Condensed Interim Consolidated Financial Statements of

SOUTHERN ENERGY CORP.

For the three and six months ended June 30, 2026 and 2025

(unaudited)

(U.S. Dollars)

(in thousands of U.S. Dollars)		June 30, 2026		December 31, 2025
Assets				
Current assets				
Cash and cash equivalents	$	8,581	$	555
Accounts receivable and other		2,047		2,331
Prepaid expenses and deposits		138		1,053
Derivative assets (Note 11)		80		105
		10,846		4,044
Property, plant and equipment (Note 3)		37,828		45,094
Right-of-use assets (Note 4)		202		266
Total assets	$	48,876	$	49,404
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities		3,065		3,189
Royalties payable (Note 12)		6,714		7,297
Current portion of lease liabilities (Note 4)		132		127
Credit facility (Note 6)		-		13,755
Warrant liability (Note 9)		4,132		5,309
Derivative liabilities (Note 11)		88		485
		14,131		30,162
Long-term liabilities				
Lease liabilities (Note 4)		147		230
Convertible debentures (Note 7)		13,654		-
Decommissioning provisions (Note 5)		7,429		7,541
Total liabilities		35,361		37,933
Shareholders' equity (Note 8)				
Share capital		85,725		84,232
Equity component of convertible debenture		1,705		-
Contributed surplus		8,515		8,503
Deficit		(82,158)		(80,440)
Accumulated other comprehensive loss		(272)		(824)
		13,515		11,471
Total liabilities and shareholders' equity	$	48,876	$	49,404

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

(in thousands of U.S. Dollars, except for per share amounts)	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
Revenues				
Petroleum and natural gas revenue (Note 13)	$ 4,161	$ 3,989	$ 9,687	$ 9,110
Royalties	(1,067)	(813)	(2,347)	(1,848)
	3,094	3,176	7,340	7,262
Expenses				
Production and operating	1,429	1,462	2,936	3,266
Transportation	149	232	300	525
Depletion, depreciation and amortization	1,163	1,319	2,274	2,800
Abandonment costs	73	-	73	-
(Gain) loss on derivatives (Note 11)	(197)	(1,458)	(127)	868
Loss on debt modification (Note 6)	-	-	-	228
Loss (gain) on debt extinguishment (Note 6 & 7)	-	59	(239)	59
(Gain) loss on warrant revaluation (Note 9)	(1,016)	129	(991)	129
Loss on sale of assets	-	-	1,186	-
Financing, net (Note 14)	616	547	1,171	1,221
General and administrative	1,021	1,003	1,822	1,895
Share-based compensation	101	20	256	(9)
Transaction costs	-	7	-	307
Loss on foreign exchange	162	267	397	263
	3,501	3,587	9,058	11,552
Total net loss for the period	(407)	(411)	(1,718)	(4,290)
Currency translation adjustment	231	150	552	145
Comprehensive loss for the period	**$ (176)**	**$ (261)**	**$ (1,166)**	**$ (4,145)**
Net loss per common share (Note 10)				
Basic	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)
Diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)

(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
Shares issued, net (Note 8)	166,869,129	4,066	-	-	-	-	-	4,066
Settlement of convertible debentures	-	-	(245)	-	245	-	-	-
Share-based compensation	-	-	-	-	35	-	-	35
Net loss	-	-	-	-	-	(4,290)	-	(4,290)
Other comprehensive income	-	-	-	-	-	-	145	145
Balance, June 30, 2025	336,254,953	$ 84,232	$ -	$ 351	$ 8,140	$(77,222)	$ (788)	$ 14,713
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	-	-	-	-	12	-	-	12
Net loss	-	-	-	-	-	(1,718)	-	(1,718)
Other comprehensive income	-	-	-	-	-	-	552	552
Balance, June 30, 2026	366,254,953	$ 85,725	$ 1,705	$ -	$ 8,515	$(82,158)	$ (272)	$ 13,515

