Southern ENERGY

Condensed Interim Consolidated Financial Statements of

SOUTHERN ENERGY CORP.

For the three months ended March 31, 2025 and 2024

(unaudited)

(U.S. Dollars)

(in thousands of U.S. Dollars)	March 31, 2025	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	$ 856	$ 2,388
Accounts receivable and other	2,161	2,060
Prepaid expenses and deposits	1,226	1,142
Derivative assets (Note 10)	-	166
	4,243	5,756
Property, plant and equipment (Note 3)	46,659	47,683
Right-of-use assets	335	362
Total assets	$ 51,237	$ 53,801
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	3,411	2,895
Royalties payable (Note 11)	6,738	6,551
Current portion of lease liabilities (Note 4)	122	79
Current portion of credit facility (Note 6)	16,073	17,814
Convertible debentures (Note 7)	2,999	2,990
Derivative liabilities (Note 10)	2,085	349
	31,428	30,678
Long-term liabilities		
Lease liabilities (Note 4)	264	294
Derivative liabilities (Note 10)	1,115	871
Decommissioning provisions (Note 5)	7,536	7,201
Total liabilities	40,343	39,044
Shareholders' equity (Note 8)		
Share capital	80,165	80,166
Equity component of convertible debenture	245	245
Warrants	351	351
Contributed surplus	7,882	7,860
Deficit	(76,811)	(72,932)
Accumulated other comprehensive loss	(938)	(933)
	10,894	14,757
Total liabilities and shareholders' equity	$ 51,237	$ 53,801

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

SOUTHERN ENERGY CORP.

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

(in thousands of U.S. Dollars, except for per share amounts)	Three months ended March 31, 2025	2024
Revenues		
Petroleum and natural gas revenue (Note 12)	$ 5,121	$ 4,794
Royalties	(1,035)	(944)
	4,086	3,850
Expenses		
Production and operating	1,804	1,652
Transportation	293	394
Depletion, depreciation and amortization	1,481	2,080
Loss (gain) on derivatives (Note 10)	2,326	(141)
Loss on debt modification (Note 6)	228	1,326
Financing, net (Note 13)	674	793
General and administrative	892	952
Share-based compensation	(29)	63
Transaction costs	300	-
Gain on foreign exchange	(4)	(148)
	7,965	6,971
Total net loss for the period	(3,879)	(3,121)
Currency translation adjustment	(5)	(74)
Comprehensive loss for the period	$ (3,884)	$ (3,195)
Net loss per Common Share (Note 9)		
Basic	$ (0.02)	$ (0.02)
Diluted	$ (0.02)	$ (0.02)

(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	779,273	129	-	-	-	-	-	129
Share-based compensation	-	-	-	-	68	-	-	68
Net loss	-	-	-	-	-	(3,121)	-	(3,121)
Other comprehensive loss	-	-	-	-	-	-	(74)	(74)
Balance, March 31, 2024	166,497,433	$ 79,893	$ 245	$ 351	$ 7,637	$(64,533)	$ (780)	$ 22,813
Balance, December 31, 2024	169,385,824	$ 80,166	$ 245	$ 351	$ 7,860	$(72,932)	$ (933)	$ 14,757
Share-based compensation	-	-	-	-	22	-	-	22
Convertible debentures modification	-	(1)	-	-				(1)
Net loss	-	-	-	-	-	(3,879)	-	(3,879)
Other comprehensive loss	-	-	-	-	-	-	(5)	(5)
Balance, March 31, 2025	169,385,824	$ 80,165	$ 245	$ 351	$ 7,882	$(76,811)	$ (938)	$ 10,894

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

	Three months ended March 31,	
(in thousands of U.S. Dollars)	**2025**	**2024**
Operating activities		
Total net loss for the period	$ (3,879)	$ (3,121)
Changes in non-cash items:		
Depletion, depreciation and amortization	1,481	2,083
Financing expense	677	802
Unrealized loss on derivatives (Note 10)	2,146	1,147
Unrealized loss (gain) on foreign exchange	5	(138)
Loss on debt modification (Note 6)	228	1,326
Share-based compensation	(29)	63
Changes in non-cash working capital	495	369
Net cash provided by operating activities	1,124	2,531
Investing activities		
Capital expenditures	(183)	(269)
Changes in non-cash working capital	(27)	(2,379)
Net cash used in investing activities	(210)	(2,648)
Financing activities		
Share issuance costs	(1)	-
Paydown of credit facility (Note 6)	(1,860)	(415)
Payment of interest	(620)	(597)
Finance lease payments	(1)	(37)
Transaction costs on debt refinance	(2)	(7)
Changes in non-cash working capital	38	(67)
Net cash used by financing activities	(2,446)	(1,123)
Net decrease in cash and cash equivalents	(1,532)	(1,240)
Effect of foreign exchange rate changes	-	(28)
Cash and cash equivalents, beginning of period	2,388	3,112
Cash and cash equivalents, end of period	$ 856	$ 1,844

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

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 May 27, 2025.

2. Basis of Presentation

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 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 or on Southern's website at 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.

