed to softer West Texas Intermediate ("WTI") pricing.

Southern realized a price of \$3.59/Mcf in Q3 2025, a 50% increase from Q3 2024. During the first nine months of 2025, Southern realized a price of \$3.79/Mcf, a 57% increase from the same period in 2024.

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The increase was supported by the continued buildout of U.S. liquefied natural gas (“LNG”) export capacity, which is creating a structural rise in demand for domestic natural gas. Several new liquefaction projects advanced through commissioning and early operations during 2025, contributing to record U.S. LNG export volumes and higher utilization across existing terminals. Southern realized an average premium of \$0.40/Mcf, or approximately 12% above the NYMEX HH benchmark, during the first nine months of 2025, including a 17% premium in the third 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		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
<i>(000s)</i>				
Oil	\$ 68	\$ 93	\$ 251	\$ 417
NGLs	-	6	7	20
Natural gas	814	586	2,472	1,981
<b>Total royalties</b>	<b>\$ 882</b>	<b>\$ 685</b>	<b>\$ 2,730</b>	<b>\$ 2,418</b>
<b>Royalties as a % of revenue</b>	<b>20.3%</b>	<b>19.7%</b>	<b>20.3%</b>	<b>19.9%</b>

Royalties are paid to holders of royalty interests in accordance with individual oil and gas leases and are calculated based on realized revenues. Royalties were \$0.9 million in Q3 2025, an increase of 29% from the same period in 2024, and \$2.7 million for the first nine months of 2025, an increase of 13% from 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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
<i>(000s)</i>				
Operating expenses	\$ 1,318	\$ 1,279	\$ 4,127	\$ 4,024
Production taxes	200	152	657	504
Transportation expense	186	347	711	1,116
<b>Total production, operating and transportation</b>	<b>\$ 1,704</b>	<b>\$ 1,778</b>	<b>\$ 5,495</b>	<b>\$ 5,644</b>

Operating expenses were \$1.3 million (\$1.15/Mcfe) in Q3 2025, which were 3% higher on a dollar basis and \$0.16/Mcfe higher compared to the same period in 2024. For the first nine months of 2025, operating expenses were \$4.1 million (\$1.24/Mcfe), which were 3% higher on a dollar basis and \$0.31/Mcfe higher compared to the same period in 2024. Operating costs have stayed relatively flat on a dollar basis in 2025 compared to 2024, however, due to the Mechanicsburg and Greens Creek fields being shut in, on a per

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Mcf basis have increased as Southern has continued to incur some fixed costs associated with these fields.

Production taxes were \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2025, 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 two remaining 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 \$0.2 million (\$0.16/Mcfe) and \$0.7 million (\$0.21/Mcfe) for the three and nine months ended September 30, 2025, a decrease of 46% and 25% compared to the same period in 2024, respectively. The decrease was primarily 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.

### Operating Netback

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
<i>(\$/Mcfe)</i>				
Petroleum and natural gas revenue	\$ 3.79	\$ 2.70	\$ 4.04	\$ 2.80
Royalties	(0.77)	(0.53)	(0.82)	(0.56)
Production taxes	(0.17)	(0.12)	(0.20)	(0.12)
Operating expenses	(1.15)	(0.99)	(1.24)	(0.93)
Transportation costs	(0.16)	(0.27)	(0.21)	(0.26)
<b>Operating netback per Mcfe before derivatives <sup>(1)</sup></b>	<b>\$ 1.54</b>	<b>\$ 0.79</b>	<b>\$ 1.57</b>	<b>\$ 0.93</b>
Realized gain on derivatives	0.19	0.45	0.04	0.55
<b>Operating netback per Mcfe <sup>(1)</sup></b>	<b>\$ 1.73</b>	<b>\$ 1.24</b>	<b>\$ 1.61</b>	<b>\$ 1.48</b>
<b>Operating netback % of revenue <sup>(1)</sup></b>	<b>46%</b>	<b>46%</b>	<b>40%</b>	<b>53%</b>

Note:

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

Southern's operating netbacks increased by 40% for the three months ended September 30, 2025 and increased 9% for the first nine months of 2025, compared to the same periods in 2024. The increase in

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2025 was driven primarily by higher natural gas prices, partially offset by higher operating costs and lower realized gain on derivatives.

