



Southern Empire

RESOURCES
CORP.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended

July 31, 2022

(Unaudited - Expressed in Canadian Dollars)

Notice of Non-review of Condensed Interim Financial Statements

In accordance with the Canadian Securities Administrators' National Instrument 51-102 – Continuous Disclosure Obligations, Southern Empire Resources Corp. discloses that the accompanying condensed interim consolidated financial statements have been prepared by, and are the responsibility of, the Company's management.

Southern Empire Resource Corp.'s condensed interim consolidated financial statements for the three and nine months ended July 31, 2022 have been reviewed and approved by its Audit Committee and its Board of Directors but have not been reviewed by Southern Empire's auditors.

Southern Empire Resources Corp.

Statements of Financial Position

(See Note 1 – Nature of operations)

(expressed in Canadian Dollars)

	July 31 2022	October 31 2021
ASSETS		
Current assets		
Cash	\$ 23,421	\$ 29,320
Equity investments, at fair value (Note 3)	3,686,303	4,021,814
Accounts receivable	45,622	17,710
Prepays and advances	64,882	77,728
	3,820,228	4,146,572
Non-current assets		
Reclamation bonds (5)	87,459	87,459
Equipment (4)	15,918	20,539
Exploration and evaluation assets (Note 5)	11,951,437	10,626,740
Total assets	\$ 15,875,042	\$ 14,881,310
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 316,771	\$ 576,280
Total liabilities	316,771	576,280
EQUITY		
Common shares (Note 7)	15,594,070	14,850,332
Contributed surplus (Note 7)	1,745,773	1,117,442
Deficit	(1,781,572)	(1,662,744)
Total equity	15,558,271	14,305,030
Total liabilities and equity	\$ 15,875,042	\$ 14,881,310

Approved on behalf of the Board

“Ron Netolitzky”
Director

“Dale Wallster”
Director

The accompanying notes are an integral part of these financial statements

Southern Empire Resources Corp.
Statements of Loss and Comprehensive Loss
(expressed in Canadian Dollars)

	For the three months ended July 31		For the nine months ended July 31	
	2022	2021	2022	2021
Expenses				
Amortization	1,540	2,201	4,621	6,602
Management and consulting fees (Note 6)	126,000	126,000	378,000	378,000
Business and investor relations	4,906	36,541	55,518	294,356
General and administration	15,903	12,487	57,539	33,483
Professional fees	5,575	10,930	39,729	25,079
Property research	5,240	5,984	21,634	33,199
Stock-based compensation (Note 6)	-	47,774	70,878	181,295
Transfer agent and listing fees	1,718	4,377	25,376	18,166
Travel and accommodation	-	-	-	-
Shareholder communications	3,500	6,000	10,385	16,403
	164,382	252,294	663,680	986,583
Other items				
Unrealized gain(loss) on marketable securities	(618,621)	(1,338,650)	110,006	42,812
Realized gain(loss) on sale of marketable securities	249,421	11,629	434,846	11,629
Net and comprehensive loss	\$ (533,582)	\$ (1,590,944)	\$ (118,828)	\$ (943,771)
Basic and diluted loss per share (Note 6)	\$ (0.01)	\$ (0.03)	\$ (0.00)	\$ (0.02)
Weighted average number of common shares outstanding - diluted	63,372,800	50,906,800	63,372,800	50,906,800

The accompanying notes are an integral part of these financial statements

Southern Empire Resources Corp.
Statements of Changes in Equity
(expressed in Canadian Dollars)

	<u>Attributable to the common shareholders</u>				
	Number of shares	Amount \$	Contributed Surplus	Deficit	Total Equity
Balance, October 31, 2019	50,906,800	\$ 14,850,332	\$ 936,147	\$ (48,508)	\$ 15,737,971
Stock options granted	-	-	181,295	-	\$ 181,295
Net loss	-	-	-	(932,143)	\$ (932,143)
Balance, July 31, 2021	50,906,800	\$ 14,850,332	\$ 1,117,442	\$ (980,651)	\$ 14,987,123

