

Condensed Interim Consolidated Financial Statements of

## SOUTHERN ENERGY CORP.

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

(unaudited)

(U.S. Dollars)

# SOUTHERN ENERGY CORP.

Condensed Interim Consolidated Statement of Financial Position (unaudited)



(in thousands of U.S. Dollars)	September 30, 2025	December 31, 2024
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 962	\$ 2,388
Accounts receivable and other	1,822	2,060
Prepaid expenses and deposits	1,166	1,142
Derivative assets (Note 10)	15	166
	3,965	5,756
Property, plant and equipment (Note 3)	46,371	47,683
Right-of-use assets	290	362
Total assets	\$ 50,626	\$ 53,801
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	2,655	2,895
Royalties payable (Note 11)	7,055	6,551
Current portion of lease liabilities (Note 4)	133	79
Current portion of credit facility (Note 6)	2,830	17,814
Warrant liability (Note 8)	2,403	-
Convertible debentures (Note 7)	-	2,990
Derivative liabilities (Note 10)	604	349
	15,680	30,678
Long-term liabilities		
Lease liabilities (Note 4)	238	294
Derivative liabilities (Note 10)	356	871
Credit facility (Note 6)	11,714	-
Decommissioning provisions (Note 5)	7,518	7,201
Total liabilities	35,506	39,044
Shareholders' equity (Note 8)		
Share capital	84,232	80,166
Equity component of convertible debenture	-	245
Warrants	-	351
Contributed surplus	8,499	7,860
Deficit	(76,760)	(72,932)
Accumulated other comprehensive loss	(851)	(933)
	15,120	14,757
Total liabilities and shareholders' equity	\$ 50,626	\$ 53,801

Basis of Presentation and Going Concern (Note 2)

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

# SOUTHERN ENERGY CORP.



Condensed Interim Consolidated Statement of Earnings (Loss) & Comprehensive Income (Loss) (unaudited)

(in thousands of U.S. Dollars, except for per share amounts)	Three months ended		Nine months ended	
	September 30, 2025	2024	September 30, 2025	2024
<b>Revenues</b>				
Petroleum and natural gas revenue (Note 12)	\$ 4,340	\$ 3,480	\$ 13,450	\$ 12,163
Royalties	(882)	(685)	(2,730)	(2,418)
	<u>3,458</u>	<u>2,795</u>	<u>10,720</u>	<u>9,745</u>
<b>Expenses</b>				
Production and operating	1,518	1,431	4,784	4,528
Transportation	186	347	711	1,116
Depletion, depreciation and amortization	1,468	1,617	4,268	5,471
Gain on derivatives (Note 10)	(1,101)	(724)	(233)	(934)
Loss on debt modification (Note 6)	-	-	228	1,379
Loss on debt extinguishment (Note 7)	-	-	59	-
Gain on warrant revaluation (Note 8)	(498)	-	(369)	-
Loss on sale of assets	-	198	-	417
Financing, net (Note 13)	524	757	1,745	2,310
General and administrative	934	883	2,829	2,889
Share-based compensation	61	99	52	330
Transaction costs	15	176	322	176
(Gain) loss on foreign exchange	(111)	73	152	(132)
	<u>2,996</u>	<u>4,857</u>	<u>14,548</u>	<u>17,550</u>
<b>Total net earnings (loss) for the period</b>	462	(2,062)	(3,828)	(7,805)
Currency translation adjustment	(63)	35	82	(66)
<b>Comprehensive income (loss) for the period</b>	<u>\$ 399</u>	<u>\$ (2,027)</u>	<u>\$ (3,746)</u>	<u>\$ (7,871)</u>
<b>Net earnings (loss) per common share</b> (Note 8)				
Basic	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.05)
Diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.05)

