

Condensed Interim Consolidated Financial Statements of

## SOUTHERN ENERGY CORP.

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

(unaudited)

(U.S. Dollars)

# SOUTHERN ENERGY CORP.

Condensed Interim Consolidated Statements of Financial Position (unaudited)



(in thousands of U.S. Dollars)	September 30, 2024	December 31, 2023
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,288	\$ 3,112
Accounts receivable and other	1,549	2,134
Prepaid expenses and deposits	1,196	1,089
Derivative assets (Note 9)	351	1,022
	<hr/>	<hr/>
	6,384	7,357
Property, plant and equipment (Note 3)	50,514	59,608
Right-of-use assets	19	105
Derivative assets (Note 9)	53	235
	<hr/>	<hr/>
Total assets	\$ 56,970	\$ 67,305
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,989	5,535
Royalties payable (Note 10)	6,460	6,362
Current portion of lease liabilities	23	121
Current portion of long-term debt (Note 5)	17,751	4,657
Convertible debentures (Note 6)	3,195	3,196
Derivative liabilities (Note 9)	55	10
	<hr/>	<hr/>
	29,473	19,881
Long-term liabilities		
Derivative liabilities (Note 9)	604	37
Long-term debt (Note 5)	-	12,659
Decommissioning provisions (Note 4)	8,432	8,917
	<hr/>	<hr/>
Total liabilities	38,509	41,494
Shareholders' equity (Note 7)		
Share capital	80,017	79,764
Equity component of convertible debenture	245	245
Warrants	351	351
Contributed surplus	7,837	7,569
Deficit	(69,217)	(61,412)
Accumulated other comprehensive loss	(772)	(706)
	<hr/>	<hr/>
	18,461	25,811
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 56,970	\$ 67,305

Basis of Presentation and Going Concern (Note 2)

*(See accompanying Notes to the Condensed Interim Consolidated Financial Statements)*

# SOUTHERN ENERGY CORP.



Condensed Interim Consolidated Statements of Loss & Comprehensive Loss (unaudited)

(in thousands of U.S. Dollars, except for per share amounts)	Three months ended		Nine months ended	
	September 30, 2024	2023	September 30, 2024	2023
<b>Revenues</b>				
Petroleum and natural gas revenue (Note 11)	\$ 3,480	\$ 5,285	\$ 12,163	\$ 14,215
Royalties	(685)	(1,046)	(2,418)	(2,755)
	<u>2,795</u>	<u>4,239</u>	<u>9,745</u>	<u>11,460</u>
<b>Expenses</b>				
Production and operating	1,431	1,759	4,528	4,663
Transportation	347	407	1,116	764
Depletion, depreciation and amortization (Note 3)	1,617	2,604	5,471	7,307
Gain on derivatives (Note 9)	(724)	(115)	(934)	(326)
Loss on debt modification (Note 5)	-	-	1,379	-
Loss on sale of assets (Note 3)	198	-	417	-
Financing, net (Note 12)	757	816	2,310	1,661
General and administrative	883	977	2,889	3,640
Share-based compensation (Note 7)	99	279	330	813
Transaction costs	176	-	176	199
Loss (gain) on foreign exchange	73	(121)	(132)	(7)
	<u>4,857</u>	<u>6,606</u>	<u>17,550</u>	<u>18,714</u>
<b>Total net loss for the period</b>	(2,062)	(2,367)	(7,805)	(7,254)
Currency translation adjustment	35	(46)	(66)	(12)
<b>Comprehensive loss for the period</b>	<u>\$ (2,027)</u>	<u>\$ (2,413)</u>	<u>\$ (7,871)</u>	<u>\$ (7,266)</u>
<b>Net loss per common share</b> (Note 8)				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.05)

(See accompanying Notes to the Condensed Interim Consolidated Financial Statements)

# SOUTHERN ENERGY CORP.



## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (unaudited)

