



Southern Empire

RESOURCES
CORP.

Condensed Interim Consolidated Financial Statements

For the three months ended January 31, 2024

(Unaudited - Expressed in Canadian Dollars)

Notice of Non-review of Condensed Interim Consolidated Financial Statements

In accordance with the Canadian Securities Administrators' National Instrument 51-102 – Continuous Disclosure Obligations, Southern Empire Resources Corp. discloses that the accompanying condensed interim consolidated financial statements have been prepared by, and are the responsibility of, the Company's management.

Southern Empire Resource Corp.'s condensed interim consolidated financial statements for the three months ended January 31, 2024 have been reviewed and approved by its Audit Committee and its Board of Directors but have not been reviewed by Southern Empire's auditors.

Southern Empire Resources Corp.
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

	January 31 2024	October 31 2023
ASSETS		
Current assets		
Cash	\$ 16,531	\$ 48,551
Marketable securities (Note 3)	130,211	195,655
Accounts receivable	21,222	85,820
Prepays and advances	20,094	42,274
	188,058	372,300
Non-current assets		
Reclamation bonds (Note 5)	87,459	87,459
Equipment (Note 4)	9,309	10,064
Exploration and evaluation assets (Note 5)	11,998,371	11,798,580
Total assets	\$ 12,283,197	\$ 12,268,403
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,056,702	\$ 850,035
Total liabilities	\$ 1,056,702	\$ 850,035
EQUITY		
Common shares (Note 7)	16,470,203	16,470,203
Contributed surplus (Note 7)	1,291,754	1,291,754
Deficit	(6,535,462)	(6,343,589)
Total equity	11,226,495	11,418,368
Total liabilities and equity	\$ 12,283,197	\$ 12,268,403

Nature of operations (Note 1)

Approved on behalf of the Board:

“Alex Heath”
Director

“Dale Wallster”
Director

The accompanying notes are an integral part of these consolidated financial statements

Southern Empire Resources Corp.
Consolidated Statements of Loss and Comprehensive Loss
(expressed in Canadian Dollars)

For the three months ended January 31	2024	2023
Expenses		
Amortization (Note 4)	\$ 755	\$ 1,078
Management and consulting fees (Note 6)	126,000	127,500
Business and investor relations	10,583	9,775
General and administration	5,964	19,470
Professional fees	33,690	10,059
Property research	-	5,936
Share-based payments (Notes 6 and 7)	-	-
Transfer agent and listing fees	1,691	4,684
Shareholder communications	2,756	-
	181,439	178,502
Other items		
Unrealized loss on marketable securities (Note 3)	(17,447)	(734,137)
Realized gain on sale of marketable securities (Note 3)	7,013	347,216
	\$ (191,873)	\$ (565,423)
Loss and comprehensive loss	\$ (191,873)	\$ (565,423)
Basic and diluted loss per share (Note 7)	\$ (0.00)	\$ (0.01)
Weighted average number of common shares		
outstanding (Note 7):		
Basic	66,577,723	61,547,622
Diluted	66,577,723	61,547,622

The accompanying notes are an integral part of these consolidated financial statements

Southern Empire Resources Corp.
Consolidated Statements of Changes in Equity
(expressed in Canadian Dollars)

	Attributable to the common shareholders				Total Equity
	Number of shares	Amount	Contributed Surplus	Deficit	
Balance, October 31, 2022	65,272,800	\$ 16,295,202	\$ 1,174,140	\$ (2,372,050)	\$ 15,097,292
Shares issued during the period	-	-	-	-	-
Cash issue costs	-	-	-	-	-
Shares issued for property acquisition	550,000	55,000	-	-	55,000
Loss	-	-	-	(565,423)	(565,423)
Balance, January 31, 2023	65,822,800	\$ 16,350,202	\$ 1,174,140	\$ (2,937,473)	\$ 14,586,869
	Number of shares	Amount	Contributed Surplus	Deficit	Total Equity
Balance, October 31, 2023	67,022,800	\$ 16,470,202	\$ 1,291,754	\$ (6,343,588)	\$ 11,418,368
Shares issued for property acquisition	-	-	-	-	-
Loss	-	-	-	(191,873)	(191,873)
Balance, January 31, 2024	67,022,800	\$ 16,470,202	\$ 1,291,754	\$ (6,535,461)	\$ 11,226,495

