



Consolidated Financial Statements of

SOUTHERN ENERGY CORP.

For the years ended December 31, 2025 and 2024

(U.S. Dollars)

Management's Report

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements of Southern Energy Corp. are the responsibility of management and have been approved by the Board of Directors of Southern Energy Corp. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board (IASB), have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

Management ensures the integrity of the consolidated financial statements by maintaining high-quality systems of internal control. We also ensure our organizational structure provides appropriate delegation of authority and division of responsibilities.

The Board of Directors approves the consolidated financial statements. The Board carries out this responsibility primarily through the Audit Committee which is composed entirely of independent directors. The Audit Committee meets periodically with Management and the external auditors to discuss reporting and control issues. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

(signed) "*Ian Atkinson*"

Ian Atkinson
President & Chief Executive Officer
April 28, 2026

(signed) "*Calvin Yau*"

Calvin Yau
Chief Financial Officer

Independent Auditor's Report

To the Shareholders and the Board of Directors of
Southern Energy Corp.

Opinion

We have audited the consolidated financial statements of Southern Energy Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2025 and December 31, 2024, and the consolidated statement of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2025. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Property, Plant and Equipment – Petroleum and Natural Gas Assets — Refer to Notes 3 and 4 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes petroleum and natural gas assets. Petroleum and natural gas assets are measured by depleting the assets on a unit-of-production method ("depletion") based on total estimated proved plus probable petroleum and natural gas reserves. The Company engages an independent reserve evaluator to estimate petroleum and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's proved plus probable petroleum and natural gas reserves that are used to determine depletion requires management to make significant estimates and assumptions related to future oil and natural gas prices, reserves, and future operating and development costs.

Given the significant judgments made by management related to future oil and natural gas prices, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgment in applying audit procedures and in evaluating the results of those procedures.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and natural gas prices, reserves, and future operating and development costs used to determine depletion included the following, among others:

- Evaluated future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future oil and natural gas prices selected by management.
- Evaluated the reasonableness of reserves by:
 - Examining reports provided by the independent reserve evaluator and assessing their scope of work and findings.
 - Assessing the competence, capability, and objectivity of the Company's independent reserve evaluator by evaluating their relevant professional qualifications and experience.
 - Testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kyle Hawkins.

/s/ Deloitte LLP

Chartered Professional Accountants
April 28, 2026
Calgary, Alberta

SOUTHERN ENERGY CORP.
Consolidated Statement of Financial Position



(in thousands of U.S. Dollars)	December 31, 2025	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	\$ 555	\$ 2,388
Accounts receivable and other (Note 13)	2,331	2,060
Prepaid expenses and deposits	1,053	1,142
Derivative assets (Note 13)	105	166
	4,044	5,756
Property, plant and equipment (Note 4)	45,094	47,683
Right-of-use assets (Note 5)	266	362
Total assets	\$ 49,404	\$ 53,801
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	3,189	2,895
Royalties payable (Note 14)	7,297	6,551
Current portion of lease liabilities (Note 5)	127	79
Credit facility (Note 7)	13,755	17,814
Warrant liability (Note 10)	5,309	-
Convertible debentures (Note 8)	-	2,990
Derivative liabilities (Note 13)	485	349
	30,162	30,678
Long-term liabilities		
Lease liabilities (Note 5)	230	294
Derivative liabilities (Note 13)	-	871
Decommissioning provisions (Note 6)	7,541	7,201
Total liabilities	37,933	39,044
Shareholders' equity (Note 9)		
Share capital	84,232	80,166
Equity component of convertible debenture	-	245
Warrants (Note 9)	-	351
Contributed surplus	8,503	7,860
Deficit	(80,440)	(72,932)
Accumulated other comprehensive loss	(824)	(933)
	11,471	14,757
Total liabilities and shareholders' equity	\$ 49,404	\$ 53,801

(See accompanying Notes to the Consolidated Financial Statements)

Approved by Board of Directors
(signed) "Reginald S. Smith"
Director

(signed) "Bruce Beynon"
Chairman

SOUTHERN ENERGY CORP.
Consolidated Statement of Loss and Comprehensive Loss



(in thousands of U.S. Dollars, except for per share amounts)	Year ended December 31, 2025	Year ended December 31, 2024
Revenues		
Petroleum and natural gas revenue (Note 15)	\$ 18,044	\$ 16,080
Royalties	(3,671)	(3,189)
	14,373	12,891
Expenses		
Production and operating	6,344	6,042
Transportation	878	1,460
Depletion, depreciation and amortization (Note 4 and 5)	5,555	7,082
Gain on derivatives (Note 13)	(443)	(307)
Loss on debt modification	228	1,541
Loss on debt extinguishment	59	-
Loss on warrant revaluation (Note 10)	2,469	-
Loss on sale of assets (Note 4)	-	417
Financing, net (Note 16)	2,262	3,023
General and administrative	3,690	3,955
Share-based compensation	278	368
Transaction costs	322	1,311
Loss (gain) foreign exchange	239	(481)
	21,881	24,411
Total loss for the year	(7,508)	(11,520)
Currency translation adjustment	109	(227)
Comprehensive loss for the year	\$ (7,399)	\$ (11,747)
Net loss per common share (Note 11)		
Basic	\$ (0.03)	\$ (0.07)
Diluted	\$ (0.03)	\$ (0.07)

(See accompanying Notes to the Consolidated Financial Statements)

SOUTHERN ENERGY CORP.

