Management's Discussion and Analysis of

SOUTHERN ENERGY CORP.

For the three and six months ended June 30, 2026 and 2025

(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 and six months ended June 30, 2026 and 2025 (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"). 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 condensate presentation provides a more accurate description of its operations and results. References to "NGLs" throughout this MD&A comprise pentane, butane, propane, and ethane, being all NGLs as defined by NI 51-101. References to "natural gas" throughout this MD&A refers to conventional natural gas as defined by NI 51-101.

This MD&A is dated August 25, 2026.

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 premium 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 extensive operational experience working together as a team and has pursued growth through acquisitions, optimizations of existing natural gas and oil fields and re-development strategies, including horizontal drilling and multi-staged fracture completion techniques. Southern's head office is located in Calgary, Alberta, Canada.

SECOND QUARTER HIGHLIGHTS

- Petroleum and natural gas sales of $4.2 million during Q2 2026, an increase of 4% from the same period in 2025, primarily due to higher oil production and stronger realized oil prices

- Average production of 10,460 Mcfe/d (1,743 boe/d) (91% natural gas) during Q2 2026, a decrease of 7% from the same period in 2025, primarily due to the temporary shut-in of the Mechanicsburg and Greens Creek Fields because of the ongoing transportation dispute ("Transportation Dispute")

- Average realized natural gas and oil prices of $3.15/Mcf and $99.32/bbl, respectively, during Q2 2026, compared to $3.63/Mcf and $62.60/bbl in Q2 2025. Southern achieved an average natural gas price premium of $0.25/Mcf (approximately 9%) above the NYMEX Henry Hub ("NYMEX HH") benchmark during Q2 2026

- Generated $0.7 million of Adjusted Funds Flow from Operations (see "*Reader Advisories – Specified Financial Measures*") in Q2 2026 ($0.00 per share basic and diluted), an increase of 15% from the same period in 2025

- Reported a net loss of $0.4 million ($0.00 per share, basic and diluted) in Q2 2026, compared to a net loss of $0.4 million ($0.00 per share, basic and diluted) in Q2 2025

SUBSEQUENT EVENTS

- On August 11, 2026, Southern spudded the Terrible Creek 21-2 #2 Cotton Valley test well in the Williamsburg Field

Summary of Financial Information

(000s, except $ per share)	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
Petroleum and natural gas sales	$ 4,161	$ 3,989	$ 9,687	$ 9,110
Net loss	(407)	(411)	(1,718)	(4,290)
Net loss per share				
Basic	(0.00)	(0.00)	(0.00)	(0.01)
Fully diluted	(0.00)	(0.00)	(0.00)	(0.01)
Adjusted Funds Flow from Operations (1)	682	592	2,035	1,221
Adjusted Funds Flow from Operations per share (1)				
Basic	0.00	0.00	0.01	0.00
Fully diluted	0.00	0.00	0.01	0.00
Capital expenditures and acquisitions	334	2,285	1,259	2,468
Weighted average shares outstanding				
Basic	366,255	321,585	359,255	291,452
Fully diluted	366,255	321,585	359,255	291,452
As at period end				
Common Shares outstanding	366,255	336,255	366,255	336,255
Total assets	48,876	53,333	48,876	53,333
Non-current liabilities	21,230	21,040	21,230	21,040
Net debt (1)	$ (16,013)	$ (19,784)	$ (16,013)	$ (19,784)

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

Operations Update

Southern spudded the Terrible Creek 21-2 #2 Cotton Valley test well in the Williamsburg Field on August 11, 2026. This is the first of two farm-out commitment wells planned for drilling this year whereby Southern will retain approximately 50% working interest by paying roughly 50% of the gross drill and completion costs of $3.9 million per well. The well is currently drilling ahead and the Company expects to reach a planned total depth of approximately 19,000 feet by early September. Completion and testing operations are expected to follow immediately after the drilling rig has been moved off site.