The accompanying notes are an integral part of these consolidated financial statements

Southern Empire Resources Corp.
Consolidated Statements of Cash Flows
(expressed in Canadian Dollars)

For the three months ended January 31,	2024	2023
Cash flows from Operating Activities		
Loss	\$ (191,873)	\$ (565,423)
Items not affecting cash		
Realized gain on sale of marketable securities	(7,013)	(347,216)
Unrealized loss on marketable securities	17,447	822,672
Amortization	755	1,078
Net changes in non-cash working capital items		
Accounts receivable, prepaids and advances	86,777	(8,043)
Accounts payable and accrued liabilities	206,671	(205,478)
	112,764	(302,410)
Cash flows from Investing Activities		
Sale of marketable securities	55,007	669,145
Increase in exploration and evaluation assets	(199,791)	(315,672)
	(144,784)	353,473
Cash flows from Financing Activities		
Issuance of common shares, net of share issue costs	-	-
Share issue costs	-	-
	-	-
Net change in cash during the year	(32,020)	51,063
Cash, beginning of year	48,551	43,605
Cash, end of year	\$ 16,531	\$ 94,668

Supplemental cash flow information (Note 11)

The accompanying notes are an integral part of these consolidated financial statements

Southern Empire Resources Corp.

Notes to the Consolidated Financial Statements

For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Southern Empire Resources Corp. (“Southern Empire”, the “Company” or the “Corporation”) is focused on the acquisition, exploration and evaluation of metals and minerals resource properties.

Southern Empire’s head office is at Suite 420 – 789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

As of January 31, 2024, Southern Empire’s exploration and development projects included the Oro Cruz Project in California, U.S.A, as well as the Pedro Gold Project, VLM Project, Centauro and La Loma Projects in Mexico.

Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operation. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. The use of these principles may not be appropriate.

To date, the Corporation has not earned significant revenue and is considered to be in the exploration and evaluation stage.

The investment in, and expenditures on, exploration and evaluation assets comprise a significant portion of the Corporation’s assets. Mineral exploration and development is highly speculative and involves inherent risks. Realization of the Corporation’s investment in these assets is dependent upon the renewed legal ownership of the claims and whether an economically viable operation can be established.

In addition, it has not yet been determined whether the Corporation’s properties contain ore reserves that are economically recoverable. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines.

As at January 31, 2024, the Corporation’s current cash resources are insufficient to cover the expected expenditures in fiscal 2024. The Corporation’s ability to continue as a going concern is dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurances that management will be successful in securing adequate financing.

The Corporation reported losses in the first quarter of fiscal 2024 and 2023 of \$191,873 and \$565,423 respectively, has an accumulated deficit of \$6,535,461 (2023 - \$2,937,473) and has working capital deficiency of \$868,644 (October 31, 2023 – working capital of \$477,735). These circumstances and the need for continued financing to further successful exploration may cast significant doubt as to the Corporation’s ability to continue as a going concern.

The significant accounting policies used in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the periods presented.

These financial statements do not include any adjustments to the carrying values of assets and liabilities that might be necessary if the Corporation is unable to continue as a going concern. Such adjustments could be material.

These consolidated quarterly financial statements are prepared on the basis that Southern Empire will continue as a going concern, which assumes the ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities and commitments in the normal course of operations.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation, principals of consolidation and statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations /committee (“IFRIC”) applicable to the preparation of interim financial statements, including International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting.