	Number of shares	Amount \$	Contributed Surplus	Deficit	Total Equity
	Balance, October 31, 2021	50,906,800	\$ 14,850,332	\$ 1,117,442	\$(1,662,744)
Stock options granted	-	-	70,877	-	\$ 70,877
Shares issued in the period	10,100,000	442,547	557,453	-	\$ 1,000,000
Share issue costs	-	(15,344)	-	-	\$ (15,344)
Shares issued for asset acquisition	500,000	60,000	-	-	\$ 60,000
Warrants exercised	1,566,000	234,535	-	-	\$ 234,535
Stock options exercised	200,000	22,000	-	-	\$ 22,000
Net income	-	-	-	(118,828)	\$ (118,828)
Balance, July 31, 2022	63,272,800	\$ 15,594,070	\$ 1,745,772	\$(1,781,572)	\$ 15,558,271

The accompanying notes are an integral part of these financial statements

Southern Empire Resources Corp.
Statements of Cash Flows
(expressed in Canadian Dollars)

For the nine months ended July 31,	2022	2021
Cash flows from Operating Activities		
Net income (loss)	\$ (118,828)	\$ (932,143)
Items not affecting cash		
Amortization	4,621	6,602
Share-based compensation	-	181,295
Unrealized (gain) loss on equity investments	(434,846)	(11,629)
Realized (gain) loss on sale of marketable securities	(110,006)	(42,812)
Net changes in non-cash working capital items		
Accounts receivable	(27,912)	34,996
Prepays	12,847	141,442
Accounts payable and accrued liabilities	(259,210)	100,059
	(933,334)	(522,190)
Cash flows from Investing Activities		
Purchase of marketable securities	-	(1,355,343)
Sale of marketable securities	951,240	21,633
Increase in reclamation bond	-	(7,704)
Increase in exploration and evaluation asset	(1,324,697)	(1,776,658)
	(373,457)	(3,118,072)
Cash flow from Financing Activities		
Issuance of common shares	1,301,192	-
	-	-
	1,301,192	-
Net change in cash during the period	(5,599)	(3,640,262)
Cash, beginning of period	29,320	3,667,214
Cash, end of period	\$ 23,721	\$ 26,952

The accompanying notes are an integral part of these financial statements

Southern Empire Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months July 31, 2022 and 2021
(expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Southern Empire Resources Corp. (“Southern Empire” or the “Company”) is focused on the acquisition, exploration and evaluation of metals and minerals resource properties.

Southern Empire’s head office is at Suite 420 – 789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

Southern Empire was incorporated as “Owl Capital Corp.” pursuant to the *Business Corporations Act of British Columbia* on September 27, 2017. The Company was classified as a Capital Pool Company (“CPC”) as defined by TSX Venture Exchange (the “Exchange”) Policy 2.4 and its principal business was to identify, evaluate and acquire assets, properties or businesses which would constitute a qualifying transaction (“Qualifying Transaction”) in accordance with Exchange policy. On March 18, 2020, upon completion of the Qualifying Transaction, the Company changed its name to Southern Empire Resources Corp.

As of July 31, 2022, Southern Empire’s exploration and development projects include the Pedro Gold Project in Durango State, México, the VLM Project in México, the Oro Cruz Project in California and the Eastgate Gold Project in Nevada, U.S.A.

As an exploration stage company, Southern Empire does not have revenues and historically has recurring operating losses. These condensed interim consolidated financial statements are prepared on the basis that Southern Empire will continue as a going concern, which assumes the ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities and commitments in the normal course of operations. As at July 31, 2022, the Company had working capital of \$3,503,457 (2021 - \$6,274,399). Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year. If the going concern assumption were not appropriate for these financial statements, it could be necessary to restate the Company’s assets and liabilities on a liquidation basis.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

Basis of presentation, principals of consolidation and statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) applicable to the preparation of interim financial statements, including International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting.

Subsidiaries are entities controlled by the Company and are included in the consolidated financial statements from the date that control commences until the date that control ceases. These condensed interim consolidated financial statements include the accounts of Southern Empire and its wholly owned subsidiary, SMP Gold Corp., a company incorporated in Nevada, USA. All inter-company transactions and balances were eliminated in preparing these financial statements. The accounting policies of subsidiaries are changed if necessary to align them with the policies adopted by Southern Empire.