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

SOUTHERN ENERGY CORP.
Condensed Interim Consolidated Statement of Cash Flows (unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands of U.S. Dollars)	**2026**	**2025**	**2026**	**2025**
Operating activities				
Total net loss for the period	$ (407)	$ (411)	$ (1,718)	$ (4,290)
Changes in non-cash items:				
Depletion, depreciation and amortization	1,163	1,319	2,274	2,800
Financing expense	664	562	1,242	1,239
Unrealized loss (gain) on derivatives (Note 11)	14	(1,371)	(372)	775
Unrealized loss on foreign exchange	163	285	397	290
Loss on debt modification (Note 6)	-	-	-	228
Loss (gain) on debt extinguishment (Note 6 & 7)	-	59	(239)	59
(Gain) loss on warrant revaluation (Note 9)	(1,016)	129	(991)	129
Loss on disposition	-	-	1,186	-
Share-based compensation	101	20	256	(9)
Decommissioning provisions liabilities settled (Note 5)	(32)	(5)	(30)	(5)
Changes in non-cash working capital	(956)	(960)	(332)	(541)
Net cash (used) provided by operating activities	(306)	(373)	1,673	675
Investing activities				
Capital expenditures	(334)	(2,285)	(1,259)	(2,468)
Proceeds from dispositions	-	-	4,858	-
Changes in non-cash working capital	(939)	2,113	(246)	2,086
Net cash (used) provided by investing activities	(1,273)	(172)	3,353	(382)
Financing activities				
Proceeds from share issuances, net (Note 8)	-	3,610	1,493	3,609
Issuance of convertible debentures, net (Note 7)	(5)	-	14,961	-
Paydown of long-term debt (Note 6)	-	(631)	(13,310)	(2,491)
Payment of interest	(296)	(576)	(696)	(1,196)
Finance lease payments	(34)	(27)	(94)	(28)
Transaction costs on debt refinance	-	1	(151)	(1)
Changes in non-cash working capital	-	(117)	810	(3)
Net cash (used) provided by financing activities	(335)	2,260	3,013	(110)
Net (decrease) increase in cash and cash equivalents	(1,914)	1,715	8,039	183
Effect of foreign exchange rate changes	(5)	13	(13)	13
Cash and cash equivalents, beginning of period	10,500	856	555	2,388
Cash and cash equivalents, end of period	$ 8,581	$ 2,584	$ 8,581	$ 2,584

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

1. Reporting Entity and Nature of Operations

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

Southern's head office is located in Calgary, Alberta, Canada. Southern trades on the TSX Venture Exchange ("TSXV") under the trading symbol "SOU" and on the AIM market of the London Stock Exchange ("AIM") under the trading symbol "SOUC". The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 25, 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 or on Southern's website at 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.

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 the Company's property, plant and equipment ("PP&E") balances including accumulated depletion, depreciation and impairment:

	Petroleum and Natural Gas Assets	Other	Total
Net book value as at December 31, 2025	**$ 44,979**	**$ 115**	**$ 45,094**
Additions	1,148	111	1,259
Dispositions	(6,044)	-	(6,044)
Change in decommissioning provision (Note 5)	(261)	-	(261)
Depletion and depreciation	(2,192)	(25)	(2,217)
Foreign exchange	(7)	4	(3)
Net book value as at June 30, 2026	**$ 37,623**	**$ 205**	**$ 37,828**

Additions

For the six months ended June 30, 2026, Southern incurred $1.1 million of capital additions related to the development of the Central Mississippi ("CMS") cash generating unit ("CGU").

Dispositions

On February 12, 2026, as part of a larger financing transaction (see Note 8 – Shareholders' Equity), the Company 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.

Management concluded the GORR sale represented a partial disposition of petroleum and natural gas assets rather than a financing arrangement. The Company has no unconditional obligation to repay the proceeds or guarantee a return to the purchaser, and future payments are contingent on production from the underlying properties.

The Company received net proceeds of $4.9 million and recognized a loss on disposition of $1.2 million in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss. This resulted in the derecognition of $6.1 million of petroleum and natural gas assets, representing the proportionate reduction in the value of proved and probable reserves sold relative to total reserves prior to the transaction.

No separate financial liability has been recognized, as future royalty payments represent the GORR holder's ownership interest in future production and will be recognized as production occurs.

Depletion and depreciation

For the three and six months ended June 30, 2026, the Company recorded depletion expense of $1.1 million and $2.2 million, respectively. In the calculation of depletion expense, 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. As at June 30, 2026, Southern did not identify any indicators of impairment or impairment recovery for any of its CGUs.