Subsidiaries are entities controlled by the Company and are included in the consolidated financial statements from the date that control commences until the date that control ceases. These condensed interim consolidated financial statements include the accounts of Southern Empire and its wholly owned subsidiary, SMP Gold Corp., a company incorporated in Nevada, USA. All inter-company transactions and balances were eliminated in preparing these financial statements. The accounting policies of subsidiaries are changed if necessary to align them with the policies adopted by Southern Empire.

These condensed interim consolidated financial statements should be read in conjunction with Southern Empire’s annual audited financial statements for the years ended October 31, 2023 and 2022, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are classified as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim consolidated financial statements were prepared by management and reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on March 10, 2024.

The functional currency of Southern Empire and its subsidiaries is the Canadian dollar. Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate in effect at the financial statement date. Exchange gains or losses arising from these translations are recognized in profit or loss for the reporting period.

3. MARKETABLE SECURITIES

As at January 31, 2024 and October 31, 2023, Southern Empire’s investments consisted of equity interests in companies involved with gold exploration and development:

	January 31, 2024		October 31, 2023	
	Cost	FMV	Cost	FMV
Shares - Augusta Gold Corp.	\$ 129,444	\$ 127,681	\$ 179,476	\$ 192,205
Shares - Lincoln Gold Corp.	\$ 25,300	\$ 2,530	\$ 25,300	\$ 3,450
	\$ 154,744	\$ 130,211	\$ 204,776	\$ 195,655

The Company acquired no additional marketable securities during the three months ended January 31, 2024 or the year ended October 31, 2023.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

4. EQUIPMENT

	Computers and equipment	
Cost:		
Balance at October 31, 2023		
and January 31, 2024		33,534
Accumulated amortization:		
Balance at October 31, 2022	\$	19,156
Amortization expense		4,314
Balance at October 31, 2023		23,470
Amortization expense		755
Balance at January 31, 2024		24,225
Total balance at October 31, 2023	\$	10,064
Total balance at January 31, 2024	\$	9,309

5. EXPLORATION AND EVALUATION ASSETS

Southern Empire classifies its exploration and evaluation gold properties into three geographical regions, namely California, Nevada and Mexico. The following is a summary of the properties:

	Oro Cruz California	Eastgate Nevada	Pedro Mexico	VLM Mexico	Centauro Mexico	La Loma Mexico	Suaqui Verde Mexico	Total
October 31, 2022	\$ 9,624,289	\$ 2,095,975	\$ 548,833	\$ 88,240	\$ 40,541	\$ 48,120	\$ -	\$12,445,998
Acquisition and renewal	-	-	125,000	96,004	67,607	949	-	289,560
Property maintenance	182,319	2,755	59,104	12,352	103,031	3,883	-	363,444
Geology & geophysics	2,527	-	13,430	6,250	102,145	13,822	-	138,174
Drilling & assay	-	-	-	-	2,137	-	-	2,137
Camp & fieldwork	5,984	748	4,838	123	61,309	3,572	-	76,574
Environmental & permitting	576,000	-	-	-	6,171	-	-	582,171
Impairment	-	(2,099,478)	-	-	-	-	-	(2,099,478)
October 31, 2023	\$ 10,391,119	\$ -	\$ 751,205	\$202,969	\$ 382,941	\$ 70,346	\$ -	\$ 11,798,580
Acquisition and renewal	-	-	-	-	-	-	506	506
Property maintenance	72,355	-	30,164	-	25,294	-	-	127,813
Geology & geophysics	-	-	-	-	1,264	-	-	1,264
Drilling & assay	-	-	-	-	-	-	-	-
Camp & fieldwork	75	-	-	-	-	-	-	75
Environmental & permitting	70,639	-	-	-	-	-	-	70,639
January 31, 2024	\$ 10,533,682	\$ -	\$ 781,369	\$202,969	\$ 409,499	\$ 70,346	\$ 506	\$ 11,998,371

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

Oro Cruz Project, California, U.S.A.

