NORTH 40
RESOURCES LTD.

June 7, 2023

PRESIDENT'S MESSAGE

North 40 Resources Ltd. Is pleased to report its operating and financial results for the three months ended March 31, 2023.

Highlights for this period include:

- Realized Q1 2023 average quarterly production of 5,862 boe/day (60% oil and liquids). Represents a 58% increase over the same period in 2022.
- Generated operating netback of $17.4 mm.
- Executed a $27.8 million capital program investing in six wells across four properties. Included in the capital program were expenditures for the purchase of equipment for both the Drumheller battery / water disposal scheme and the Wayne (formerly Drumheller North) battery.

During the quarter North 40 invested $18.4 million dollars drilling six development wells including three oil horizontal wells at Wayne and one oil horizontal well at Matziwin South. North 40 also targeted one liquid rich gas horizontal well at East Coulee and one vertical gas well at Princess.

The three Wayne wells were brought on production late in Q1 and have been tied into the North 40 oil battery which commenced operations on May 15, 2023. The Wayne well results met our expectations. Our operators continue to optimize the Wayne wells now that the battery is operational.

The Matziwin South oil well and the East Coulee liquid rich gas well are on production and results also met our expectations.

The vertical Princess well was tested and results warrant tie in. The short tie in has been surveyed and pipeline construction shall proceed. When gas prices improve, this gas production will be available to be brought on production along with the 4,500 mcf per day of non-associated natural gas production that was shut in on April 1, 2023, due to low pricing.

Ten wells remain to be drilled in North 40's approved 2023 $75 mm capital program. Our budget was increased from $62 mm to $75mm at the June 7, 2023 Board meeting. Our capital program will be funded from cash flow.

Three Wayne locations are licenced, and the first location spud on May 30, 2023.

Drilling on our Drumheller Banff B property will follow with one horizontal oil development well and a second vertical well which will be utilized for water disposal purposes. Once water disposal facilities are operating the staged battery construction in Drumheller will follow. This infrastructure will allow additional development drilling.

Oil exploration locations are being acquired at Alderson and these locations will be drilled in Q4 2023.

Trade 3D seismic has been purchased to further evaluate lands on the same play type as Wayne. North 40 plans to drill three wells on these prospects in 2023.

Current North 40 production is approximately 6,500 boe/day with oil and liquids at 65% of production.

As always, we appreciate and thank you for your support. Please feel free to contact myself or Kim Schoenroth with any questions or comments you may have.

Sincerely,

NORTH 40 RESOURCES LTD.

Don W Robson
President & CEO

NORTH 40
RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following analysis was prepared as at June 7, 2023 and should be read in conjunction with North 40 Resources Ltd.'s ("North 40" or "the Company") audited financial statements for the years ended December 31, 2022 and December 31, 2021, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP").

Basis of Presentation *– The reporting and the measurement currency is the Canadian dollar. For the purposes of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated.*

Forward-Looking Statements *– Certain information set forth in this document, including management's assessment of North 40's future plans for capital expenditures and expectations for production rates, prices and operating results, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond North 40's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. North 40's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements.*

Non-GAAP Measurements *– Within Management's Discussion and Analysis, references are made to terms commonly used in the oil and gas industry. Management uses funds flow from operations to analyze operating performance. This term does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Funds flow from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities before changes in non-cash working capital and after current income taxes. Funds flow from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income or loss per share. Total boe is calculated by multiplying the daily production by the number of days in the period.*

	Three Months Ended		
(thousands, except per unit amounts and where indicated)	March 31 2023	March 31 2022	December 31 2022
FINANCIAL			
Petroleum and natural gas revenue	$30,668	$22,930	$34,029
Funds flow from operations [(1)]	$15,755	$11,826	$18,206
Per share – basic	$0.21	$0.16	$0.24
Per share – diluted	$0.20	$0.15	$0.23
Net income	$5,311	$6,166	$8,186
Per share – basic	$0.07	$0.08	$0.11
Per share – diluted	$0.07	$0.08	$0.10
Field capital expenditures	$27,762	$10,836	$17,638
Working capital surplus (deficiency) [(2)] at end of period	($4,946)	$14,401	$7,139
Common shares outstanding at end of period	76,624	75,250	76,624
OPERATING			
Sales volumes			
Oil and liquids (bbls/day)	3,544	2,020	3,391
Natural gas (mcf/day)	13,907	10,122	10,693
Total (boe/day) [(3)]	5,862	3,707	5,174
% Oil and liquids	60	54	66
Commodity prices realized (before pipeline tariffs)			
Oil and liquids ($/bbl)	86.71	104.13	96.05
Natural gas ($/mcf)	3.60	5.26	5.42
Total ($/boe)	60.96	71.10	74.17
Operating netback ($/boe)	32.96	41.20	42.56
Funds from operations netback ($/boe) [(1)]	29.86	35.45	38.25
Net wells drilled	6.0	4.0	3.0
Net acres of land at end of period	191,849	235,266	224,578

(1) *Funds flow from operations does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar calculations by other entities. All references to funds flow from operations in this report are based on "cash provided by (used in) operating activities" before changes in non-cash working capital.*

(2) *Working capital surplus does not have a standardized measure prescribed by IFRS and therefore may not be comparable to similar calculations by other entities. All references to working capital surplus in this report are based on Total Current Assets less Total Current Liabilities. Working capital deficiency at March 31, 2023 includes $7.9 million in cash ($19.2 million at March 31, 2021 and $19.1 million at December 31, 2022).*

(3) *Boe conversion is 6:1.*

PRODUCTION

	Three Months Ended March 31	
	2023	2022
Oil (bbls per day)	3,245	1,804
Liquids (bbls per day)	299	216
Natural gas (mcf per day)	13,907	10,122
BOE per day	5,862	3,707

Production in the first quarter of 2023 averaged 5,862 boe per day (60% oil and liquids) which is a 58% increase from the first quarter 2022 average of 3,707 boe per day (54% oil and liquids) and a 13% increase from Q4 2022 production of 5,174 boe per day (66% oil and liquids). The Q1 2023 increase in production compared to Q1 2022 is largely due to contributions from the Company's 2022 drilling program partially offset by expected declines of existing production.

