

Management's Discussion and Analysis of

## SOUTHERN ENERGY CORP.

For the three and nine months ended September 30, 2024 and 2023

(U.S. Dollars)

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial results is provided by the management ("Management") of Southern Energy Corp. ("Southern" or the "Company") and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2024 and 2023 (the "Financial Statements"), which have been prepared in accordance with IAS 34 – *Interim Financial Reporting* of the IFRS® Accounting Standards as issued by the International Accounting Standards Board (IASB).

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

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

This MD&A is dated November 29, 2024.

## About Southern

Southern is a natural gas exploration and production company with assets in Mississippi characterized by a stable, low-decline production base, a significant low-risk drilling inventory and strategic access to the best commodity pricing in North America. Southern has a primary focus on acquiring and developing conventional natural gas and light oil resources in the southeast Gulf States of Mississippi, Louisiana, and East Texas. In these areas, Southern has access to major pipelines, significant Company-owned infrastructure, year-round access to drill, and the ability to shift focus between natural gas or crude oil development as commodity prices fluctuate; all factors that contribute to mitigating corporate risk. Southern's goal is to continually grow shareholder value through organic growth opportunities and strategic, accretive acquisitions.

Management has a long and successful history of working together as a team and have created significant shareholder value through accretive acquisitions, optimizations of existing natural gas and oil fields and the utilization of re-development strategies utilizing horizontal drilling and multi-staged fracture completion techniques. Southern's head office is located in Calgary, Alberta, Canada.

## THIRD QUARTER HIGHLIGHTS

- Petroleum and natural gas sales of \$3.5 million in Q3 2024, a decrease of 34% compared to the same period in 2023
- Average production of 14,018 Mcfe/d (2,336 boe/d) (97% natural gas) during Q3 2024, a decrease of 17% from the same period in 2023 (see *"Production Summary"* below for a breakdown by product type)
- Generated \$0.6 million of Adjusted Funds Flow from Operations (see *"Reader Advisories – Specified Financial Measures"*) in Q3 2024 (\$0.00 per share - basic and fully diluted)
- Net loss of \$2.1 million in Q3 2024 (\$0.01 net loss per share - basic and fully diluted), compared to a net loss of \$2.4 million in Q3 2023
- Average realized natural gas and oil prices for Q3 2024 of \$2.40/Mcf and \$73.78/bbl compared to \$2.83/Mcf and \$82.65/bbl in Q3 2023 and a Q3 2024 natural gas benchmark price of \$2.16/Mcf
- Monetized excess inventory equipment in the first nine months of 2024 for net proceeds of \$3.4 million
- Reduced Net Debt (see *"Reader Advisories – Specified Financial Measures"*) by \$1.4 million from Q2 2024 and \$3.9 million from Q4 2023

## SUBSEQUENT EVENTS

- On October 30, 2024, entered into the eighth amendment (the *"Eighth Amendment"*) to the Company's senior secured term loan (the *"Credit Facility"*), which includes an extension to the pause of monthly repayment of principal to December 31, 2024 and a condition that Southern shall repay \$1.7 million of the outstanding principal at January 31, 2025 in the absence of a use of proceeds acceptable to the lender (see *"Liquidity, Capital Resources and Going Concern – Credit Facility"*)

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## Summary of Financial Information

<i>(000s, except \$ per share)</i>	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Petroleum and natural gas sales	\$ 3,480	\$ 5,285	\$ 12,163	\$ 14,215
Net loss	(2,062)	(2,367)	(7,805)	(7,254)
Net loss per share				
Basic	(0.01)	(0.02)	(0.05)	(0.05)
Fully diluted	(0.01)	(0.02)	(0.05)	(0.05)
Adjusted funds flow from operations <sup>(1)</sup>	552	1,071	3,484	2,450
Adjusted funds flow from operations per share <sup>(1)</sup>				
Basic	0.00	0.01	0.02	0.02
Fully diluted	0.00	0.01	0.02	0.02
Capital expenditures and acquisitions	487	1,734	816	41,918
Weighted average shares outstanding				
Basic	167,227	139,086	166,737	138,907
Fully diluted	167,227	139,086	166,737	138,907
<b>As at period end</b>				
Basic common shares outstanding	167,243	139,088	167,243	139,088
Total assets	56,970	102,401	56,970	102,401
Non-current liabilities	9,036	21,373	9,036	21,373
Net debt <sup>(1)</sup>	\$ (22,710)	\$ (27,603)	\$ (22,710)	\$ (27,603)

Notes:

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

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## Production Summary

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Average daily production from operations</b>				
Oil (bbl/d)	66	144	96	120
NGLs (bbl/d)	9	9	9	12
Natural gas (Mcf/d)	13,568	15,963	15,206	15,355
<b>Total production (Mcf/d)</b>	<b>14,018</b>	<b>16,881</b>	<b>15,836</b>	<b>16,147</b>
<b>Total production (boe/d)</b>	<b>2,336</b>	<b>2,814</b>	<b>2,639</b>	<b>2,691</b>
<b>Percentage of natural gas</b>	<b>97%</b>	<b>95%</b>	<b>96%</b>	<b>95%</b>

Production averaged 14,018 Mcfe/d in Q3 2024 and 15,836 Mcfe/d for the first nine months of 2024, a decrease of 17% and 2% respectively, from the same periods in 2023. The decrease was mainly attributed to natural declines, partially offset by the new Gwinville 14-06 #3 well, which began production in Q1 2024.