These condensed interim consolidated financial statements should be read in conjunction with Southern Empire’s annual audited financial statements for the years ended October 31, 2021 and 2020, which have been prepared in accordance with IFRS as issued by the IASB.

Southern Empire Resources Corp.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months July 31, 2022 and 2021
(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are classified as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim consolidated financial statements were prepared by management and reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on September 19, 2022.

The functional currency of Southern Empire and its subsidiaries is the Canadian dollar. Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate in effect at the financial statement date. Exchange gains or losses arising from these translations are recognized in profit or loss for the reporting period.

3. MARKETABLE SECURITIES

As at July 31, 2022 and October 31, 2021, Southern Empire's investments consisted of equity interests in companies involved with gold exploration:

	July 31, 2022		October 31, 2021	
	Cost	FMV	Cost	FMV
Shares - Augusta Gold Corp.	\$ 1,550,315	\$ 3,674,803	\$ 2,017,275	\$ 3,981,483
Shares - Lincoln Gold Mining Inc.	\$ 25,300	\$ 11,500	\$ 25,300	\$ 36,800
Warrants - Lincoln GoldMining Inc.	\$ -	\$ -	\$ -	\$ 3,531
	\$ 1,575,615	\$ 3,686,303	\$ 2,042,575	\$ 4,021,814

4. EQUIPMENT

	Computers and equipment
Cost:	
Balance at October 31, 2020	\$ 33,534
Additions	-
Balance at October 31, 2021	33,534
Additions	-
Balance at July 31, 2022	33,534
Accumulated amortization:	
Balance at October 31, 2020	\$ 4,192
Amortization expense	8,803
Balance at October 31, 2021	12,995
Amortization expense	4,621
Balance at July 31, 2022	17,615
Total balance at October 31, 2021	\$ 20,539
Total balance at July 31, 2022	\$ 15,918

Southern Empire Resources Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS

Southern Empire classifies its exploration and evaluation gold properties into three geographical regions, namely California, Nevada and Mexico. The following is a summary of the properties:

	Oro Cruz California	Eastgate Nevada	Pedro Mexico	VLM Mexico	Total
October 31, 2020	\$ 6,488,897	\$ 2,078,595	\$ -	\$ -	\$ 8,567,492
Acquisition and renewal	100,000	-	-	-	100,000
Property maintenance	265,798	-	-	-	265,798
Geology & geophysics	441,998	-	1,757	-	443,755
Drilling & assay	98,288	-	-	-	98,288
Camp & fieldwork	210,128	-	-	-	210,128
Environmental & permitting	948,368	(7,704)	615	-	941,279
October 31, 2021	\$ 8,553,477	\$ 2,070,891	\$ 2,372	\$ -	\$10,626,740
Acquisition and renewal	-	-	25,000	85,000	110,000
Property maintenance	134,319	2,409	24,708	4,474	165,910
Geology & geophysics	9,641	-	27,317	1,783	38,741
Drilling & assay	-	-	386,207	-	386,207
Camp & fieldwork	126,172	261	29,399	-	155,832
Environmental & permitting	467,748	-	259	-	468,007
July 31, 2022	\$ 9,291,357	\$ 2,073,561	\$ 493,946	\$ 91,257	\$11,951,437

Oro Cruz Project, California, U.S.A.

Lincoln Gold US Corp. Option Agreements

Upon completion of the Qualifying Transaction, Southern Empire acquired options to earn up to a 75% interest in the Oro Cruz Project, located in Imperial County, California. On June 22, 2020 Southern Empire entered into another option agreement to acquire the remaining 25% of the Oro Cruz Project from Ronald Netolitzky, bringing its total potential interest to 100%. The Oro Cruz Project option agreements are summarized as follows:

Southern Empire holds the option agreement with Lincoln Gold US Corp. ("Lincoln") to acquire a total of a 75% interest in the Oro Cruz Project from Lincoln. The pertinent business terms of this option agreement follow:

Cash payments to Lincoln:

- US\$ 10,000 initial payment (paid)
- US\$ 25,000 paid on or before February 15, 2020 (paid)
- US\$ 25,000 paid on or before February 15, 2021 (paid)
- US\$ 25,000 paid on or before February 15, 2022 (paid)
- US\$ 25,000 paid on or before February 15, 2023 (paid)

Southern Empire Resources Corp.
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5. EXPLORATION AND EVALUATION ASSETS (continued)

Cash payments to ADGIS, Inc. (“ADGIS”) who granted an underlying option (the “Hercules Claims”) to Lincoln:

- US\$ 50,000 by May 15, 2019 (paid)
- US\$ 50,000 by April 15, 2020 (paid)
- US\$ 100,000 by April 15, 2021 (paid)
- US\$ 100,000 by April 15, 2022 (paid)
- US\$ 100,000 by April 15, 2023

Exploration expenditures:

- US\$ 200,000 exploration expenditures acknowledged as incurred to October 1, 2019 (incurred)
- US\$ 400,000 cumulative exploration expenditures to be incurred before October 1, 2020 (incurred)
- US\$ 700,000 cumulative exploration expenditures to be incurred before October 1, 2021 (incurred)
- US\$ 1,000,000 cumulative exploration expenditures to be incurred before October 1, 2022 (incurred)
- US\$ 1,600,000 cumulative exploration expenditures to be incurred before October 1, 2023 (incurred)

Royalties:

- 2% net smelter return royalty (“NSR”) from production within the Hercules Claims boundary (the “Hercules Royalty”)
- 1% NSR on production within a 1-mile radius of the Hercules Claims boundary (“Radius Royalty”)
- Southern Empire can reduce the Hercules Royalty by 0.5% and the Radius Royalty by 0.5% collectively with a cash payment of US\$500,000 to ADGIS.
- Southern Empire can reduce the Hercules Royalty by an additional 0.5% with an additional payment of US\$500,000 to ADGIS.

Ronald K. Netolitzky Option Agreement

On June 22, 2020 Southern Empire entered into an option agreement with Mr. Ronald K. Netolitzky (“Netolitzky”), a director of Southern Empire, to acquire the remaining 25% of the Oro Cruz Project in exchange for cash payments of \$440,000. Option payments are due as follows:

- \$ 140,000 on TSX Venture Exchange approval (paid)
- \$ 100,000 on or before the first anniversary date, August 4, 2021 (paid)
- \$ 100,000 on or before the second anniversary date, August 4, 2022 (Note 10)
- \$ 100,000 on or before the third anniversary date, August 4, 2023 (Note 10)

Oro Cruz - American Girl Mine Property

On September 14, 2020 Southern Empire executed a Purchase and Sale Agreement (the “PSA”) to acquire, at cost, the American Girl Mine Property from Mackenzie Corporation, a company controlled by the President and CEO of Southern Empire. In accordance with the terms of the PSA, Southern Empire acquired a 100% interest in seven privately owned, patented mining claims and 10 Bureau of Land Management claims covering the former American Girl mine by paying a total of US\$330,000 to Mackenzie Corporation.

Southern Empire Resources Corp.
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5. EXPLORATION AND EVALUATION ASSETS (continued)

Eastgate Gold Project, Nevada, U.S.A.

Upon completion of the Qualifying Transaction, Southern Empire acquired an 85% interest in the Eastgate Gold Project, located in Churchill County, Nevada. The Eastgate Project is subject to a 3% Net Smelter Royalty payable to Blue Ridge Gold LLC, a privately held company that was the original property vendor.

Pedro Gold Project, Durango, México

On July 23, 2021, Southern Empire entered into an option agreement with Commander Resources Ltd. ("Commander") which allows Southern Empire to acquire a 100% beneficial interest in the Pedro Gold Project in northeastern Durango State, Mexico. Pursuant to the terms of the option agreement, to earn its interest Southern Empire must complete the following:

- \$25,000 cash payment and the issuance of 100,000 common shares of Southern Empire on execution of the agreement (paid and issued).
- On or before the first anniversary of the execution date, pay an additional \$125,000 or issuing such amount of common shares having a value of \$125,000.
- On or before the second anniversary of the execution date, pay an additional \$250,000 or issuing such amount of common shares having a value of \$250,000.
- On or before the third anniversary of the execution date, pay an additional \$300,000 or issuing such amount of common shares having a value of \$300,000.
- Incurring exploration expenditures totaling \$1,500,000 as follows:
 - o \$ 400,000 by the first anniversary date of execution.
 - o \$ 1,100,000 by the third anniversary date of execution.