## General & Administrative and Transaction Costs

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
<i>(000s)</i>				
General and administrative	\$ 934	\$ 883	\$ 2,829	\$ 2,889
Transaction costs	15	176	322	176
<b>Total</b>	<b>\$ 949</b>	<b>\$ 1,059</b>	<b>\$ 3,151</b>	<b>\$ 3,065</b>
<b>General and administrative per Mcfe</b>	<b>\$ 0.81</b>	<b>\$ 0.68</b>	<b>\$ 0.85</b>	<b>\$ 0.67</b>

General and administrative costs were \$1.0 million in Q3 2025 and \$2.8 million for the first nine months of 2025, an increase of 6% and decrease 2%, respectively, from the same periods in 2024. Southern continues to focus on cost-cutting measures within the Company.

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

## Finance Expense

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
<i>(000s)</i>				
Credit facility interest	\$ 558	\$ 671	\$ 1,754	\$ 1,939
Convertible debenture interest	-	79	77	205
Interest Income	(9)	(12)	(27)	(31)
Lease interest	15	1	44	7
Accretion	(40)	18	(103)	190
<b>Total finance expense</b>	<b>\$ 524</b>	<b>\$ 757</b>	<b>\$ 1,745</b>	<b>\$ 2,310</b>
<b>Finance expense per Mcfe</b>	<b>\$ 0.46</b>	<b>\$ 0.59</b>	<b>\$ 0.52</b>	<b>\$ 0.53</b>

Financing expenses were \$0.5 million in Q3 2025 and \$1.7 million for the first nine months of 2025, a decrease of 31% and 24%, respectively, from the same periods in 2024, due to lower interest expense on the Company's senior secured term loan (the "Credit Facility") as the Company has continued to pay down the loan balance, reduced debenture interest as the outstanding convertible unsecured subordinated debentures ("Debentures") were converted into units on April 8, 2025 (see "Liquidity and Capital Resources – Debenture Financing" for more information), and lower accretion amounts as a result of the non-cash debt modifications in Q1 and Q4 2024.

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## Share-based Compensation

Southern recorded share-based expense of \$0.1 million for the three and nine months ended September 30, 2025, compared to \$0.1 million and \$0.3 million of expenses for the same periods in 2024, respectively, related to the issuance of stock options and restricted share awards. For more information, see "Shareholders' Equity – Share Award Incentive Plan".

## Depletion, Depreciation and Amortization

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
(000s)				
Depletion	\$ 1,430	\$ 1,577	\$ 4,154	\$ 5,351
Depreciation	38	40	114	120
<b>Total depletion, depreciation and amortization</b>	<b>\$ 1,468</b>	<b>\$ 1,617</b>	<b>\$ 4,268</b>	<b>\$ 5,471</b>
<b>DD&amp;A expense per Mcfe</b>	<b>\$ 1.28</b>	<b>\$ 1.25</b>	<b>\$ 1.28</b>	<b>\$ 1.26</b>

Depletion expense was \$1.4 million (\$1.25/Mcfe) in Q3 2025, a decrease of 9% on a dollar basis and flat on a per Mcfe basis, compared to Q3 2024. Depletion expense for the first nine months of 2025 was \$4.2 million (\$1.25/Mcfe) which was 22% lower on a dollar basis and flat on a per Mcfe basis compared to the same periods in 2024. The decrease is primarily due to lower production volumes in 2025 compared to 2024.

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

## Impairment

As at September 30, 2025, Southern did not identify any indicators of impairment or impairment recovery for any of its cash generating units ("CGUs").