## Petroleum and Natural Gas Revenues and Pricing Summary

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Oil	\$ 448	\$ 1,095	\$ 2,027	\$ 2,548
NGLs	36	36	111	139
Natural gas	2,996	4,154	10,025	11,528
<b>Total revenue</b>	<b>\$ 3,480</b>	<b>\$ 5,285</b>	<b>\$ 12,163</b>	<b>\$ 14,215</b>

## Realized commodity prices

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Oil (\$/bbl)	\$ 73.78	\$ 82.65	\$ 77.06	\$ 77.78
NGLs (\$/bbl)	43.48	43.48	45.01	42.43
Natural gas (\$/Mcf)	2.40	2.83	2.41	2.75
<b>Combined (\$/Mcf)</b>	<b>\$ 2.70</b>	<b>\$ 3.40</b>	<b>\$ 2.80</b>	<b>\$ 3.22</b>
<b>Benchmark prices</b>				
Crude oil – LLS (\$/bbl)	\$ 77.22	\$ 84.64	\$ 80.08	\$ 79.82
Crude oil – WTI (\$/bbl)	75.09	82.36	77.54	77.39
Natural gas – NYMEX HH (\$/MMBtu)	\$ 2.16	\$ 2.55	\$ 2.10	\$ 2.69

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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 2024, Southern realized an oil price of \$73.78/bbl which was a decrease of 11% from the same period in 2023. During the first nine months of 2024, Southern’s realized oil price decreased 1% compared to the same period in 2023.

Southern realized a price of \$2.40/Mcf in Q3 2024, a 15% decrease from Q3 2023. During the first nine months of 2024, Southern realized a price of \$2.41/Mcf, a 12% decrease from the same period in 2023. Natural gas prices remain under pressure due to storage levels remaining materially above the five-year average. Southern realized a \$0.24/Mcf premium (~11% basis premium) to NYMEX HH benchmark pricing in Q3 2024 due to the strategic sales points that the Company sells its natural gas into.

## Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Oil	\$ 93	\$ 221	\$ 417	\$ 510
NGLs	6	7	20	25
Natural gas	586	818	1,981	2,220
<b>Total royalties</b>	<b>\$ 685</b>	<b>\$ 1,046</b>	<b>\$ 2,418</b>	<b>\$ 2,755</b>
<b>Royalties as a % of revenue</b>	<b>19.7%</b>	<b>19.8%</b>	<b>19.9%</b>	<b>19.4%</b>

Royalties were \$0.7 million in Q3 2024, a decrease of 35% from the same period in 2023, and \$2.4 million for the first nine months of 2024, a decrease of 12% from the same period in 2023. The decrease was due to lower LLS and NYMEX HH prices. Southern expects royalties as a percentage of revenue to remain around 20% for 2024 as royalty agreements are based on fixed royalty rates.

## Production, Operating and Transportation Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Operating expenses	\$ 1,279	\$ 1,511	\$ 4,024	\$ 3,997
Production taxes	152	248	504	666
Transportation expense	347	407	1,116	764
<b>Total production, operating and transportation</b>	<b>\$ 1,778</b>	<b>\$ 2,166</b>	<b>\$ 5,644</b>	<b>\$ 5,427</b>

Operating expenses were \$1.3 million (\$0.99/Mcfe) in Q3 2024, which was a decrease of 15% on a dollar basis and an increase of \$0.02/Mcfe compared to the same period in 2023. For the first nine months of 2024, operating expenses were \$4.0 million (\$0.93/Mcfe), which was in line on a dollar basis, and an increase of \$0.02/Mcfe, compared to the same period in 2023.

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Production taxes were \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2024, respectively. The State of Mississippi has a severance tax relief program, where new horizontal wells that are drilled are charged a severance tax rate of 1.3% on all oil and natural gas production for a period not to exceed 30 months from the date of the first sale of production from the wells or until the well reaches payout status, whichever occurs first. Payout is deemed to have occurred the first day of the next month after gross revenue, less royalties, severance taxes and operating expenses, equal the costs to drill, complete, equip and tie-in the well. All of the new wells drilled at Gwinville qualify for this reduced severance tax relief program and Southern expects that the three drilled but uncompleted (“DUC”) wells will also be eligible. The wells that do not qualify for the severance tax relief are charged a severance tax rate of 6.0%.

Transportation expenses of \$0.4 million (\$0.27/Mcfe) in Q3 2024 and \$1.1 million (\$0.26/Mcfe) in the first nine months of 2024 are related to pipeline fees for the transportation of Southern's natural gas volumes to the sales meter. In Q2 2023, Southern changed natural gas purchasers in Gwinville and Greens Creek, resulting in a reclassification of some pricing adjustments to transportation expenses. Additionally, Southern is involved in an ongoing dispute around transportation fees being charged by a third-party midstream company. Management believes that these transportation lines are regulated by the Federal Energy Regulatory Commission (“FERC”), should be governed by an approved rate, and that the Company is entitled to recover the portion of the fees it has paid, beginning in May 2023, that are in excess of the maximum allowable rates approved by FERC.