(in thousands of U.S. Dollars, except share amounts)	Common Shares	Shareholders' Capital	Equity Component of Convertible Debentures	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Shareholders' Equity
Balance, December 31, 2022	138,056,910	\$ 75,271	\$ 245	\$ 2,154	\$ 5,117	\$(14,595)	\$ (790)	\$ 67,402
Shares issued, net (Note 7)	1,031,250	309	-	(65)	-	-	-	244
Share-based compensation	-	-	-	-	644	-	-	644
Net loss	-	-	-	-	-	(7,254)	-	(7,254)
Other comprehensive income	-	-	-	-	-	-	(12)	(12)
Balance, September 30, 2023	139,088,160	\$ 75,580	\$ 245	\$ 2,089	\$ 5,761	\$(21,849)	\$ (802)	\$ 61,024
Balance, December 31, 2023	165,718,160	\$ 79,764	\$ 245	\$ 351	\$ 7,569	\$(61,412)	\$ (706)	\$ 25,811
Shares issued, net (Note 7)	1,524,664	253	-	-	-	-	-	253
Share-based compensation	-	-	-	-	268	-	-	268
Net loss	-	-	-	-	-	(7,805)	-	(7,805)
Other comprehensive income	-	-	-	-	-	-	(66)	(66)
Balance, September 30, 2024	167,242,824	\$ 80,017	\$ 245	\$ 351	\$ 7,837	\$(69,217)	\$ (772)	\$ 18,461

(See accompanying Notes to the Condensed Interim Consolidated Financial Statements)

# SOUTHERN ENERGY CORP.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)



(in thousands of U.S. Dollars)	Three months ended		Nine months ended	
	September 30, 2024	2023	September 30, 2024	2023
<b>Operating activities</b>				
Total net loss for the period	\$ (2,062)	\$ (2,367)	\$ (7,805)	\$ (7,254)
Changes in non-cash items:				
Depletion, depreciation and amortization (Note 3)	1,617	2,536	5,474	7,221
Financing expense	769	824	2,341	1,843
Unrealized (gain) loss on derivatives (Note 9)	(146)	(82)	1,465	(183)
Unrealized loss (gain) on foreign exchange	77	(119)	(117)	10
Loss on debt modification	-	-	1,379	-
Loss on sale of assets	198	-	417	-
Share-based compensation (Note 7)	99	279	330	813
Decommissioning provisions liabilities settled (Note 4)	(3)	(35)	(9)	(43)
Changes in non-cash working capital	723	(553)	179	1,366
Net cash provided by operating activities	1,272	483	3,654	3,773
<b>Investing activities</b>				
Capital expenditures	(487)	(1,719)	(816)	(38,616)
Acquisitions	-	(15)	-	(3,302)
Proceeds from dispositions	2,004	-	3,364	-
Changes in non-cash working capital	(411)	1,022	(3,241)	1,044
Net cash provided (used) by investing activities	1,106	(712)	(693)	(40,874)
<b>Financing activities</b>				
Proceeds from share issuances, net	-	11	-	244
Paydown of long-term debt (Note 5)	-	(1,356)	(745)	(2,690)
Draw on credit facility (Note 5)	-	2,000	-	15,500
Payment of interest	(671)	(688)	(1,939)	(1,845)
Principal portion of lease payments	(33)	(38)	(105)	(103)
Transaction costs on debt refinance	(1)	(80)	(53)	(91)
Changes in non-cash working capital	90	5	85	(400)
Net cash (used) provided by financing activities	(615)	(146)	(2,757)	10,615
Net increase (decrease) in cash and cash equivalents	1,763	(375)	204	(26,486)
Effect of foreign exchange rate changes	3	(2)	(28)	8
Cash and cash equivalents, beginning of period	1,522	2,249	3,112	28,350
Cash and cash equivalents, end of period	\$ 3,288	\$ 1,872	\$ 3,288	\$ 1,872

(See accompanying Notes to the Condensed Interim Consolidated Financial Statements)

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
Amounts in thousands of U.S. Dollars, except for per share amounts

---

### 1. Reporting Entity and Nature of Operations

Southern Energy Corp. (“Southern” or the “Company”) is a petroleum and natural gas exploration and production company. 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.

Southern’s head office is located in Calgary, Alberta, Canada. Southern trades on the TSX Venture Exchange (“TSXV”) under the trading symbol “SOU” and on the AIM market of the London Stock Exchange (“AIM”) under the trading symbol “SOUC”. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2024.