Amounts in thousands of U.S. Dollars, except for per share amounts

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:

	Petroleum and Natural Gas Assets	Other	Total
Net book value as at December 31, 2024	**$ 47,541**	**$ 142**	**$ 47,683**
Additions	183	-	183
Change in decommissioning provision (Note 5)	247	-	(247)
Depletion, depreciation and amortization	(1,443)	(11)	(1,454)
Net book value as at March 31, 2025	**$ 46,528**	**$ 131**	**$ 46,659**

Additions

For the three months ended March 31, 2025, Southern incurred $0.2 million of capital additions related to the development of the Central Mississippi Cash Generating Unit ("CGU").

Depletion and depreciation

For the three months ended March 31, 2025, the Company recorded depletion expense of $1.4 million. In the calculation of depletion expense, an estimated $161.5 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 March 31, 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:

	Total
Carrying value as at December 31, 2024	**$ 362**
Depreciation	(27)
Carrying value as at March 31, 2025	**$ 335**

Amounts in thousands of U.S. Dollars, except for per share amounts

Lease Liabilities

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

		Total
As at December 31, 2024	**$**	**373**
Interest expense		14
Effect of foreign exchange rates		(1)
As at March 31, 2025	**$**	**386**

At March 31, 2025, Southern had future commitments relating to lease liabilities as follows:

		Total
Less than 1 year	$	85
1 – 3 years		400
Total undiscounted future lease payments	$	485
Amounts representing interest		(99)
Present value of net lease payments	$	386
Less current portion of lease liabilities		(122)
Non-current portion of lease liabilities	**$**	**264**

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 $17.6 million at March 31, 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 4.6% at March 31, 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.

Amounts in thousands of U.S. Dollars, except for per share amounts

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:

		2025
Balance, beginning of year	$	7,201
Changes in estimates		247
Accretion expense		87
Effect of foreign exchange rate changes		1
Balance, end of period	**$**	**7,536**
Long term liability	**$**	**7,536**

6. Credit Facility

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

	As at Mar 31, 2025		As at Dec 31, 2024	
Current portion of senior secured term loan	$	16,392	$	18,179
Long-term portion of senior secured term loan		-		-
Unamortized transaction costs		(319)		(365)
Total Credit Facility	**$**	**16,073**	**$**	**17,814**

Southern Energy Corporation (Delaware), one of the wholly-owned subsidiaries of Southern, held the existing Credit Facility at March 31, 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 March 31, 2025, Southern had $15.3 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 includes 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 asset coverage ratio (“ACR”) was lowered to 1.75x for all fiscal quarters in 2025 and returns back to 2.00x beginning on March 31, 2026. The debt service coverage ratio (“DSCR”) was reset to an annualized basis beginning with the March 31, 2025 calculation.

Amounts in thousands of U.S. Dollars, except for per share amounts

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.

Due to the amendments to IAS 1 Presentation of Financial Statements, which Southern adopted effective January 1, 2024, $12.6 million of non-current long-term debt has been reclassified to current as at December 31, 2024 and March 31, 2025. 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 due to being offside with financial covenants at March 31, 2025.

Quarterly positive 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 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 March 31, 2025 and December 31, 2024:

Financial covenant	Limit	As at Mar 31, 2025	As at Dec 31, 2024
Asset Coverage ratio	Minimum 1.50	1.90	1.80
Debt Service Coverage ratio	Minimum 1.25	0.25	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.

Southern obtained a waiver for the March 31, 2025 DSCR covenant violation for the period through to and including May 31, 2025.

7. Convertible Debentures

	Number of Convertible Debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2024	4,286	$ 2,990	$ 245
Accretion of discount	-	6	-
Effect of foreign exchange rate changes	-	3	-
Balance at March 31, 2025	**4,286**	**$ 2,999**	**$ 245**

The convertible debentures (the "Debentures") were issued at a price of CAD$1,000 per Debenture and accrue interest at the rate of 10.00% per annum payable semi-annually in arrears on December 31 and June 30 of each year. The Debentures have a maturity date of June 30, 2025 (the "Maturity Date").

At March 31, 2025, the Debentures were classified as a current liability as they have a Maturity Date of June 30, 2025.

Subsequent to March 31, 2025, upon completion of the equity financing (see details in Shareholders' Equity below), pursuant to a third supplemental debenture indenture, Southern converted the remaining outstanding Debentures at an amount equal to 102.5% into 62,759,286 new units at CAD$0.07 (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 new units at the Prospectus Price.

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 at March 31, 2025 and December 2024:

	Number of Shares	**Share Capital ($000s)**
Balance as at December 31, 2024	169,385,824	$ 80,166
Transaction costs on convertible debenture modification	-	(1)
Balance as at March 31, 2025	**169,385,824**	**$ 80,165**

Subsequent to March 31, 2025, on April 8, 2025, Southern closed an equity financing raising aggregate gross proceeds of $5.0 million through the issuance of a total of 102,482,673 new units (the "Fundraising"). The Fundraising consisted of a public offering of new units ("Units") in Canada at a price of CAD$0.07 per Unit (the "Prospectus Offering") and a concurrent placing of new Units to new and existing investors on AIM at a price of 3.8 pence per Unit (the "Placing"). 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 new Units at a price of CAD$0.07 per Unit and $1.8 million through a Placing of 37,047,152 new Units at a price of 3.8 pence per Unit.

