NORTH 40
RESOURCES LTD.

November 22, 2023

PRESIDENT'S MESSAGE

North 40 Resources Ltd. is pleased to report its operating and financial results for the three and nine months ended September 30, 2023.

Highlights for the quarter include:

- Realized Q3 2023 average quarterly production of 6,832 boe/day (69% oil and liquids), which represents a 59% increase over the same period in 2022 and a record high production rate for the company. Current production is approximately 6,400 boe/day (65 % liquids).
- Generated funds flow from operations of $22.6 million in the quarter.
- Invested $17.7 million in capital spending in the quarter that included the drilling, completion and equipping of three wells, workovers on existing wells and continued construction of the 8-36 disposal scheme.
- Drilled and brought on production one horizontal Banff oil well at Drumheller.
- Drilled the 8-36-026-18W4 disposal well and commenced disposal into the 8-36 disposal scheme.
- Drilled and brought on production the first exploration horizontal Basal Quartz oil well on the Sheerness prospect where North 40 acquired 163 sections of Crown land in Q2 2023.
- Maintained strong LMR rating of 19.52 at November 2023.
- Above industry average on compliance.

Wayne

The three horizontal Basal Quartz oil wells drilled in Q2 2023 were brought on production in July 2023. Average production for these wells in Q3 was 1,500 boe/day. Additional drilling is planned in Q1 2024.

Drumheller

The Q2 2023 horizontal Banff development well was brought onstream in August 2023. The well is currently being pumped at rates more than 330 boe/day (70% oil and liquids). In Q1 2024 North 40 shall drill one horizontal Banff development well adjacent to this well.

Our Q3 Drumheller disposal well and the water disposal scheme became operational on October 5, 2023. The 8-36 scheme is now disposing of approximately 90% of North 40 's produced water. Annual operating cost savings to North 40 are estimated at $750 thousand per year.

Other Banff horizontal drilling locations have been acquired. Optimization activities continue in Drumheller and have increased with the hiring of additional North 40 staff.

Sheerness

The first exploration well at Sheerness was drilled in Q3, on production in August and flowed until October 28, 2023, when pump and rods were installed. During this period, the well averaged 375 boe/d (64% oil and liquids). A second horizontal location adjacent to this location will be drilled later in 2024.

Following the success of this well North 40 has drilled two wells in Q4. Production is expected late Q4 2023. These Q4 2023 wells target separate Basal Quartz exploration plays on Crown lands acquired by North 40 at the Q2 2023 land sale.

Tide Lake

In Q4 2023 two wells have been rig released at Tide Lake. We expect one open hole Sunburst multi lateral well to be on production by year end.

Operations Update

We continue to face challenges with wax and solution gas production. A frequent wax treatment has been implemented as has several downhole separators to mitigate oil pumping issues.

Our Wayne Battery is fully operational which lowered operating costs. New drilling in Wayne will see lower equip and tie in costs.

Matziwin West

In October 2023, construction of a pipeline commenced that will tie in the solution gas from two open hole Sunburst lateral wells North 40 drilled in August 2021 and December 2022. Subject to third party approvals we expect these wells to be on production in December 2023.

First Quarter 2024

Our Board of Directors has approved a capital expenditure budget of $24 million for the first quarter of 2024.

The budget includes the drilling of a development horizontal well at Wayne and a Banff development horizontal well at Drumheller. Additional Q1 drilling locations, likely at Sheerness and Tide Lake, will be determined after Q4 drilling results have been evaluated. Also, included in the Q1 2024 budget are 3D seismic programs at Sheerness and Connorsville South. These seismic programs will delineate drilling locations which may be drilled in 2024.

Staffing

North 40 is pleased to announce the following new additions to our team:

- Jeff Knibbs has joined in the role of Senior Exploitation Engineer. Jeff has over 25 years of industry experience in reservoir, exploitation, and production.

- Barry Ahlstrom, who was previously in a consulting role at North 40 has joined in the role of Senior Production Technologist. Barry has over 35 years experience. Barry, working together with North 40's Production Superintendent Rob Patrick and our team of Operators, will focus on North 40's base production.

- Volodymyr Vaskiv has joined North 40 in a Reservoir Engineering role and will be working with North 40's Preston Kraft, VP Operations.