### 2. Basis of Presentation and Going Concern

#### a) Principles of Reporting and Consolidation

The condensed interim consolidated financial statements of Southern include the accounts of all domestic and foreign subsidiaries. Wholly-owned subsidiaries included in the Company’s accounts include Southern Energy Corp., Southern Energy Corp (Delaware), Southern Energy Operating, LLC, Southern Energy CMS, LLC, Southern Energy LA, LLC, and Southern Energy BWB, LLC. Southern accounts for joint operations by recognizing the Company’s share of assets, liabilities, income and expenses. All intercompany balances and transactions have been eliminated.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the IFRS<sup>®</sup> Accounting Standards as issued by the International Accounting Standards Board (IASB). The condensed interim consolidated financial statements use the accounting policies which the Company applied in its annual consolidated financial statements for the year ended December 31, 2023. These condensed interim consolidated financial statements should be read in conjunction with Southern’s consolidated financial statements for the year ended December 31, 2023, which are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) or on Southern’s website at [www.southernenergycorp.com](http://www.southernenergycorp.com). These condensed interim consolidated financial statements are presented in United States dollars (“U.S. dollars”). All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

#### b) Adopted Accounting Changes

##### *Amendments to IAS 1, Presentation of Financial Statements*

Southern adopted the amendments to IAS 1 Presentation of Financial Statements effective January 1, 2024. The amendments are related to the classification of liabilities as current and non-current. Due to the circumstances at September 30, 2024, as described below in Note 2c “Going Concern” and Note 5 “Long-Term Debt”, the non-current portion of the long-term debt has been reclassified as current.

SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

---

**c) Going Concern**

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 for certain financial instruments which are measured at fair value.

For the nine months ended September 30, 2024, the Company incurred net losses of \$7.8 million, compared to net losses of \$46.8 million for the full year 2023. As of September 30, 2024, the accumulated deficit stood at \$69.2 million (December 31, 2023 - \$61.4 million), with current liabilities exceeding current assets by \$23.1 million (December 31, 2023 - \$12.5 million).

The prolonged period of low natural gas prices in 2023 and 2024 adversely impacted cash flows, limiting the Company's ability to service its senior secured term loan (the "Credit Facility"). In response, on February 28, 2024, the Company entered into the Sixth Amendment to the Credit Facility, which introduced the following changes:

- Extended the loan maturity to December 31, 2026
- Reset the debt service coverage ratio ("DSCR") calculation to an annualized basis starting in Q1 2024
- Adjusted repayments based on a free cash flow ("FCF") grid, as detailed in Note 5 "Long-term Debt"
- Increased the fixed annual coupon rate from 12% to 15%
- Paused principal repayments from February 1, 2024, to September 30, 2024

While the payment pause helped the Company manage short-term liabilities, it led to non-compliance with the asset coverage ratio ("ACR") at September 30, 2024, requiring a waiver from the lender.

Subsequent to September 30, 2024, Southern entered into the eighth amendment to the Credit Facility (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.

In addition to these Credit Facility amendments, the Company extended the maturity of its outstanding convertible unsecured subordinated debentures ("Debentures") by one year to June 30, 2025, through a second supplemental indenture dated June 26, 2024. The interest rate on the Debentures increased from 8% to 10% annually, effective June 30, 2024.

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 inventory 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

# SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
Amounts in thousands of U.S. Dollars, except for per share amounts



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. In assessing whether the going concern assumption is appropriate, management evaluated all available information about the future which is at least, but not limited to, twelve months from the end of the reporting period. These 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.