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. The Company continues to participate in regular settlement conferences facilitated by a FERC settlement judge and FERC trial and technical staff. If those discussions ultimately prove to be unsuccessful, the matter may proceed to an evidentiary hearing. Based on the timelines outlined in the latest FERC Order, a hearing outcome could occur in the first half of 2027; however, the timing and outcome remain uncertain.

Production Summary

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Average daily production from operations				
Oil (bbl/d) (1) (2)	159	66	114	74
NGLs (bbl/d) (2)	-	5	-	5
Natural gas (Mcf/d) (2)	9,506	10,869	9,632	11,576
Total production (Mcfe/d)	**10,460**	**11,295**	**10,316**	**12,050**
Total production (boe/d)	**1,743**	**1,883**	**1,719**	**2,008**
Percentage of natural gas	**91%**	**96%**	**93%**	**96%**

Notes:

(1) Includes condensate volumes of 30 bbl/d in Q2 2026, 43 bbl/d in Q2 2025, 27 bbl/d for six months Q2 2026 and 51 bbl/d for six months Q2 2025.

(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 10,460 Mcfe/d in Q2 2026 and 10,316 Mcfe/d for the first six months of 2026, representing decreases of 7% and 14%, respectively, compared to the same periods in 2025. The decreases were primarily due to the temporary shut-in of the Mechanicsburg and Greens Creek Fields beginning in early May 2025 due to the Transportation Dispute. These decreases were partially offset by higher oil production from additional perforations in an oil well in the Magee Field and the completion of the GH LSC 14-06 #4 well in late Q1 2026. The Company continues to pursue resolution of the Transportation Dispute through the ongoing FERC rate determination process.

Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
(000s)				
Oil	$ 1,437	$ 376	$ 1,847	$ 895
NGLs	-	18	-	39
Natural gas	2,724	3,595	7,840	8,176
Total revenue	**$ 4,161**	**$ 3,989**	**$ 9,687**	**$ 9,110**

The Company's total revenue from oil and natural gas sales was $4.2 million in Q2 2026 and $9.7 million for the first six months of 2026, representing increases of 4% and 6%, respectively, compared to the same periods in 2025. The increase in Q2 2026 revenue was primarily driven by higher oil production from the Magee area and stronger realized oil prices, partially offset by lower realized natural gas prices and natural gas sales volumes compared to Q2 2025. The increase for the six months ended June 30, 2026 was primarily due to higher realized oil and natural gas prices, partially offset by lower natural gas sales volumes resulting from the Mechanicsburg and Greens Creek Field shut-ins.

Realized commodity prices

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Oil ($/bbl)	$ 99.32	$ 62.60	$ 89.51	$ 66.82
NGLs ($/bbl)	-	39.56	-	43.09
Natural gas ($/Mcf)	3.15	3.63	4.50	3.90
Combined ($/Mcfe)	**$ 4.37**	**$ 3.88**	**$ 5.19**	**$ 4.18**
Benchmark prices				
Crude oil – LLS ($/bbl)	$ 96.08	$ 66.18	$ 85.28	$ 70.29
Crude oil – WTI ($/bbl)	92.79	63.74	82.36	67.58
Natural gas – NYMEX HH ($/MMBtu)	2.90	3.44	3.97	3.55
Exchange rate ($CAD/$U.S.)	1.38	1.38	1.378	1.41

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 HH pricing (less minor proximity adjustments) for its natural gas.

In Q2 2026, Southern realized an oil price of $99.32/bbl, representing a 59% increase from the same period in 2025. For the first half of 2026, Southern's realized oil price increased 34% compared to the same period in 2025. The higher realized prices were primarily attributable to an increase in West Texas Intermediate ("WTI") pricing, which was supported by heightened geopolitical uncertainty, including conflicts in the Middle East, and concerns regarding potential impacts to global crude oil supply.