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 November 22, 2023, and should be read in conjunction with North 40 Resources Ltd.'s ("North 40" or "the Company") condensed financial statements and notes thereto for the three and nine months ended September 30, 2023 and 2022 ("Interim Financial Statements") and the Company's audited financial statements and notes thereto for the years ended December 31, 2022, and December 31, 2021, 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-IFRS Measurements *– Within Management's Discussion and Analysis, references are made to terms commonly used in the oil and gas industry. This document contains "funds flow from operations" which is a non-IFRS financial measure. This document also contains the terms "operating netback", "working capital surplus (deficiency)", and capital expenditures which are non-IFRS financial measures. These non-IFRS terms do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures for other entities.*

<u>Funds flow from operations</u>

Management uses funds flow from operations to evaluate performance. 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. 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.

The following table reconciles funds flow from operations to cash provided by (used in) operating activities, which is the most directly comparable measure calculated in accordance with IFRS.

	Three months ended September 30		Nine months ended September 30	
(millions)	*2023*	*2022*	*2023*	*2022*
Cash provided by operating activities	*$20.3*	*$15.0*	*$47.9*	*$43.3*
Plus: Net change in non-cash working capital	*2.3*	*0.6*	*7.4*	*1.6*
Funds flow from operations	*$22.6*	*$15.6*	*$55.3*	*$44.9*

<u>Operating netback</u>

Management uses operating netbacks as a profitability measure relative to current commodity prices. Operating netback is calculated as the weighted average sales price of all its commodities less royalties, operating and transportation expenses. There are no IFRS measures that are reasonably comparable to operating netbacks.

<u>Working capital surplus (deficiency)</u>

Working capital surplus (deficiency) is the total of current assets less current liabilities. This measure is used to assess efficiency, liquidity and general financial strength of the Company.

Capital Expenditures

Capital expenditures are the sum of exploration and evaluation and property and equipment expenditures disclosed in the Statements of Cash Flow.

	Three months ended September 30		Nine months ended September 30	
(thousands, except per unit amounts and where indicated)	2023	2022	2023	2022
FINANCIAL				
Petroleum and natural gas revenue	$44,318	$28,699	$108,824	$82,304
Funds flow from operations *(1)*	$22,560	$15,011	$55,305	$43,304
Per share – basic	$0.29	$0.20	$0.72	$0.58
Per share – diluted	$0.28	$0.18	$0.69	$0.53
Net income	$9,306	$6,291	$19,189	$22,680
Per share – basic	$0.12	$0.08	$0.25	$0.30
Per share – diluted	$0.11	$0.08	$0.24	$0.28
Capital expenditures (2)	$17,740	$20,342	$64,204	$49,988
Working capital surplus (deficiency) *(3)* at end of period	($1,857)	$6,737	($1,857)	$6,737
Common shares outstanding at end of period	76,624	76,624	76,624	76,624
OPERATING				
Sales volumes				
Oil and liquids (bbls/day)	4,740	2,656	4,167	2,279
Natural gas (mcf/day)	12,550	9,897	13,070	9,793
Total (boe/day) (4)	6,832	4,306	6,345	3,911
% Oil and liquids	69	62	66	58
Commodity prices realized (before pipeline tariffs)				
Oil and liquids ($/bbl)	97.95	104.34	90.24	111.23
Natural gas ($/mcf)	2.92	4.59	3.10	5.88
Total ($/boe)	73.33	74.91	65.64	79.53
Operating netback ($/boe) (5)	40.47	41.97	35.66	46.49
Funds flow from operations netback ($/boe) *(1)*	35.89	37.89	31.93	40.55
Net wells drilled	3.0	5.0	12.0	14.0
Net acres of land at end of period	297,608	221,828	297,608	221,828

(1) Funds flow from operations and funds flow from operations netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.
(2) Capital expenditures does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.
(3) Working capital surplus (deficiency) does not have a standardized measure prescribed by IFRS. See Non-IFRS Measurements section of the MD&A. Working capital deficiency at September 30, 2023, includes $5.7 million in cash ($14.7 million at September 30, 2022, and $19.1 million at December 31, 2022).
(4) Boe conversion is 6:1
(5) Operating netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.