Lincoln Gold US Corp. Option Agreements

Southern Empire acquired options to earn up to a 75% interest in the Oro Cruz Project, located in Imperial County, California. On June 22, 2020, Southern Empire entered into another option agreement to acquire the remaining 25% of the Oro Cruz Project from Ronald K. Netolitzky (“Netolitzky”), a director of Southern Empire, bringing its total potential interest to 100%. The Oro Cruz Project option agreements are summarized as follows:

Southern Empire has an option agreement with Lincoln Gold US Corp. (“Lincoln”) to acquire a total of a 75% interest in the Oro Cruz Project from Lincoln. The pertinent business terms of this option agreement are:

Cash payments to Lincoln:

- US\$ 10,000 initial payment (paid)
- US\$ 25,000 paid on or before February 15, 2020 (paid)
- US\$ 25,000 paid on or before February 15, 2021 (paid)
- US\$ 25,000 paid on or before February 15, 2022 (paid)*
- US\$ 25,000 paid on or before February 15, 2023 (paid)*

* Southern Empire settled the final two payments for a one-time payment of US\$41,000 pursuant to a settlement agreement dated April 7, 2021.

Cash payments to ADGIS, Inc. (“ADGIS”) who granted an underlying option (the “Hercules Claims”) to Lincoln:

- US\$ 50,000 by May 15, 2019 (paid)
- US\$ 50,000 by April 15, 2020 (paid)
- US\$ 100,000 by April 15, 2021 (paid)
- US\$ 100,000 by April 15, 2022 (paid)
- US\$ 100,000 by April 15, 2023 (paid)

Exploration expenditures:

- US\$ 200,000 exploration expenditures acknowledged as incurred to October 1, 2019 (incurred)
- US\$ 400,000 cumulative exploration expenditures to be incurred before October 1, 2020 (incurred)
- US\$ 700,000 cumulative exploration expenditures to be incurred before October 1, 2021 (incurred)
- US\$ 1,000,000 cumulative exploration expenditures to be incurred before October 1, 2022 (incurred)
- US\$ 1,600,000 cumulative exploration expenditures to be incurred before October 1, 2023 (incurred)

Royalties:

- 2% Net Smelter Return Royalty (“NSR”) from production within the Hercules Claims boundary (the “Hercules Royalty”)
- 1% NSR on production within a 1-mile radius of the Hercules Claims boundary (“Radius Royalty”)
- Southern Empire can reduce the Hercules Royalty by 0.5% and the Radius Royalty by 0.5% collectively with a cash payment of US\$500,000 to ADGIS.
- Southern Empire can reduce the Hercules Royalty by an additional 0.5% with an additional payment of US\$500,000 to ADGIS.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Ronald K. Netolitzky Option Agreement

On June 22, 2020, Southern Empire entered into an option agreement with Netolitzky to acquire, at cost, the remaining 25% of the Oro Cruz Project in exchange for cash payments of \$440,000. On September 15, 2022, Southern Empire exercised its option and acquired the 25% interest from Netolitzky. Option payments paid were as follows:

- \$ 140,000 on TSX Venture Exchange approval (paid)
- \$ 100,000 on or before the first anniversary date, August 4, 2021 (paid)
- \$ 100,000 on or before the second anniversary date, August 4, 2022 (see amendment below)
- \$ 100,000 on or before the third anniversary date, August 4, 2023 (see amendment below)

During the year ended October 31, 2022, Southern Empire entered into an Amendment Agreement with Netolitzky, the chairman and a director of the Company, to amend the terms of June 22, 2020 option agreement that granted Southern Empire the option to acquire 25% of the Oro Cruz property in exchange for cash payments of \$440,000. Option payments totaling \$240,000 had been paid to Netolitzky. The terms of the Amendment Agreement allowed Southern Empire to exercise its option to acquire the 25% interest in Oro Cruz by issuing 2,000,000 common shares to Netolitzky in lieu of the final two option payments otherwise totaling \$200,000. On September 15, 2022, the Amendment Agreement and the transactions contemplated therein were accepted for filing by the Exchange and Southern Empire issued the 2,000,000 common shares (at a value of \$120,000) which were subject to restriction on resale for a period of four months from their date of issuance.