Southern realized a natural gas price of $3.15/Mcf in Q2 2026, a 13% decrease from Q2 2025. The decrease was primarily due to lower NYMEX HH pricing during the quarter, reflecting higher storage levels entering the summer injection season and reduced near-term demand compared to the prior year period. During the first half of 2026, Southern realized a natural gas price of $4.50/Mcf, a 15% increase compared to the same period in 2025. The increase reflects higher winter demand, changes in supply-demand fundamentals, and continued growth in U.S. liquefied natural gas ("LNG") export capacity. The Company's assets are located near Gulf Coast LNG infrastructure, which supports regional natural gas demand and contributes to favorable pricing differentials. For the six months ended June 30, 2026, Southern realized an average premium of $0.53/Mcf, or approximately 13% above the NYMEX HH benchmark, reflecting the Company's marketing strategy of optimizing sales points and capturing regional price differentials. Industry drilling activity also remained moderated, supporting a more balanced supply environment.

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
(000s)				
Oil	$ 368	$ 78	$ 465	$ 183
NGLs	-	3	-	7
Natural gas	699	732	1,882	1,658
Total royalties	**$ 1,067**	**$ 813**	**$ 2,347**	**$ 1,848**
Royalties as a % of revenue	**25.6%**	**20.4%**	**24.2%**	**20.3%**

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 $1.1 million in Q2 2026 and $2.3 million for the first six months of 2026, representing increases of 31% and 27%, respectively, compared to the same periods in 2025. The increase was primarily due to the incremental royalty obligation associated with the 6% gross overriding royalty ("GORR") sold on February 12, 2026. The GORR provided additional liquidity but results in lower future revenue and cash netbacks on affected production. Based on current production levels and under existing royalty arrangements, Southern expects royalties, including the GORR, to remain approximately 26% of revenue, as royalty obligations are generally based on fixed rates applied to production revenues.

Production, Operating and Transportation Expenses

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
(000s)				
Operating expenses	$ 1,204	$ 1,266	$ 2,411	$ 2,809
Production taxes	225	196	525	457
Transportation expense	149	232	300	525
Total production, operating and transportation	**$ 1,578**	**$ 1,694**	**$ 3,236**	**$ 3,791**

Operating expenses were $1.2 million ($1.26/Mcfe) in Q2 2026, representing a decrease of 5% on a dollar basis and an increase of $0.03/Mcfe compared to Q2 2025. For the first six months of 2026, operating expenses were $2.4 million ($1.29/Mcfe), representing a decrease of 14% on a dollar basis and remaining consistent on a per Mcfe basis compared to the same period in 2025. Operating expenses were lower primarily due to the Mechanicsburg and Greens Creek Fields remaining shut-in since May 2025 because of the Transportation Dispute.

Production taxes were $0.2 million and $0.5 million for the three and six months ended June 30, 2026, respectively. The State of Mississippi provides a severance tax relief program whereby qualifying new horizontal wells are subject to a reduced severance tax rate of 1.3% on oil and natural gas production for up to 30 months from the date of first sale or until payout status is achieved, whichever occurs first. All new wells drilled at Gwinville qualify for this reduced severance tax rate, and Southern expects the remaining drilled but uncompleted ("DUC") well to also qualify. Wells not eligible for the severance tax relief program are subject to the standard severance tax rate of 6.0%.

Transportation expenses were $0.1 million ($0.16/Mcfe) and $0.3 million ($0.16/Mcfe) for the three and six months ended June 30, 2026, respectively, representing decreases of 36% and 43% compared to the same periods in 2025. The decreases were primarily due to lower sales volumes. Southern is involved in the Transportation Dispute regarding transportation fees being charged by a third-party midstream company. On April 29, 2025, Southern received confirmation that the pipelines subject to the Transportation Dispute are regulated by FERC. The third party made its initial filing with 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. On April 6, 2026, FERC provided an Order outlining procedures to force both parties into immediate settlement discussions in front of a settlement judge, and those settlement conferences are progressing on a regular basis. If the discussions are unsuccessful, the case will be recommended to a FERC evidentiary hearing. Based on the timelines outlined in the FERC Order, a hearing outcome could occur in the first half of 2027; however, the timing and outcome remain uncertain.

