



Condensed Interim Consolidated Financial Statements of

## SOUTHERN ENERGY CORP.

For the three months ended March 31, 2026 and 2025

(unaudited)

(U.S. Dollars)

# SOUTHERN ENERGY CORP.



Condensed Interim Consolidated Statement of Financial Position (unaudited)

(in thousands of U.S. Dollars)	March 31, 2026	December 31, 2025
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 10,500	\$ 555
Accounts receivable and other	1,750	2,331
Prepaid expenses and deposits	232	1,053
Derivative assets (Note 11)	207	105
	12,689	4,044
Property, plant and equipment (Note 3)	38,736	45,094
Right-of-use assets (Note 4)	233	266
Total assets	\$ 51,658	\$ 49,404
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	4,087	3,189
Royalties payable (Note 12)	7,289	7,297
Current portion of lease liabilities (Note 4)	130	127
Credit facility (Note 6)	-	13,755
Warrant liability (Note 9)	5,221	5,309
Derivative liabilities (Note 11)	201	485
	16,928	30,162
Long-term liabilities		
Lease liabilities (Note 4)	178	230
Convertible debentures (Note 7)	13,391	-
Decommissioning provisions (Note 5)	7,476	7,541
Total liabilities	37,973	37,933
Shareholders' equity (Note 8)		
Share capital	85,725	84,232
Equity component of convertible debenture	1,705	-
Contributed surplus	8,509	8,503
Deficit	(81,751)	(80,440)
Accumulated other comprehensive loss	(503)	(824)
	13,685	11,471
Total liabilities and shareholders' equity	\$ 51,658	\$ 49,404

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

# SOUTHERN ENERGY CORP.



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

(in thousands of U.S. Dollars, except for per share amounts)	<b>Three months ended March 31,</b>	
	<b>2026</b>	<b>2025</b>
<b>Revenues</b>		
Petroleum and natural gas revenue (Note 13)	\$ 5,526	\$ 5,121
Royalties	(1,280)	(1,035)
	<u>4,246</u>	<u>4,086</u>
<b>Expenses</b>		
Production and operating	1,507	1,804
Transportation	151	293
Depletion, depreciation and amortization (Note 3 and 4)	1,111	1,481
Loss on derivatives (Note 11)	70	2,326
Loss on debt modification	-	228
Gain on debt extinguishment	(239)	-
Loss on warrant revaluation (Note 9)	25	-
Loss on sale of assets (Note 3)	1,186	-
Financing, net (Note 14)	555	674
General and administrative	801	892
Share-based compensation	155	(29)
Transaction costs	-	300
Loss (gain) foreign exchange	235	(4)
	<u>5,557</u>	<u>7,965</u>
<b>Total loss for the period</b>	<u>(1,311)</u>	<u>(3,879)</u>
Currency translation adjustment	321	(5)
<b>Comprehensive loss for the period</b>	<u>\$ (990)</u>	<u>\$ (3,884)</u>
<b>Net loss per common share</b> (Note 10)		
Basic	\$ (0.00)	\$ (0.02)
Diluted	\$ (0.00)	\$ (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, 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
Balance, December 31, 2025	336,254,953	\$ 84,232	\$ -	\$ -	\$ 8,503	\$(80,440)	\$ (824)	\$ 11,471
Shares issued, net (Note 8)	30,000,000	1,493	-	-	-	-	-	1,493
Convertible debentures issued (Note 7)	-	-	1,705	-	-	-	-	1,705
Share-based compensation	-	-	-	-	6	-	-	6
Net loss	-	-	-	-	-	(1,311)	-	(1,311)
Other comprehensive income	-	-	-	-	-	-	321	321
Balance, March 31, 2026	366,254,953	\$ 85,725	\$ 1,705	\$ -	\$ 8,509	\$(81,751)	\$ (503)	\$ 13,685

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

# SOUTHERN ENERGY CORP.

Condensed Interim Consolidated Statement of Cash Flows (unaudited)