Commander will retain a 2% Net Smelter Return Royalty interest on future production from the Pedro Gold Project. The Exchange accepted the Pedro Gold Project option agreement for filing on February 3, 2022.

VLM Project, México

On December 24, 2021, Southern Empire entered into an option agreement with Riverside Resources Inc. ("Riverside") that grants Southern Empire the opportunity to acquire a 100% interest in the 647-hectare (approximately 1,600-acre) VLM Project located in northwestern México.

Southern Empire may exercise its option to acquire a 100% interest in the VLM Project by:

- paying to Riverside a total of \$137,500 as follows:
 - o \$25,000 on signing (paid)
 - o an additional \$25,000 on or before January 12, 2022 (paid)
 - o an additional \$37,500 on or before January 12, 2023
 - o an additional \$50,000 on or before January 12, 2024
- issuing a total of 1,625,000 common shares as follows:
 - o 500,000 common shares on or before January 12, 2022 (issued)
 - o an additional 550,000 common shares on or before January 12, 2023
 - o an additional 575,000 common shares on or before January 12, 2024

Riverside will retain a Net Smelter Return Royalty interest on future production from the VLM Project of 2.5% on precious metals and 1.75% on base metals. These royalties may be reduced to 1% on precious metal production and 0.5% on base metal production by payments of an additional \$4 million within 10 years of the Exchange filing acceptance date.

Southern Empire Resources Corp.
Notes to the Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Reclamation bonds

Southern Empire holds a \$79,755 (2021 - \$79,755) reclamation bond with the Bureau of Land Management with respect to its California properties and a \$7,704 (2021 - \$7,704) reclamation bond with the Bureau of Land Management with respect to its Nevada properties.

6. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of Southern Empire. Key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of key management personnel are as follows:

For the nine months ended July 31,	2022		2021	
Management fees to officers	\$	297,000	\$	297,000
Stock based compensation		49,618		83,380
Total	\$	346,618	\$	380,380

As at July 31, 2022, \$Nil (April 30, 2021 - \$ Nil) was included in accounts payable owing to directors, officers, and companies controlled or affiliated with directors and officers of Southern Empire in relation to fees and reimbursement of expenses.

7. SHARE CAPITAL

- a) Authorized: Unlimited common shares without par value.
Unlimited preferred shares issuable in series.
- b) Issued and outstanding: 63,272,800 common shares as at July 31, 2022
- c) Transactions:

During the year ended October 31, 2019 the Company issued 17,062 common shares for gross proceeds of \$1,706 pursuant to the exercise of warrants. The Company transferred \$904 of contributed surplus to share capital pursuant to the warrant exercise.

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 10,899,197 shares at a price of \$0.30 per share for gross proceeds of \$3,273,759.

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 2,856,665 common shares to acquire 8,750,000 common shares and 7,750,000 common share purchase warrants of Augusta Gold Corp. (Note 3).

On March 18, 2020, in conjunction with the completion of the Qualifying Transaction, Southern Empire issued 22,570,276 common shares to acquire its interest in the Oro Cruz and Eastgate gold projects.

On April 16, 2020, 80,125 share purchase warrants were exercised at a price of \$0.10 per common share for total proceeds of \$8,012. Southern Empire transferred \$4,247 of contributed surplus to share capital pursuant to the warrant exercise.

On May 6, 2020, 102,813 share purchase warrants were exercised at a price of \$0.10 per common

Southern Empire Resources Corp. Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months July 31, 2022 and 2021
(expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

share for total proceeds of \$10,282. Southern Empire transferred \$5,449 of contributed surplus to share capital pursuant to the warrant exercise.

On June 12, 2020, Southern Empire issued 8,043,861 common shares at a price of \$0.50 per share for gross proceeds of \$4,021,515.