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## Capital Expenditures, Property Acquisitions and Dispositions

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

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
<i>(000s)</i>				
Land, acquisitions and lease rentals	\$ 40	\$ -	\$ 40	\$ -
Drilling and completions	100	(23)	2,200	392
Geological and geophysical	-	-	-	-
Facilities, equipment and pipelines	200	510	568	419
Other	-	-	-	5
<b>Capital expenditures, before Dispositions</b>	<b>340</b>	<b>487</b>	<b>2,808</b>	<b>816</b>
<b>Dispositions</b>	<b>-</b>	<b>(2,004)</b>	<b>-</b>	<b>(3,364)</b>
<b>Net capital expenditures <sup>(1)</sup></b>	<b>\$ 340</b>	<b>\$ (1,517)</b>	<b>\$ 2,808</b>	<b>\$ (2,548)</b>

Note:

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

Southern incurred \$2.8 million of expenses over the first nine months of 2025, which were primarily related to the \$2.1 million completion of the GH LSC 13-13 #2 wellbore in the LSC formation (see "Operations Update" for more information) and some maintenance capital expenditures in the field on existing operations.

For the nine months ended September 30, 2024, Southern sold excess equipment for net proceeds of \$3.4 million.

## Decommissioning Provisions

The total decommissioning provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provision, is approximately \$17.4 million at September 30, 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 4.7% at September 30, 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 as at September 30, 2025 and December 2024:

	Number of Shares	Share Capital (\$000s)
Balance as at December 31, 2024	169,385,824	\$ 80,166
April issuance of Common Shares by Fundraising	102,482,673	3,486
Settlement of convertible debentures	62,759,286	2,123
Issuance of Common Shares to settle Debenture interest	1,627,170	55
Share issuance costs	-	(1,598)
<b>Balance as at September 30, 2025</b>	<b>336,254,953</b>	<b>\$ 84,232</b>

On April 8, 2025, Southern closed an equity financing (the "Fundraising") raising aggregate gross proceeds of \$5.0 million through the issuance of a total of 102,482,673 units (the "Units"). The Units under the Fundraising were offered by way of a prospectus offering (the "Prospectus Offering") at a price of CAD\$0.07 per Unit (the "Prospectus Price") and a concurrent placement of Units (the "Placing") to new and existing investors on AIM at a price of 3.8 pence per Unit. 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 Units and \$1.8 million through a Placing of 37,047,152 Units.

## *Warrants*

As part of the Prospectus Offering on April 8, 2025, 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.

The Fundraising Warrants and Compensation Warrants are classified as a derivative financial liability, as they do not meet the IAS 32 fixed-for-fixed test due to the down-round protection and subsequent adjustment to the exercise price if the Company issues new securities convertible or exchangeable into shares that are less than 95% of the current market price. The Fundraising Warrants and Compensation Warrants are measured at fair value at each reporting date with the changes in fair value recorded in the condensed interim consolidated statement of earnings (loss) and comprehensive income (loss) in the period in which they arise. The revaluation at September 30, 2025, resulted in a non-cash gain of \$0.5 million for the three months ending September 30, 2025.

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## 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 as at September 30, 2025 and December 31, 2024:

	Number of stock options	Weighted average exercise price (CAD)
Balance as at December 31, 2024	8,166,875	\$ 0.62
Forfeited	(1,131,250)	\$ 0.63
<b>Balance as at September 30, 2025</b>	<b>7,035,625</b>	<b>\$ 0.62</b>

The forfeiture of 1,131,250 stock options is related to the departure of employees from the Company.

The following table summarizes information regarding stock options outstanding as at September 30, 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)
<b>\$0.18 - \$1.01</b>	<b>7,036</b>	<b>2.5</b>	<b>\$0.62</b>	<b>6,130</b>	<b>\$0.68</b>

## Share Award Incentive Plan

The following table reflects the Company's outstanding restricted share awards ("RSAs") at September 30, 2025 and December 31, 2024:

	Number of RSAs
Balance as at December 31, 2024	1,699,133
Released upon cash settlement	(1,250,531)
Granted	19,800,000
Forfeited	(70,834)
<b>Balance as at September 30, 2025</b>	<b>20,177,768</b>

In April 2025, the Board of Directors approved the accelerated vesting and settlement in cash of 1,200,571 RSAs which were scheduled to vest in June and September 2025.