### Operating Netback

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(\$/Mcfe)</i>				
Petroleum and natural gas revenue	\$ 2.70	\$ 3.40	\$ 2.80	\$ 3.22
Royalties	(0.53)	(0.67)	(0.56)	(0.62)
Production taxes	(0.12)	(0.16)	(0.12)	(0.15)
Operating expenses	(0.99)	(0.97)	(0.93)	(0.91)
Transportation costs	(0.27)	(0.26)	(0.26)	(0.17)
<b>Operating netback per Mcfe before derivatives <sup>(1)</sup></b>	<b>\$ 0.79</b>	<b>\$ 1.34</b>	<b>\$ 0.93</b>	<b>\$ 1.37</b>
Realized gain on derivatives	0.45	0.02	0.55	0.03
<b>Operating netback per Mcfe <sup>(1)</sup></b>	<b>\$ 1.24</b>	<b>\$ 1.36</b>	<b>\$ 1.48</b>	<b>\$ 1.40</b>
<b>Operating netback % of revenue <sup>(1)</sup></b>	<b>46%</b>	<b>40%</b>	<b>53%</b>	<b>43%</b>

Note:

(1) See “Reader Advisories – Specified Financial Measures”.

Southern's operating netbacks decreased by 8% for the three months ended September 30, 2024 and increased 6% for the first nine months of 2024, compared to the same periods in 2023. The decrease for the first nine months of 2024 was driven primarily from lower commodity prices, partially offset the monetization of the fixed price swap derivative contracts to take advantage of the positive unrealized gain position and the fixed price swap contract entered into beginning May 2024 (see “Risk Management – Commodity Derivative Contracts” below for more information).

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## General & Administrative and Transaction Costs

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
General and administrative	\$ 883	\$ 977	\$ 2,889	\$ 3,640
Transaction costs	176	-	176	199
<b>Total</b>	<b>\$ 1,059</b>	<b>\$ 977</b>	<b>\$ 3,065</b>	<b>\$ 3,839</b>
<b>General and administrative per Mcfe</b>	<b>\$ 0.68</b>	<b>\$ 0.63</b>	<b>\$ 0.67</b>	<b>\$ 0.83</b>

General and administrative costs were \$0.9 million in Q3 2024 and \$2.9 million for the first nine months of 2024, a decrease of 9% and 21%, respectively, from the same periods in 2023. The decrease in 2024 is primarily due to expenses of \$0.5 million related to a 2022 employee bonus program that were incurred in 2023.

Southern incurred \$0.2 million of transaction costs in Q3 2024 to obtain a waiver from the Company's lender related to the asset coverage ratio covenant at September 30, 2024 (see "Liquidity, Capital Resources and Going Concern – Credit Facility" below for more information). Transaction costs of \$0.2 million in 2023 are related to a transaction contemplated by Southern that was not completed.

## Finance Expense

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Credit facility interest	\$ 671	\$ 553	\$ 1,939	\$ 1,124
Convertible debenture interest	79	65	205	191
Interest Income	(12)	(8)	(31)	(182)
Lease interest	1	5	7	18
Accretion	18	201	190	510
<b>Total finance expense</b>	<b>\$ 757</b>	<b>\$ 816</b>	<b>\$ 2,310</b>	<b>\$ 1,661</b>
<b>Finance expense per Mcfe</b>	<b>\$ 0.59</b>	<b>\$ 0.53</b>	<b>\$ 0.53</b>	<b>\$ 0.38</b>

Finance expenses were \$0.8 million in Q3 2024 and \$2.3 million for the first nine months of 2024, a decrease of 7% and an increase of 39%, respectively, from the same periods in 2023. The increase in 2024 is due to higher interest expenses as the Credit Facility was utilized to fund a portion of the capital program. With the sixth amendment ("Sixth Amendment") to the Credit Facility, which was executed on February 28, 2024, the fixed per annum coupon increased from 12% to 15% per annum.

## Share-based Compensation

Southern recorded share-based compensation of \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2024, respectively, compared to \$0.3 million and \$0.8 million in the same periods in 2023. The decrease is primarily related to lower stock option expenses in 2024 related to the



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September 2022 stock option grant. For more information, see *"Shareholders' Equity – Share Award Incentive Plan"*.

## Depletion, Depreciation and Amortization

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(000s)</i>				
Depletion	\$ 1,577	\$ 2,560	\$ 5,351	\$ 7,175
Depreciation	40	44	120	132
<b>Total depletion, depreciation and amortization</b>	<b>\$ 1,617</b>	<b>\$ 2,604</b>	<b>\$ 5,471</b>	<b>\$ 7,307</b>
<b>DD&amp;A expense per Mcfe</b>	<b>\$ 1.25</b>	<b>\$ 1.68</b>	<b>\$ 1.26</b>	<b>\$ 1.66</b>

Depletion expense was \$1.6 million (\$1.22/Mcfe) in Q3 2024, a decrease of 38% on a dollar basis and 26% on a per Mcfe basis, compared to Q3 2023 (\$1.65/Mcfe). Depletion expense for the first nine months of 2024 was \$5.4 million (\$1.23/Mcfe) which was 25% lower on a dollar basis and on a per Mcfe basis compared to the same periods in 2023. The decrease is primarily due to the impairment charge recorded in Q4 2023.