Production additions from the six wells drilled in Q1 2023 were not material due to the timing of when the wells were brought on production. Four of the six wells drilled in Q1 2023 were brought on production late in Q1 and will contribute significantly to Q2 2023 production.

Oil and liquids production increased 75% in Q1 2023 compared to the same quarter in 2022 with most of the increase coming from the Wayne (formerly Drumheller North) area. Natural gas production increased 37% in Q1 2023 compared to Q1 2022 with the majority of the increase from the Drumheller area.

OPERATING NETBACKS

	Three Months Ended March 31	
($ per BOE)	2023	2022
Revenue (1)	$58.13	$68.73
Royalties	(13.28)	(15.98)
Operating expenses	(9.87)	(9.95)
Transportation expenses	(2.02)	(1.60)
Operating netback	$32.96	$41.20

(1) Includes pipeline tariff amount of $2.83 per boe for the three months ended March 31, 2023 and $2.37 per boe in the comparable period of 2022.

COMMODITY PRICES

	Three Months Ended March 31	
($ per bbl)	2023	2022
WTI (US$/bbl)	$76.13	$94.29
MSW benchmark price *(1)*	$99.01	$115.53
WCS benchmark price *(2)*	$69.43	$101.03
Realized crude oil price	$88.92	$108.70

(1) Mixed sweet blend (MSW) is the benchmark conventionally produced light sweet crude for Western Canada. It is often referenced as Edmonton Par Crude.
(2) Western Canadian Select (WCS) is a Hardisty based blend of conventional and oil sands production. WCS is a heavy sour blend of crude oil.

North 40's realized crude oil price reflects 27° API and differentials are typically close to the average of the MSW and WCS benchmark differentials.

North 40's realized crude oil price (before pipeline tariffs) in Q1 2023 was $88.92 per barrel which is 18% lower than the Q1 2022 price of $108.70 per barrel. The majority of the decrease in the Company's crude oil price realizations in Q1 2023 compared to the same period in 2022 is due to a 19% decrease in WTI benchmark prices as well as wider Canadian stream differentials partially offset by a weaker Canadian dollar.

The WTI benchmark decreased 19% to average US$76.13 per barrel in Q1 2023 compared to US$94.29 per barrel in Q1 2022 amid concerns of lower demand caused by tightening monetary policy and the recent US regional banking crisis. Volatile supply and geopolitical factors also weighed on prices. In the first quarter of 2023, the MSW differential narrowed to average US$2.88 per barrel from US$3.08 per barrel in the comparable period of 2022. The WCS differential widened to average US$24.88 per barrel from US$14.55 per barrel in the first quarter of 2022.

($ per mcf)	Three Months Ended March 31 2023	 2022
AECO Daily (5A) index	$3.20	$4.81
Realized natural gas price	$3.60	$5.26

North 40's natural gas production is sold at the AECO daily 5A index and realizes a slightly better price than the index due to its higher-than-standard heat content. North 40's realized price decreased 32% to $3.60 per mcf in Q1 2023 from $5.26 per mcf in the comparable period of 2022.

The weakness in benchmark natural gas prices can be contributed to lower demand on mild winter weather and an increase in Canadian and US supply causing higher storage levels.

REVENUE

($ thousands)	Three Months Ended March 31 2023	 2022
Oil and liquids	$26,579	$18,435
Natural gas	4,089	4,495
Petroleum and natural gas revenue	$30,668	$22,930
% Oil and liquids	87	80

Note: Petroleum and natural gas revenue presented in the Statements of Net Income and Comprehensive Income is net of pipeline tariffs.

Revenue in Q1 2023 increased 34% to $30.7 million from $22.9 million in Q1 2022. Most of the increase resulted from higher crude oil production volumes. Increased natural gas and liquids production volumes also contributed to the revenue growth which was partially offset by lower prices for all commodities.

Oil and liquids revenue of $26.6 million represents 87% of total revenue in Q1 2023 and increased 44% from $18.4 million in Q1 2022. The majority of the increase was due to increased crude oil production partially offset by a decrease in realized crude oil prices.

Natural gas revenue decreased 9% in Q1 2023 to $4.1 million from $4.5 million in the same period of 2022 due to lower realized natural gas prices partially offset by higher production volumes.

Oil pipeline tariffs of $1.1 million ($0.5 million in Q1 2022) are included in revenue for the three months ended March 31, 2023. The custody transfer to the purchaser is at the point the oil is offloaded at the terminal. Gas pipeline tariffs of $0.4 million ($0.3 million in Q1 2022) are also included in revenue for the three months ended March 31, 2023. The custody transfer to the purchaser is at the point the natural gas enters the receipt meter.

ROYALTIES

(thousands, except per unit amounts)	Three Months Ended March 31 2023	 2022
Royalties	$7,005	$5,330
Per BOE	$13.28	$15.98
% of Revenue before pipeline tariffs	22%	22%

Royalties will fluctuate with commodity prices and production rates and are determined primarily by the terms of the mineral rights owner agreements and the Alberta provincial government royalty regime.

Royalties in Q1 2023 were $7.0 million ($13.28 per boe) compared to $5.3 million ($15.98 per boe) in Q1 2022. The increase from the comparable period in 2022 is due to higher production volume and the decrease in the per boe amount is due to lower realized commodity prices.

Royalties as a percentage of revenue averaged 22% in both Q1 2023 and Q1 2022.

The majority of the Company's royalties are freehold royalties and freehold mineral tax (which is included in royalties for financial reporting purposes).