PRODUCTION

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Oil (bbls per day)	4,377	2,428	3,839	2,064
Liquids (bbls per day)	363	228	328	215
Natural gas (mcf per day)	12,550	9,897	13,070	9,793
BOE per day	6,832	4,306	6,345	3,911

Production in Q3 2023 averaged 6,832 boe per day (69% oil and liquids) which is a 59% increase from Q3 2022 average of 4,306 boe per day (62% oil and liquids). Production for the first nine months of 2023 averaged 6,345 boe per day (66% oil and liquids) compared to 3,911 boe per day (58% oil and liquids) in the same period of 2022. Production increases are primarily due to the 2022 and first half of 2023 drilling programs which is partially offset by expected natural declines.

Oil and liquids production increased 78% to 4,740 bbls per day in Q3 2023 from 2,656 bbls per day in Q3 2022 and increased 83% to 4,167 bbls per day in the first nine months of 2023 from 2,279 bbls per day in the comparable 2022 period. The Wayne wells drilled in the first half of 2023 contributed significantly to this increase.

Natural gas production increased 27% and 33% in the quarter and nine months ended September 30, 2023, respectively compared to the same periods in 2022. A Drumheller natural gas well brought on production later in the first quarter of 2023 as well as associated natural gas production from the other wells drilled in 2023 contributed significantly to the increase. The

Company shut in non-associated natural gas production (excluding the Drumheller natural gas well drilled in 2023 which is being evaluated) on April 1, 2023, due to low natural gas price realizations.

OPERATING NETBACK

	Three months ended September 30		Nine months ended September 30	
($ per BOE)	2023	2022	2023	2022
Revenue [(1)]	$70.51	$72.44	$62.82	$77.08
Royalties	(15.27)	(18.06)	(13.76)	(18.84)
Operating expenses	(12.01)	(10.30)	(10.82)	(9.90)
Transportation expenses	(2.76)	(2.11)	(2.58)	(1.85)
Operating netback [(2)]	$40.47	$41.97	$35.66	$46.49

[(1)] *Includes pipeline tariff amount of $2.82 and $2.81 per boe for the three and nine months ended September 30, 2023, and $2.47 and $2.45 per boe in the comparable periods of 2022 respectively.*

[(2)] *Operating netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*

For the three and nine months ended September 30, 2023, the operating netback was lower than the same periods in 2023 primarily due to lower commodity prices and higher operating and transportation expenses partially offset by lower royalties.

COMMODITY PRICES

	Three months ended September 30		Nine months ended September 30	
($ per bbl)	2023	2022	2023	2022
WTI (US$/bbl)	$82.26	$91.56	$77.39	$98.09
MSW benchmark price [(1)]	$107.90	$116.79	$100.63	$123.41
WCS benchmark price [(2)]	$93.05	$93.54	$80.37	$105.55
Realized crude oil price	$101.49	$107.54	$93.15	$115.22

[(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 Q3 2023 was $101.49 per barrel which is 6% lower than the Q3 2022 price of $107.54 per barrel. WTI benchmark prices decreased 10% from $91.56 per barrel in Q3 2022 to $82.26 per barrel in Q3 2023 resulting in a decrease in North 40’s realized price. The impact of a lower WTI benchmark was partially offset by a weaker Canadian dollar and narrowing Canadian stream differentials in Q3 2023 compared to Q3 2022.

North 40’s realized crude oil price decreased 19% in the first nine months of 2023 to $93.15 per barrel from $115.22 per barrel realized in the comparable period of 2022. WTI benchmark prices decreased 21% from $98.09 per barrel to $77.39 per barrel contributing to most of the decrease in North 40’s realized price which was partially offset by a weaker Canadian dollar. Wider Canadian stream differentials also contributed to the lower realized price in the first nine months of 2023.

	Three months ended September 30		Nine months ended September 30	
($ per mcf)	2023	2022	2023	2022
AECO Daily (5A) index	$2.60	$4.17	$2.75	$5.42
Realized natural gas price	$2.92	$4.59	$3.10	$5.88

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 57% to $2.92 per mcf in Q3 2023 from $4.59 per mcf in Q3 2022 and decreased 47% to $3.10 per mcf for the first nine months of 2023 from $5.88 per mcf in the same period of 2022.

North American natural gas prices have moved materially lower due to warmer weather and an increase in Canadian and US supply causing higher storage levels.

REVENUE

($ thousands)	Three months ended September 30 2023	Three months ended September 30 2022	Nine months ended September 30 2023	Nine months ended September 30 2022
Oil and liquids	$41,277	$24,800	$98,868	$67,491
Natural gas	3,041	3,899	9,956	14,813
Petroleum and natural gas revenue	$44,318	$28,699	$108,824	$82,304
% Oil and liquids	93	86	91	82

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

Revenue in Q3 2023 increased to $44.3 million from $28.7 million in Q3 2022. Most of the increase resulted from higher crude oil production volumes. Increased natural gas and liquids production volumes also contributed to the revenue increase which was partially offset by lower price realizations for all commodities.