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

## Impairment and Impairment Recovery

At September 30, 2024, 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,	
	2024	2023	2024	2023
<i>(000s)</i>				
Land, acquisitions and lease rentals	\$ -	\$ 17	\$ -	\$ 3,458
Drilling and completions	(23)	(84)	392	26,759
Geological and geophysical	-	7	-	7
Facilities, equipment and pipelines	510	1,782	419	11,640
Other	-	12	5	54
<b>Capital expenditures, before Dispositions</b>	<b>487</b>	<b>1,734</b>	<b>816</b>	<b>41,918</b>
<b>Dispositions</b>	<b>(2,004)</b>	<b>-</b>	<b>(3,364)</b>	<b>-</b>
<b>Net capital expenditures <sup>(1)</sup></b>	<b>\$ (1,517)</b>	<b>\$ 1,734</b>	<b>\$ (2,548)</b>	<b>\$ 41,918</b>

Note:

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

Capital expenditures of \$0.8 million for the first nine months of 2024 were primarily related to the completion of the GH 14-06 #3 well in the Gwinville field and maintenance capital in the field on existing operations.

For the three and nine months ended September 30, 2024, Southern sold excess equipment for net proceeds of \$2.0 million and \$3.4 million, respectively, resulting in a loss on disposition of \$0.4 million and \$0.6 million in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss.

In Q3 2024, Southern sold its remaining non-core, non-producing wellbores in the Black Warrior Basin CGU for nil proceeds, recording a gain on sale of \$0.2 million.

On June 1, 2023, Southern closed the asset acquisition in Gwinville to acquire the remaining producing acreage in the Gwinville field not already owned by the Company for a cash purchase price of \$3.2 million.

## Shareholders' Equity

### Share Capital

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

The following table reflects the Company's outstanding Common Shares as at September 30, 2024 and December 31, 2023:

	Number of Shares	Share Capital
Balance as at December 31, 2023	165,718,160	\$ 79,764
Issuance of Common Shares to settle convertible debenture interest	1,524,664	253
<b>Balance as at September 30, 2024</b>	<b>167,242,824</b>	<b>\$ 80,017</b>

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On July 2, 2024, the June 30, 2024 accrued interest payment was settled in-kind through the issuance of 745,391 new Common Shares. The number of Common Shares issued was equal to the amount of interest, divided by the volume weighted average trading price per Common Share for the 20 consecutive trading days ending on the fifth trading day preceding June 30, 2024.

On January 2, 2024, the December 31, 2023 accrued interest payment was settled in-kind through the issuance of 779,273 new Common Shares. The number of Common Shares issued was equal to the amount of interest, divided by the volume weighted average trading price per Common Share for the 20 consecutive trading days ending on the fifth trading day preceding December 31, 2023.

## Warrants

In connection with the fifth amendment of the Credit Facility, the Company extended the term of 3,906,250 outstanding Common Share purchase warrants ("Bonus Warrants") previously issued to the lender from April 30, 2024 until August 31, 2025.

## Stock Option Plan

The following table reflects the Company's outstanding options to purchase Common Shares at September 30, 2024 and December 31, 2023:

	Number of stock options	Weighted average exercise price (CAD)
Balance at December 31, 2023	7,114,375	\$ 0.86
Granted	3,102,500	\$ 0.18
Expired	(2,050,000)	\$ 0.80
<b>Balance at September 30, 2024</b>	<b>8,166,875</b>	<b>\$ 0.62</b>

The following table summarizes information regarding stock options outstanding at September 30, 2024:

Exercise Price (\$CAD/share)	Number of options outstanding (000s)	Weighted average remaining terms (years)	Weighted average exercise price for options outstanding (\$CAD/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable (\$CAD/share)
<b>\$0.18 - \$1.01</b>	<b>8,167</b>	<b>3.5</b>	<b>\$0.62</b>	<b>6,079</b>	<b>\$0.77</b>

On July 17, 2024, pursuant to the Company's Share Award Incentive Plan, an aggregate of 3.1 million stock options to purchase Common Shares of the Company were granted to the directors, officers and employees of Southern. The stock options expire five years from the date of grant and are exercisable at a price of CAD\$0.175 per Common Share. The stock options vest one third on the grant date and one third on each of the first and second anniversaries of the grant day.

#### **Liquidity, Capital Resources and Going Concern**

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 Company prepared the condensed consolidated interim financial statements on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business as they become due. Accordingly, the condensed consolidated interim financial statements have been prepared on a historical cost basis, except certain financial instruments, which are measured at fair value.

To strengthen its financial position, the Company monetized fixed-price swap derivative contracts in Q1 2024, generating \$1.1 million in proceeds, and sold excess equipment for \$3.4 million during the year to date. The Company continues to explore alternative financing options in both the debt and equity markets to support its strategy of organic and inorganic growth while improving the balance sheet. If alternative financing is unavailable and the Company is unsuccessful in selling additional excess equipment or non-core petroleum and natural gas assets, the Company would seek waivers or amendments to its Credit Facility to meet short-term liabilities and avoid potential default. There is, however, 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.

As a result of the above factors, there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not include adjustments to amounts and classifications of assets, liabilities and expenses that might be necessary should the Company be unable to continue as a going concern and that such adjustments could be material (see Note 2 "*Basis of Presentation and Going Concern*" in the Financial Statements for more information).

Southern anticipates a much smaller capital program for the remainder of 2024, consisting of a minimal maintenance capital program.

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	September 30, 2024	December 31, 2023	September 30, 2023
Long-term debt	\$ (17,119)	\$ (17,864)	\$ (17,610)
Convertible debentures – face value	(3,175)	(3,241)	(3,170)
Adjusted working capital deficiency	(2,416)	(5,562)	(6,823)
<b>Net debt</b>	<b>\$ (22,710)</b>	<b>\$ (26,667)</b>	<b>\$ (27,603)</b>

Note:

(1) See “Reader Advisories – Specified Financial Measures”.