Operating Netback

	Three months ended June 30,		Six months ended June 30,	
	2026	**2025**	**2026**	**2025**
($/Mcfe)				
Petroleum and natural gas revenue	$ 4.37	$ 3.88	$ 5.19	$ 4.18
Royalties	(1.12)	(0.79)	(1.26)	(0.85)
Production taxes	(0.24)	(0.19)	(0.28)	(0.21)
Operating expenses	(1.26)	(1.23)	(1.29)	(1.29)
Transportation costs	(0.16)	(0.23)	(0.16)	(0.24)
Operating netback per Mcfe before derivatives (1)	**$ 1.59**	**$ 1.44**	**$ 2.20**	**$ 1.59**
Realized gain on derivatives	0.22	0.08	(0.13)	(0.04)
Operating netback per Mcfe (1)	**$ 1.81**	**$ 1.52**	**$ 2.07**	**$ 1.55**
Operating netback % of revenue (1)	**41%**	**39%**	**40%**	**37%**

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

Southern's operating netbacks increased by 19% and 34% for the three and six months ended June 30, 2026, respectively, compared to the same periods in 2025. The increase in Q2 2026 was primarily driven by stronger realized oil prices and higher realized gains on derivatives, partially offset by lower realized natural gas prices and higher royalty expense associated with the GORR. The increase for the six months ended June 30, 2026 was primarily due to higher realized commodity prices, partially offset by higher royalty expense associated with the GORR.

General & Administrative and Transaction Costs

	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
(000s)				
General and administrative	$ 1,021	$ 1,003	$ 1,822	$ 1,895
Transaction costs	-	7	-	307
Total	**$ 1,021**	**$ 1,010**	**$ 1,822**	**$ 2,202**
General and administrative per Mcfe	**$ 1.07**	**$ 0.98**	**$ 0.98**	**$ 0.87**

General and administrative costs were $1.0 million in Q2 2026 and $1.8 million for the first six months of 2026, representing an increase of 2% and a decrease of 4%, respectively, from the same periods in 2025. Southern implemented cost-cutting measures during 2025 to improve cost efficiency while maintaining service levels and safety standards. The benefits of these initiatives continue to be realized during 2026.

Finance Expense

	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
(000s)				
Credit facility interest	$ -	$ 576	$ 244	$ 1,196
Convertible debenture interest	296	6	452	77
Interest Income	(48)	(15)	(71)	(18)
Lease interest	11	15	24	29
Accretion	357	(35)	522	(63)
Total finance expense	**$ 616**	**$ 547**	**$ 1,171**	**$ 1,221**
Finance expense per Mcfe	**$ 0.65**	**$ 0.53**	**$ 0.63**	**$ 0.56**

Finance expenses were $0.6 million in Q2 2026 and $1.2 million for the first six months of 2026, representing an increase of 13% and a decrease of 4%, respectively, compared to the same periods in 2025. The increase in Q2 2026 was primarily due to non-cash accretion expense and interest expense recognized on the senior secured convertible debentures ("2026 Debentures") issued in February 2026, partially offset by the elimination of interest expense on the prior senior credit facility ("Credit Facility") and higher interest income. The decrease in finance expenses for the first six months of 2026 was primarily due to lower overall interest expense following the full repayment of the 15% Credit Facility, replacing high-cost debt with the 7% 2026 Debentures, partially offset by non-cash accretion expense.

Share-based Compensation

Southern recorded share-based compensation expense of $0.1 million for the three months ended June 30, 2026 and $0.3 million for the six months ended June 30, 2026, compared to expense of $20 thousand and a recovery of $9 thousand, respectively, for the same periods in 2025. The expense relates to stock options and restricted share awards issued under the Company's Share Award Incentive Plan. The recovery recognized in 2025 was primarily due to changes in the estimated fair value of restricted share awards. For more information, see "Shareholders' Equity – Share Award Incentive Plan".