OPERATING AND TRANSPORTATION

	Three Months Ended March 31	
(thousands, except per unit amounts)	2023	2022
Operating expenses	$5,208	$3,318
Per BOE	$9.87	$9.95
Transportation expenses	$1,070	$533
Per BOE	$2.02	$1.60

Operating expenses averaged $9.87 per boe for the first quarter of 2023 compared to $9.95 per boe in the first quarter of 2022. Operating expenses have been impacted by inflationary pressures on labor services, chemicals and fuel, as well as a decrease in the natural gas production weighting. Natural gas production is subject to third party compression and processing charges which increases the operating cost per boe.

Transportation costs, which are clean oil trucking expenses, averaged $2.02 per boe for the first quarter and $1.60 boe for the comparative period in 2022. This cost is incurred on oil production only and therefore decreases in the natural gas production weighting will increase the per boe cost. Natural gas production represented 40% of production in Q1 2023 compared to 46% in Q1 2022.

North 40’s crude oil production may be sold in different sales streams in Alberta which may vary month to month depending on the netback at those different streams. As a result, there will be fluctuations in crude oil differentials and transportation costs as the Company seeks out the highest netback opportunity.

GENERAL AND ADMINISTRATIVE

	Three Months Ended March 31	
(thousands, except per unit amounts)	2023	2022
G&A – cash-based expenses	$875	$685
Capitalized G&A	(46)	(45)
Net G&A	$829	$640
Per BOE	$1.57	$1.92

Net general and administrative (“G&A”) expenses were $0.8 million in Q1 2023 compared to $0.6 million in Q1 2022. There were slightly higher costs for contract and professional services in Q1 2023 compared to Q1 2022. On a boe basis, net G&A was $1.57 per boe in Q1 2023 compared to $1.92 per boe in Q1 2022 due to higher production volumes in Q1 2023.

The most significant costs in Q1 2023 can be attributed to employee salaries and benefits as well as professional and contract services.

Capitalized G&A relates to a portion of the Company’s engineering compensation.

SHARE BASED COMPENSATION

	Three Months Ended March 31	
(thousands, except per unit amounts)	2023	2022
Share based compensation	$70	$40
Capitalized share-based compensation	(4)	(3)
	$66	$37
Per BOE	$0.12	$0.11

Share based compensation expense is related to the issue of Class B and C shares and the grants of options on Class B and C to directors, officers, employees and consultants.

The increase in share-based compensation expense in the first quarter of 2023 compared to the same period in 2022 is due to additional grants in Q4 2022 and Q1 2023.

Detailed information regarding the Class B and Class C shares and options have been disclosed in Note 9 of the financial statements.

DEPLETION AND DEPRECIATION

	Three Months Ended March 31	
(thousands, except per unit amounts)	2023	2022
Depletion and depreciation	$9,627	$4,782
Per BOE	$18.25	$14.33

The Company recognized depletion and depreciation expense ("D&D") of $9.6 million ($18.25 per boe) in the first quarter of 2023 and $4.8 million ($14.33 per BOE) in the same period of 2022. The D&D expense was based on an internal evaluation of proved and probable reserves and an internal estimate of future development costs.

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D&D expense increased in Q1 2023 compared to the same period in 2022 largely due to higher production volume as well as a higher rate. Higher estimates for future development costs, due to additional capital and inflation, are the main contributors to the increase in the per unit D&D expense in 2023.

The D&D expense recognized was comprised primarily of depletion expenses with minor amounts relating to depreciation of office assets.

D&D per boe will differ from period to period depending on the amount and type of capital spending, the amount of reserves added, and production volume. The Company uses total proved plus probable reserves as its depletion base in the calculation of depletion.

EXPLORATION EXPENSE

North 40 recognized exploration expense of $0.1 million In Q1 2023 ($0.17 per boe) compared to $0.2 million ($0.71 per boe) in Q1 2022 related to undeveloped land expiries.

FINANCE EXPENSE

	Three Months Ended March 31	
(thousands)	2023	2022
Accretion of decommissioning obligations	$52	$36
Banking fees	23	16
Interest on lease liabilities	5	8
Total	$80	$60
Per BOE	$0.15	$0.18

Finance expense relates to accretion on decommissioning obligations, banking fees and the interest on lease liabilities. Banking fees include standby fees and fees associated with a letter of credit outstanding. Accretion of decommissioning obligations and interest on leased liabilities are non-cash charges.

INCOME TAXES

North 40 recognized a current income tax expense of $1.0 million and a deferred income tax expense of $0.6 million for the three months ended March 31, 2023 compared to $1.3 million of current income tax and $0.6 million of deferred income tax expense for the comparable period in 2022.

Deferred income taxes arise from differences between the accounting and tax basis of assets and liabilities. The estimate of deferred taxes is based on the current tax status of the Company, enacted legislation and management's best estimates of future events.

The following tax pool balances are estimated at March 31, 2023:

(thousands)	Maximum Annual Deduction	March 31 2023	March 31 2022
Canadian oil and gas property expense (COGPE)	10%	$15,205	$13,669
Canadian development expense (CDE)	30%	47,798	35,634
Undepreciated capital cost (UCC)	25%	35,836	15,772
		$98,839	$65,075

NET INCOME AND COMPREHENSIVE INCOME

	Three Months Ended March 31	
(thousands)	2023	2022
Net income and comprehensive income	$5,311	$6,166
Per share – basic and diluted	$0.07	$0.08

North 40 recognized net income and comprehensive income of $5.3 million ($0.07 per basic and diluted share) in the first quarter of 2023 and a net income and comprehensive income of $6.2 million ($0.08 per basic and diluted share) for the same period in 2022.

The decrease in net income for the three months ended March 31, 2023 as compared to the same period in 2022 is primarily due to increases in depletion and depreciation, royalty expense, operating expenses and transportation expenses partially offset by an increase in revenue.