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

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 the Company's right-of-use balances including accumulated depreciation:

		Total
Carrying value as at December 31, 2025	**$**	**266**
Depreciation		(57)
Effect of foreign exchange rates		(7)
Carrying value as at June 30, 2026	**$**	**202**

Lease Liabilities

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

		Total
As at December 31, 2025	**$**	**357**
Interest expense		24
Lease payments		(94)
Effect of foreign exchange rates		(8)
As at June 30, 2026	**$**	**279**

At June 30, 2026, Southern had future commitments relating to lease liabilities as follows:

		Total
Less than 1 year	$	166
1 – 3 years		144
Total undiscounted future lease payments	$	310
Amounts representing interest		(31)
Present value of net lease payments	$	279
Less current portion of lease liabilities		(132)
Non-current portion of lease liabilities	**$**	**147**

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 $17.6 million at June 30, 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 June 30, 2026 (December 31, 2025 – 4.8%).

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

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 $0.6 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:

		2026
Balance, beginning of year	$	7,541
Liabilities settled		(30)
Changes in estimates		(261)
Accretion expense		181
Effect of foreign exchange rate changes		(2)
Balance, end of period	**$**	**7,429**
Long term liability	**$**	**7,429**

6. Credit Facility

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

		As at Jun 30, 2026		**As at Dec 31, 2025**
Current portion of senior secured term loan	$	-	$	13,938
Unamortized transaction costs		-		(183)
Total Credit Facility	**$**	**-**	**$**	**13,755**

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, which deferred 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	-	(483)	(56)
Accretion	-	398	-
Balance at June 30, 2026	**17,000**	**$ 13,654**	**$ 1,705**

On February 12, 2026, as part of a 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 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 June 30, 2026 was $15.6 million.

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

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 June 30, 2026 and December 31, 2025:

	Number of Shares	Share Capital
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)
Balance as at June 30, 2026	**366,254,953**	**$ 85,725**

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 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 June 30, 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
Balance as at June 30, 2026	**6,506,875**	**$ 0.62**

The following table summarizes information regarding stock options outstanding as at June 30, 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)
$0.18 - $1.01	**6,507**	**1.8**	**$0.62**	**5,671**	**$0.68**

Southern recognized nil of share-based compensation expense relating to stock options during the three and six months ended June 30, 2026 compared to nil for the same periods in 2025.

Share Award Incentive Plan

The following table reflects the Company's outstanding restricted share awards ("RSAs") at June 30, 2026 and December 31, 2025:

	Number of RSAs
Balance at December 31, 2025	19,577,768
Released upon cash settlement	(377,768)
Balance at June 30, 2026	**19,200,000**

Southern recognized $0.1 million and $0.2 million of share-based compensation expense relating to RSAs during the three and six months ended June 30, 2026, respectively, compared to nil for the same periods in 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 Loss and Comprehensive Loss in the period in which they arise. The revaluation as at June 30, 2026, resulted in a non-cash gain of $1.0 million for the three months ended June 30, 2026 compared to a loss of $0.1 million at June 30, 2025. The gain 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 June 30, 2026 and December 31, 2025:

	Warrants	Liability ($000s)
Balance at December 31, 2025	171,801,933	$ 5,309
Change in fair value	-	(991)
Effect of foreign exchange rate changes	-	(186)
Balance at June 30, 2026	**171,801,933**	**$ 4,132**
Common shares issuable on exercise	**171,801,933**	

The fair value of the warrants was estimated on the date of issuance and then revalued at June 30, 2026 using the Black-Scholes pricing model with the following assumptions

	Jun 30, 2026	**Dec 31, 2025**
Risk free interest rate	2.775%	2.632%
Expected volatility	110%	89%
Expected life	1.77 years	2.27 years
Dividend yield	nil	nil
Expected forfeiture rate	0%	0%
Stock price (CAD)	$0.070	$0.085

10. Loss Per Share

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

	Three months ended June 30,		**Six months ended June 30,**	
	2026	**2025**	**2026**	**2025**
Net loss	$ (407)	$ (411)	$ (1,718)	$ (4,290)
Basic and diluted - weighted average Common Shares outstanding	366,254,953	321,585,139	359,254,953	291,451,735
Net loss per share, basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)

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 and six months ended June 30, 2026 and June 30, 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 Loss and Comprehensive Loss in the period of change.