Depletion, Depreciation and Amortization

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
(000s)				
Depletion	$ 1,118	$ 1,281	$ 2,192	$ 2,724
Depreciation	45	38	82	76
Total depletion, depreciation and amortization	**$ 1,163**	**$ 1,319**	**$ 2,274**	**$ 2,800**
DD&A expense per Mcfe	**$ 1.22**	**$ 1.28**	**$ 1.22**	**$ 1.28**

Depletion expense was $1.1 million ($1.17/Mcfe) in Q2 2026, a decrease of 13% on a dollar basis and 6% on a per Mcfe basis compared to Q2 2025. Depletion expense for the first six months of 2026 was $2.2 million ($1.17/Mcfe), representing a decrease of 20% on a dollar basis and 6% on a per Mcfe basis compared to the same period in 2025. The decrease in depletion expense was primarily due to lower production volumes during 2026.

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

Impairment

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the cash generating units ("CGUs") that comprise its petroleum and natural gas properties. As at June 30, 2026, 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:

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
(000s)				
Land, acquisitions and lease rentals	$ 18	$ -	$ 19	$ -
Drilling and completions	97	2,100	861	2,100
Geological and geophysical		-	-	-
Facilities, equipment and pipelines	102	185	262	368
Other	117	-	117	-
Capital expenditures, before Dispositions	**334**	**2,285**	**1,259**	**2,468**
Dispositions	**-**	**-**	**(4,858)**	**-**
Net capital expenditures (1)	**$ 334**	**$ 2,285**	**$ (3,599)**	**$ 2,468**

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

Southern incurred $1.3 million of capital expenditures before dispositions during the first half of 2026, primarily related to the $0.7 million acid treatment of the GH LSC 14-06 #4 wellbore and some maintenance capital expenditures in the field on existing operations.

On February 12, 2026, as part of the February Financing, Southern sold the GORR on its existing and future developed production for net proceeds of $4.9 million. The GORR will be granted as a non-possessory fee simple determinable interest in land that runs with the Company's lands as of the closing date.

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 $17.6 million as at June 30, 2026 (December 31, 2025 – $17.9 million). The decommissioning provision was inflated using a rate of 2.2% (December 31, 2025 – 2.2%) and discounted using a risk-free interest rate of 4.9% as at June 30, 2026 (December 31, 2025 – 4.8%). 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 are expected to 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 voting Common Shares and an unlimited number of preferred shares.

The following table reflects the Company's outstanding Common Shares at June 30, 2026 and December 31, 2025:

	Number of Shares	Share Capital
Balance as at December 31, 2025	336,254,953	$ 84,232
February issuance of Common Shares by Private Placement	30,000,000	1,544
Share issuance costs	-	(51)
Balance as at June 30, 2026	**366,254,953**	**$ 85,725**

On February 12, 2026, upon closing of the February Financing the Company issued 30.0 million new Common Shares at a price of CAD$0.07 ($0.05) per Common Share for gross proceeds of CAD$2.1 million ($1.5 million).

Warrants

As of June 30, 2026, 4,932,804 compensation warrants ("Compensation Warrants"), 102,482,673 fundraising warrants ("Fundraising Warrants"), and 64,386,456 convertible debenture warrants were outstanding. Each Compensation Warrant is exercisable for one Common Share at an exercise price of CAD$0.07 for a period of 36 months maturing on April 8, 2028. Each Fundraising Warrant and convertible debenture warrant is exercisable for one Common Share for 36 months from April 8, 2025 at an exercise price of CAD$0.09 per Common Share for warrants issued in the prospectus offering and 4.8 pence per Common Share for warrants issued in the placing, in each case maturing on April 8, 2028.

The Fundraising Warrants, Compensation Warrants and convertible debenture 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 consolidated statement of earnings (loss) and comprehensive income (loss) in the period in which they arise. The revaluation at June 30, 2026, resulted in a non-cash gain of $1.0 million for the three months ending June 30, 2026. The gain on warrant revaluation is non-cash in nature and does not impact liquidity or operating cash flows.