Oro Cruz - American Girl Mine Property

On September 14, 2020, Southern Empire executed a Purchase and Sale Agreement (the "PSA") to acquire, at cost, the American Girl Mine Property from Mackenzie Corporation, a company controlled by the President and CEO of Southern Empire. In accordance with the terms of the PSA, Southern Empire acquired a 100% interest in seven privately owned, patented mining claims and 10 Bureau of Land Management claims covering the former American Girl mine by paying a total of US\$330,000 to Mackenzie Corporation.

Eastgate Gold Project, Nevada, U.S.A.

Southern Empire acquired an 85% interest in the Eastgate Gold Project, located in Churchill County, Nevada. The Eastgate Gold Project is subject to a 3% Net Smelter Royalty payable to Blue Ridge Gold LLC, a privately held company that was the original property vendor. During the year ended October 31, 2023, Southern Empire determined that the value of Eastgate would be adjusted to \$nil as a result of there being no current or planned exploration activities and negative drilling results. This required an impairment expense of \$2,099,478.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Pedro Gold Project, Durango, México

On July 23, 2021, Southern Empire entered into an option agreement with Commander Resources Ltd. ("Commander") which allows Southern Empire to acquire a 100% beneficial interest in the Pedro Gold Project in northeastern Durango State, Mexico. Pursuant to the terms of the option agreement, to earn its interest Southern Empire must complete the following:

- \$25,000 cash payment and the issuance of 100,000 common shares of Southern Empire on the Execution Date (paid and issued at a value of \$14,500).
- On or before February 3, 2023, pay an additional \$125,000 or issuing such amount of common shares having a value of \$125,000 (paid \$25,000 cash and issued 1,000,000 shares at a value of \$100,000).
- On or before February 3, 2024, pay an additional \$250,000 or issuing such amount of common shares having a value of \$250,000*.
- On or before February 3, 2025, pay an additional \$300,000 or issuing such amount of common shares having a value of \$300,000.
- Incurring exploration expenditures totaling \$1,500,000 as follows:
 - o \$ 400,000 by February 3, 2023 (incurred).
 - o \$ 1,100,000 by February 3, 2025.

Commander will retain a 2% NSR interest on future production from the Pedro Gold Project. The Exchange accepted the Pedro Gold Project option agreement for filing on February 3, 2022 (the "Execution Date"). *

*Southern Empire is currently negotiating an extension to the agreement terms for the payments and share issuances due in 2024 and 2025 on the Pedro Gold Project.

VLM Project, México

On December 24, 2021 (amended on January 11, 2024), Southern Empire entered into an option agreement with Riverside Resources Inc. ("Riverside") that grants Southern Empire the opportunity to acquire a 100% interest in the VLM Project located in northwestern México.

Southern Empire may exercise its option to acquire a 100% interest in the VLM Project by:

- paying to Riverside a total of \$112,500 as follows:
 - o \$25,000 on signing (paid).
 - o an additional \$37,500 on or before January 12, 2023 (paid).
 - o an additional \$50,000 on or before March 30, 2024.
- issuing a total of 1,625,000 common shares as follows;
 - o 500,000 common shares on or before January 12, 2022 (issued at a value of \$55,000).
 - o An additional 550,000 common shares on or before January 12, 2023 (issued at a value of \$55,000).
 - o an additional 575,000 common shares on or before February 2, 2024 (issued subsequent to quarter-end).