As at September 30, 2024, Southern had adjusted working capital deficiency (see “Reader Advisories – Specified Financial Measures”) of \$2.4 million. Included in the adjusted working capital deficiency is \$6.5 million of non-interest-bearing royalty payables related to unresolved title or ownership issues. These amounts are accumulated from the inception of oil and gas operations and will be resolved in accordance with industry standards over time. The royalty suspense account is made up of balances from approximately 6,600 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 \$22.7 million as of September 30, 2024. This compares to a net debt balance of \$26.7 million as at December 31, 2023. The \$4.0 million decrease in net debt during the first nine months of 2024 was due to excess equipment inventory dispositions, monetization of the fixed price swap in Q1 2024 and bringing the first DUC online at the end of December 2023. Southern could further reduce net debt through equity financing, non-core asset sales, or additional sales of excess equipment inventory.

### *Credit Facility*

Southern Energy Corp. (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at September 30, 2024. The Credit Facility is comprised of Tranche A of \$5.5 million that was advanced at closing on April 30, 2021 and Tranche B of \$31.5 million with an availability until December 31, 2026. Effective February 28, 2024, interest on the Credit Facility is 15% per annum (previously 12% per annum) on amounts outstanding and includes a 1% per annum standby fee on the unused portion of Tranche B, both paid monthly in arrears on the last day of the month. The Credit Facility is secured against the oil and gas properties of Southern and matures on December 31, 2026. As at September 30, 2024, Southern had \$17.1 million drawn on the Credit Facility and \$10.0 million available from Tranche B.

Due to the amendments to IAS 1 Presentation of Financial Statements, which Southern adopted effective January 1, 2024, \$13.7 million of non-current long-term debt has been reclassified to current as at September 30, 2024. The reclassification was required as Southern is unable to defer the right to settlement of the liability for at least twelve months after the reporting date. Without additional sources of alternative financing or improvement in commodity prices, Southern will potentially be offside on future covenants within the next twelve months. In the past, the lender has provided a waiver prior to the reporting date, as well as made amendments to the Credit Facility to attempt to avoid future covenant violations. However, there is no certainty these waivers or amendments will be provided going forward.

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Effective February 28, 2024, Southern entered into the Sixth Amendment. The Sixth Amendment included an extension of the maturity of the Credit Facility to December 31, 2026, reset the debt service coverage ratio ("DSCR") (as defined below) covenant calculation to an annualized basis beginning in Q1 2024, reduced the repayments based on a free cash flow ("FCF") grid (as described below) and increased the fixed per annum coupon from 12% to 15% per annum. The amendment also paused the monthly repayment of the principal amount outstanding (as described below) for the period from February 1, 2024 to September 30, 2024. The Sixth Amendment was accounted for as a debt modification under IFRS 9, resulting in a non-cash loss of \$1.4 million in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss at September 30, 2024.

Effective April 24, 2024, Southern entered into a seventh amendment to the Credit Facility, which allowed the Company to add a new approved counterparty for hedging contracts.

Quarterly positive FCF (as described below) repayments are based on a FCF grid whereby quarterly repayments are X% of the preceding quarter where X is equal to 30% if the ACR (as defined below) is < 3.0x or DSCR (as defined below) is < 1.4x; or X is equal to 0% if the ACR is > 5.0x and DSCR > 1.7x; otherwise is 15%.

The Credit Facility includes a monthly repayment of the principal amount outstanding computed as the sum of: (a) outstanding amount multiplied by 1/A, where A equals the number of whole or part months remaining to the maturity date plus 24 months; and (b) on the last day of the second month following each fiscal quarter, the amount determined by the FCF grid (as described above). FCF is calculated as Earnings Before Interest, Taxes, Depreciation, Amortization, and Impairment ("EBITDAX"), less the aggregate of the Credit Facility principal and interest payments.

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

Financial covenant	Limit	As at	As at
		Sep 30, 2024	Dec 31, 2023
Asset Coverage ratio	Minimum 2.00	1.69	2.48
Debt Service Coverage ratio	Minimum 1.25	1.25	0.43

The asset coverage ratio ("ACR") of at least 2:1 is calculated as the ratio of the net present value of proved developed producing oil and gas properties as determined by an independent qualified engineer, using a price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the Credit Facility.

The DSCR of greater than 1.25:1 is the ratio of EBITDAX to scheduled principal payments and interest expense.

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As at September 30, 2024, Southern was in compliance with the DSCR and had obtained a waiver for the ACR.

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

Subsequent to September 30, 2024, Southern entered into the Eighth Amendment. The Eighth Amendment includes an extension to the pause of monthly repayment of principal to December 31, 2024 and a condition that Southern shall repay \$1.7 million of the outstanding principal at January 31, 2025 in the absence of a use of proceeds acceptable to the Lender.