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 June 30, 2026 and December 31, 2025:

	Number of stock options	**Weighted average exercise price (CAD)**
Balance as at December 31, 2025	6,506,875	$ 0.62
Balance as at June 30, 2026	**6,506,875**	**$ 0.62**

The following table summarizes information regarding stock options outstanding as at June 30, 2026:

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)
$0.18 - $1.01	**6,507**	**1.8**	**$0.62**	**5,671**	**$0.68**

Share Award Incentive Plan

The following table reflects the Company's outstanding restricted share awards ("RSAs") at June 30, 2026 and December 31, 2025:

	Number of RSAs
Balance at December 31, 2025	19,577,768
Released upon cash settlement	(377,768)
Balance at June 30, 2026	**19,200,000**

Liquidity and Capital Resources

On February 12, 2026, the Company completed the February Financing pursuant to which it issued the 2026 Debentures and Common Shares in the capital of the Company and granted the GORR. The Company issued 17,000 $1,000 face value 2026 Debentures for gross proceeds of $17.0 million, 30.0 million new Common Shares at a price of CAD$0.07 ($0.05) per Common Share for gross proceeds of CAD$2.1 million ($1.5 million) and received $5.0 million from the sale of the GORR. The February Financing generated aggregate net proceeds of approximately $22.0 million, which were used in part to repay and retire the Company's senior Credit Facility, with the remainder intended to fund development capital and general corporate purposes. The 2026 Debentures mature on December 31, 2028, and bear interest at 7% per annum. Following completion of the February Financing, the Credit Facility was fully retired.

With the net proceeds from the February Financing, Southern intends to drill up to two gross wells (1.0 net well) in the Williamsburg area (see "*Operations Update*" for more information) and potentially complete the final remaining City Bank DUC at Gwinville in 2026.

Southern continues to focus on creating balance sheet resilience and long-term sustainability through all commodity cycles. Following the February Financing, management believes the Company has sufficient liquidity to meet its obligations as they become due under current commodity price assumptions and planned capital spending levels. 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.

	June 30, 2026	December 31, 2025	June 30, 2025
Credit Facility	$ -	$ (13,310)	$ (14,628)
Convertible debentures – face value	(17,000)	-	-
Adjusted working capital (deficiency)[1]	987	(6,547)	(5,156)
Net debt	**$ (16,013)**	**$ (19,857)**	**$ (19,784)**

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

As at June 30, 2026, Southern had adjusted working capital (see "*Reader Advisories – Specified Financial Measures"*) of $1.0 million compared to a working capital deficiency of $6.6 million at December 31, 2025.

Included in the adjusted working capital is $6.7 million ($7.3 million at December 31, 2025) 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 $16.0 million as at June 30, 2026, compared to $19.9 million as at December 31, 2025. The decrease in net debt during the first six months of 2026 primarily reflects the application of net proceeds from the February Financing.

Following the completion of the February Financing, Southern eliminated its senior Credit Facility, extended its debt maturities to December 2028, and reduced cash interest costs from 15% to 7% per annum on its senior debt. The Company believes it has sufficient liquidity to meet its obligations as they become due and to support ongoing operations and planned capital activities, based on current commodity price assumptions and planned capital spending levels.

Debenture Financing

On February 12, 2026, Southern issued 17,000 2026 Debentures to an Investor at a price of $1,000 per 2026 Debenture with a 8.8235% original issue discount ("OID") at a price of $911.76 per 2026 Debenture, raising gross proceeds of $17.0 million (net proceeds of $15.5 million). The 2026 Debentures will mature on December 31, 2028, and bear interest at a rate of 7 percent per annum, payable quarterly. The 2026 Debentures (excluding the principal amount attributed to the OID, being $1.5 million) will be convertible into Common Shares at any time prior to maturity at $0.073 (CAD$0.10) per Common Share, being a ratio of 13,700 Common Shares per $1,000 principal amount of the convertible portion of the 2026 Debentures. At the Investor's option, interest may be paid in cash or in Common Shares, with the number of shares determined based on the market price of the Common Shares and prevailing exchange rate at the time of payment, subject to approval by the TSX Venture Exchange ("TSXV"). The Investor may not convert the 2026 Debentures or receive interest in Common Shares if doing so would cause the Investors' ownership to exceed 19.99 percent of the outstanding Common Shares without prior TSXV clearance and shareholder approval. In the event that the Investor is not approved as a "Control Person" (as defined in the TSXV Corporate Finance Manual) on or prior to December 31, 2026, then, from and after January 1, 2027, the 2026 Debentures will bear interest at a rate of 15 percent per annum.