Consolidated Statement of Changes in Shareholders' Equity



(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	3,667,664	402	-	-	-	-	-	402
Share-based compensation	-	-	-	-	291	-	-	291
Net loss	-	-	-	-	-	(11,520)	-	(11,520)
Other comprehensive loss	-	-	-	-	-	-	(227)	(227)
Balance, December 31, 2024	169,385,824	\$ 80,166	\$ 245	\$ 351	\$ 7,860	\$(72,932)	\$ (933)	\$ 14,757
Shares issued, net (Note 9)	166,869,129	4,066	-	-	-	-	-	4,066
Settlement of convertible debentures	-	-	(245)	-	245	-	-	-
Expiration of warrants	-	-	-	(351)	351	-	-	-
Share-based compensation	-	-	-	-	47	-	-	47
Net loss	-	-	-	-	-	(7,508)	-	(7,508)
Other comprehensive income	-	-	-	-	-	-	109	109
Balance, December 31, 2025	336,254,953	\$ 84,232	\$ -	\$ -	\$ 8,503	\$(80,440)	\$ (824)	\$ 11,471

(See accompanying Notes to the Consolidated Financial Statements)

SOUTHERN ENERGY CORP.
Consolidated Statement of Cash Flows



(in thousands of U.S. Dollars)	Year ended December 31, 2025	Year ended December 31, 2024
Operating activities		
Total net loss for the year	\$ (7,508)	\$ (11,520)
Changes in non-cash items:		
Depletion, depreciation and amortization (Note 4)	5,555	7,085
Financing expense, net	2,289	3,070
Unrealized loss (gain) on derivatives (Note 13)	(674)	2,264
Unrealized (gain) loss on foreign exchange	264	(466)
Loss on debt modification	228	1,541
Loss on debt extinguishment (Note 8)	59	-
Loss on warrant revaluation (Note 10)	2,469	-
Loss on disposition	-	417
Share-based compensation	278	368
Decommissioning provisions liabilities settled (Note 6)	(15)	(8)
Changes in non-cash working capital (Note 17)	192	1,099
Net cash provided by operating activities	3,137	3,850
Investing activities		
Capital expenditures	(2,849)	(884)
Proceeds from dispositions	-	3,364
Changes in non-cash working capital (Note 17)	456	(3,340)
Net cash used by investing activities	(2,393)	(860)
Financing activities		
Proceeds from share issuances, net	3,609	-
Paydown of long-term debt (Note 7)	(3,809)	(745)
Payment of interest	(2,287)	(2,610)
Finance lease payments	(95)	(130)
Transaction costs on debt refinance (Note 7)	(1)	(53)
Changes in non-cash working capital (Note 17)	(3)	(129)
Net cash used by financing activities	(2,586)	(3,667)
Net decrease in cash and cash equivalents	(1,842)	(677)
Effect of foreign exchange rate changes	9	(47)
Cash and cash equivalents, beginning of year	2,388	3,112
Cash and cash equivalents, end of year	\$ 555	\$ 2,388

(See accompanying Notes to the Consolidated Financial Statements)

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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 financial statements were authorized for issue by the Board of Directors on April 28, 2026.

2. Basis of Presentation

The 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 financial statements have been prepared in accordance with IFRS[®] Accounting Standards as issued by the International Accounting Standards Board (IASB). The Company’s presentation currency is the United States (“U.S.”) dollar. The functional currency of Southern Energy Corp. is Canadian (“CAD”) dollars, and its results and balance sheet items are translated to U.S. dollars for the purposes of the consolidated financial statements, in accordance with the Company’s foreign currency translation accounting policy. The functional currencies of the Company’s foreign subsidiaries are U.S. dollars. All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

The Company has determined that its chief operating decision maker is the President and Chief Executive Officer. The chief operating decision maker reviews the Company’s operations as a single operating segment for the purposes of resource allocation and assessing performance.

3. Material Accounting Policies

These policies have been applied consistently to all periods presented in these consolidated financial statements except for the new accounting policies described in Note 3q.

a) Use of Estimates

The preparation of financial statements in conformity with IFRS[®] Accounting Standards issued by IASB requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Key areas where management has made judgements, estimates, and assumptions include:

- Decommissioning provision: The calculation of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures, including the impact of inflation and the timing of these expenditures.
- Determination of Cash Generating Units (“CGUs”): The Company’s petroleum and natural gas assets are grouped into CGUs based on the ability of these assets to generate separately identifiable independent cash inflows. The classification of assets into CGUs requires judgement and interpretation. Management considers factors such as integration among assets, shared infrastructure, common sales points, geography and how management makes decision about the Company’s operations.
- Depletion: Petroleum and natural gas assets are depleted using the unit-of-production method based on total recoverable proved plus probable reserves and future development costs required to develop those reserves. There are several inherent uncertainties associated with estimating reserves. By their nature, these estimates of reserves, including the estimates of future prices and development costs are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be materially different.
- Assessment of impairments or recovery of previous impairments: Management applies judgment in assessing the existence of indicators of impairment or impairment reversal based on various internal and external factors. The calculation of the recoverable amount of a CGU is based on market factors (including estimates of future commodity prices) and estimates of reserves and resources. Reserve and resource estimates are based on: engineering data, estimated future commodity prices, expected future rates of production, and assumptions regarding the timing and amount of future expenditures. Changes in these judgments, estimates and assumptions can directly impact the calculated recoverable amount of a CGU and the recorded impairment loss or recovery.
- Measurement of right-of-use (“ROU”) assets and lease liabilities are subject to Management’s judgment of the applicable incremental borrowing rate when the rate implicit in a lease is not readily determinable. Applicable incremental borrowing rates are based on Management’s judgements of the economic environment, term, the underlying risk inherent to the asset (which may vary due to changes in the market conditions) and the expected lease term.
- Stock based compensation: From time to time the Company issues stock options. Estimating the value attributable to these stock based instruments requires management to make assumptions to inputs for a Black-Scholes pricing model, which include average expected volatility and estimated forfeiture rates.
- Purchase warrants: To estimate the fair value of its warrant liability, the Company uses the Black-Scholes option pricing model which request that management makes assumptions related to the expected life of the warrant, the anticipated volatility of the share price over the life of the warrant and the risk-free interest rate for the life of the warrant. Assumptions related to the warrant liability are subject to judgement and estimation uncertainty due to both internal and external market factors. Changes in assumptions can impact the fair value of the warrants.

b) Cash and Cash Equivalents

Southern considers all highly liquid investments to be cash equivalents if they have original maturities of three months or less at the date of purchase.

c) Business Combinations

Southern uses the purchase method of accounting for acquisitions that meet the definition of a business under IFRS[®] Accounting Standards as issued by IASB. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of an acquisition over the fair value of the identifiable assets acquired net of liabilities assumed is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is recognized in the statement of operations and comprehensive income.

As part of the assessment to determine if the acquisition constitutes a business, Southern may elect to apply the concentration test on a transaction by transaction basis. The test is met if substantially all of the fair value related to the gross assets acquired is concentrated in a single identifiable asset (or group of similar assets) resulting in the acquisition not being deemed a business and recorded as an asset acquisition.

d) Property, Plant and Equipment

Exploration and evaluation assets - Pre-licence expenditures incurred before the Company has obtained legal rights to explore an area are expensed as exploration and evaluation expenditures. Exploration and evaluation assets may include the costs of acquiring licences, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated.

Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist. Southern does not currently have any exploration and evaluation assets.

Property and equipment of the Company consists of development and production assets and office furniture and equipment.

All costs directly associated with the development and production of petroleum and natural gas assets are capitalized by components (i.e. by well, area or combination thereof) within CGUs and are measured at cost less accumulated depletion and depreciation and impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers from exploration and evaluation assets.

Gains or losses on disposal of assets are determined by comparing the proceeds from disposal with the carrying amount of the assets sold and are recognized separately in the statement of earnings.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

Depletion, depreciation and amortization – Capital assets are grouped into depletion units, which are groups of assets within a specific production area that have similar economic lives. Depletion units represent the lowest level of disaggregation for which costs are accumulated for the purposes of calculating depletion and depreciation.

Petroleum and natural gas assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude petroleum on the basis of six thousand cubic feet of gas to one barrel of petroleum. Changes to estimates used in prior periods, such as proved plus probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Petroleum and natural gas assets for which no proved plus probable reserves have been assigned are excluded from the depletable base and are not depleted until such time as reserves are assigned or the assets are impaired or derecognized.

Well and production equipment and facilities are depleted using the unit-of-production method along with the related reserves when the assets have a life similar to the reserves of the related wells and little to no residual value. Where costs of facilities and equipment, including major components, are significant in relation to the total costs of the assets and have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Office furniture and equipment, referred to as corporate and other, are depreciated on a declining balance basis at a rate of 30% approximating their estimated useful lives.

e) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated.

For the purposes of assessing impairment, property and equipment are grouped into CGUs, defined as the lowest levels for which there are separately identifiable independent cash inflows. Any goodwill is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less estimated costs of disposal may be determined using discounted future net cash flows of proved developed producing petroleum and natural gas reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in net profit or loss in the period determined.

Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are tested for impairment separately. If, at any time, it is determined that the Company has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount and the amount of the write-down is expensed.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, as if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

f) Lease obligations and right-of-use assets

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding ROU asset is recognized at the amount of the lease obligation. Short-term leases and leases of low-value assets are not recognized on the balance sheets and lease payments are instead recognized in the financial statements as incurred.