## Debenture Financing

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

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

## Contractual Obligations and Commitments

The Company is, or will be, obligated to pay various costs associated with operations incurred in the normal course of business. All such contractual obligations reflect market conditions prevailing at the time of contract and none are with related parties. The Company believes it has adequate sources of capital to fund all contractual obligations as they come due. The following table lists the Company's obligations with a fixed term as at September 30, 2024:

	Total	2024	2025	2026	2027	Thereafter
Long-term debt <sup>(1)</sup>	\$ 17,119	\$ 1,007	\$ 4,028	\$ 12,084	\$ -	\$ -
Convertible debentures <sup>(2)</sup>	3,175	-	3,175	-	-	-
Lease obligations <sup>(3)</sup>	543	24	94	174	174	77
<b>Total</b>	<b>\$ 20,837</b>	<b>\$ 1,031</b>	<b>\$ 7,297</b>	<b>\$ 12,258</b>	<b>\$ 174</b>	<b>\$ 77</b>

Notes:

- (1) Long-term debt consists of the Credit Facility – see "Liquidity, Capital Resources and Going Concern" for more information
- (2) Debentures have a maturity date of June 30, 2025.
- (3) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16.

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

### Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

### Risk Management

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Southern's operations. These risks include but are not limited to:

- volatility of commodity prices;
- outbreak of military hostilities, including armed conflict between Russia and Ukraine, the Israel-Hamas conflict, and the potential destabilizing effect such conflicts may pose for the global oil and natural gas markets;
- the ability of the Company to achieve drilling success consistent with Management's expectations, including in respect of the Gwinville assets;
- expectations regarding completion of the Company's current and anticipated drilling projects including those related to the Gwinville assets and the timing in respect thereof;
- the Company's ability to comply with obligations under the Debentures and the Credit Facility, and to meet its financial obligations and covenants thereunder;
- expectations regarding pricing including in respect of the Company's continued receipt of premiums at Transco Zone 4 and Florida Gas Zone 3;
- global and regional supply and demand;
- reservoir quality and uncertainty of reserves estimates;
- geological and engineering risks;
- operating hazards and other difficulties inherent in the exploration for and production of oil and gas;
- timing and success of integrating the business and operations of acquired companies and assets;
- the uncertainty of discovering commercial quantities of new reserves;
- ability to obtain all necessary licences and permits required for the business of the Company;
- interest rate and foreign exchange risks;
- inflationary risks, including impacts on cost management, supply chain dynamics and government policies impacting operating and capital costs;
- competition;
- credit risk related to non-payment for sales contracts or non-performance by counterparties to contracts, including derivative financial instruments and physical sales contracts;
- public sentiment towards the use of fossil fuels;
- availability of, and access to, capital on favourable or desirable terms;
- environmental impact risk;
- future legislative and regulatory changes;
- changing royalty regimes and the Company's expectations in respect of 2024/2025 royalty rates;
- business interruptions due to unexpected events;



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- access to markets; and
- risk of interruption or failure of information technology systems and data.

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

Southern manages these risks by:

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

For additional details on the risks relating to Southern's business, see "Risk Factors" in the Company's most recent Annual Information Form for the year ended December 31, 2023 (the "AIF"), which is available on SEDAR+ at [www.sedarplus.ca](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 Consolidated Statement of Financial Position as either an asset or a liability measured at fair value. Southern does not apply hedge accounting to its commodity derivative contracts; accordingly, changes in the fair value of these instruments are recognized in the Consolidated Statement of Loss and Comprehensive Loss in the period of change.

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

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

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

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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	2024	2024	2024	2023	2023	2023	2023	2022
Revenue	\$ 3,480	\$ 3,889	\$ 4,794	\$ 5,098	\$ 5,285	\$ 3,741	\$ 5,189	\$ 9,830
Adjusted Funds Flow from Operations	552	770	2,162	777	1,071	(366)	1,745	3,059
Net earnings (loss)	(2,062)	(2,622)	(3,121)	(39,563)	(2,367)	(3,767)	(1,120)	1,749
Per share:								
Basic	(0.01)	(0.02)	(0.02)	(0.26)	(0.02)	(0.03)	(0.01)	0.01
Diluted	(0.01)	(0.02)	(0.02)	(0.26)	(0.02)	(0.03)	(0.01)	0.01

Significant factors and trends that have impacted the Company's results during the above periods include:

- Volatility in commodity prices and the resultant effect on revenue and net earnings (loss).
- Production from the first seven wells in the appraisal program at Gwinville online between Q2 2022 and Q1 2024.
- On June 1, 2023, Southern acquired approximately 400 boe/d (99% natural gas) with the consolidation of the remaining producing acreage in the Gwinville Field.
- On December 31, 2023, Southern recorded an impairment expense of \$38.0 million for the CMS CGU.
- In Q1 2024, Southern monetized the fixed price swap derivative contracts to take advantage of the positive unrealized gain position, realizing net proceeds of \$1.1 million.
- In Q1 2024, Southern recorded a non-cash loss on debt modification of \$1.3 million as a result of the Sixth Amendment