Riverside will retain an NSR interest on future production from the VLM Project of 2.5% on precious metals and 1.75% on base metals. These royalties may be reduced to 1% on precious metal production and 0.5% on base metal production by payments of an additional \$4,000,000 within 10 years of the Exchange filing acceptance date.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (continued)

Centauro, Mexico

During the year ended October 31, 2022, Southern Empire acquired the option to earn 100% of the Centauro Gold Project located in Chihuahua, Mexico, from a Mexican vendor by way of an amending agreement with Commander, subject to a 3% NSR payable to the vendor, which can be reduced by 2% in exchange for a cash payment of US\$2,000,000. The terms of the Option Agreement are as follows:

Southern Empire may exercise its option to acquire a 100% interest in the Centauro Gold Project by:

- paying to the Mexican Vendor a total of USD\$750,000 as follows:
 - o US\$35,000 on signing (paid).
 - o an additional US\$40,000 on the one-year anniversary of signing*.
 - o an additional US\$80,000 on the two-year anniversary of signing.
 - o an additional US\$295,000 on the three-year anniversary of signing.
 - o an additional US\$300,000 on the four-year anniversary of signing.
- incurring US\$800,000 of exploration expenditures as follows:
 - o \$100,000 in year-one of the option (incurred).
 - o an additional US\$200,000 in year-two of the option.
 - o an additional US\$250,000 in year-three of the option.
 - o an additional US\$250,000 in year-four of the option.
- issuing 1,500,000 common shares of Southern Empire to Commander as follows:
 - o 200,000 on signing (issued at a value of \$20,000).
 - o an additional 200,000 on the one-year anniversary of signing*.
 - o an additional 200,000 on the two-year anniversary of signing.
 - o an additional 400,000 on the three-year anniversary of signing.
 - o an additional 500,000 on the four-year anniversary of signing.

*Southern Empire is currently negotiating an extension to the agreement terms for the payments and share issuances due in 2024 and 2025 on the Centauro Gold Project.

La Loma, Mexico

During the year ended October 31, 2022, Southern Empire acquired the La Loma Gold Project in Chihuahua, Mexico by staking.

Suaqui Verde

In the quarter, Southern Empire began the acquisition of the Suaqui Verde project in Mexico.

Reclamation bonds

Southern Empire holds a \$79,755 (2023 - \$79,755) reclamation bond with the Bureau of Land Management with respect to its California properties and a \$7,704 (2023 - \$7,704) reclamation bond with the Bureau of Land Management with respect to its Nevada properties.

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

6. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of Southern Empire. Key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of key management personnel are as follows:

For the three months ended January 31,				
Management fees to officers		<u>2024</u>		<u>2023</u>
		\$ 99,000		\$ 99,000

As at January 31, 2024, \$292,612 (October 31, 2023 - \$321,240) was included in accounts payable owing to directors, officers, and companies controlled or affiliated with directors and officers of Southern Empire in relation to fees and reimbursement of expenses.

7. SHARE CAPITAL

- a) Authorized: Unlimited common shares without par value.
Unlimited preferred shares issuable in series.
- b) Issued and outstanding: 67,022,800 common shares as at January 31, 2024
- c) Transactions:

On November 29, 2021, Southern Empire issued 10,000,000 units at a price of \$0.10 per unit, with each unit comprising one common share and one common share purchase warrant, for gross proceeds of \$1,000,000. Each warrant is exercisable for a period of three years from issuance at a price of \$0.15 per warrant. The Company incurred \$15,345 of share issue costs in connection with the financing.

On January 12, 2022, Southern Empire issued 500,000 common shares (at a value of \$55,000) to Riverside, in accordance with the option agreement on the VLM Project (Note 5).

On February 3, 2022, Southern Empire issued 100,000 common shares (at a value of \$14,500) to Commander Resources Ltd., in accordance with the option agreement on the Pedro Project (Note 5).

On February 15, 2022, 1,170,000 share purchase warrants were exercised at a price of \$0.15 per share.

On February 15, 2022, 100,000 stock options were exercised at a price of \$0.11 per share. Southern Empire transferred \$7,090 of contributed surplus to share capital pursuant to the option exercise.

On March 24, 2022, 100,000 stock options were exercised at a price of \$0.11 per share. The Company transferred \$7,090 of contributed surplus to share capital pursuant to the option exercise.