Payments are applied against the lease obligation and interest expense is recognized on the lease obligations using the effective interest rate method. Depreciation is recognized on the ROU asset over the lease term.

g) Decommissioning provisions

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Company's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the reporting date is recorded on a discounted basis using a pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to finance expense. Changes in the future cash flow estimates resulting from revisions to the estimated timing, amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures, up to the recorded liability recorded at the time, are charged against the provision as the costs are incurred.

h) Fair Value Measurement

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

- Fair value through profit or loss - Financial instruments under this classification include cash and cash equivalents and derivative assets and liabilities.
- Amortized cost - Financial instruments under this classification include accounts receivable, accounts payable and accrued liabilities, and long-term debt.

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 Company uses various methods, including the income approach and market approach, to determine the fair values of our financial instruments that are measured at fair value on a recurring basis, which depend on a number of factors, including the availability of observable market data over the contractual term of the underlying instrument. For some of our instruments, the fair value is calculated based on directly observable market data or data available for similar instruments in similar markets. For other instruments, the fair value may be calculated based on these inputs as well as other assumptions related to estimates of future settlements of these instruments. Financial instruments are separated into three levels (levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine the fair value of our instruments. The assessment of an instrument can change over time based on the maturity or liquidity of the instrument, which could result in a change in the classification of the instruments between levels.

Each of these levels and our corresponding instruments classified by level are further described below:

- Level 1 Inputs— unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2 Inputs—quotes which are derived principally from or corroborated by observable market data.
- Level 3 Inputs—unobservable inputs for the asset or liability, such as discounted cash flow models or valuations, based on various assumptions and future commodity prices.

i) Convertible Debentures

The convertible debentures (“Debentures”) are a non-derivative financial instrument that creates financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares (“Common Shares”) of the Company. The liability component of the Debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially, net of deferred taxes, as the difference between gross proceeds and the fair value of the liability component. If the conversion option remains unexercised at the maturity date of the Debentures, the equity component of the Debentures will be transferred to contributed surplus. No gain or loss is recognized upon conversion or expiration of the conversion option. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the Debentures are reclassified to shareholders' capital on conversion to Common Shares.

j) Revenue Recognition

Revenue associated with sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as Southern satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of crude oil, natural gas, and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. Southern principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

The revenue is typically collected the month following production.

k) Transportation

Costs paid by Southern for the transportation of crude oil, natural gas, and natural gas liquids to the point of control transfer are recognized when the transportation is provided.

l) Foreign Currency Translation

The Company's consolidated financial statements are reported in U.S. dollars, which is the Company's presentation currency. Transactions of Southern Energy Corp. are recorded in Canadian dollars, as this is the primary economic environment in which this company operates. Southern Energy Corp. has a Canadian dollar functional currency. In translating the financial results from Canadian dollars to U.S. dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the consolidated statement of financial position; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and changes in shareholders' equity are translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the U.S. dollar presentation currency are included in other comprehensive income.

Transactions of Southern Energy Corp. that are denominated in a currency other than the Canadian dollar are translated to the Canadian dollar using the following method: monetary assets and liabilities are translated at the exchange rate in effect at the date of the consolidated statement of financial position; non-monetary assets and liabilities are translated at the exchange rate on the date such assets or liabilities are assumed; and revenues and expenses are translated at the average rate for the period. Realized gains and losses resulting therefrom are reflected in the statements of operations as foreign exchange gain or loss.

m) Income Taxes

Tax expense is comprised of current and deferred tax. Current tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

Current tax is the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

n) Commitments and Contingencies

The Company could be subject to audits for various taxes (income, sales and use, and severance) in the various states in which it operates, and from time to time receive assessments for potential taxes that it may owe. Currently, Southern has no material assessments for potential taxes, legal contingencies or other potential claims.

The Company could be subject to various possible contingencies that arise primarily from interpretation of federal and state laws and regulations affecting the petroleum and natural gas industry. Such contingencies include differing interpretations as to the prices at which petroleum and natural gas sales may be made, the prices at which royalty owners may be paid for production from their leases, environmental issues and other matters. Although Southern believes that it has complied with the various laws and regulations, administrative rulings and interpretations thereof, adjustments could be required as new interpretations and regulations are issued. In addition, production rates, marketing and environmental matters are subject to regulation by various federal and state agencies.

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

o) Share-based Compensation Plans

Stock Options - Southern accounts for share-based transactions using fair value and recognize compensation expense over the vesting period. The fair value of each option or Common Share purchase warrant award is estimated using an option valuation model with various assumptions based on various estimates and market conditions of the instrument. The assumptions include expected volatility, expected term of option, risk-free interest rate and dividend yield.

Restricted Share Awards - 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 calculation 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.

p) Per Share Amounts

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of Common Shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Common Shares outstanding for the effects of dilutive instruments such as restricted and performance awards granted to employees, warrants and Debentures.

q) Warrants

The amount of the warrant is recognized in equity at the time of issue. When and if the conversion option is exercised, the equity component of the warrants will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the warrants, the equity component of the warrants will be transferred to contributed surplus. No gain or loss is recognized upon conversion or expiration of the conversion option.