### 3. Property, Plant and Equipment

The following table presents the reconciliation of the beginning and ending amounts of our PP&E balances including accumulated depletion, depreciation and amortization:

	<b>Petroleum and Natural Gas Assets</b>	<b>Other</b>	<b>Total</b>
<b>Net book value as at December 31, 2023</b>	<b>\$ 59,423</b>	<b>\$ 185</b>	<b>\$ 59,608</b>
Additions	811	5	816
Acquisitions, including decommissioning costs	32	-	32
Dispositions	(4,013)	-	(4,013)
Change in decommissioning provision (Note 4)	(536)	-	(536)
Depletion, depreciation and amortization	(5,352)	(39)	(5,391)
Foreign exchange	-	(2)	(2)
<b>Net book value as at September 30, 2024</b>	<b>\$ 50,365</b>	<b>\$ 149</b>	<b>\$ 50,514</b>

#### *Additions*

For the three and nine months ended September 30, 2024, Southern incurred \$0.5 million and \$0.8 million of capital additions related to the development of the Central Mississippi Cash Generating Unit ("CMS CGU").

#### *Dispositions*

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 assets in the Black Warrior Basin CGU for nil proceeds, recording a gain on sale of \$0.2 million.

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

*Depletion and depreciation*

For the three and nine months ended September 30, 2024, the Company recorded depletion expense of \$1.6 million and \$5.4 million, respectively. In the calculation of depletion expense, an estimated \$161.8 million of future development costs associated with the proven plus probable reserves were included.

*Impairment and impairment recovery*

At the end of each reporting period, the Company performs an assessment to determine whether there are any indications of impairment for the CGUs that comprise petroleum and natural gas properties. As at September 30, 2024, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

**4. Decommissioning Provisions**

The Company's decommissioning provisions result from its ownership interest in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The total decommissioning provision is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provision, is approximately \$18.8 million at September 30, 2024 (December 31, 2023 – \$20.3 million). The decommissioning provision was inflated using a rate of 2.1% (December 31, 2023 – 2.4%) and discounted using a risk-free interest rate of 3.81% at September 30, 2024 (December 31, 2023 – 3.9%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 50 years into the future and will be funded from general corporate resources at the time of abandonment.

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of legal obligations associated with the retirement of property, plant and equipment:

		<b>2024</b>
<b>Balance, beginning of year</b>	\$	8,917
Liabilities acquired		32
Changes in estimates		(536)
Liabilities settled		(9)
Accretion expense		261
Dispositions		(232)
Effect of foreign exchange rate changes		(1)
<b>Balance, end of period</b>	<b>\$</b>	<b>8,432</b>
<b>Long term liability</b>	<b>\$</b>	<b>8,432</b>

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

### 5. Long-term Debt

Southern had the following long-term debt obligations outstanding as at the dates indicated:

	<b>As at Sep 30, 2024</b>	<b>As at Dec 31, 2023</b>
Current portion of senior secured term loan	\$ 18,162	\$ 4,985
Long-term portion of senior secured term loan	-	12,879
Unamortized transaction costs	(411)	(548)
<b>Total Long-Term Debt</b>	<b>\$ 17,751</b>	<b>\$ 17,316</b>

Southern Energy Corporation (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.

Effective February 28, 2024, Southern entered into the Sixth Amendment to the Credit Facility. The Sixth Amendment included an extension of the maturity of the Credit Facility to December 31, 2026, reset the DSCR (as defined below) covenant calculation to an annualized basis beginning in Q1 2024, reduced the repayments based on a 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 in Q1 2024 as a debt modification under IFRS 9, resulting in a non-cash loss of \$1.3 million in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss.

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%.

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

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 Sep 30, 2024	As at 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 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.

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 to the Credit Facility. 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.

### 6. Convertible Debentures

	Number of Convertible Debentures	Liability Component (\$000s)	Equity Component (\$000s)
Balance at December 31, 2023	4,286	\$ 3,196	\$ 245
Accretion of discount	-	53	-
Net impact of debt modification	-	42	-
Effect of foreign exchange rate changes	-	(96)	-
<b>Balance at September 30, 2024</b>	<b>4,286</b>	<b>\$ 3,195</b>	<b>\$ 245</b>

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

On June 26, 2024, Southern amended its outstanding 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.

At September 30, 2024, the convertible debentures were classified as a current liability as they have a maturity date of June 30, 2025.