CAPITAL EXPENDITURES

Capital expenditures by type and by area for the three months ended March 31, 2023 and 2022 were as follows:

	Three Months Ended March 31	
(thousands)	2023	2022
Land and lease rentals (1)	$242	$285
Seismic and geological	151	4
Drilling and completion	16,183	8,696
Equipping, tie-ins, and facilities	11,186	1,851
Total field capital expenditures	$27,762	$10,836

(1) Net of land fund reimbursements
(2) Capitalized G&A of $50,000 in Q1 2023 ($48,000 in Q1 2022) have been excluded from this table.

	Three Months Ended March 31	
(thousands)	2023	2022
Drumheller	$20,109	$10,644
Matziwin	5,062	117
Princess	1,749	43
Alderson	107	-
Other	735	12
Total field capital expenditures	$27,762	$10,836

Wells drilled by property were as follows:

	Three Months Ended March 31	
	2023	2022
Drumheller(1)	1	2
Wayne (formerly Drumheller North)(1)	3	2
Matziwin South(2)	1	-
Princess	1	-
Total	6	4

(1) Included in Drumheller area
(2) Included in Matziwin area

First quarter 2023 capital expenditures were $27.8 million and included the drilling, completion, equipping, and tie-in costs for the six wells drilled in the quarter. Four of the wells were brought on production late in Q1. Capital was also expended on Wayne (formerly Drumheller North) battery construction and equipment purchases for future locations and facility projects.

Capital expenditures in the first quarter of 2022 of $10.8 million included the drilling, completion, and equipping costs for two wells drilled at Drumheller and two wells at Wayne (formerly Drumheller North). Three of the wells were brought on production late in Q1 and the remaining well early in the second quarter.

North 40's land holdings per area at March 31, 2023 and 2022 were as follows:

(acres)	March 31 2023	March 31 2022
Drumheller	89,802	100,546
Matziwin	62,052	100,029
Princess	18,700	17,909
Alderson	10,444	10,444
Makepeace	7,679	-
Other	3,172	6,338
Total	191,849	253,325

The decrease in land holdings at March 31, 2023 compared to the same time last year is due to undeveloped land expiries at Drumheller and Matziwin.

The land holdings consist of 43% crown and 57% freehold leases at March 31, 2023. Working interest in North 40's land holdings is 100 percent.

DECOMMISSIONING OBLIGATIONS

Decommissioning obligations are based on estimated costs and timing to abandon and reclaim ownership interests in oil and natural gas assets. North 40 has recognized a provision for decommissioning obligations of $7.2 million at March 31, 2023 ($6.3 million at December 31, 2022).

Estimated abandonment and reclamation costs are based on the directives issued by the Alberta Energy Regulator and management's experience. The decommissioning obligation is measured using the estimated present value of costs to abandon and reclaim all ownership interests. A risk-free rate of 2.94% (3.29% at December 31, 2022) and an inflation rate of 2.20% (2.20 % at December 31, 2022) were used to calculate the best estimate of the decommissioning obligation. The increase in the decommissioning obligation at March 31, 2023 compared to December 31, 2022 is due to the increase in the risk-free rate and new liabilities recognized on wells drilled.

FUNDS FLOW FROM OPERATIONS

As funds flow from operations is a non-GAAP measure, the following table reconciles the differences between the accounting measures of "cash flow from operating activities" and "funds flow from operations" for the following periods ended:

	Three Months Ended March 31	
(millions)	2023	2022
Cash provided by operating activities	$11.9	$12.3
Plus:		
Net change in non-cash working capital	3.8	(0.5)
Funds flow from operations	$15.7	$11.8

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2023 the Company had no drawn debt and working capital deficiency of $4.9 million comprised of $7.9 million in cash and a working capital deficiency of $12.8 million. All activities to date have been funded with proceeds from the Company's initial equity financing, cash flow from operations, land fund reimbursements, working capital and interest income on cash balances.

The Company has a $25.0 million revolving demand operating facility with a Canadian chartered bank. The facility bears interest based on the prime rate or banker's acceptance rates plus a margin. Interest rates applicable to draws and standby fees are based on a pricing margin grid and will change as a result of the ratio of net debt to cash flow as calculated in accordance with the credit facility agreement. Standby fees on undrawn amounts are currently 0.25%. The Company has a letter of credit outstanding for $0.5 million at March 31, 2023.

The facility includes a financial covenant that requires the working capital with adjustments for unrealized hedging, the current portion of debt, and the undrawn availability under the facility, to not be less than 1.0 at each fiscal quarter end. The Company was in compliance with this covenant at March 31, 2023. The facility also includes a covenant that the Company maintain a liability management rating (LMR) established by each applicable energy regulator of not less than 2. The Company's LMR at March 31, 2023 is 17.6. Advances under the facility are secured by a first floating charge debenture and borrowings under the facility may be made by way of prime loans and banker's acceptances. The credit facility is subject to periodic review at the lenders' discretion. A review was completed May 31, 2023 with no changes to the amount and terms of the credit facility. The next review date has been set for November 30, 2023.

The Company has entered into a Royalty Acquisition Agreement (the “agreement”) with an arm’s length party (the “party”) whereby the party will fund certain crown land purchases incurred by the Company in exchange for a royalty on future production from those crown lands. The term of the agreement is to October 31, 2024. The agreement includes a funding limit of $14 million, which may be increased at the sole discretion of the party. At March 31, 2023, there is $10.1 million remaining on the funding limit.