### READER ADVISORIES

#### Disclosure Regarding Forward-Looking Statements and Future Oriented Financial Information

Certain statements and information contained within this MD&A may constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements include, without limitation, statements regarding the status of development or expenditures relating to Southern's business, the plans and intentions of Management, drilling and completion plans, plans to fund current activities, future operations, future strategic acquisitions and growth strategy, future oil and natural gas production estimates and weighting, Southern's future financial position, future corporate strategies and the success thereof, the availability of the Credit Facility and lending vehicles thereunder (including repayment of principal under the Credit Facility and timing thereof), the Company's financial hedging program including the use of financial derivatives to manage fluctuations in commodity prices and exchange rates, plans regarding Southern's capital programs and well drilling programs, expectations with respect to the completion of three DUCs dependent on natural gas prices and a minimal maintenance capital program, Southern's continued focus on optimizing certain fields and utilizing company owned equipment where possible, Southern's expectations with respect to the outcome of an ongoing dispute around transportation fees being charged by a third party midstream

company (including in respect of fee recovery), Southern's ability to reduce debt (including through equity financing, non-core asset sales or sale of excess equipment inventory), projected costs, sources and uses of funding, future revenues, expectation regarding natural gas price improvement in the winter and moving into 2025, plans and expected resolutions of title ownership issues in respect of royalty payables, expectations as to inflation and interest rates, expectations regarding commodity prices and global demand and supply for natural gas, forecasted operational results, capital expenditures and drilling plans and locations, eligibility of new wells drilled at Gwinville for the State of Mississippi's reduced severance tax relief program and implications thereof, planned capital expenditures, Southern's plans to further realize benefits from the Gwinville acquisition, the Company's intention to enhance production and reduce operating costs of the acquired assets in Gwinville, plans to provide results from Southern's work program within the full year operating results, the continued consolidation of infrastructure, staff and services between assets and benefits thereof including the reduction of operating costs in light of the current inflationary environment for labour and equipment. Forward-looking statements are often, but not always identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", "likely", "believe", "becoming", "positioned for", "forecast", "foresee", "intend", "continue", "target" or the negative or variations of such terms or other comparable terminology. Southern has made a number of assumptions in the preparation of these forward-looking statements including, without limitation, those regarding future commodity prices, future foreign exchange rates, expected production and costs, estimated reserves of oil and natural gas, the ability to obtain equipment and services in a timely and efficient manner, the continued availability of capital and skilled personnel, drilling results, the ability to obtain financing on acceptable terms, the ability to comply with ongoing obligations under the Credit Facility and the Debentures and other sources of financing, the Company's ability to find a use of proceeds acceptable to the lender, allocation of capital resources, the business plan of Southern, the Company's ability to execute its plans and strategies, the Company's ability to enter into future derivative contracts on acceptable terms, the impact of increasing competition within the resource market, the continuation of the current tax, royalty and regulatory regimes, the volatility in commodity prices, oil price differentials, actual prices received for the Company's products and the resulting effect on the Company's financial results, the Company's ability to obtain, retain and renew all requisite permits and licenses, the actions of OPEC and non-OPEC oil and gas exporting countries to set production levels and the influence thereof on oil prices and global demand, the impact of inflation on costs, and the evolving impact of pandemics and uncertainty regarding the full impact of pandemics on global economies and oil demand and commodity prices. Readers should not place undue reliance on forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, the material uncertainties and risks described under the headings "Risk Management", "Liquidity, Capital Resources and Going Concern" and "Specified Financial Measures", risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, uncertainty of reserves estimates, environmental impact risks, market demand, competition, inclement and severe weather events and natural disasters, including fire, drought and flooding and corresponding effects, commodity prices, interest rate and exchange rate volatility, credit risk, the need for additional capital and the effect of capital market conditions and other factors, changes in tax, royalty or environmental legislation (including greenhouse

gas emission reduction requirements and other decarbonization or social policies and including uncertainty with respect to the interpretation of omnibus Bill C-59 and the related amendments to the *Competition Act* (Canada)), government regulation and policy generally, geo-political risks, political and economic instability both domestically and abroad, wars (including the Russo-Ukrainian war and the Israel-Hamas conflict), hostilities, civil insurrections, increased operating and capital costs due to inflationary pressures, the potential dilutive effects of any financing, the timing of exploration and development, the timing and costs of obtaining regulatory approvals, estimates regarding capital requirements and future revenues, the timing and amount of tax credits, adverse effects on general economic conditions in Canada, the U.S. and globally, including due to pandemics and other risks detailed from time to time in Southern's public disclosure documents.

Readers are cautioned that the foregoing list of risk factors is not exhaustive. The risk factors above should be considered in the context of current economic conditions, increased supply resulting from evolving exploitation methods, the attitude of lenders and investors towards corporations in the energy industry, potential changes to royalty and taxation regimes and to environmental and other government regulations, the condition of financial markets generally, as well as the stability of joint venture and other business partners, all of which are beyond the control of the Company. Also to be considered, are increased levels of political uncertainty both domestically and abroad, and possible changes to existing international trading agreements and relationships. Legal challenges related to title and ownership issues, limitations to rights of access, and adequacy of pipelines or alternative methods of getting production to market may also have a significant effect on the Company's business. Additional information on these and other factors that could affect the business, operations or financial results of the Company are included in reports on file with applicable securities regulatory authorities, including but not limited to the AIF, which may be accessed on the Company's SEDAR+ profile at [www.sedarplus.ca](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") with respect to budgeted capital expenditures, revenue and the components thereof, expenses and cost estimates, field netbacks, natural gas pricing, royalty rates and royalties as a percentage of revenue, capital program, balance sheet arrangements and resiliency, net present value, cash flow from operations, capital expenditures, net debt, tax rates, payout of wells, and prospective results of operations and production, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs and the assumptions outlined under "*Specified Financial Measures*".