The liability component of the 2026 Debentures was initially recognized at the fair value of a similar liability which does not contain an equity conversion option, based on a market interest rate of 11.8%. The difference between the $17.0 million principal amount of the 2026 Debentures and the fair value of the liability component was recognized in Shareholder's equity. Total transaction costs, excluding the OID, directly attributable to the offering of $0.5 million were allocated proportionately to the liability and equity components of the 2026 Debentures.

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 following table lists the Company's obligations with a fixed term as at June 30, 2026:

	Total	2026	2027	2028	Thereafter
Convertible debentures(1)	$ 17,000	$ -	$ -	$ 17,000	$ -
Convertible debenture interest(1)	2,983	600	1,190	1,193	-
Lease obligations(2)	309	71	166	72	-
Total	**$ 20,292**	**$ 671**	**$ 1,356**	**$ 18,265**	**$ -**

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;
- reliance on third-party operators/pipelines;
- potential ongoing impacts if FERC timelines extend;
- changes in the political landscape both domestically and abroad;
- outbreak of military hostilities, including the Russo-Ukrainian war, the U.S.-Iran conflict and the Israel-Hamas conflict, and the potential destabilizing effects such conflicts may have on 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 2026 royalty rates on a go-forward basis;
- business interruptions due to unexpected events;
- access to markets; and
- risk of interruption or failure of information technology systems and data.

All of these risks influence the controls and management at the Company.

Southern manages these risks by:

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

For additional details on the risks relating to Southern's business, see "*Risk Factors*" in the Company's most recent Annual Information Form ("AIF") for the year ended December 31, 2025, which is available on SEDAR+ at www.sedarplus.ca.

Commodity Derivative Contracts

Southern utilizes oil and natural gas derivative contracts to mitigate its exposure to commodity price risk associated with future oil and natural gas production. Typical derivative contracts could consist of options, in the form of price floors, collars or three-way collars and fixed-price swaps. The derivative financial instruments are recorded on the 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 consolidated statement of earnings (loss) and comprehensive income (loss) in the period of change.

Southern had the following commodity derivative contracts in place as at June 30, 2026:

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

Eight Quarter Analysis

(*000s*) **Three months ended**	**Jun 30 2026**	**Mar 31 2026**	**Dec 31 2025**	**Sep 30 2025**	**Jun 30 2025**	**Mar 31 2025**	**Dec 31 2024**	**Sep 30 2024**
Revenue	$ 4,161	$ 5,526	$ 4,594	$ 4,340	$ 3,989	$ 5,121	$ 3,917	$ 3,480
Adjusted Funds Flow from Operations	682	1,353	709	1,030	592	629	(725)	552
Net (loss) earnings	(407)	(1,311)	(3,680)	462	(411)	(3,879)	(3,715)	(2,062)
Per share:								
Basic	(0.00)	(0.00)	(0.01)	0.00	(0.00)	(0.02)	(0.02)	(0.01)
Diluted	(0.00)	(0.00)	(0.01)	0.00	(0.00)	(0.02)	(0.02)	(0.01)

The quarterly volatility in net earnings reflects fluctuations in derivative valuations, warrant remeasurements and transaction costs, rather than underlying operating performance, that remains relatively stable on a per-unit basis. 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.
- 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.
- In Q4 2025, Southern recorded a non-cash loss on warrant revaluation of $2.8 million.