If the warrant does not meet the fixed-for-fixed criterion, it is classified as a financial liability and measured at fair value at each reporting date, with changes in fair value recognized in the statement of loss and comprehensive loss.

r) Future Accounting Changes**Amendment to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures**

In May 2024, the IASB issued amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures relating to settling financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets. The amendments will be effective on January 1, 2026, but are not expected to have a material impact on Southern's financial statements.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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



IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements (“IFRS 18”), which will replace IAS 1 and includes requirements for all entities applying IFRS Accounting Standards for the presentation and disclosure of information in the financial statements. IFRS 18 will introduce new totals, subtotals, and categories for income and expenses in the statement of income, as well as requiring disclosure about management-defined performance measures and additional requirements regarding the aggregation and disaggregation of certain information. It will be effective starting with reporting periods after January 1, 2027, with earlier adoption permitted, and it must be adopted in a retrospective basis. Southern is currently evaluating the impact on its financial statements.

4. 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 impairment:

	Petroleum and Natural		
	Gas Assets	Other	Total
Net book value as at December 31, 2023	\$ 59,423	\$ 185	\$ 59,608
Additions	870	14	884
Acquisitions, including decommissioning costs	32	-	32
Dispositions	(4,013)	-	(4,013)
Change in decommissioning provision (Note 6)	(1,846)	-	(1,846)
Depletion and depreciation	(6,923)	(51)	(6,974)
Foreign exchange	(2)	(6)	(8)
Net book value as at December 31, 2024	47,541	142	47,683
Additions	2,839	10	2,849
Change in decommissioning provision (Note 6)	1	-	1
Depletion and depreciation	(5,404)	(39)	(5,443)
Foreign exchange	2	2	4
Net book value as at December 31, 2025	\$ 44,979	\$ 115	\$ 45,094

Additions

During the year ended December 31, 2025, Southern incurred \$2.8 million of capital additions related to the development of the Central Mississippi CGU.

Dispositions

There were no dispositions during 2025.

During the year ended December 31, 2024, Southern sold excess equipment for net proceeds of \$3.4 million, resulting in a loss on disposition of \$0.6 million in the Consolidated Statement of Loss and Comprehensive Loss.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

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.

Depletion and depreciation

During the year ended December 31, 2025, the Company recorded depletion expense of \$5.4 million (December 31, 2024 – \$6.9 million). In the calculation of depletion expense at December 31, 2025, an estimated \$142.1 million of future development costs associated with the proven plus probable reserves were included (\$161.5 million for 2024).

Impairment

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 December 31, 2025, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

5. 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, 2023	\$ 105
Additions	379
Depreciation	(111)
Effect of foreign exchange rates	(11)
Carrying value as at December 31, 2024	362
Depreciation	(112)
Effect of foreign exchange rates	16
Carrying value as at December 31, 2025	\$ 266

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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, 2023	\$ 121
Additions	379
Interest expense	11
Lease payments	(130)
Effect of foreign exchange rates	(8)
As at December 31, 2024	373
Interest expense	58
Lease payments	(95)
Effect of foreign exchange rates	21
As at December 31, 2025	\$ 357

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

	Total
Less than 1 year	\$ 172
1 – 3 years	247
Total undiscounted future lease payments	\$ 419
Amounts representing interest	(62)
Present value of net lease payments	\$ 357
Less current portion of lease liabilities	(127)
Non-current portion of lease liabilities	\$ 230

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 commenced on December 1, 2024, the day after the previous office lease expired. The lease liability was initially measured at the present value of the lease payments, discounted using the Company's incremental borrowing rate of 15.0%, which was determined with reference to the interest rate on the Company's Credit Facility as at December 31, 2025.

The Company does not have any leases that qualify as low-value or short-term leases. Variable lease payments are limited to the Company's office lease. The Company did not include the option to extend the office space in the calculation of the liabilities as it is uncertain whether the Company would elect to extend the office space for that period.

6. 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

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

provision, is approximately \$17.9 million at December 31, 2025 (December 31, 2024 – \$17.6 million). The decommissioning provision was inflated using a rate of 2.2% (December 31, 2024 – 2.1%) and discounted using a risk-free interest rate of 4.8% at December 31, 2025 (December 31, 2024 – 4.9%).

Decommissioning provisions are highly sensitive to changes in discount rates and inflation rates. A +/- 0.5% change in the discount rate or inflation rate would impact the discounted value of the decommissioning liabilities by approximately \$0.6 million and \$0.7 million, respectively, with a corresponding adjustment to PP&E. 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:

	Year ended December 31,	
	2025	2024
Balance, beginning of year	\$ 7,201	\$ 8,917
Liabilities acquired	-	32
Liabilities settled	(15)	(8)
Changes in estimates	1	(1,846)
Accretion expense	352	342
Dispositions	-	(232)
Effect of foreign exchange rate changes	2	(4)
Balance, end of year	\$ 7,541	\$ 7,201
Long term liability	\$ 7,541	\$ 7,201

7. Credit Facility

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

	Year ended December 31,	
	2025	2024
Current portion of senior secured term loan	\$ 13,938	\$ 18,179
Unamortized transaction costs	(183)	(365)
Total Credit Facility	\$ 13,755	\$ 17,814

Southern Energy Corporation (Delaware), one of the wholly-owned subsidiaries of Southern, held the Credit Facility at December 31, 2025. The Credit Facility was 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 was 15% per annum on amounts outstanding and included 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 was secured against the oil and gas properties of Southern and was to mature on December 31, 2026. As at December 31, 2025, Southern had \$13.3 million drawn on the Credit Facility and \$5.0 million available from Tranche B.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

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.