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

# SOUTHERN ENERGY CORP.



## Condensed Interim Consolidated Statement 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 Income (Loss)	Shareholders' Equity
Balance, December 31, 2023	165,718,160	\$ 79,764	\$ 245	\$ 351	\$ 7,569	\$(61,412)	\$ (706)	\$ 25,811
Shares issued, net	1,524,664	253	-	-	-	-	-	253
Share-based compensation	-	-	-	-	268	-	-	268
Net loss	-	-	-	-	-	(7,805)	-	(7,805)
Other comprehensive loss	-	-	-	-	-	-	(66)	(66)
Balance, September 30, 2024	167,242,824	\$ 80,017	\$ 245	\$ 351	\$ 7,837	\$(69,217)	\$ (772)	\$ 18,461
Balance, December 31, 2024	169,385,824	\$ 80,166	\$ 245	\$ 351	\$ 7,860	\$(72,932)	\$ (933)	\$ 14,757
Shares issued, net (Note 8)	166,869,129	4,066	-	-	-	-	-	4,066
Settlement of convertible debentures	-	-	(245)	-	245	-	-	-
Expiration of warrants	-	-	-	(351)	351	-	-	-
Share-based compensation	-	-	-	-	43	-	-	43
Net loss	-	-	-	-	-	(3,828)	-	(3,828)
Other comprehensive income	-	-	-	-	-	-	82	82
Balance, September 30, 2025	336,254,953	\$ 84,232	\$ -	\$ -	\$ 8,499	\$(76,760)	\$ (851)	\$ 15,120

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

# SOUTHERN ENERGY CORP.

Condensed Interim Consolidated Statement of Cash Flows (unaudited)



(in thousands of U.S. Dollars)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
<b>Operating activities</b>				
Total net earnings (loss) for the period	\$ 462	\$ (2,062)	\$ (3,828)	\$ (7,805)
Changes in non-cash items:				
Depletion, depreciation and amortization	1,468	1,617	4,268	5,474
Financing expense	533	769	1,772	2,341
Unrealized (gain) loss on derivatives (Note 10)	(884)	(146)	(109)	1,465
Unrealized (gain) loss on foreign exchange	(112)	77	178	(117)
Loss on debt modification (Note 6)	-	-	228	1,379
Loss on debt extinguishment (Note 7)	-	-	59	-
Gain on warrant revaluation (Note 8)	(498)	-	(369)	-
Loss on disposition	-	198	-	417
Share-based compensation	61	99	52	330
Decommissioning provisions liabilities settled (Note 5)	(1)	(3)	(6)	(9)
Changes in non-cash working capital	(98)	723	(639)	179
Net cash provided by operating activities	931	1,272	1,606	3,654
<b>Investing activities</b>				
Capital expenditures	(340)	(487)	(2,808)	(816)
Proceeds from dispositions	-	2,004	-	3,364
Changes in non-cash working capital	(1,153)	(411)	933	(3,241)
Net cash (used) provided by investing activities	(1,493)	1,106	(1,875)	(693)
<b>Financing activities</b>				
Proceeds from share issuances, net (Note 8)	-	-	3,609	-
Paydown of long-term debt (Note 6)	(648)	-	(3,139)	(745)
Payment of interest	(558)	(671)	(1,754)	(1,939)
Finance lease payments	(42)	(33)	(70)	(105)
Transaction costs on debt refinance	-	(1)	(1)	(53)
Changes in non-cash working capital	-	90	(3)	85
Net cash used by financing activities	(1,248)	(615)	(1,358)	(2,757)
Net (decrease) increase in cash and cash equivalents	(1,811)	1,763	(1,628)	204
Effect of foreign exchange rate changes	189	3	202	(28)
Cash and cash equivalents, beginning of period	2,584	1,522	2,388	3,112
Cash and cash equivalents, end of period	\$ 962	\$ 3,288	\$ 962	\$ 3,288

(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

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### 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 18, 2025.