On March 30, 2022, 396,000 share purchase warrants were exercised at a price of \$0.15 per share.

On September 15, 2022, Southern Empire issued 2,000,000 common shares (at a value of \$120,000) to Netolitzky, in accordance with the amendment agreement regarding the Oro Cruz property (Note 5).

On January 11, 2023, Southern Empire issued 550,000 common shares (at a value of \$55,000) to Riverside, in accordance with the option agreement on the VLM Project (Note 5).

Southern Empire Resources Corp.
Notes to the Consolidated Financial Statements
For the three months ended January 31, 2024 and 2023
(expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

On February 16, 2023, Southern Empire issued 200,000 common shares (at a value of \$20,000) to Jesus Pascoe, in accordance with the option agreement on the Centauro Property (Note 5).

On February 22, 2023, Southern Empire issued 1,000,000 common shares (at a value of \$100,000) to Commander Resources Ltd., in accordance with the option agreement on the Pedro Project (Note 5).

d) Escrowed shares:

As at January 31, 2024, there were nil (October 31, 2023 - nil) common shares held in escrow.

e) Stock options:

The Directors of Southern Empire adopted a stock option plan on March 13, 2020, as amended on July 26, 2022 (the "Option Plan"). The Option Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance will be 10% of the number of Southern Empires' common shares issued and outstanding at the time such options are granted. Options to purchase common shares of the Company ("Options") may be granted under the Option Plan to such directors, officers, employees, management or consultants of Southern Empire and its affiliates, if any, as the Board of Directors may from time to time designate. The Option Plan provides that the number of common shares that may be reserved for issuance to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued common shares, if the individual is a director, officer or employee 2% of the issued common shares, if the individual is a consultant or is engaged in providing investor relations services, in a twelve month basis, unless disinterested shareholder approval is obtained. All options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause; or (iii) one year from the date of death or disability.

During the year ended October 31, 2022, Southern Empire granted 1,000,000 Options exercisable at a price of \$0.11 per option for a term of five years from the date of issuance to director, officers and consultants of Southern Empire. These options vested immediately and during the year the Company recorded \$70,878 of share-based payments. During the year ended October 31, 2022, 200,000 of these options were exercised for cash proceeds of \$22,000.

During the year ended October 31, 2023, Southern Empire granted 1,740,000 Options exercisable at a price of \$0.07, 400,000 Options exercisable at a price of \$0.30 and 100,000 Options exercisable at a price of \$0.11. These options have a term of five years and vested immediately upon grant. The Company recorded \$117,614 of share-based payments in respect of these options.

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7. SHARE CAPITAL (Continued)

The following weighted average assumptions were used for the valuation of stock options:

	January 31, 2024	October 31, 2023
Risk-free interest rate	4.02%	4.02%
Expected life of options	5 years	5 years
Annualized volatility	106%	106%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%
Weighted average fair value per option	\$0.05	\$0.05

The changes in the stock options for the three-months ended January 31, 2024 are as follows:

	Number	Weighted Average Exercise Price
Balance, October 31, 2021	5,100,000	\$ 0.30
Granted	1,000,000	\$ 0.11
Cancelled	(400,000)	\$ 0.30
Exercised	(200,000)	\$ 0.11
Balance, October 31, 2022	5,500,000	\$ 0.27
Granted	2,240,000	\$ 0.11
Balance, January 31, 2024 and October 31, 2023	7,740,000	\$ 0.23

The balance of options outstanding as at January 31, 2024 is as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price	Remaining Life - Years
March 18, 2025	3,470,000	3,470,000	\$0.30	1.38
February 16, 2026	730,000	730,000	\$0.30	2.30
March 11, 2026	100,000	100,000	\$0.30	2.36
June 10, 2026	400,000	400,000	\$0.30	2.61
January 18, 2027	700,000	700,000	\$0.11	3.22
February 2, 2027	100,000	100,000	\$0.11	3.26
August 28, 2028	1,740,000	1,740,000	\$0.07	4.83
August 28, 2028	400,000	400,000	\$0.30	4.83
August 28, 2028	100,000	100,000	\$0.11	4.83