The Credit Facility included 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 free cash flow (“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 December 31, 2025 and December 31, 2024:

Financial covenant	Limit	As at Dec 31, 2025	As at Dec 31, 2024
Asset Coverage ratio	Minimum 1.50	2.13	1.80
Debt Service Coverage ratio	Minimum 1.25	1.30	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 ENERGY CORP.

Notes to the Consolidated Financial Statements

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



As at December 31, 2025, Southern was in compliance with the above covenants as well as the maximum permitted general and administrative expense amount of \$3.7 million in 2025 that was included with the Eleventh amendment on March 31, 2025.

On August 25, 2025, the remaining 3,906,250 warrants previously issued to the lender expired unexercised.

Subsequent to December 31, 2025, in order to support the February Financing (as defined and detailed in *Note 21 – Subsequent Events*), which included the full retirement of the Credit Facility, Southern signed a waiver on January 29, 2026, deferring the scheduled interest and monthly repayment due on January 31, 2026 to the closing of the February Financing.

8. 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	-	47	-
Net impact of debt modification		10	
Effect of foreign exchange rate changes	-	(263)	-
Balance 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)
Balance at December 31, 2025	-	\$ -	\$ -

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 (see details in Shareholders' Equity below) 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.

9. Shareholders' Equity

Share Capital

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

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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



The following table reflects the Company's outstanding Common Shares at December 31, 2025 and 2024:

	Number of Shares	Share Capital
Balance as at December 31, 2023	165,718,160	\$ 79,764
Issuance of Common Shares to settle convertible debenture interest	3,667,664	402
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 8)	1,627,170	55
Share issuance costs	-	(1,598)
Balance as at December 31, 2025	336,254,953	\$ 84,232

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.

On December 31, 2024, the Debenture accrued interest payment was settled in-kind through the issuance of 2,143,000 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, 2024.

On November 28, 2024, Southern filed and obtained a final receipt for a final base shelf prospectus in each of the provinces of Canada, which enables Southern to qualify the distribution of up to CAD\$150 million of any combination of ordinary shares, warrants, subscription receipts, debt securities and units during a 25-month period.

On July 2, 2024, the June 30, 2024 Debenture 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 Debenture 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.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

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 December 31, 2025 and December 31, 2024:

	Number of stock options	Weighted average exercise price (CAD)
Balance as at December 31, 2024	8,166,875	\$ 0.62
Forfeited	(1,660,000)	\$ 0.61
Balance as at December 31, 2025	6,506,875	\$ 0.62

The forfeiture of 1,660,000 stock options is related to the departure of directors and employees from the Company.

The following table summarizes information regarding stock options outstanding as at December 31, 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)
\$0.18 - \$1.01	6,507	2.3	\$0.62	5,671	\$0.68

Southern recognized \$47,000 of share-based compensation expense relating to stock options during 2025 (\$0.3 million in 2024).

Share Award Incentive Plan

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

	Number of RSAs
Balance at December 31, 2024	1,699,133
Released upon cash settlement	(1,250,531)
Granted	19,800,000
Forfeited	(670,834)
Balance at December 31, 2025	19,577,768

In April 2025, the Board of Directors approved the accelerated vesting and settlement in cash of 1,200,571 RSAs which were scheduled to vest in June and September 2025.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

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 670,834 RSAs is related to the departure of directors and employees from the Company.

Southern recognized \$0.2 million of share-based compensation expense relating to the RSAs during 2025 (\$0.1 million in 2024).

10. Warrant Liability

As part of the Prospectus Offering on April 8, 2025, 166,869,129 Fundraising Warrants and 4,932,804 compensation warrants ("Compensation Warrants") were issued. 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. 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 consolidated statement of earnings (loss) and comprehensive income (loss) in the period in which they arise. The revaluation as at December 31, 2025, resulted in a non-cash loss of \$2.5 million for the year ending December 31, 2025. The loss on warrant revaluation is non-cash in nature and does not impact liquidity or operating cash flows.