On August 20, 2025, Southern issued 19.8 million RSAs under its Share Award Incentive Plan. The RSAs vest as to one third on each of the first, second and third anniversaries of the grant date. On the vesting dates of such RSAs, the holder is entitled to receive a cash payment or its equivalent in fully paid Common

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Shares, at the Company's discretion, equal to the closing market value per Common Share on the TSXV on the business day prior to such payment. For the purpose of calculating share-based compensation, the fair value of the RSAs is based on the market value of Southern's Common Shares at each period end. The fair value is recognised as share-based compensation over the vesting period. Fluctuations in fair values are recognized as share-based compensation in the period they occur.

The forfeiture of 70,834 RSAs is related to the departure of employees from the Company.

## **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.

The condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Accordingly, the statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value.

For the nine months ended September 30, 2025, the Company incurred a net loss of \$3.8 million and generated cash from operating activities of \$1.6 million. As of September 30, 2025, the accumulated deficit was \$76.8 million and current liabilities exceeded current assets by \$11.7 million.

The prolonged period of low natural gas prices from 2023 through 2025 has adversely affected cash flows and limited the Company's ability to service its Credit Facility. The Company forecasts a potential covenant violation within the next twelve months. If a covenant violation occurs without securing a waiver, the Credit Facility becomes due and payable on demand.

Southern continues to explore alternative financing opportunities in both debt and equity markets to support its strategy of organic and inorganic growth while improving the balance sheet. If such financing is unavailable and the Company is unable to sell additional non-core assets or excess equipment, it may seek further waivers or amendments to its Credit Facility to meet short-term obligations and avoid potential default. However, there is no assurance that the lender will grant such waivers or amendments. Failure to meet financial covenants without securing waivers could result in the debt becoming due on demand.

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As a result of these factors, there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

In assessing the appropriateness of the going concern assumption, management considered all available information about the future for at least, but not limited to, the twelve months following the end of the reporting period. Southern's Credit Facility matures on December 31, 2026, and the Company is unlikely to be able to make the repayment without refinancing the Credit Facility or raising funds through a share issuance or other transactions. These financial statements do not include any adjustments to the carrying amounts and classifications of assets, liabilities, and expenses that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material (see Note 2 "Basis of Presentation and Going Concern" in the Financial Statements for more information).

	<b>September 30, 2025</b>	<b>December 31, 2024</b>	<b>September 30, 2024</b>
Credit Facility	\$ (13,979)	\$ (17,119)	\$ (17,119)
Convertible debentures – face value	-	(2,979)	(3,175)
Adjusted working capital deficiency <sup>(1)</sup>	(5,760)	(3,856)	(2,416)
<b>Net debt</b>	<b>\$ (19,739)</b>	<b>\$ (23,954)</b>	<b>\$ (22,710)</b>

Note:

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

As at September 30, 2025, Southern had adjusted working capital deficiency (see "Reader Advisories – Specified Financial Measures") of \$5.8 million. Included in the adjusted working capital deficiency is \$7.1 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 \$19.7 million as at September 30, 2025. Compared to a net debt balance of \$24.0 million as at December 31, 2024, the decrease in net debt during 2025 is a result of the net proceeds from the Fundraising and Debenture conversion.

### *Credit Facility*

Southern Energy Corporation (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at September 30, 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

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on December 31, 2026. As at September 30, 2025, Southern had \$14.0 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 monthly repayment 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 asset coverage ratio (“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.

Quarterly positive free cash flow (“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 September 30, 2025 and December 31, 2024:

Financial covenant	Limit	As at	As at
		Sep 30, 2025	Dec 31, 2024
Asset Coverage ratio	Minimum 1.50	2.11	1.80
Debt Service Coverage ratio	Minimum 1.25	1.48	0.77

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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.

As at September 30, 2025, Southern was in compliance with the above covenants. The Company forecasts a potential covenant violation within the next twelve months. If a covenant violation occurs without securing a waiver, the Credit Facility becomes due and payable on demand.

### *Debenture Financing*

On April 8, 2025, pursuant to a third supplemental debenture indenture, Southern converted the remaining outstanding Debentures at an amount equal to 102.5% of the principal amount outstanding under the Debentures plus all accrued and unpaid interest as of the closing date of the Fundraising into 62,759,286 Units at the Prospectus Price. Additionally, all accrued and unpaid interest was settled in-kind through the issuance of 1,627,170 Units at the Prospectus Price.