The forward-looking statements and FOFI contained in this MD&A were approved by Management as of the date of this document and were provided for the purpose of providing further information about Southern's future business operations. Southern and its Management believe that forward-looking statements and FOFI have been prepared on a reasonable basis, reflecting Management's best estimates and judgments, and represent, to the best of Management's knowledge and opinion, the Company's expected course of action. However, because this information is highly subjective, it should not be relied on as necessarily indicative of future results. Southern disclaims any intention or obligation to update or revise any forward-looking statements or FOFI contained in this document, whether as a result of new

information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein. Changes in forecast commodity prices, differences in the timing of capital expenditures, and variances in average production estimates can have a significant impact on the key performance measures included in Southern's guidance. The Company's actual results may differ materially from these estimates.

### **Significant Judgments and Estimates**

Management is required to make judgments, assumptions and estimates in the application of IFRS that have a significant impact on the Company's financial results. Significant judgments in the Financial Statements include going concern, financing arrangements, impairment indicators, asset acquisition and joint arrangements. Significant estimates in the Financial Statements include income taxes and deferred taxes, commitments, provision for future decommissioning obligations, exploration and evaluation assets and accruals. In addition, the Company uses estimates for numerous variables in the assessment of its assets for impairment purposes, including oil and natural gas prices, exchange rates, discount rates, cost estimates and production profiles. By their nature, all of these estimates are subject to measurement uncertainty, may be beyond Management's control and the effect on future consolidated financial statements from changes in such estimates could be significant.

### **Specified Financial Measures**

This MD&A contains various specified financial measures, including non-IFRS financial measures, non-IFRS financial ratios and capital management measures. Management has incorporated certain specified financial measures commonly used in the oil and natural gas industry, such as "Adjusted Funds Flow From Operations," "Operating Netback," "Adjusted Working Capital," "Net Capital Expenditures" and "Net Debt". These terms are not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these specified financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with IFRS. The specified financial measures and their manner of reconciliation to IFRS financial measures are discussed below. These specified financial measures provide additional information that Management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities.

#### *"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:

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	Three months ended,		
	September 30, 2024	December 31, 2023	September 30, 2023
Cash flow from operating activities	\$ 1,272	\$ (70)	\$ 483
Change in non-cash working capital	(723)	845	553
Cash decommissioning expenses	3	2	35
<b>Adjusted Funds Flow from Operations</b>	<b>\$ 552</b>	<b>\$ 777</b>	<b>\$ 1,071</b>

	Nine months ended,	
	September 30, 2024	September 30, 2023
Cash flow from operating activities	\$ 3,654	\$ 3,773
Change in non-cash working capital	(179)	(1,366)
Cash decommissioning expenses	9	43
<b>Adjusted Funds Flow from Operations</b>	<b>\$ 3,484</b>	<b>\$ 2,450</b>

## "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		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Petroleum and natural gas revenue	\$ 3,480	\$ 5,285	\$ 12,163	\$ 14,215
Royalties	(685)	(1,046)	(2,418)	(2,755)
Production taxes	(152)	(248)	(504)	(666)
Operating expenses	(1,279)	(1,511)	(4,024)	(3,997)
Transportation costs	(347)	(407)	(1,116)	(764)
<b>Operating netback before derivatives</b>	<b>\$ 1,017</b>	<b>\$ 2,073</b>	<b>\$ 4,101</b>	<b>\$ 6,033</b>
Realized gain on derivatives	578	33	2,399	143
<b>Operating netback</b>	<b>\$ 1,595</b>	<b>\$ 2,106</b>	<b>\$ 6,500</b>	<b>\$ 6,176</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.

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	As at September 30, 2024	As at December 31, 2023	As at September 30, 2023
Current assets	\$ 6,384	\$ 7,357	\$ 5,886
Current liabilities	(29,473)	(19,881)	(20,004)
Remove:			
Current derivative assets	(351)	(1,022)	(352)
Current portion of lease liabilities	23	121	98
Current portion of long-term debt	17,751	4,657	4,317
Current derivative liabilities	55	10	127
Current portion of convertible debentures	3,195	3,196	3,105
<b>Adjusted working capital deficiency</b>	<b>\$ (2,416)</b>	<b>\$ (5,562)</b>	<b>\$ (6,823)</b>
	As at September 30, 2024	As at December 31, 2023	As at September 30, 2023
Long-term debt	\$ (17,119)	\$ (17,864)	\$ (17,610)
Convertible debentures – face value	(3,175)	(3,241)	(3,170)
Adjusted working capital deficiency	(2,416)	(5,562)	(6,823)
<b>Net debt</b>	<b>\$ (22,710)</b>	<b>\$ (26,667)</b>	<b>\$ (27,603)</b>

### *“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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net cash used by investing activities	\$ (1,106)	\$ 712	\$ 693	\$ 40,874
Change in non-cash working capital	(411)	1,022	(3,241)	1,044
<b>Net Capital Expenditures</b>	<b>\$ (1,517)</b>	<b>\$ 1,734</b>	<b>\$ (2,548)</b>	<b>\$ 41,918</b>

### Abbreviations

bbl	barrels
bbl/d	barrels per day
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet equivalent
Mcfe/d	thousand cubic feet equivalent per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day

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MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
boe	barrels of oil
boe/d	barrels of oil equivalent per day
NGLs	natural gas liquids
Gas	natural gas
NYMEX – HH	New York Mercantile Exchange – Henry Hub
WTI	West Texas Intermediate
LLS	Louisiana Light Sweet

## Barrel of Oil Equivalent and Thousand Cubic Feet Equivalent

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

## Additional Information

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