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7. SHARE CAPITAL (Continued)

f) Warrants

A summary of the outstanding and exercisable common share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, October 31, 2022 & 2023	8,434,000	\$ 0.15
Issued	-	-
Exercised	-	-
Balance, January 31, 2024	8,434,000	\$ 0.15

The balance of warrants outstanding as at January 31, 2024 is as follows:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price	Remaining Life - Years
November 29, 2024	8,434,000	8,434,000	\$0.15	0.75

g) Per share amounts

For the three months ended January 31,	2024	2023
Loss attributable to common shareholders	\$ (191,873)	(\$565,423)
Weighted average number of common shares - basic	67,022,800	65,272,800
Weighted average number of common shares - diluted	67,022,800	65,272,800
Loss per common share - basic	\$ (0.00)	(\$0.01)
Loss per common share - diluted	\$ (0.00)	(\$0.01)

All stock options and warrants were excluded from the diluted weighted average number of shares calculation for the three month periods ended January 31, 2024 and 2023, as their effect would have been anti-dilutive.

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(expresses in Canadian dollars)

9. CAPITAL MANAGEMENT

Southern Empire includes equity in the definition of capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of Southern Empire's management to sustain future development of business.

Southern Empires properties are in the exploration stage. As such, the Company is dependent upon external financings to fund activities. In order to perform planned exploration and pay for administrative costs, Southern Empire will spend its working capital and raise additional funds as needed. Southern Empire will continue to assess new project opportunities and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes to the Company's approach to capital management during the three months ended January 31, 2024 and 2023. Southern Empire is not subject to externally imposed capital requirements.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For disclosure purposes, all financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as in prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table are financial assets measured at fair value by level within the fair value hierarchy:

January 31, 2024	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 16,531	\$ -	\$ -	\$ 16,531
Marketable securities	\$ 130,211	\$ -	\$ -	\$ 130,211
Reclamation bonds	\$ 87,459	\$ -	\$ -	\$ 87,459
January 31, 2023	Level 1	Level 2	Level 3	Total
Assets:				
Cash	\$ 94,668	\$ -	\$ -	\$ 94,668
Marketable securities	\$ 1,788,818	\$ -	\$ -	\$ 1,788,818
Reclamation bonds	\$ 87,459	\$ -	\$ -	\$ 87,459

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Southern Empire holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to concentration risk, credit risk, currency risk, price risk, commodity price risk and liquidity risk. Southern Empire manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- a) Concentration risk – as at January 31, 2024, all of Southern Empire's cash is held at one Canadian national financial institution. As a result, the Company was exposed to all of the risks associated with those institutions. Concentration risk also exists in marketable securities because Southern Empire's investment portfolio primarily consists of the securities of one issuer.
- b) Credit risk – Southern Empire is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in financial loss to the Company. The Company manages exposure to credit risk by adopting credit risk guidelines that limit transactions according to counterparty credit worthiness. The maximum exposure associated with accounts receivable is the carrying value.
- c) Currency risk – Relates to Southern Empire's operations in the United States and is subject to fluctuations in exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. A 10% change in the USD/CAD exchange rate would result in a \$12,296 change to profit or loss.
- d) Price risk – Southern Empire's marketable securities designated as FVTPL are publicly traded. A 10% change in the quoted share price would increase or decrease the fair value of the marketable securities by approximately \$13,021. Changes are recorded through profit or loss.
- e) Commodity price risk – The value of Southern Empire's exploration and evaluation assets is related to the price of commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.
- f) Liquidity risk – Currently, Southern Empire's capital is sufficient to meet business requirements in the next 12 months when taking into account cash flows from operations and the Company's holdings of cash and marketable securities (Note 1). Future operations or exploration programs may require additional financing primarily through equity markets, or through joint venture partnerships.