### **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. As more particularly described under "*Liquidity and Capital Resources – Going Concern*", there is material uncertainty that may cast significant doubt on the Company's ability to realize its assets and discharge its liabilities in the normal course of business within the next twelve months.

The following table lists the Company's obligations with a fixed term as at September 30, 2025:

	Total	2025	2026	2027	Thereafter
Credit Facility <sup>(1)</sup>	\$ 13,979	\$ 669	\$ 13,310	\$ -	\$ -
Lease obligations <sup>(2)</sup>	445	32	169	169	75
<b>Total</b>	<b>\$ 14,424</b>	<b>\$ 701</b>	<b>\$ 13,479</b>	<b>\$ 169</b>	<b>\$ 75</b>

Notes:

(1) See "*Liquidity and Capital Resources*" for more information.

(2) 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, and particularly persistent low natural gas prices;
- the Company's ability to continue as a going concern;
- 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;
- 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;
- 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 on a go-forward;
- business interruptions due to unexpected events;
- access to markets; and

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- 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 (the "AIF") for the year ended December 31, 2024, which is available on SEDAR+ at [www.sedarplus.ca](http://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 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 September 30, 2025:

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

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### **Eight Quarter Analysis**

(000s)	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Three months ended	2025	2025	2025	2024	2024	2024	2024	2023
Revenue	\$ 4,340	\$ 3,989	\$ 5,121	\$ 3,917	\$ 3,480	\$ 3,889	\$ 4,794	\$ 5,098
Adjusted Funds Flow from Operations	1,030	592	629	(725)	552	770	2,162	777
Net earnings (loss)	462	(411)	(3,879)	(3,715)	(2,062)	(2,622)	(3,121)	(39,563)
Per share:								
Basic	0.00	(0.00)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.26)
Diluted	0.00	(0.00)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.26)

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 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.
- Due to decreases in the future strip natural gas prices at June 30, 2025 and September 30, 2025, Southern recorded a \$1.4 million and \$0.9 million gain on unrealized derivatives, respectively.
- In Q3 2025, Southern recorded a non-cash gain on warrant revaluation of \$0.5 million.

### **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, the Company's expectations regarding the resolution of

regulatory disputes (including the anticipated timing thereof) and impact of FERC rate determinations on shut-in production volumes, expectations regarding the Company's ability to recover transportation fees, 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, expectations regarding natural gas pricing, estimated decommissioning obligations and expectations thereof, including that reclamation and abandonment costs will be funded through general corporate resources upon abandonment and anticipated settlement timing, expected resolutions of title or ownership issues in respect of royalty payables in accordance with industry standards over time, 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, the Company's expectations regarding completion of the two remaining DUCs and the drilling operations and production volumes in the Mechanicsburg and Greens Creek fields (including the timing thereof and anticipated costs and funding as well as the evaluation of well performance and regional natural gas pricing to inform such decisions), the Company's expectations regarding the funding of future drilling activities through available Credit Facility capacity and cash flow from operations, eligibility of new wells drilled, including the two remaining DUCs, at Gwinville under 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, 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", "would", "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 and any variations thereof. 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 Company's ability to continue as a going concern, availability of alternative debt and equity financing opportunities, that the Company may seek waiver of certain financial covenants or amendments to the Company's Credit Facility, the Company's ability to make repayments under its Credit Facility to meet short-term obligations and discharge its liabilities, 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 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.