### 7. Shareholders’ Equity

#### *Share Capital*

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

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

	Number of Shares	Share Capital (\$000s)
Balance as at December 31, 2023	165,718,160	\$ 79,764
Issuance of Common Shares to settle convertible debenture interest (Note 6)	1,524,664	253
<b>Balance as at September 30, 2024</b>	<b>167,242,824</b>	<b>\$ 80,017</b>

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 to the Credit Facility, the Company has agreed to extend the term of the outstanding Common Share purchase warrants (“Bonus Warrants”) previously issued to the lender

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

from April 30, 2024 until August 31, 2025. There are 3,906,250 remaining Bonus Warrants with an exercise price of CAD\$0.40.

*Stock Option Plan*

Under the Company's security based compensation arrangement, which includes the stock option plan and share award incentive plan, the Company may grant options or share awards to its directors, officers, employees and consultants up to a maximum of 10% of the issued and outstanding Common Shares at the time of the grant, with a maximum of 5% of the Company's issued and outstanding shares reserved for any one person on a yearly basis. The maximum stock option term is 10 years from the grant date with vesting terms set at the discretion of the board of directors.

The following table reflects the Company's outstanding common stock options 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 as at September 30, 2024:

	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)
Exercise Price (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>

Southern recognized \$0.1 million and \$0.3 million of share-based compensation expense relating to stock options during the three and nine months ended September 30, 2024, respectively, compared to \$0.2 million and \$0.6 million for the same periods in 2023.

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

On July 17, 2024, Southern granted 3.1 million stock options that expire in five years 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. The fair value of the stock option grant was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	<b>2024</b>
Risk free interest rate	3.428%
Expected volatility	56%
Expected life	5.0 years
Dividend yield	nil
Expected forfeiture rate	10%
Stock price on grant date (CAD)	\$0.175
Fair value per option (CAD)	\$0.081

### *Share Award Incentive Plan*

The following table reflects the Company's outstanding restricted share awards ("RSAs") at September 30, 2024 and December 31, 2023:

	<b>Number of RSAs</b>
Balance at December 31, 2023	2,949,657
Released upon cash settlement	(1,250,524)
<b>Balance at September 30, 2024</b>	<b>1,699,133</b>

Southern recognized \$0.1 million of share-based compensation expense relating to the RSAs during the three and nine months ended September 30, 2024, respectively, compared to \$0.1 million and \$0.2 million for the same periods in 2023.

## 8. Loss Per Share

The following table presents the Company's net loss per share:

	Three months ended September 30, 2024		Nine months ended September 30, 2024	
	2024	2023	2024	2023
Net loss	\$ (2,062)	\$ (2,367)	\$ (7,805)	\$ (7,254)
Basic and diluted - weighted average Common Shares outstanding	167,226,620	139,085,612	166,736,581	138,907,127
Net loss per share, basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.05)

The calculation of diluted loss per share for the three and nine months ended September 30, 2024 excludes the effect of all outstanding share options, Bonus Warrants, convertible debentures and Debenture warrants as they are anti-dilutive.

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

**9. Financial Instruments and Financial Risk Management**

***Financial Derivative Contracts***

Southern utilizes crude oil and natural gas derivative contracts to mitigate its exposure to commodity price risk associated with future crude 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.

***Financial Derivative Contracts Financial Statement Recognition***

The Company’s financial instruments that were accounted for at fair value as of September 30, 2024 and December 31, 2023 are presented below:

Comprised of:	<b>As at Sep 30, 2024</b>	<b>As at Dec 31, 2023</b>
Current derivative asset	\$ 351	\$ 1,022
Current derivative liability	(55)	(10)
Non-current derivative asset	53	235
Non-current derivative liability	(604)	(37)
<b>Net fair value of contracts, end of period</b>	<b>\$ (255)</b>	<b>\$ 1,210</b>

Below is a reconciliation of the gain on derivatives from the condensed interim consolidated statement of loss and comprehensive loss:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Realized gain on derivatives	\$ (578)	\$ (33)	\$ (2,399)	\$ (143)
Unrealized (gain) loss on derivatives	(146)	(82)	1,465	(183)
<b>Gain on derivative instruments</b>	<b>\$ (724)</b>	<b>\$ (115)</b>	<b>\$ (934)</b>	<b>\$ (326)</b>

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
Amounts in thousands of U.S. Dollars, except for per share amounts

---

### ***Credit Risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of the Company's cash and cash equivalents and accounts receivable and the positive fair value of any financial derivatives represent the maximum credit exposure.