### 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 ETX, 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® Accounting Standards as issued by the International Accounting Standards Board (IASB). The condensed interim consolidated financial statements use the material accounting policies which the Company applied in its annual consolidated financial statements for the year ended December 31, 2024. These condensed interim consolidated financial statements should be read in conjunction with Southern’s consolidated financial statements for the year ended December 31, 2024, 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.

Southern’s operations are viewed as a single operating segment by the chief operating decision makers of the Company for the purposes of resource allocation and assessing performance.

#### b) Going Concern

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

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
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For the nine months ended September 30, 2025, the Company incurred a net loss of \$3.8 million and generated cash from operating activities of \$1.6 million. As of September 30, 2025, the accumulated deficit was \$76.8 million and current liabilities exceeded current assets by \$11.7 million.

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

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

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

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

**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, 2024</b>	<b>\$ 47,541</b>	<b>\$ 142</b>	<b>\$ 47,683</b>
Additions	2,808	-	2,808
Change in decommissioning provision (Note 5)	61	-	61
Depletion, depreciation and amortization	(4,154)	(30)	(4,184)
Foreign exchange	-	3	4
<b>Net book value as at September 30, 2025</b>	<b>\$ 46,256</b>	<b>\$ 115</b>	<b>\$ 46,371</b>

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
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*Additions*

For the nine months ended September 30, 2025, Southern incurred \$2.8 million of capital additions related to the development of the Central Mississippi Cash Generating Unit (“CGU”).

*Depletion and depreciation*

For the three and nine months ended September 30, 2025, the Company recorded depletion expense of \$1.4 million and \$4.2 million, respectively. In the calculation of depletion expense, an estimated \$158.5 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, 2025, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

**4. Right-of-Use Assets and Lease Liabilities**

*Right-of-Use Assets*

The following table presents the reconciliation of the beginning and ending amounts of our ROU balances including accumulated depreciation:

		<b>Total</b>
<b>Carrying value as at December 31, 2024</b>	<b>\$</b>	<b>362</b>
Depreciation		(84)
Effect of foreign exchange rates		12
<b>Carrying value as at September 30, 2025</b>	<b>\$</b>	<b>290</b>

*Lease Liabilities*

Southern had the following lease obligations outstanding as at the dates indicated:

		<b>Total</b>
<b>As at December 31, 2024</b>	<b>\$</b>	<b>373</b>
Interest expense		44
Lease payments		(70)
Effect of foreign exchange rates		25
<b>As at September 30, 2025</b>	<b>\$</b>	<b>372</b>

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As at September 30, 2025, Southern had future commitments relating to lease liabilities as follows:

		<b>Total</b>
Less than 1 year	\$	161
1 – 3 years		284
<b>Total undiscounted future lease payments</b>	<b>\$</b>	<b>445</b>
Amounts representing interest		(74)
Present value of net lease payments	\$	371
Less current portion of lease liabilities		(133)
<b>Non-current portion of lease liabilities</b>	<b>\$</b>	<b>238</b>

The office lease liability is being discounted using the Company's incremental borrowing rate of 15.0%.

**5. 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 \$17.4 million at September 30, 2025 (December 31, 2024 – \$17.6 million). The decommissioning provision was inflated using a rate of 2.1% (December 31, 2024 – 2.1%) and discounted using a risk-free interest rate of 4.7% at September 30, 2025 (December 31, 2024 – 4.9%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 50 years into the future and will be funded from general corporate resources at the time of abandonment.

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>2025</b>
<b>Balance, beginning of year</b>	<b>\$</b>	<b>7,201</b>
Changes in estimates		61
Liabilities settled		(6)
Accretion expense		263
Effect of foreign exchange rate changes		(1)
<b>Balance, end of period</b>	<b>\$</b>	<b>7,518</b>
<b>Long term liability</b>	<b>\$</b>	<b>7,518</b>

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### 6. Credit Facility

Southern had the following credit facility obligations outstanding as at the dates indicated:

	<b>As at Sep 30, 2025</b>	<b>As at Dec 31, 2024</b>
Current portion of senior secured term loan	\$ 2,830	\$ 18,179
Long-term portion of senior secured term loan	11,942	-
Unamortized transaction costs	(228)	(365)
<b>Total Credit Facility</b>	<b>\$ 14,544</b>	<b>\$ 17,814</b>

Southern Energy Corporation (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at September 30, 2025. The Credit Facility is comprised of Tranche A of \$5.5 million that was advanced at closing on April 30, 2021 and Tranche B of \$26.5 million with an availability until December 31, 2026. Interest on the Credit Facility is 15% per annum on amounts outstanding and includes a 1% per annum standby fee on the unused portion of Tranche B, both paid monthly in arrears on the last day of the month. The Credit Facility is secured against the oil and gas properties of Southern and matures on December 31, 2026. As at September 30, 2025, Southern had \$14.0 million drawn on the Credit Facility and \$5.0 million available from Tranche B.

Effective January 31, 2025, Southern entered into the ninth amendment (“Ninth Amendment”) to the Credit Facility. The Ninth Amendment included an extension to the pause of monthly repayment of principal to January 31, 2025 and adjusted the \$1.7 million repayment required from the Eighth Amendment to \$1.45 million at January 31, 2025, which Southern paid.

Effective February 28, 2025, Southern entered into the tenth amendment (“Tenth Amendment”) to the Credit Facility. The Tenth Amendment amended the monthly repayment of the principal amount outstanding calculation beginning on February 28, 2025, to the aggregate principal amount then outstanding on all loans multiplied by 60% multiplied by the fraction  $1 / A$ , where A equals the sum of the number of whole or partial calendar months remaining to the maturity date plus 24 months. In addition, the Tenth Amendment amended both of the financial covenant calculations beginning with the period ending March 31, 2025. The ACR was lowered to 1.75x for all fiscal quarters in 2025 and returns back to 2.00x beginning on March 31, 2026. The DSCR was reset to an annualized basis beginning with the March 31, 2025 calculation.

Effective March 31, 2025, Southern entered into the eleventh amendment (“Eleventh Amendment”) to the Credit Facility. The Eleventh Amendment amended the ACR down to 1.5x from 1.75x in 2025, reduced Tranche B capacity to \$5.0 million and provided a maximum annual permitted general and administrative expense amount of \$3.7 million in 2025 and \$3.4 million for future years.

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

The Credit Facility includes a monthly repayment of the principal amount outstanding computed as the sum of: (a) outstanding amount multiplied by 60% multiplied by  $1/A$ , where A equals the number of whole

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or part months remaining to the maturity date plus 24 months; and (b) on the last day of the second month following each fiscal quarter, the amount determined by the FCF grid. FCF is calculated as Earnings Before Interest, Taxes, Depreciation, Amortization, and Impairment (“EBITDAX”), less the aggregate of the Credit Facility principal and interest payments.

Below are the financial covenant calculations for the Credit Facility for September 30, 2025 and December 31, 2024:

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

The ACR of at least 1.50:1 is calculated as the ratio of the net present value of proved developed producing oil and gas properties as determined by an independent qualified engineer, using a price deck based on the forward commodity prices, discounted at 12% to the principle amount outstanding under the Credit Facility.

The DSCR of greater than 1.25:1 is the ratio of adjusted EBITDAX, which includes cash equity contributions received by the Borrower to scheduled principal payments and interest expense.