SELECTED QUARTERLY INFORMATION

Three Months Ended	Mar 31 2023	Dec 31 2022	Sept 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sep 30 2021	Jun 30 2021
FINANCIAL								
Petroleum and natural gas revenue	$30,668	$34,029	$28,699	$30,675	$22,930	$22,927	$18,861	$11,858
Funds flow from operations [(1)]	$15,755	$18,206	$15,011	$16,467	$11,826	$13,497	$10,984	$6,381
Per share – basic	$0.21	$0.24	$0.20	$0.22	$0.16	$0.18	$0.15	$0.08
Per share – diluted	$0.20	$0.23	$0.18	$0.20	$0.15	$0.17	$0.14	$0.08
Net income (loss)	$5,311	$7,677	$6,291	$10,222	$6,166	$6,190	$5,032	$2,428
Per share – basic	$0.07	$0.10	$0.08	$0.14	$0.08	$0.08	$0.07	$0.03
Per share – diluted	$0.07	$0.10	$0.08	$0.13	$0.08	$0.08	$0.07	$0.03
Capital expenditures	$27,762	$17,638	$20,342	$18,809	$10,836	$6,506	$13,962	$7,695
Working capital surplus (deficiency) at end of period[(2)]	($4,946)	$7,139	$6,737	$12,141	$14,401	$13,486	$6,545	$9,575
Common shares outstanding end of period	76,624	76,624	76,624	75,340	75,250	75,250	75,250	75,250
OPERATING								
Sales volumes								
Oil and liquids (bbls/day)	3,544	3,391	2,656	2,155	2,020	2,554	2,454	1,728
Natural gas (mcf/day)	13,907	10,693	9,897	9,363	10,122	8,731	6,460	4,481
Total (boe/day) [(3)]	5,862	5,174	4,306	3,715	3,707	4,009	3,531	2,475
% Oil and liquids	60	66	62	58	54	64	70	70
Commodity prices realized (before pipeline tariffs)								
Oil and liquids ($/bbl)	86.71	96.05	104.34	126.40	104.13	83.71	76.21	69.92
Natural gas ($/mcf)	3.60	5.42	4.59	7.91	5.26	5.11	4.07	3.49
Total ($/boe)	60.96	74.17	74.91	93.24	71.10	64.46	60.42	55.14
Operating netback ($/boe)	32.96	42.56	41.97	56.99	41.20	39.66	35.26	30.55
Funds from operations netback ($/boe) [(1)]	29.86	38.25	37.89	48.71	35.45	36.60	33.81	28.33
Net wells drilled	6.0	3.0	5.0	5.0	4.0	-	7.0	4.0
Net acres of land at end of period	191,849	224,578	221,828	221,777	235,266	256,346	254,682	254,123

(1) *Funds flow from operations does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar calculations by other entities. All references to funds flow from operations in this report are based on "cash provided by (used in) operating activities" before changes in non-cash working capital.*

(2) *Working capital surplus does not have a standardized measure prescribed by IFRS and therefore may not be comparable to similar calculations by other entities. All references to working capital surplus in this report are based on Total Current Assets less Total Current Liabilities.*

(3) *Boe conversion is 6:1.*

Significant factors and trends that have impacted the Company's results during the above periods include:

- Organic growth in production volume from the Company's drilling program.
- In early 2020, crude oil prices experienced a rapid and sudden decline as the COVID-19 global pandemic began to negatively impact crude oil demand and a dispute amongst major oil producing nations resulted in additional crude oil supply. Crude oil prices began a gradual increase mid-year supported by coordinated production cuts by OPEC and OPEC+, voluntary production curtailments by producers and reduced drilling activity. In 2021, global demand, notably in large economies such as the United States and China, was increasing in response to continued recovery from the COVID-19 pandemic, vaccination programs and significant adherence to production cuts by OPEC and OPEC+. This was partially offset by new waves of COVID-19 and the spread of variant cases.
- The volatility in commodity prices and the resultant effect on revenue, funds flow from operations, and net income.
- Current income tax expense was first recognized in Q1 2022.

NORTH 40

RESOURCES LTD.

Quarterly Condensed Interim Financial Statements
March 31, 2023

North 40 Resources Ltd.
Statements of Financial Position

As at	March 31 2023	December 31 2022
($ thousands)		
ASSETS		
Current Assets		
Cash and cash equivalents	7,920	19,066
Accounts receivable	11,783	10,853
Prepaids and deposits	629	691
Total Current Assets	20,332	30,610
Exploration and evaluation assets (Note 4)	21,499	23,318
Property and equipment (Note 5)	147,340	126,595
Total Assets	**189,171**	**180,523**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	24,999	18,923
Current income taxes	280	4,548
Total Current Liabilities	25,279	23,471
Lease liabilities (Note 8)	216	248
Decommissioning obligations (Note 7)	7,156	6,273
Deferred income taxes	14,404	13,796
Total Liabilities	47,055	43,788
Shareholders' Equity		
Share capital (Note 9)	76,245	76,245
Contributed surplus	3,412	3,342
Retained earnings	62,459	57,148
Total Shareholders' Equity	142,116	136,735
Total Liabilities and Shareholders' Equity	**189,171**	**180,523**

The accompanying notes are an integral part of these Financial Statements.

North 40 Resources Ltd.

Statements of Net Income and Comprehensive Income

(unaudited)

	Three months ended March 31	
	2023	**2022**
($ thousands except per share amounts)		
Revenue		
Petroleum and natural gas revenue (Note 10)	30,668	22,930
Less: Royalties	7,005	5,330
	23,663	17,600
Interest income	227	27
	23,890	17,627
Expenses		
Operating	5,208	3,318
Transportation	1,070	533
General and administrative	829	640
Share based compensation (Note 9)	66	37
Depletion and depreciation (Note 5)	9,627	4,782
Exploration expense (Note 4)	91	237
Finance expense	80	60
Total expenses	16,971	9,607
Income before taxes	6,919	8,020
Current income tax expense	1,000	1,268
Deferred income tax expense	608	568
Net Income and Comprehensive Income	**5,311**	**6,166**
Net Income per share (Note 11)		
Basic and diluted	$0.07	$0.08

The accompanying notes are an integral part of these Financial Statements.