On June 12, 2020, Southern Empire issued 116,800 common shares as finders fee compensation in conjunction with its \$0.50 financing.

On December 2, 2021, Southern Empire issued 10,000,000 Units at a price of \$0.10 per Unit, with each Unit comprising one common share and one common share purchase warrant, for gross proceeds of \$1,000,000.

On January 10, 2022, Southern Empire issued 500,000 common shares to Riverside, in accordance with the option agreement on the VLM Project (Note 5).

On July 23, 2022, Southern Empire issued 100,000 to Commander Resources Ltd., in accordance with the option agreement on the Pedro Project (Note 5).

d) Escrowed shares:

As at July 31, 2022, 8,894,075 common shares were held in escrow, of which:

- 4,447,044 are to be released on September 20, 2022
- 4,447,031 are to be released on March 20, 2023

e) Stock options:

The Directors of Southern Empire adopted a stock option plan on March 13, 2020 (the "Option Plan"). The Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of Southern Empires' common shares issued and outstanding at the time such options are granted. Options to purchase common shares of the Company ("Options") may be granted under the Option Plan to such directors, officers, employees, management or consultants of Southern Empire and its affiliates, if any, as the Board of Directors may from time to time designate. The Option Plan provides that the number of common shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued common shares, if the individual is a director, officer or employee 2% of the issued common shares, if the individual is a consultant or is engaged in providing investor relations services, in a twelve month basis, unless disinterested shareholder approval is obtained. All options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause; or (iii) one year from the date of death or disability.

During the year ended October 31, 2020, Southern Empire granted 4,250,000 Options exercisable at \$0.30 per option for a term of five years from the date of issuance to directors, officers, and consultants of Southern Empire. These options vested immediately. During the year ended October 31, 2020, the Company has recorded \$936,147 of share-based payments.

During the year ended October 31, 2021, Southern Empire granted 1,250,000 Options exercisable at

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7. SHARE CAPITAL (continued)

a price of \$0.30 per option for a term of five years from the date of issuance to directors, officers, and consultants of Southern Empire. 1,150,000 of these options vested immediately and 100,000 of these options vest in four equal installments over 12 months. During the year ended October 31, 2021, the Company recorded \$181,295 of share-based payments.

During the nine months ended July 31, 2022 Southern Empire granted 1,000,000 Options exercisable at a price of \$0.11 per option for a term of five years from the date of issuance to director, officers and consultants of Southern Empire. These options vested immediately and during the period the Company recorded \$70,877 of share-based payments.

The following weighted average assumptions were used for the valuation of stock options:

	July 31, 2022
Risk-free interest rate	1.64-1.65%
Expected life of options	5 years
Annualized volatility	80%
Dividend rate	0.00%
Forfeiture rate	0.00%
Weighted average fair value per option	\$ 0.06

The changes in the stock options for the three and nine months ended July 31, 2022 are as follows:

	Number	Weighted Average Exercise Price
Balance, October 31, 2020	4,250,000	\$ 0.30
Granted	1,250,000	\$ 0.30
Cancelled	(400,000)	\$ 0.30
Balance, October 31, 2021	5,100,000	\$ 0.30
Granted	1,000,000	\$ 0.11
Exercised	(200,000)	\$ 0.11
Balance exercisable at July 31, 2022	5,900,000	\$ 0.27

The balance of options outstanding as at April 30, 2022 is as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price	Remaining Life - Years
March 18, 2025	3,850,000	3,850,000	\$0.30	3.13
February 16, 2026	750,000	750,000	\$0.30	4.25
March 11, 2026	100,000	50,000	\$0.30	4.11
June 10, 2026	400,000	400,000	\$0.30	4.36
January 18, 2027	800,000	800,000	\$0.11	4.96

Southern Empire Resources Corp.
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(expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

f) Warrants

A summary of the outstanding and exercisable common share purchase warrants during the period is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, October 31, 2020 & 2021	-	\$ -
Issued	10,000,000	0.15
Exercised	(1,566,000)	0.15
Balance, October 31, 2021 & July 31, 2022	8,434,000	\$ 0.15

g) Per share amounts

<u>For the nine months ended July 31,</u>	2022	2021
Net income (loss) attributable to common shareholders	\$ 414,754	(\$932,142)
Weighted average number of common shares - basic	60,009,079	50,906,800
Weighted average number of common shares - diluted	60,009,079	50,906,800
Basic income (loss) per common share - basic	\$ 0.01	(\$0.02)
Basic income (loss) per common share - diluted	\$ 0.01	(\$0.02)

All stock options and warrants were excluded from the diluted weighted average number of shares calculation for the period ended April 30, 2022, as their effect would have been anti-dilutive.