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+ 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, risk of default, risks related to the Company's ability to meet its financial obligations and covenants, that there is no assurance that the lender will grant waivers or amendments to the Credit Facility, 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, continued U.S. government shutdown, 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 current 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](http://www.sedarplus.ca) or on the Company's website at [www.southernenergycorp.com](http://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 proved developed producing reserves using a 12% discount rate as applied in Credit Facility covenant calculations, net debt, initial production rates, tax rates, payout of wells, and prospective results of operations and production including production timing decisions contingent on commodity price and well performance evaluations, 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, initial production rates 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

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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,		
	September 30, 2025	December 31, 2024	September 30, 2024
Cash flow from operating activities	\$ 931	\$ 196	\$ 1,272
Change in non-cash working capital	98	(920)	(723)
Cash decommissioning expenses	1	(1)	3
<b>Adjusted Funds Flow from Operations</b>	<b>\$ 1,030</b>	<b>\$ (725)</b>	<b>\$ 552</b>

	Nine months ended,	
	September 30, 2025	September 30, 2024
Cash flow from operating activities	\$ 1,606	\$ 3,654
Change in non-cash working capital	639	(179)
Cash decommissioning expenses	6	9
<b>Adjusted Funds Flow from Operations</b>	<b>\$ 2,251</b>	<b>\$ 3,484</b>

# Southern Energy Corp

Management's Discussion and Analysis

For the three and nine months ended September 30, 2025 and 2024



## "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 Sep 30,		Nine months ended Sep 30,	
	2025	2024	2025	2024
Revenue	\$ 4,340	\$ 3,480	\$ 13,450	\$ 12,163
Royalties	(882)	(685)	(2,730)	(2,418)
Production taxes	(200)	(152)	(657)	(504)
Operating expenses	(1,318)	(1,279)	(4,127)	(4,024)
Transportation costs	(186)	(347)	(711)	(1,116)
<b>Operating netback before derivatives</b>	<b>\$ 1,754</b>	<b>\$ 1,017</b>	<b>\$ 5,225</b>	<b>\$ 4,101</b>
Realized gain on derivatives	217	578	124	2,399
<b>Operating netback</b>	<b>\$ 1,971</b>	<b>\$ 1,595</b>	<b>\$ 5,349</b>	<b>\$ 6,500</b>

## "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	As at	As at
	September 30, 2025	December 31, 2024	September 30, 2024
Current assets	\$ 3,965	\$ 5,756	\$ 6,384
Current liabilities	(15,680)	(30,678)	(29,473)
Remove:			
Current derivative assets	(15)	(166)	(351)
Current portion of lease liabilities	133	79	23
Current portion of Credit Facility	2,830	17,814	17,751
Current derivative liabilities	604	349	55
Warrant liability	2,403	-	-
Current portion of convertible debentures	-	2,990	3,195
<b>Adjusted working capital deficiency</b>	<b>\$ (5,760)</b>	<b>\$ (3,856)</b>	<b>\$ (2,416)</b>

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	As at September 30, 2025	As at December 31, 2024	As at September 30, 2024
Credit Facility	\$ (13,979)	\$ (17,119)	\$ (17,119)
Convertible debentures – face value	-	(2,979)	(3,175)
Adjusted working capital deficiency	(5,760)	(3,856)	(2,416)
<b>Net debt</b>	<b>\$ (19,739)</b>	<b>\$ (23,954)</b>	<b>\$ (22,710)</b>

## *“Net Capital Expenditures”*

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Net cash used by investing activities	\$ 1,493	\$ (1,106)	\$ 1,875	\$ 693
Change in non-cash working capital	(1,153)	(411)	933	(3,241)
<b>Net Capital Expenditures</b>	<b>\$ 340</b>	<b>\$ (1,517)</b>	<b>\$ 2,808</b>	<b>\$ (2,548)</b>

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:

## **Abbreviations**

bbl	barrels
bbl/d	barrels per day
boe	barrels of oil
boe/d	barrels of oil equivalent per day
Gas	natural gas
IP90	average hydrocarbon production rate for the first 90 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 (“Mcf”) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil. Natural gas volumes recorded in thousand cubic feet (“Mcf”) are converted to barrels of oil equivalent (“boe”) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil. Mcfe and boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl or a Mcfe conversion ratio of 1 bbl:6 Mcf may be misleading as an indication of value.

#### **Additional Information**

Additional information about the Company can be obtained by contacting the Company at Suite 2400, 333 7th Avenue SW, Calgary, Alberta T2P 2Z1 or by email at [info@southernenergycorp.com](mailto: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](http://www.sedarplus.ca) or online at [www.southernenergycorp.com](http://www.southernenergycorp.com).