North 40 Resources Ltd.
Statements of Changes in Equity
(unaudited)

($ thousands)	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance as at December 31, 2021	**75,416**	**3,832**	**26,283**	**105,531**
Net income	-	-	6,166	6,166
Share based compensation (Note 9)	-	40	-	40
Balance as at March 31, 2022	**75,416**	**3,872**	**32,449**	**111,737**
Balance as at December 31, 2022	**76,245**	**3,342**	**57,148**	**136,735**
Net income	-	-	5,311	5,311
Share based compensation (Note 9)	-	70	-	70
Balance as at March 31, 2023	**76,245**	**3,412**	**62,459**	**142,116**

The accompanying notes are an integral part of these Financial Statements.

North 40 Resources Ltd.

Statements of Cash Flow

(unaudited)	Three months ended March 31	
	2023	**2022**
($ thousands)		
Cash provided by (used in):		
Operating activities		
Net income for the period	5,311	6,166
Adjusted for:		
Depletion and depreciation (Note 5)	9,627	4,782
Exploration expense (Note 4)	91	237
Accretion expense (Note 7)	52	36
Share based compensation (Note 9)	66	37
Deferred income tax expense	608	568
	15,755	11,826
Net change in non-cash working capital (Note 12)	(3,817)	477
	11,938	12,303
Financing activities		
Repayment of lease liabilities (Note 8)	(31)	(27)
	(31)	(27)
Investing activities		
Exploration and evaluation expenditures (Note 4)	(344)	(171)
Property and equipment expenditures (Note 5)	(27,464)	(10,712)
Net change in non-cash working capital (Note 12)	4,755	3,884
	(23,053)	(6,999)
Change in cash and cash equivalents	(11,146)	5,277
Cash and cash equivalents, beginning of period	19,066	13,952
Cash and cash equivalents, end of period	**7,920**	**19,229**
Cash income tax paid	5,268	-

The accompanying notes are an integral part of these Financial Statements.

North 40 Resources Ltd.
Notes to the Financial Statements

March 31, 2023 and 2022 *(all tabular amounts in thousands of Canadian $, except per share amounts or as otherwise indicated)*

1. CORPORATE INFORMATION

North 40 Resources Ltd. (the “Company” or “North 40”), is a privately held oil and gas exploration and development company incorporated in the province of Alberta, Canada on October 16, 2007. The Company was not active until April 2016. The address of the principal place of business is 400, 215 – 9th Avenue SW, Calgary, Alberta, Canada T2P 1K3.

The Company explores, acquires, develops, and produces oil and natural gas reserves in the Western Canadian Sedimentary Basin.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements have been prepared using the accounting policies and methods as described in Note 3 below.

These financial statements were approved and authorized for issuance by the Board of Directors on June 7, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

All accounting policies followed in preparation of these financial statements are consistent with those of the previous financial year. The Company’s significant accounting policies are disclosed in Note 3 of the financial statements for the year ended December 31, 2022.

4. EXPLORATION AND EVALUATION ASSETS

($)	March 31 2023	December 31 2022
Balance, beginning of period	23,318	21,422
Additions	344	8,905
Exploration expense	(91)	(523)
Transferred to property and equipment	(2,072)	(6,486)
Balance, end of period	21,499	23,318

Exploration and evaluation (“E&E”) assets consist of the Company’s exploration projects which are pending the determination of proved and/or probable reserves. Costs primarily relate to undeveloped land.

Exploration expense relate primarily to undeveloped land expiries.

5. PROPERTY AND EQUIPMENT

($)	March 31 2023	December 31 2022
Property and equipment, at cost	237,471	207,099
Accumulated depletion and depreciation	(90,131)	(80,504)
Net book value, end of period	147,340	126,595

Reconciliations of movements during the period:		
Cost, beginning of period	207,099	142,002
Accumulated depletion and depreciation, beginning of period	(80,504)	(55,459)
Net book value, beginning of period	126,595	86,543
Additions	27,468	59,001
Transferred from exploration and evaluation assets	2,072	6,486
Changes in decommissioning obligations (Note 7)	832	(390)
Depletion and depreciation	(9,627)	(25,045)
Net book value, end of period	147,340	126,595

Included in the calculation of depletion was an estimate for future development costs of $77.1 million at March 31, 2023 ($85.0 million at December 31, 2022). An estimated future salvage value of $5.9 million was excluded from the calculation of depletion at March 31, 2023 ($5.5 million at December 31, 2022).

Included in the March 31, 2023 property and equipment balance is the right-of-use asset of $0.2 million ($0.2 million at December 31, 2022).

Included in additions is capitalized general and administrative expenses of $0.1 million ($0.3 million at December 31, 2022).

At March 31, 2023, there were no indicators of impairment identified and an impairment test was not performed.

6. CREDIT FACILITY

At March 31, 2023, the Company had a $25.0 million revolving demand operating facility with a Canadian chartered bank. The facility bears interest based on the prime rate or banker's acceptance rates plus a margin. Interest rates applicable to draws and standby fees are based on a pricing margin grid and will change as a result of the ratio of net debt to cash flow as calculated in accordance with the credit facility agreement. Standby fees on undrawn amounts are currently 0.25%. The Company has a letter of credit outstanding for $0.5 million at March 31, 2023.

The facility includes a financial covenant that requires the working capital, adjusted for unrealized hedging, the current portion of debt, and the undrawn availability under the facility, to not be less than 1.0 at each fiscal quarter end. The Company was in compliance with this covenant at March 31, 2023. The facility also includes a covenant that the Company maintain a liability management rating (LMR) established by each applicable energy regulator of not less than 2. The Company's LMR at March 31, 2023 is 17.6. Advances under the facility are secured by a first floating charge debenture and borrowings under the facility may be made by way of prime loans and banker's acceptances. The credit facility is subject to periodic review at the lenders' discretion. A review was completed May 31, 2023 with no changes to the amount and terms of the credit facility. The next review date has been set for November 30, 2023.

7. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its responsibility to abandon and reclaim its net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total uninflated undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $7.9 million ($7.4 million at December 31, 2022). A risk-free rate of 2.94% and an inflation rate of 2.20% were used to calculate the best estimate of the decommissioning obligations compared to 3.29% and 2.20% respectively which were the rates used at December 31, 2022.

A reconciliation of the decommissioning obligations is provided below.

($)	**March 31 2023**	**December 31 2022**
Balance, beginning of period	6,273	6,486
Liabilities incurred	423	1,398
Change in estimates	408	(1,788)
Accretion expense	52	177
Balance, end of period	7,156	6,273

8. LEASE LIABILITIES

The Company incurs lease payments related to office facilities. For the quarter ended March 31, 2023, finance expense of $5,302 ($7,969 for the quarter ended March 31, 2022) and repayment of lease liabilities of $31,265 ($28,598 for the quarter ended March 31, 2022) were recognized for a total cash outflow of $36,567 ($36,567 for the quarter ended March 31, 2022). Lease obligations contractually expire in January 2025.

9. SHARE CAPITAL

Authorized

Unlimited number of common voting shares ("common shares") without nominal or par value
Unlimited number of Class B common non-voting shares ("Class B") without nominal or par value
Unlimited number of Class C common non-voting shares ("Class C") without nominal or par value

Issued and Outstanding		March 31 2023		December 31 2022
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	76,624	$76,093	75,250	$75,228
Issued for cash	-	-	90	153
Issued on conversion of Class B's and C's	-	-	1,284	712
Balance, end of period	76,624	$76,093	76,624	$76,093
Class B Common Non-Voting Shares				
Balance, beginning of period	4,870	$49	6,370	$64
Converted to common shares	-	-	(1,500)	(15)
Balance, end of period	4,870	$49	4,870	$49
Class C Common Non-Voting Shares				
Balance, beginning of period	10,380	$103	12,480	$124
Converted to common shares	-	-	(1,050)	(11)
Forfeited	-	-	(1,050)	(10)
Balance, end of period	10,380	$103	10,380	$103
Total		$76,245		$76,245

Common Shares

Common shares are subject to the provisions and terms contained in Schedule A of the Company's Articles of Incorporation and to the provisions and terms of the respective share subscription agreements among the Company and its shareholders.

Class B Shares and Options on Class B Shares

Class B shares and options on Class B shares have been reserved for issue to directors, officers, employees, and consultants of the Company. The aggregate number of Class B shares and options issued may not exceed 10% of the issued and outstanding common shares of the Company.

Class B shares are convertible to common shares of the Company until expiry in September 2023 at an exercise price of $1.00 per share. One third of the Class B shares purchased and options granted will vest equally on each of the second, third and fourth anniversary of the issue date. At March 31, 2023, 4,870,000 Class B shares and 668,000 options on Class B shares have vested (4,870,000 and 432,583 respectively at March 31, 2022).

The number and weighted average exercise price of the options on Class B shares are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, January 1, 2022	932,750	$0.61
Granted	619,250	0.81
Exercised	(37,500)	(0.77)
Forfeited	(112,500)	(0.51)
Balance, December 31, 2022	1,402,000	$0.70
Granted	100,000	1.00
Balance, March 31, 2023	1,502,000	$0.72

The fair market value of each Class B share issued and option granted was estimated on the date of issue using the Black-Scholes pricing model and the following weighted average assumptions in the calculations:

Weighted average risk-free interest rate (%)	1.22
Expected life (years)	3.1- 4.0
Estimated volatility of underlying common shares (%)	50
Share Price ($)	1.20
Estimated forfeiture rate (%)	nil

The Company recognized share-based compensation expense of $45,308 related to the Class B shares and options for the quarter ended March 31, 2023 ($25,646 for the quarter ended March 31, 2022) and capitalized $2,677 ($2,008 for the quarter ended March 31, 2022).

In 2022, 1,500,000 Class B shares and 37,500 options on Class B shares were converted to common shares through a cashless exercise.

Class C Shares and Options on Class C Shares

Class C shares and options on Class C shares have been reserved for issue to directors, officers, employees, and consultants of the Company. The aggregate number of Class C shares and options issued may not exceed 20% of the issued and outstanding common shares of the Company.

Class C shares are convertible to common shares of the Company if a liquidity event occurs within seven years from September 2016 at certain minimum price thresholds per share. A liquidity event includes the sale of all or substantially all of the common shares of the Company or assets for consideration that includes cash and/or securities, the liquidation of the Company, or any listing of the Company on a recognized exchange. The Class C shares were issued with various minimum price vesting and exercise price thresholds.

A summary of the number of Class C shares (assuming exercise of options on Class C shares) that vest and are convertible upon achieving price thresholds and at various exercise prices is as follows:

Number of Class C Shares Convertible	Liquidity Event Price Per Fully Diluted Share	Conversion Price Per Share
2,187,333	$1.50	$1.00
2,187,333	$2.00	$1.15
2,187,333	$2.25	$1.30
2,187,333	$2.50	$1.45
2,187,333	$2.75	$1.60
2,187,333	$3.00	$1.75

The liquidity event price and the conversion price each increase by eight percent compounded annually beginning in June 2023 until the date the Company enters into a definitive agreement for the completion of a liquidity event.

The number and weighted average exercise price of the options on Class C shares are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, January1, 2022	1,695,500	$0.61
Granted	1,268,500	0.80
Exercised	(157,500)	(0.43)
Forfeited	(262,500)	(0.66)
Balance, December 31, 2022	2,544,000	$0.71
Granted	200,000	1.00
Balance, March 31, 2023	2,744,000	$0.73

The fair market value of each Class C share issued and option granted was estimated on the date of issue using the Black-Scholes pricing model and the following assumptions in the calculations:

Weighted average risk-free interest rate (%)	1.12
Expected life (years)	3.8
Estimated volatility of underlying common shares (%)	50
Share Price ($)	1.20
Estimated forfeiture rate (%)	nil

In addition, the Company assumed the probability of a liquidity event within the term to be 25% and the probability of achieving the price thresholds disclosed in the table above to be 95%, 90%, 90%, 85%, 85% and 80%, respectively.