The following table reconciles the warrant liability at December 31, 2025:

	Warrants	Liability (\$000s)
Balance at December 31, 2024	-	\$ -
Issuance of Fundraising Warrants	166,869,129	2,589
Issuance of Compensation Warrants	4,932,804	127
Change in fair value	-	2,469
Effect of foreign exchange rate changes	-	124
Balance at December 31, 2025	171,801,933	\$ 5,309
Common shares issuable on exercise	171,807,933	

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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



The fair value of the warrants was estimated on the date of issuance and then revalued at December 31, 2025 using the Black-Scholes pricing model with the following assumptions

	Apr 8, 2025	Dec 31, 2025
Risk free interest rate	2.489%	2.632%
Expected volatility	78%	89%
Expected life	3.0 years	2.27 years
Dividend yield	nil	nil
Expected forfeiture rate	0%	0%
Stock price (CAD)	\$0.07	\$0.085

11. Loss Per Share

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

	2025	2024
Net loss	\$ (7,508)	\$ (11,520)
Basic - weighted average Common Shares outstanding	291,451,735	166,870,705
Dilutive effect of warrants, options and convertible debentures	-	-
Diluted – weighted average Common Shares outstanding	291,451,735	166,870,705
Net loss per share, basic	\$ (0.03)	\$ (0.07)
Net loss per share, diluted	\$ (0.03)	\$ (0.07)

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 year ended December 31, 2025 and December 31, 2024, all dilutive securities are excluded as they are anti-dilutive.

12. Income Taxes

The provision for income taxes recorded in the financial statements varies from the amount that would be computed by applying the Canadian statutory income tax rate of 23.0% as a result of the following:

	Year ended December 31,	
	2025	2024
Net (loss) earnings before tax	\$ (7,508)	\$ (11,520)
Statutory income tax rate	23.0%	23.0%
Expected income (recovery) tax	(1,727)	(2,650)
Effect on income tax of:		
Tax rate changes – current year movement	173	295
Unrecognized deferred tax asset	1,488	2,269
Other	66	86
Deferred tax expense (recovery)	\$ -	\$ -

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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



The components of the Company's unrecognized deferred tax assets (liabilities) are as follows:

	Year ended December 31,	
	2025	2024
Property and equipment and exploration	\$ (4,308)	\$ (1,078)
ROU asset	(266)	(362)
Decommissioning provisions	7,541	7,201
Unamortized share issuance costs	125	1,760
Lease obligation	357	373
Convertible debenture – debt portion	-	-
Convertible debenture – equity portion	-	(71)
Interest liability	4,100	1,292
Derivative (asset) liability	(116)	(1,519)
Long-term liability	228	1,488
Unrealized foreign exchange	(675)	2,264
Warrant revaluation	2,469	-
Non-capital losses	71,769	63,718
Total	\$ 81,224	\$ 75,066

Canadian non-capital tax losses of approximately \$6.0 million at December 31, 2025 (December 31, 2024 – \$8.8 million) will expire in future years ranging from 2032 – 2042. US net operating losses of approximately \$65.7 million at December 31, 2025 (approximately \$57.2 million at December 31, 2024) can be carried forward unlimited years.

13. 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 earnings (loss) and comprehensive income (loss) in the period of change.

Southern had the following commodity derivative contracts in place as at December 31, 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

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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 December 31, 2025 and 2024 are presented below. The classification within the fair value hierarchy for these financial instruments is Level 2.

Comprised of:	Year ended December 31,	
	2025	2024
Current derivative asset	\$ 105	\$ 166
Current derivative liability	(485)	(349)
Non-current derivative liability	-	(871)
Net fair value of contracts, end of year	\$ (380)	\$ (1,054)

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

	Year ended December 31,	
	2025	2024
Realized loss (gain) on derivatives	\$ 231	\$ (2,571)
Unrealized (gain) loss on derivatives	(674)	2,264
Gain on derivative instruments	\$ (443)	\$ (307)

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 ENERGY CORP.

Notes to the Consolidated Financial Statements

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



Southern had no provision for doubtful accounts as at December 31, 2025 or 2024. During the year ended December 31, 2025, three third party purchasers each marketed more than 10% of the Company's petroleum and natural gas revenue.

	Year ended December 31,	
	2025	2024
Accrued receivables	\$ 1,800	\$ 1,710
Accounts receivable – joint venture	531	350
Total accounts receivable and other	\$ 2,331	\$ 2,060
0 to 30 days	\$ 1,841	\$ 1,741
31 to 60 days	27	33
61 to 90 days	32	22
Greater than 90 days	431	264
Total accounts receivable	\$ 2,331	\$ 2,060

Liquidity Risk

Liquidity risk arises from the Company's potential inability to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient cash and available funding sources to meet its current and future requirements. As at December 31, 2025, the Company's financial liabilities consisted of accounts payable and accrued liabilities, royalties payable, lease liabilities, financial derivative liabilities, warrant liability and amounts drawn under its senior secured credit facility.

The Company manages liquidity risk by maintaining adequate sources of financing, forecasting cash flows from operations based on expected production and commodity prices, utilizing commodity derivative contracts, and managing the level and timing of capital expenditures. The Company may also consider the sale of non-core petroleum and natural gas assets or other alternative financing arrangements to support liquidity as required.

Subsequent to December 31, 2025, on February 12, 2026, the Company completed a financing and royalty transaction (see *Note 21 – Subsequent Events*) which strengthened the Company's capital structure, repaid the senior secured credit facility and improved its liquidity position.