(in thousands of U.S. Dollars)	<b>Three months ended March 31,</b>	
	<b>2026</b>	<b>2025</b>
<b>Operating activities</b>		
Total net loss for the period	\$ (1,311)	\$ (3,879)
Changes in non-cash items:		
Depletion, depreciation and amortization (Note 3 and 4)	1,111	1,481
Financing expense, net	578	677
Unrealized (gain) loss on derivatives (Note 11)	(386)	2,146
Unrealized loss on foreign exchange	234	5
Loss on debt modification	-	228
Gain on debt extinguishment (Note 6)	(239)	-
Loss on warrant revaluation (Note 9)	25	-
Loss on disposition	1,186	-
Share-based compensation	155	(29)
Decommissioning provisions liabilities settled (Note 5)	2	-
Changes in non-cash working capital	624	495
Net cash provided by operating activities	1,979	1,124
<b>Investing activities</b>		
Capital expenditures	(925)	(183)
Net proceeds from dispositions	4,858	-
Changes in non-cash working capital	693	(27)
Net cash provided (used) by investing activities	4,626	(210)
<b>Financing activities</b>		
Proceeds from share issuances, net (Note 8)	1,493	(1)
Issuance of convertible debentures, net (Note 7)	14,966	-
Paydown of long-term debt (Note 6)	(13,310)	(1,860)
Payment of interest	(400)	(620)
Finance lease payments	(60)	(1)
Transaction costs on debt refinance (Note 6)	(151)	(2)
Changes in non-cash working capital	810	38
Net cash provided (used) by financing activities	3,348	(2,446)
Net increase (decrease) in cash and cash equivalents	9,953	(1,532)
Effect of foreign exchange rate changes	(8)	-
Cash and cash equivalents, beginning of period	555	2,388
Cash and cash equivalents, end of period	\$ 10,500	\$ 856

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

## SOUTHERN ENERGY CORP.

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

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### 1. Reporting Entity and Nature of Operations

Southern Energy Corp. (“Southern” or the “Company”) is a petroleum and natural gas exploration and production company. Southern has a primary focus on acquiring and developing conventional natural gas and light oil resources in the Southeast Gulf States of Mississippi, Louisiana, and East Texas.

Southern’s head office is located in Calgary, Alberta, Canada. Southern trades on the TSX Venture Exchange (“TSXV”) under the trading symbol “SOU” and on the AIM market of the London Stock Exchange (“AIM”) under the trading symbol “SOUC”. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 26, 2026.

### 2. Basis of Presentation

#### a) Statement of Compliance

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

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the IFRS® Accounting Standards as issued by the International Accounting Standards Board (IASB). The condensed interim consolidated financial statements use the material accounting policies which the Company applied in its annual consolidated financial statements for the year ended December 31, 2025. These condensed interim consolidated financial statements should be read in conjunction with Southern’s consolidated financial statements for the year ended December 31, 2025, which are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) or on Southern’s website at [www.southernenergycorp.com](http://www.southernenergycorp.com).

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.

#### b) Basis of Measurement

These condensed interim consolidated financial statements are presented in United States dollars (“U.S. dollars”). All financial information presented has been rounded to the nearest thousand unless otherwise indicated.

**SOUTHERN ENERGY CORP.**

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

**c) Significant Estimates and Judgments**

Significant judgments, estimates and assumptions made by management in these condensed interim consolidated financial statements are consistent with those outlined in Note 3 of the annual consolidated financial statements for the year ended December 31, 2025, except as noted below.

*Sale of Royalty Interests*

Accounting for the sale of a gross overriding royalty (“GORR”) interest on the Company’s production, or a portion thereof, requires significant judgment. The specific terms of each transaction are considered to determine whether an interest in the reserves associated with the respective property has been disposed of as at the closing date of the transaction. Consideration is given to whether the counterparty is entitled to the significant risks and rewards associated with the property over its productive life, including the contractual terms and any implicit obligations related to production, the option to settle the GORR in cash or in kind and the related commitments, if any, to develop future expansions or projects associated with the property. Judgment is also required in determining the allocation of proceeds between: (i) the disposition of reserves, if any; (ii) any deferred gain related to an upfront payment for future oil and gas extraction services that will generate future royalties; and (iii) whether any gain or loss is recognized in net income (loss) at the time of the transaction. Details of the judgments applied by the Company are provided in Note 3.