The Company recognized share-based compensation expense of $20,825 related to the Class C non-voting shares for the quarter ended March 31, 2023 ($10,963 for the quarter ended March 31, 2022) and capitalized $1,568 ($1,187 for the quarter ended March 31, 2022).

In 2022, 1,050,000 Class C shares and 157,500 options on Class C shares were converted to common shares through a cashless exercise.

10. REVENUES

The Company produces crude oil, natural gas, and natural gas liquids from its assets in Alberta. The Company sells its production pursuant to variable-price physical delivery contracts. The transaction price for variable-price contracts is based on a benchmark commodity price, adjusted for quality, location and/or other factors whereby each component of the pricing component is fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver fixed or variable quantities of crude oil, natural gas and natural gas liquids to the contract counterparty.

Petroleum and natural gas revenue is recognized when control is transferred from North 40 to its customers which is typically when the product enters the terminal or pipeline. Revenue is measured based on the consideration specified in a contract with the customer and the volumes delivered. North 40's revenue was generated in Alberta and sold to customers in the oil and natural gas business subject to normal credit terms and under customary industry sale and payment terms at monthly market prices. Contract terms are one year or less. Crude oil and natural gas revenues are collected on or about the 25th day of the month following production.

($)	**March 31 2023**	**March 31 2022**
Crude oil revenues	24,895	17,150
Natural gas revenues	4,088	4,495
Natural gas liquids revenues	1,685	1,285
Total	30,668	22,930

11. NET INCOME PER SHARE

	March 31 2023	**March 31 2022**
Net Income per share		
Basic and diluted	$0.07	$0.08
Weighted average shares outstanding		
Basic	76,624	75,250
Diluted	79,374	78,927

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of the following:

($)	**March 31 2023**	**March 31 2022**
Source / (use) of cash:		
Accounts receivable	(930)	(2,269)
Prepaid expenses and deposits	60	(6)
Accounts payable and accrued liabilities	6,076	5,350
Current income taxes	(4,268)	1,286
Change in non-cash working capital	938	4,361
Related to:		
Operating activities	(3,817)	477
Investing activities	4,755	3,884

13. COMMITMENTS

The Company has an office lease commitment of $146,000 per year for 2023 to 2024, and $12,000 in 2025.

The Company has a four year natural gas transportation commitment with an estimated annual cost of $200,000 projected to begin in August 2023.

14. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to deploy capital to provide an appropriate return on shareholder investment and to maintain financial flexibility to execute on strategic opportunities and meet financial obligations. The Company manages its capital structure and makes adjustments to respond to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets.

The Company has entered into a Royalty Acquisition Agreement (the "agreement") with an arm's length party (the "party") whereby the party will fund certain crown land purchases incurred by the Company in exchange for a royalty on future production from those crown lands. The term of the agreement is to October 31, 2024. The agreement includes a funding limit of $14 million, which may be increased at the sole discretion of the party. At March 31, 2023, there is $10.1 million remaining on the funding limit.

The Company considers its capital structure to include shareholder's equity, the bank credit facility and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue new shares, draw on the bank credit facility and/or adjust its capital spending.

15. FINANCIAL RISK MANAGEMENT

Credit risk

The Company may be exposed to certain losses in the event that counterparties fail to meet their obligations in accordance with agreed terms. The Company mitigates this risk by entering into transactions with highly rated major financial institutions and by routinely assessing the financial strength of its customers.

At March 31, 2023 and December 31, 2022, financial assets on the statement of financial position are comprised of cash and cash equivalents and trade and other receivables and the maximum credit risk associated with these financial instruments is the total carrying amount of these financial assets.

Cash equivalents include short-term deposits placed with financial institutions with strong investment grade ratings.

Accounts receivable for crude oil and natural gas sales are collected on or about the 25^{th} day of the month following production. At March 31, 2023, 97% of the accounts receivable amount relates to production revenue (97% at December 31, 2022).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company utilizes authorizations for expenditures on both operated and non-operated projects to manage capital expenditures.

The Company's financial liabilities on the statement of financial position consist of trade and other payables.

The Company expects to satisfy obligations under trade and other payables in less than one year.

The Company has a $25 million revolving demand operating facility with a Canadian chartered bank which could be accessed if required.

Market risk

Market risk is comprised of currency risk, interest rate risk and commodity price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the statement of financial position as at March 31, 2023 and December 31, 2022 has not been significantly impacted by changes in currency rates. Currency rates influence petroleum and natural gas prices; however, this influence on commodity prices and the resulting impact on financial assets and liabilities cannot be accurately quantified.

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact any bank interest earned/indebtedness that has a floating interest rate, potentially affecting future cash flows. As a means to mitigating exposure to interest rate risk, the Company has the ability to enter into interest rate swap agreements.

Commodity price risk

The Company may be exposed to commodity price risk arising from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities.

Corporate Information

OFFICERS

Don Robson
President and Chief Executive Officer

Kim Schoenroth
Vice President Finance and Chief Financial Officer

Gerald Aleman
Vice President, Production

Preston Kraft
Vice President, Operations

Steven Metzger
Vice President, Exploration

Lonny Tetley
Corporate Secretary

DIRECTORS

Clayton Woitas
Executive Chairman

Tyson Birchall

Jeff Lebbert

Margaret McKenzie

Don Robson

Grant Zawalsky

HEAD OFFICE

North 40 Resources Ltd.
Suite 400
215 - 9th Avenue, SW
Calgary, AB T2P 1K3

Phone: 403.817.9310
Fax: 403.974.6826

AUDITORS

KPMG LLP
Calgary, AB

BANKER

National Bank of Canada

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, AB

WEBSITE

www.north40resources.com