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

### 7. Convertible Debentures

	Number of Convertible Debentures	Liability Component (\$000s)	Equity Component (\$000s)
Balance as at December 31, 2024	4,286	\$ 2,990	\$ 245
Accretion of discount	-	7	-
Effect of foreign exchange rate changes	-	123	-
Conversion of Debentures to units	(4,286)	(3,120)	(245)
<b>Balance as at September 30, 2025</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>

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

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### 8. Shareholders' Equity

#### *Share Capital*

The authorized share capital of the Company consists of an unlimited number of voting 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, 2025 and December 2024:

	<b>Number of Shares</b>	<b>Share Capital (\$000s)</b>
Balance as at December 31, 2024	169,385,824	\$ 80,166
April issuance of Common Shares by Fundraising	102,482,673	3,486
Settlement of convertible debentures	62,759,286	2,123
Issuance of Common Shares to settle Debenture interest (Note 7)	1,627,170	55
Share issuance costs	-	(1,598)
<b>Balance as at September 30, 2025</b>	<b>336,254,953</b>	<b>\$ 84,232</b>

On April 8, 2025, Southern closed an equity financing (the "Fundraising") raising aggregate gross proceeds of \$5.0 million through the issuance of a total of 102,482,673 units (the "Units"). The Units under the Fundraising were offered by way of a prospectus offering (the "Prospectus Offering") at a price of CAD\$0.07 per Unit (the "Prospectus Price") and a concurrent placement of Units (the "Placing") to new and existing investors on AIM at a price of 3.8 pence per Unit. Each Unit consists of one new Common Share and one Common Share purchase warrant ("Fundraising Warrant"). Each Fundraising Warrant entitles the holder to subscribe for and purchase one Common Share at an exercise price of CAD\$0.09 per Common Share (in the case of the Prospectus Offering) or 4.8 pence (in the case of the Placing) for a period of 36 months following closing of the Fundraising. The Fundraising consisted of gross proceeds of \$3.2 million pursuant to a Prospectus Offering of 65,435,521 Units and \$1.8 million through a Placing of 37,047,152 Units.

#### *Warrants*

As part of the Prospectus Offering on April 8, 2025, 4,932,804 compensation warrants ("Compensation Warrants") were issued. Each Compensation Warrant is exercisable for one Common Share at an exercise price of CAD\$0.07 for a period of 36 months from the closing date.

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

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period in which they arise. The revaluation as at September 30, 2025, resulted in a non-cash gain of \$0.5 million for the three months ending September 30, 2025.

*Stock Option Plan*

Under the Company's security based compensation arrangement, which includes the stock option plan and share award incentive plan, the Company may grant options or share awards to its directors, officers, employees and consultants.

The following table reflects the Company's outstanding common stock options as at September 30, 2025 and December 31, 2024:

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

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

The following table summarizes information regarding stock options outstanding as at September 30, 2025:

	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)	7,036	2.5	\$0.62	6,130	\$0.68
<b>\$0.18 - \$1.01</b>	<b>7,036</b>	<b>2.5</b>	<b>\$0.62</b>	<b>6,130</b>	<b>\$0.68</b>

Southern recognized nil of share-based compensation expense relating to stock options during the three and nine months ended September 30, 2025, compared to \$0.1 million and \$0.3 million for the same periods in 2024, respectively.

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*Share Award Incentive Plan*

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

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

On August 20, 2025, Southern issued 19.8 million RSAs under its Share Award Incentive Plan. The RSAs vest as to one third on each of the first, second and third anniversaries of the grant date. On the vesting dates of such RSAs, the holder is entitled to receive a cash payment or its equivalent in fully paid Common Shares, at the Company's discretion, equal to the closing market value per Common Share on the TSXV on the business day prior to such payment. For the purpose of calculating share-based compensation, the fair value of the RSAs is based on the market value of Southern's Common Shares at each period end. The fair value is recognised as share-based compensation over the vesting period. Fluctuations in fair values are recognized as share-based compensation in the period they occur.

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

Southern recognized \$0.1 million and nil of share-based compensation expense relating to RSAs during the three and nine months ended September 30, 2025, respectively, compared to nil and \$0.1 million for the same periods in 2024, respectively.