8. CAPITAL MANAGEMENT

Southern Empire includes equity in the definition of capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of Southern Empire's management to sustain future development of business.

Southern Empires properties are in the exploration stage. As such, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, Southern Empire will spend its existing working capital and raise additional funds as needed.

Southern Empire will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes to the Company's approach to capital management during the three and nine months ended July 31, 2022 and 2021. Southern Empire is not subject to externally imposed capital requirements.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosure purposes, all financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as in prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table are financial assets measured at fair value by level within the fair value hierarchy:

July 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 23,421	\$ -	\$ -	\$ 23,421
Marketable securities	\$ 3,686,303	\$ -	\$ -	\$ 3,686,303
Reclamation bonds	\$ 87,459	\$ -	\$ -	\$ 87,459
Oct 31, 2021	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 29,320	\$ -	\$ -	\$ 29,320
Marketable securities	\$ 4,018,283	\$ 3,531	\$ -	\$ 4,021,814
Reclamation bonds	\$ 87,459	\$ -	\$ -	\$ 87,459

Southern Empire holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to concentration risk, credit risk, currency risk, price risk, commodity price risk and liquidity risk. Southern Empire manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- a) Concentration risk – as at July 31, 2022, all of Southern Empire's cash is held at one Canadian national financial institution. As a result, the Company was exposed to all of the risks associated with those institutions. Concentration risk also exists in marketable securities because Southern Empire's investment portfolio primarily consists of the securities of one issuer.
- b) Credit risk – Southern Empire is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in financial loss to the Company. The Company manages exposure to credit risk by adopting credit risk guidelines that limit transactions according to counterparty credit worthiness. The maximum exposure associated with accounts receivable is the carrying value.
- c) Currency risk – Relates to Southern Empire's operations in the United States and is subject to fluctuations in exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Southern Empire does not have material monetary assets or liabilities in foreign currencies.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

- d) Price risk – Southern Empire’s investments designated as FVTPL are publicly traded. A 1% change in the quoted share price would not significantly impair the fair value of the investment. Changes are recorded through profit or loss.
- e) Commodity price risk – The value of Southern Empires exploration and evaluation assets is related to the price of commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside the Company’s control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.
- f) Liquidity risk – Currently, Southern Empires capital is sufficient to meet business requirements in the next 12 months when taking into account cash flows from operations and the Company’s holdings of cash. Future operations or exploration programs may require additional financing primarily through equity markets, or through joint venture partnerships.

10. SUBSEQUENT EVENTS

- a) On September 6, 2022 Southern Empire entered into an Amendment Agreement with Ronald Netolitzky (“Netolitzky”), chairman and director of the Company, to amend the terms of the Ronald K. Netolitzky Option Agreement (dated June 22, 2020) that granted Southern Empire the option to acquire a 25% of the Oro Cruz property in exchange for cash payments of \$440,000 (Note 5). Option payments totaling \$240,000 have been paid to Netolitzky (Note 5). Pursuant to the terms of the Amendment Agreement, Southern Empire can exercise its option to acquire a 25-per-cent interest in the Oro Cruz property by issuing a total of 2,000,000 common shares to Netolitzky, at a deemed price of \$0.10 per share, in lieu of the final two option payments totaling \$200,000. The Amendment Agreement and the transactions contemplated therein were accepted for filing, by the TSX Venture Exchange, on September 15, 2022 and on September 15, 2020 Southern Empire issued the 2,000,000 shares, which are subject to restrictions on resale for a period of four months from the date of issuance.