#### *Cash and cash equivalents*

The Company manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

#### *Accounts receivable and other*

Substantially all of the Company's accounts receivable are due from purchasers of the Company's petroleum and natural gas production, joint interest partners and government agencies, and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Company believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Southern had no provision for doubtful accounts as at September 30, 2024 or December 31, 2023.

### ***Liquidity Risk***

Liquidity risk arises through excess financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient capital in order to meet its current and future liquidity requirements. The financial liabilities in the statement of financial position consist of accounts payable, royalties payable, lease liabilities, financial derivative liabilities, convertible debentures and the senior secured credit facility.

Strategies to manage liquidity include, having adequate sources of financing available through its Credit Facilities, estimating future cash flows generated from operations based on reasonable production and pricing assumptions, adding additional commodity derivative contracts, reducing capital spending and utilizing equity to settle interest payments on Convertible Debentures. Southern may also consider sale of non-core petroleum and natural gas assets and excess equipment inventory along with alternative sources of financing. The condensed interim consolidated financial statements have been prepared on a going concern basis, which presumes that Southern will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The condensed interim consolidated financial statements do not reflect adjustments and

**SOUTHERN ENERGY CORP.**

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

classification of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

**Market Risk**

Market risk is the risk that changes in market prices relating to currency, commodity prices and interest rates will affect the Company's net earnings, future cash flows, the value of financial instruments, or the fair value of its assets and liabilities. The object of market risk management is to manage and control market risk exposure within acceptable parameters.

To partially mitigate exposure to commodity price risk, Southern entered into various financial derivative instruments. The instruments currently outstanding are described above. As at September 30, 2024, a 10% change in future commodity prices applied against these contracts would have a \$1.4 million impact on net income.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rates. This risk is mitigated as the Credit Facility has a fixed interest rate.

**10. Royalties Payable**

As at September 30, 2024, Southern had \$6.5 million (\$6.4 million at December 31, 2023) of non-interest bearing royalty payables related to unresolved title or ownership issues. The royalty payable account is made up of balances due to approximately 6,600 royalty holders with over 95% of the balances outstanding for greater than 120 days. The royalty holders have deficiencies with their accounts that precludes Southern from making payments.

**11. Petroleum and Natural Gas Sales**

Southern sells its production pursuant to variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for the quality, location and other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contract, Southern is required to deliver a fixed or variable volume of crude oil, natural gas liquids or natural gas to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price. Revenues are typically collected in the month following production.

The following table presents Southern's petroleum and natural gas sales disaggregated by revenue source:

	Three months ended		Nine months ended	
	September 30,		September 30,	
Commodity sales from production, by product	2024	2023	2024	2023
Crude oil	\$ 448	\$ 1,095	\$ 2,027	\$ 2,548
Natural gas liquids	36	36	111	139
Natural gas	2,996	4,154	10,025	11,528
<b>Total Petroleum and Natural Gas Sales</b>	<b>\$ 3,480</b>	<b>\$ 5,285</b>	<b>\$ 12,163</b>	<b>\$ 14,215</b>

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
 Amounts in thousands of U.S. Dollars, except for per share amounts

### 12. Financing

The following table presents a breakdown of Southern's financing expenses:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Credit facility interest	\$ 671	\$ 553	\$ 1,939	\$ 1,124
Convertible debentures interest	79	65	205	191
Interest income	(12)	(8)	(31)	(182)
Accretion	18	201	190	510
Interest on lease obligations	1	5	7	18
<b>Total Financing Expenses</b>	<b>\$ 757</b>	<b>\$ 816</b>	<b>\$ 2,310</b>	<b>\$ 1,661</b>

### 13. Capital Risk Management

The Company monitors its capital based on projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company's management and approved by or reviewed with the Company's Board of Directors. The budget results are regularly reviewed and updated as required.

In order 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.

### 14. Commitments

The following table lists the Company's contractual obligations and commitments 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 note 5 – Long-term Debt 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.