**9. Net Earnings (Loss) Per Share**

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
Net earnings (loss)	\$ 40	\$ (2,062)	\$ (3,828)	\$ (7,805)
Basic and diluted - weighted average Common Shares outstanding	336,254,953	167,226,620	276,353,214	166,736,581
Net earnings (loss) per share, basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.05)

When the impact is anti-dilutive, the warrants, stock options and convertible debentures are excluded from the calculation of diluted weighted average Common Shares. For the three and nine months ended September 30, 2025 and September 30, 2024, all dilutive securities are excluded as they are anti-dilutive.

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**10. 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 condensed interim consolidated statement of financial position as either an asset or a liability measured at fair value. Southern does not apply hedge accounting to its commodity derivative contracts; accordingly, changes in the fair value of these instruments are recognized in the condensed interim consolidated statement of earnings (loss) and comprehensive income (loss) in the period of change.

Southern had the following commodity derivative contracts in place as at September 30, 2025:

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

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

The Company's financial instruments that were accounted for at fair value as of September 30, 2025 and December 31, 2024 are presented below:

Comprised of:	As at Sep 30, 2025	As at Dec 31, 2024
Current derivative asset	\$ 15	\$ 166
Current derivative liability	(604)	(349)
Non-current derivative liability	(356)	(871)
<b>Net fair value of contracts, end of period</b>	<b>\$ (945)</b>	<b>\$ (1,054)</b>

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
Realized (gain) on derivatives	\$ (217)	\$ (578)	\$ (124)	\$ (2,399)
Unrealized (gain) loss on derivatives	(884)	(146)	(109)	1,465
<b>(Gain) on derivative instruments</b>	<b>\$ (1,101)</b>	<b>\$ (724)</b>	<b>\$ (233)</b>	<b>\$ (934)</b>

***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.

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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, 2025 or December 31, 2024.

### ***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 and the senior secured credit facility. If financial covenants are not met and the Company is unable to obtain waivers, the debt may become due on demand. This uncertainty may cast doubt with respect to the ability of the Southern to continue as a going concern.

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 and reducing capital. Southern may also consider sale of non-core petroleum and natural gas assets and excess equipment inventory along with alternative sources of financing. The 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 classification of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

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**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 asset 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, 2025, a 10% change in future commodity prices applied against these contracts would have approximately a \$0.8 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.

**11. Royalties Payable**

As at September 30, 2025, Southern had \$7.1 million (\$6.6 million at December 31, 2024) 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 6,700 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.

**12. Petroleum and Natural Gas Revenue**

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 revenue from production, by product	2025	2024	2025	2024
Crude oil	\$ 339	\$ 448	\$ 1,234	\$ 2,027
Natural gas liquids	-	36	39	111
Natural gas	4,001	2,996	12,177	10,025
<b>Total Petroleum and Natural Gas Revenue</b>	<b>\$ 4,340</b>	<b>\$ 3,480</b>	<b>\$ 13,450</b>	<b>\$ 12,163</b>

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### 13. Financing

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
Credit facility interest	\$ 558	\$ 671	\$ 1,754	\$ 1,939
Convertible debentures interest	-	79	77	205
Interest income	(9)	(12)	(27)	(31)
Accretion	(40)	18	(103)	190
Interest on lease obligations	15	1	44	7
<b>Total Financing Expenses</b>	<b>\$ 524</b>	<b>\$ 757</b>	<b>\$ 1,745</b>	<b>\$ 2,310</b>

### 14. 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.

### 15. Commitments

The following table lists the Company's contractual obligations and commitments as at September 30, 2025:

	Total	2025	2026	2027	2028	Thereafter
Credit facility <sup>(1)</sup>	\$ 13,979	\$ 669	\$ 13,310	\$ -	\$ -	\$ -
Lease obligations <sup>(2)</sup>	445	32	169	169	75	-
<b>Total</b>	<b>\$ 14,424</b>	<b>\$ 701</b>	<b>\$ 13,479</b>	<b>\$ 169</b>	<b>\$ 75</b>	<b>\$ -</b>

Notes:

- (1) See note 6 – Credit Facility for more information
- (2) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16