**3. Property, Plant and Equipment**

The following table presents the reconciliation of the beginning and ending amounts of our property, plant and equipment (“PP&E”) balances including accumulated depletion, depreciation and impairment:

	<b>Petroleum and Natural</b>		
	<b>Gas Assets</b>	<b>Other</b>	<b>Total</b>
<b>Net book value as at December 31, 2025</b>	<b>\$ 44,979</b>	<b>\$ 115</b>	<b>\$ 45,094</b>
Additions	925	-	925
Dispositions	(6,044)	-	(6,044)
Change in decommissioning provision (Note 5)	(156)	-	(156)
Depletion and depreciation	(1,074)	(9)	(1,083)
Foreign exchange	(1)	1	-
<b>Net book value as at March 31, 2026</b>	<b>\$ 38,629</b>	<b>\$ 107</b>	<b>\$ 38,736</b>

*Additions*

During the three months ended March 31, 2026, Southern incurred \$0.9 million of capital additions related to the development of the Central Mississippi (“CMS”) cash generating unit (“CGU”).

## SOUTHERN ENERGY CORP.

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

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### *Dispositions*

On February 12, 2026, as part of a larger financing transaction (see Note 8 – Shareholders' Equity for more information), Southern sold a 6% GORR on its existing and future developed production for net proceeds of \$4.9 million. The GORR was granted as a non-possessory fee simple determinable interest in land that runs with the Company's lands as of the closing date.

Judgment was required in determining the accounting treatment and allocation of the GORR sale proceeds. The Company concluded that the transaction represented a partial disposal of an interest in PP&E, and accordingly recognized the transaction as a disposition of PP&E. The carrying value of the PP&E disposed of was determined based on the proportionate reduction in the value of proved and probable reserves associated with the GORR sale. The proceeds were compared to the carrying value attributed to the portion of PP&E disposed of, resulting in a loss on disposition of \$1.2 million recognized in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss.

### *Depletion and depreciation*

During the three months ended March 31, 2026, the Company recorded depletion expense of \$1.1 million. In the calculation of depletion expense at March 31, 2026, an estimated \$142.1 million of future development costs associated with the proven plus probable reserves were included.

### *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 its petroleum and natural gas properties. At March 31, 2026, the Company identified the non-cash loss on the disposition of its GORR as an indicator of impairment.

Consequently, an impairment test was performed for the CMS CGU. The recoverable amount was determined based on fair value less costs of disposal, using the net present value of the pre-tax cash flows from proved developed producing petroleum and natural gas reserves. These cash flows were discounted at a pre-tax rate of 10%, based on reserves estimated by the Company's independent reserves evaluator at December 31, 2025, and revised price estimates using the average of three independent reserve evaluators' forecast prices at April 1, 2026. As the recoverable amount for the CMS CGU was determined to be in excess of its carrying value, no impairment loss was recognized for the three months ended March 31, 2026.

**SOUTHERN ENERGY CORP.**

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

The following table details the forward pricing used in estimating the recoverable amounts of Southern's CGUs at March 31, 2026:

Period Ending	West Texas Intermediate (\$/bbl)	Henry Hub (\$/MMBtu)
12-31-2026	87.00	3.59
12-31-2027	76.50	3.78
12-31-2028	72.94	3.85
12-31-2029	73.31	3.93
12-31-2030	74.78	4.01
12-31-2031	76.27	4.09
12-31-2032	77.79	4.17
12-31-2033	79.35	4.26
12-31-2034	80.94	4.34
12-31-2035	82.56	4.43
Thereafter, WTI and HH prices escalated 2% on January 1 of each year		

The fair value less costs of disposal values used to determine the recoverable amounts of Southern's CGUs at March 31, 2026, were classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, Management's best estimates.

Changes in key assumptions and judgments, including revisions to reserves, forecast commodity prices, future capital expenditures and operating costs, could impact the estimated recoverable amount and may result in future impairment charges.

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

*Right-of-Use Assets*

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

	<b>Total</b>
<b>Carrying value as at December 31, 2025</b>	<b>\$ 266</b>
Depreciation	(28)
Effect of foreign exchange rates	(5)
<b>Carrying value as at March 31, 2026</b>	<b>\$ 233</b>

**SOUTHERN ENERGY CORP.**

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

*Lease Liabilities*

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

		<b>Total</b>
<b>As at December 31, 2025</b>	<b>\$</b>	<b>357</b>
Interest expense		13
Lease payments		(60)
Effect of foreign exchange rates		(2)
<b>As at March 31, 2026</b>	<b>\$</b>	<b>308</b>

At March 31, 2026, Southern had future commitments relating to lease liabilities as follows:

		<b>Total</b>
Less than 1 year	\$	169
1 – 3 years		187
Total undiscounted future lease payments	\$	356
Amounts representing interest		(48)
Present value of net lease payments	\$	308
Less current portion of lease liabilities		(130)
<b>Non-current portion of lease liabilities</b>	<b>\$</b>	<b>178</b>

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.