After considering its liquidity position as at December 31, 2025, together with the impact of the February financing and royalty transaction (see *Note 21 – Subsequent Events*), the Company expects to have sufficient liquidity to meet its obligations and fund planned operations for at least the next twelve months from the date of authorization of the financial statements.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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



The Company has the following financial liabilities:

	Year ended December 31,	
	2025	2024
Accrued payables	\$ 1,299	\$ 1,837
Accounts payables – trade	1,890	1,058
Royalties payable	7,297	6,551
Undiscounted lease liabilities (Note 5)	419	488
Convertible debentures (face value)	-	2,979
Long-term debt (excluding unamortized transaction costs)	13,310	17,119
Total	\$ 24,215	\$ 30,032

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 December 31, 2025, a 10% change in future commodity prices applied against these contracts would have approximately a \$0.6 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.

14. Royalties Payable

As at December 31, 2025, Southern had \$7.3 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.

15. 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.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

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

Commodity sales from production, by product	Year ended December 31,	
	2025	2024
Crude oil	\$ 1,910	\$ 2,576
Natural gas liquids	39	161
Natural gas	16,095	13,343
Total Petroleum and Natural Gas Sales	\$ 18,044	\$ 16,080

16. Financing

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

	Year ended December 31,	
	2025	2024
Credit facility interest	\$ 2,287	\$ 2,610
Convertible debentures interest	77	282
Interest income	(27)	(47)
Accretion	(133)	167
Interest on lease obligations	58	11
Total Financing Expenses	\$ 2,262	\$ 3,023

17. Supplemental Cash Flow Information

The changes in non-cash working capital were comprised of the following:

Source (use) of cash:	Year ended December 31,	
	2025	2024
Accounts receivable and other	\$ (271)	\$ 74
Prepaid expenses and deposits	89	(53)
Accounts payable (adjusted)	121	(2,545)
Royalties payable	746	189
Foreign exchange	(40)	(35)
Changes in non-cash working capital	\$ 645	\$ (2,370)

Related to:

Operating activities	\$ 192	\$ 1,099
Investing activities	456	(3,340)
Financing activities	(3)	(129)
	\$ 645	\$ (2,370)
Interest paid, net	\$ 2,287	\$ 2,610
Income taxes paid	\$ -	\$ -

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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



18. 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. Refer to Note 21 – Subsequent Events for additional information on events occurring after year-end.

19. Commitments

The following table lists the Company's contractual obligations and commitments as at December 31, 2025:

	Total	2026	2027	2028	Thereafter
Credit facility ⁽¹⁾	\$ 13,310	\$ 13,310	\$ -	\$ -	\$ -
Credit facility interest ⁽¹⁾	1,849	1,849	-	-	-
Lease obligations ⁽³⁾	419	172	172	75	-
Total	\$ 15,578	\$ 15,331	\$ 172	\$ 75	\$ -

Notes:

(1) See note 7 – Credit Facility and note 21 – Subsequent Events for more information

(2) The lease obligations relate to the Canadian office lease that is accounted for under IFRS 16. The office lease expires on April 30, 2028.

20. Related Party Disclosures

There were no related party transactions in 2025 or 2024.

SOUTHERN ENERGY CORP.

Notes to the Consolidated Financial Statements

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

Key management personnel

Southern has determined that the key management personnel of Southern consists of its President & Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and directors. The following table summarizes the compensation of directors and other members of key management personnel during the years ended December 31, 2025 and 2024:

	Year ended December 31,	
	2025	2024
Salaries, incentives and short term benefits	\$ 538	\$ 550
Directors' fees	126	126
Share based compensation	116	186
Total	\$ 780	\$ 862

Directors' Remuneration

	Cash compensation		Share – based compensation	
	2025	2024	2025	2024
Ian Atkinson	\$ 187	\$ 191	\$ 36	\$ 56
Bruce Beynon	28	28	6	8
John Joseph Nally	20	20	6	8
R. Steven Smith	26	26	6	8
Tamara MacDonald ⁽¹⁾	26	26	-	8
C. Neil Smith ⁽¹⁾	26	26	-	8
Total	\$ 313	\$ 317	\$ 54	\$ 96

Notes:

(1) On October 27, 2025, Tamara MacDonald and C. Neil Smith retired from the board of directors of Southern

21. Subsequent Events

On February 12, 2026, the Company completed a financing and royalty transaction with certain arm's-length investors pursuant to which it issued senior secured convertible debentures and Common Shares and granted a 6% gross overriding royalty on its existing and future developed production (collectively, the "February Financing"). The Company issued 17,000 \$1,000 face value convertible debentures ("2026 Debentures") for gross proceeds of \$17.0 million, 30.0 million new Common Shares at a price of CAD\$0.07 (\$0.05) per Common Share for gross proceeds of CAD\$2.1 million (\$1.5 million) and received \$5.0 million from the sale of the gross overriding royalty. The February Financing generated aggregate net proceeds of approximately \$22.0 million, which were used in part to repay and retire the Company's senior Credit Facility, with the remainder intended to fund development capital and general corporate purposes. The 2026 Debentures mature on December 31, 2028, and bear interest at 7% per annum.