- As a result of the GORR sale on February 12, 2026, the Company recorded a loss on disposition of $1.2 million.
- In Q2 2026, Southern recorded a non-cash gain on warrant revaluation of $1.0 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 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, timing and outcome of the Transportation Dispute and FERC proceedings, 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 including uses of proceeds from the February Financing, 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 including the first Cotton Valley test well in the Williamsburg Field, the Company's expectations regarding completion of the remaining DUC 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 cash flow from operations, eligibility of new wells drilled, including the remaining DUC, 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, annual savings from reduced operating costs including success of cost-cutting measures regarding general and administrative 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, the Company's ability 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, timing and cost of drilling, completing and testing activities, drilling results, the ability to obtain financing on acceptable terms, the ability to comply with ongoing obligations under the GORR and 2026 Debentures, 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, including the Mississippi severance tax relief program, 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 including those associated with drilling in new formations, 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, 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 conflict between the U.S. and Iran, 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 U.S.-Iran conflict, 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 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 2026, 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 10% discount rate, 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 described 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,		
	June 30, 2026	December 31, 2025	June 30, 2025
Cash flow from operating activities	$ (306)	$ 1,531	$ (373)
Change in non-cash working capital	956	(831)	960
Cash decommissioning expenses	32	9	5
Adjusted Funds Flow from Operations	**$ 682**	**$ 709**	**$ 592**

	Six months ended,	
	June 30, 2026	June 30, 2025
Cash flow from operating activities	$ 1,673	$ 675
Change in non-cash working capital	332	541
Cash decommissioning expenses	30	5
Adjusted Funds Flow from Operations	**$ 2,035**	**$ 1,221**

"Operating Netback"

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

	Three months ended Jun 30,		Six months ended Jun 30,	
	2026	2025	2026	2025
Revenue	$ 4,161	$ 3,989	$ 9,687	$ 9,110
Royalties	(1,067)	(813)	(2,347)	(1,848)
Production taxes	(225)	(196)	(525)	(457)
Operating expenses	(1,204)	(1,266)	(2,411)	(2,809)
Transportation costs	(149)	(232)	(300)	(525)
Operating netback before derivatives	**$ 1,516**	**$ 1,482**	**$ 4,104**	**$ 3,471**
Realized gain (loss) on derivatives	211	87	(245)	(93)
Operating netback	**$ 1,727**	**$ 1,569**	**$ 3,859**	**$ 3,378**

"Adjusted Working Capital" and "Net Debt"

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

	As at June 30, 2026	As at December 31, 2025	As at June 30, 2025
Current assets	$ 10,846	$ 4,044	$ 5,594
Current liabilities	(14,131)	(30,162)	(17,580)
Remove:			
Current derivative assets	(80)	(105)	-
Current portion of lease liabilities	132	127	149
Current portion of Credit Facility	-	13,755	2,730
Current derivative liabilities	88	485	1,007
Warrant liability	4,132	5,309	2,944
Adjusted working capital (deficiency)	**$ 987**	**$ (6,547)**	**$ (5,156)**

	As at June 30, 2026	As at December 31, 2025	As at June 30, 2025
Credit Facility	$ -	$ (13,310)	$ (14,628)
Convertible debentures – face value	(17,000)	-	-
Adjusted working capital deficiency	987	(6,547)	(5,156)
Net debt	**$ (16,013)**	**$ (19,857)**	**$ (19,784)**

"Net Capital Expenditures"

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

	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
Net cash used by investing activities	$ 1,273	$ 172	$ (3,353)	$ 382
Change in non-cash working capital	(939)	2,113	(246)	2,086
Net Capital Expenditures	**$ 334**	**$ 2,285**	**$ (3,599)**	**$ 2,468**

Abbreviations

bbl	barrels
bbl/d	barrels per day
boe	barrels of oil
boe/d	barrels of oil equivalent per day
Gas	natural gas
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.

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, 2025 and 2024, and the AIF, are also available on SEDAR+ at www.sedarplus.ca or online at www.southernenergycorp.com.