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

Southern had the following commodity derivative contracts in place as at June 30, 2026:

Natural Gas	Volume	Pricing
Fixed Price Swap		
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 June 30, 2026 and December 31, 2025 are presented below:

Comprised of:	As at Jun 30, 2026		As at Dec 31, 2025	
Current derivative asset	$	80	$	105
Current derivative liability		(88)		(485)
Net fair value of contracts, end of period	**$**	**(8)**	**$**	**(380)**

Below is a reconciliation of the (gain) loss on derivatives from the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss:

	Three months ended June 30,				Six months ended June 30,			
	2026		2025		2026		2025	
Realized (gain) loss on derivatives	$	(211)	$	(87)	$	245	$	93
Unrealized loss (gain) on derivatives		14		(1,371)		(372)		775
(Gain) loss on derivative instruments	**$**	**(197)**	**$**	**(1,458)**	**$**	**(127)**	**$**	**868**

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 June 30, 2026 or December 31, 2025. During the three and six months ended June 30, 2026, two 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 June 30, 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.

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 June 30, 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 June 30, 2026, a 10%

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

change in future commodity prices applied against these contracts would have approximately a $0.3 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 June 30, 2026, Southern had $6.7 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 delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price. Revenues are typically collected in the month following production.

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

	Three months ended June 30,		Six months ended June 30,	
Commodity sales from production, by product	**2026**	**2025**	**2026**	**2025**
Crude oil	$ 1,437	$ 376	$ 1,847	$ 895
Natural gas liquids	-	18	-	39
Natural gas	2,724	3,595	7,840	8,176
Total Petroleum and Natural Gas Sales	**$ 4,161**	**$ 3,989**	**$ 9,687**	**$ 9,110**

14. Financing

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

	Three months ended June 30,		Six months ended June 30,	
	2026	**2025**	**2026**	**2025**
Credit facility interest	$ -	$ 576	$ 244	$ 1,196
Convertible debentures interest	296	6	452	77
Interest income	(48)	(15)	(71)	(18)
Accretion	357	(35)	522	(63)
Interest on lease obligations	11	15	24	29
Total Financing Expenses	**$ 616**	**$ 547**	**$ 1,171**	**$ 1,221**

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

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.

16. Commitments

The following table lists the Company's contractual obligations and commitments as at June 30, 2026:

	Total	2026	2027	2028	Thereafter
Convertible debentures[1]	$ 17,000	$ -	$ -	$ 17,000	$ -
Convertible debenture interest[1]	2,983	600	1,190	1,193	-
Lease obligations[2]	309	71	166	72	-
Total	**$ 20,292**	**$ 671**	**$ 1,356**	**$ 18,265**	**$ -**

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.

As at June 30, 2026, the Company had executed a Joint Venture Wellbore Participation Agreement to drill two commitment wells in the Williamsburg area. Refer to Note 17 – Subsequent Events for details regarding funding received and operational status subsequent to quarter end.

17. Subsequent Events

Joint Venture Wellbore Participation Agreement

On May 21, 2026, Southern entered into a Joint Venture Wellbore Participation Agreement with a strategic partner ("Partner") for two commitment wells targeting the Cotton Valley oil prospect in the Williamsburg area. The arrangement provides the Partner with the right to earn a 50% working interest in the wellbores through fixed funding contributions of $1.95 million per well toward drilling and completion costs.

As at June 30, 2026, no funding had been received, no commitment wells had been drilled, and no assets, liabilities, or gains were recognized in the Condensed Interim Consolidated Financial Statements related to this agreement. Southern is responsible for drilling and completion costs exceeding $1.95 million per well. Upon completion, the Partner earns its 50% working interest, and all subsequent equipping, tie-in, and operating costs will be shared proportionately based on each party's working interest.

Subsequent to June 30, 2026, Southern received $1.95 million in funding from the Partner for the first commitment well, and operations commenced with the spudding of the first well on August 11, 2026.

Following completion of the two commitment wells, the Partner will hold a 5% participation right in future Cotton Valley wells drilled within the established drilling spacing units.