**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 \$17.8 million at March 31, 2026 (December 31, 2025 – \$17.9 million). The decommissioning provision was inflated using a rate of 2.2% (December 31, 2025 – 2.2%) and discounted using a risk-free interest rate of 4.9% at March 31, 2026 (December 31, 2025 – 4.8%).

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.

**SOUTHERN ENERGY CORP.**

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

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

	<b>2026</b>
<b>Balance, beginning of year</b>	\$ 7,541
Liabilities settled	2
Changes in estimates	(156)
Accretion expense	90
Effect of foreign exchange rate changes	(1)
<b>Balance, end of period</b>	<b>\$ 7,476</b>
<b>Long term liability</b>	<b>\$ 7,476</b>

**6. Credit Facility**

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

	<b>As at Mar 31, 2026</b>	<b>As at Dec 31, 2025</b>
Current portion of senior secured term loan	\$ -	\$ 13,938
Unamortized transaction costs	-	(183)
<b>Total Credit Facility</b>	<b>\$ -</b>	<b>\$ 13,755</b>

On February 12, 2026, the Company closed a transaction to retire the existing senior secured credit facility (“Credit Facility”) that was held by Southern Energy Corporation (Delaware) for cash consideration of \$13.3 million, plus accrued interest and transaction fees. The settlement was financed through the issuance of a senior secured convertible debenture (see Note 7 – Convertible Debentures for additional information). In connection with the transaction, Southern signed a waiver on January 29, 2026, deferring the scheduled interest and principal repayment due January 31, 2026 until closing.

The retirement of the Credit Facility resulted in the recognition of a non-cash gain on debt extinguishment of \$0.2 million.

**7. Convertible Debentures**

	Number of Convertible Debentures	Liability Component (\$000s)	Equity Component (\$000s)
Balance at December 31, 2025	-	\$ -	\$ -
Issuance of convertible debentures	17,000	15,239	1,761
Discount	-	(1,500)	-
Issue costs	-	(478)	(56)
Accretion	-	130	-
<b>Balance at March 31, 2026</b>	<b>17,000</b>	<b>\$ 13,391</b>	<b>\$ 1,705</b>

On February 12, 2026, as part of larger financing (see Note 8 – Shareholders’ Equity for more information), Southern closed the sale of 17,000 convertible debentures (“Debentures”) to an Investor (as defined in Note 8 – Shareholders’ Equity) at a price of \$1,000 per Debenture with a 8.8235% original issue discount (“OID”) at a price of \$911.76 per Debenture for gross proceeds of \$17.0 million (net proceeds of \$15.5

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)  
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million). The Debentures will mature on December 31, 2028, and bear interest at a rate of 7 percent per annum, payable quarterly. The Debentures (excluding the principal amount attributed to the OID, being \$1.5 million) will be convertible into Common Shares at any time prior to maturity at \$0.073 (CAD\$0.10) per Common Share, being a ratio of 13,700 Common Shares per \$1,000 principal amount of the convertible portion of the Debentures. At the Investor's option, interest may be paid in cash or in Common Shares, with the number of shares determined based on the market price of the Common Shares and prevailing exchange rate at the time of payment, subject to approval by the TSXV. The Investor may not convert the Debentures or receive interest in Common Shares if doing so would cause the Investors' ownership to exceed 19.99 percent of the outstanding Common Shares without prior TSXV clearance and shareholder approval. In the event that the Investor is not approved as a "Control Person" (as defined in the TSXV Corporate Finance Manual) on or prior to December 31, 2026, then, from and after January 1, 2027, the Debentures will bear interest at a rate of 15 percent per annum.