Warrants

In connection with the fifth amendment to the Credit Facility, the Company extended the term of the outstanding Common Share purchase warrants ("Bonus Warrants") previously issued to the lender from April 30, 2024 until August 31, 2025. There are 3,906,250 remaining Bonus Warrants with an exercise price of CAD$0.40.

Subsequent to March 31, 2025, as part of the Prospectus Offering, 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.

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 at March 31, 2025 and December 31, 2024:

	Number of stock options	**Weighted average exercise price (CAD)**
Balance at December 31, 2024	8,166,875	$ 0.62
Balance at March 31, 2025	**8,166,875**	**$ 0.62**

The following table summarizes information regarding stock options outstanding as at March 31, 2025:

Exercise Price ($CAD/share)	Number of options outstanding (000s)	Weighted average remaining terms (years)	Weighted average exercise price for options outstanding ($CAD/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($CAD/share)
$0.39 - $1.01	**8,167**	**3.0**	**$0.62**	**6,079**	**$0.77**

Southern recognized nil of share-based compensation expense relating to stock options during the three months ended March 31, 2025 ($0.1 million – March 31, 2024).

Amounts in thousands of U.S. Dollars, except for per share amounts

Share Award Incentive Plan

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

	Number of RSAs
Balance at December 31, 2024	1,699,133
Balance at March 31, 2025	**1,699,133**

Southern remeasured the fair value of the liability resulting in a decrease of $51 thousand relating to the RSAs during the three months ended March 31, 2025 (nil – March 31, 2024).

9. Loss Per Share

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

	Three months ended March 31, 2025	Three months ended March 31, 2024
Net loss	$ (3,879)	$ (3,121)
Basic and diluted - weighted average Common Shares outstanding	167,249,663	166,480,306
Net loss per share, basic and diluted	$ (0.02)	$ (0.02)

When the impact is anti-dilutive, Warrants, Bonus Warrants, stock options and Debentures are excluded from the calculation of diluted weighted average Common Shares. For the three months ended March 31, 2025 and March 31, 2024 , all dilutive securities are excluded as they are anti-dilutive.

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 and comprehensive income in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2025:

Natural Gas	Volume	Pricing
Fixed Price Swap		
April 1, 2025 – December 31, 2026	5,000 MMBtu/d	NYMEX – HH $3.400/MMBtu

Amounts in thousands of U.S. Dollars, except for per share amounts

Financial Derivative Contracts Financial Statement Recognition

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

Comprised of:	As at Mar 31, 2025	As at Dec 31, 2024
Current derivative asset	$ -	$ 166
Current derivative liability	(2,085)	(349)
Non-current derivative liability	(1,115)	(871)
Net fair value of contracts, end of period	**$ (3,200)**	**$ (1,054)**

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

	Three months ended March 31,	
	2025	**2024**
Realized loss (gain) on derivatives	$ 180	$ (1,288)
Unrealized loss on derivatives	2,146	1,147
Loss (gain) on derivative instruments	**$ 2,326**	**$ (141)**

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 March 31, 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, convertible debentures and the senior secured credit facility. At March 31, 2025, Southern was in breach of its DSCR financial covenants on its senior secured term loan, however the Company has obtained a waiver on December 31, 2024 for the period through to and including May 31, 2025 and reset future covenants. There is no assurance that covenants will continue to be waived. 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, 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. After examining the economic factors that could cause liquidity risk, the Company believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months. 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.

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 March 31, 2025, a 10% change in future commodity prices applied against these contracts would have approximately 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.

Amounts in thousands of U.S. Dollars, except for per share amounts

11. Royalties Payable

As at March 31, 2025, Southern had $6.7 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 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 March 31,	
Commodity sales from production, by product	**2025**	**2024**
Crude oil	$ 519	$ 763
Natural gas liquids	21	38
Natural gas	4,581	3,993
Total Petroleum and Natural Gas Sales	**$ 5,121**	**$ 4,794**

13. Financing

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

	Three months ended March 31,	
	2025	**2024**
Credit facility interest	$ 620	$ 597
Convertible debentures interest	71	63
Interest income	(3)	(9)
Accretion	(28)	139
Interest on lease obligations	14	3
Total Financing Expenses	**$ 674**	**$ 793**

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.

Amounts in thousands of U.S. Dollars, except for per share amounts

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 March 31, 2025:

	Total	2025	2026	2027	2028	Thereafter
Credit facility[1]	$ 15,258	$ 2,840	$ 12,418	$ -	$ -	$ -
Convertible debentures[2]	2,981	2,981	-	-	-	-
Lease obligations[3]	485	85	164	164	72	-
Total	**$ 18,724**	**$ 5,906**	**$ 12,582**	**$ 164**	**$ 72**	**$ -**

Notes:
(1) See note 6 – Credit Facility 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