The liability component of the Debentures was initially recognized at the fair value of a similar liability which does not contain an equity conversion option, based on a market interest rate of 11.8%. The difference between the \$17.0 million principal amount of the Debentures and the fair value of the liability component was recognized in Shareholder's equity. Total transaction costs, excluding the OID, directly attributable to the offering of \$0.5 million were allocated proportionately to the liability and equity components of the Debentures.

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expense in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss.

The fair value of the liability portion of the Debentures at March 31, 2026 was \$15.4 million.

### 8. 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.

The following table reflects the Company's outstanding Common Shares at March 31, 2026 and December 31, 2025:

	<b>Number of Shares</b>	<b>Share Capital</b>
Balance as at December 31, 2025	336,254,953	\$ 84,232
February issuance of Common Shares by Private Placement	30,000,000	1,544
Share issuance costs	-	(51)
<b>Balance as at March 31, 2026</b>	<b>366,254,953</b>	<b>\$ 85,725</b>

On February 12, 2026, the Company completed a financing and royalty transaction with certain arm's-length private investors (each, an "Investor") 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

## SOUTHERN ENERGY CORP.

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

value convertible 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 gross 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 February Financing strengthened the Company's capital structure, repaid the Credit Facility and improved its liquidity position.

### *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 March 31, 2026 and December 31, 2025:

	Number of stock options	Weighted average exercise price (CAD)
Balance as at December 31, 2025	6,506,875	\$ 0.62
<b>Balance as at March 31, 2026</b>	<b>6,506,875</b>	<b>\$ 0.62</b>

The following table summarizes information regarding stock options outstanding as at March 31, 2026:

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)
<b>\$0.18 - \$1.01</b>	<b>6,507</b>	<b>2.0</b>	<b>\$0.62</b>	<b>5,671</b>	<b>\$0.68</b>

Southern recognized nil of share-based compensation expense relating to stock options during the three months ended March 31, 2026 (\$nil – March 31, 2025).

### *Share Award Incentive Plan*

The following table reflects the Company's outstanding restricted share awards ("RSAs") at March 31, 2026 and December 31, 2025:

	Number of RSAs
Balance at December 31, 2025	19,577,768
<b>Balance at March 31, 2026</b>	<b>19,577,768</b>

## SOUTHERN ENERGY CORP.

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

Southern recognized \$149 thousand of share-based compensation expense relating to RSAs during the three months ended March 31, 2026, compared to \$51 thousand for the three months ended March 31, 2025.

### 9. Warrant Liability

As part of the equity financing (“Fundraising”) on April 8, 2025, 166,869,129 fundraising warrants (“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 condensed interim consolidated statement of earnings (loss) and comprehensive income (loss) in the period in which they arise. The revaluation as at March 31, 2026, resulted in a non-cash loss of \$25 thousand for the three months ended March 31, 2026 (\$nil – March 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 March 31, 2026 and December 31, 2025:

	Warrants	Liability (\$000s)
Balance at December 31, 2025	171,801,933	\$ 5,309
Change in fair value	-	25
Effect of foreign exchange rate changes	-	(113)
<b>Balance at March 31, 2026</b>	<b>171,801,933</b>	<b>\$ 5,221</b>
<b>Common shares issuable on exercise</b>	<b>171,801,933</b>	

The fair value of the warrants was estimated on the date of issuance and then revalued at March 31, 2026 using the Black-Scholes pricing model with the following assumptions

	<b>Mar 31, 2026</b>	<b>Dec 31, 2025</b>
Risk free interest rate	2.742%	2.632%
Expected volatility	104%	89%
Expected life	2.02 years	2.27 years
Dividend yield	nil	nil
Expected forfeiture rate	0%	0%
Stock price (CAD)	\$0.080	\$0.085

## SOUTHERN ENERGY CORP.

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

### 10. Loss Per Share

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

	<b>Three months ended March 31,</b>	
	<b>2026</b>	<b>2025</b>
Net loss	\$ (1,311)	\$ (3,879)
Basic - weighted average Common Shares outstanding	351,921,620	169,385,824
Dilutive effect of warrants, options and convertible debentures	-	-
Diluted – weighted average Common Shares outstanding	351,921,620	169,385,824
Net loss per share, basic	\$ (0.00)	\$ (0.02)
Net loss per share, diluted	\$ (0.00)	\$ (0.02)

When the impact is anti-dilutive, warrants, stock options and Debentures are excluded from the calculation of diluted weighted average Common Shares. For the three months ended March 31, 2026 and March 31, 2025, all dilutive securities are excluded as they are anti-dilutive.

### 11. Financial Instruments and Financial Risk Management

#### *Financial Derivative Contracts*

Southern utilizes crude oil and natural gas derivative contracts to mitigate its exposure to commodity price risk associated with future crude oil and natural gas production. Typical derivative contracts could consist of options, in the form of price floors, collars or three-way collars and fixed-price swaps. The derivative financial instruments are recorded on the condensed interim consolidated statement of financial position as either an asset or a liability measured at fair value. Southern does not apply hedge accounting to its commodity derivative contracts; accordingly, changes in the fair value of these instruments are recognized in the condensed interim consolidated statement of earnings (loss) and comprehensive income (loss) in the period of change.

Southern had the following commodity derivative contracts in place as at March 31, 2026:

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

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

The Company's financial instruments that were accounted for at fair value as of March 31, 2026 and December 31, 2025 are presented below:

Comprised of:	<b>As at Mar 31, 2026</b>	<b>As at Dec 31, 2025</b>
Current derivative asset	\$ 207	\$ 105
Current derivative liability	(201)	(485)
<b>Net fair value of contracts, end of period</b>	<b>\$ 6</b>	<b>\$ (380)</b>

# SOUTHERN ENERGY CORP.

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



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

	<b>Three months ended March 31,</b>	
	<b>2026</b>	<b>2025</b>
Realized loss on derivatives	\$ 456	\$ 180
Unrealized (gain) loss on derivatives	(386)	2,146
<b>Loss on derivative instruments</b>	<b>\$ 70</b>	<b>\$ 2,326</b>

## ***Credit Risk***

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

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, 2026 or December 31, 2025. During the three months ended March 31, 2026, three third party purchasers each marketed more than 10% of the Company's petroleum and natural gas revenue.

## ***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 March 31, 2026, the Company's financial liabilities consisted of accounts payable and accrued liabilities, royalties payable, lease liabilities, financial derivative liabilities, warrant liability and convertible debentures. March 31, 2026 results were impacted

## SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

by non-cash and non-recurring items related primarily to the February Financing, the GORR transaction, and fair value remeasurements.

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.

The February Financing strengthened the Company's capital structure, repaid the Credit Facility and improved its liquidity position.

After considering its liquidity position as at March 31, 2026, 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.

### **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, 2026, a 10% change in future commodity prices applied against these contracts would have approximately a \$0.4 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 Debentures have a fixed interest rate.

### **12. Royalties Payable**

As at March 31, 2026, Southern had \$7.3 million (\$7.3 million at December 31, 2025) 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.

### **13. 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

## SOUTHERN ENERGY CORP.

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

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:

<b>Commodity sales from production, by product</b>	<b>Three months ended March 31,</b>	
	<b>2026</b>	<b>2025</b>
Crude oil	\$ 410	\$ 519
Natural gas liquids	-	21
Natural gas	5,116	4,581
<b>Total Petroleum and Natural Gas Sales</b>	<b>\$ 5,526</b>	<b>\$ 5,121</b>

### 14. Financing

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

	<b>Three months ended March 31,</b>	
	<b>2026</b>	<b>2025</b>
Credit facility interest	\$ 244	\$ 620
Convertible debentures interest	156	71
Interest income	(23)	(3)
Accretion	165	(28)
Interest on lease obligations	13	14
<b>Total Financing Expenses</b>	<b>\$ 555</b>	<b>\$ 674</b>

### 15. 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.

SOUTHERN ENERGY CORP.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

**16. Commitments**

The following table lists the Company's contractual obligations and commitments as at March 31, 2026:

	Total	2026	2027	2028	Thereafter
Convertible debentures <sup>(1)</sup>	\$ 17,000	\$ -	\$ -	\$ 17,000	\$ -
Convertible debenture interest <sup>(1)</sup>	3,280	897	1,190	1,193	-
Lease obligations <sup>(2)</sup>	356	113	169	74	-
<b>Total</b>	<b>\$ 20,636</b>	<b>\$ 1,010</b>	<b>\$ 1,359</b>	<b>\$ 18,267</b>	<b>\$ -</b>

Notes:

(1) See note 7 – Convertible Debentures

(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.