Revenue for the nine months ended September 30 increased by 32% from $82.3 million in Q3 2022 to $108.8 million in Q3 2023 for the same reasons as the Q3 increase.

Oil and liquids revenue represents 93% of total revenue in Q3 2023 and increased 66%, from $24.8 million in Q3 2022 to $41.2 million in Q3 2023. Crude oil realizations were 6% lower and oil production volumes were 80% higher in Q3 2023 compared to the same quarter last year.

Natural gas revenue decreased 22% in Q3 2023 from $3.9 million in Q3 2022 to $3.0 million in Q3 2023. The decrease is due to a 36% decrease in price realizations partially offset by a 27% increase in production volume in Q3 2023 compared to the same period in 2022.

Oil pipeline tariffs of $1.4 million and $3.8 million are included in revenue for the third quarter and the first nine months of 2023 respectively. This compares to $0.7 million and $1.4 million in the same periods of 2022. The custody transfer to the purchaser is at the point the oil is offloaded at the terminal. Gas pipeline tariffs of $0.3 million and $1.1 million are also included in revenue for the three months and nine months ended September 30, 2023, respectively. This compares to $0.3 million and $0.9 million in the same periods of 2022. 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 September 30 2023	Three months ended September 30 2022	Nine months ended September 30 2023	Nine months ended September 30 2022
Royalties	$9,596	$7,154	$23,832	$20,115
Per BOE	$15.27	$18.06	$13.76	$18.84
% of Revenue	22%	24%	22%	24%

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 on a boe basis decreased to $15.27 and $13.76 per boe in the third quarter and first nine months of 2023 respectively compared to $18.06 and $18.84 per boe in the comparable periods of 2022 commensurate with lower realized prices in 2023. On an absolute basis, royalties increased to $9.6 million and $23.8 million in Q3 and in the first nine months of 2023 respectively from $7.2 million and $20.1 million in the same periods of 2022 due to higher production volumes partially offset by lower price realizations.

Royalties as a percentage of revenue were 22% and 24% in the third quarters and first nine months of 2023 and 2022 respectively.

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

(thousands, except per unit amounts)	Three months ended September 30 2023	Three months ended September 30 2022	Nine months ended September 30 2023	Nine months ended September 30 2022
Operating expenses	$7,550	$4,078	$18,743	$10,569
Per BOE	$12.01	$10.30	$10.82	$9.90
Transportation expenses	$1,735	$837	$4,465	$1,976
Per BOE	$2.76	$2.11	$2.58	$1.85

Operating expenses averaged $12.01 and $10.82 per boe for the third quarter and the first nine months of 2023, respectively compared to $10.30 and $9.90 per boe in the third quarter and first nine months of 2022. Main contributors to the increase were well servicing costs, water handling costs, and the impact of inflationary pressures most prevalent with labor services, chemicals and fuel.

Transportation costs, which are clean oil trucking expenses, averaged $2.76 and $2.58 per boe in the third quarter and the first nine months of 2023, respectively compared to $2.11 and $1.85 per boe in the third quarter and first nine months of 2022, respectively. The 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 31% of total production in Q3 2023 and 38% in Q3 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 September 30		Nine months ended September 30	
(thousands, except per unit amounts)	2023	2022	2023	2022
Gross G&A	$731	$1,275	$2,345	$2,629
Capitalized G&A	(43)	(42)	(131)	(128)
Net G&A	$688	$1,233	$2,214	$2,501
Per BOE	$1.09	$3.11	$1.28	$2.34

Net general and administrative ("G&A") expenses were $0.7 million and $2.2 million for the third quarter and first nine months of 2023 respectively compared to $1.2 million and $2.5 million in the comparable periods of 2022. G&A in 2022 was higher for both Q3 and the first nine months due to termination payments related to a leadership change. There were higher costs for professional and contractor services as well as computer software costs in 2023 compared to 2022.

On a boe basis, net G&A was $1.09 and $1.28 per boe in Q3 and in the first nine months of 2023 respectively compared to $3.11 and $2.34 per boe in same periods of 2022. The decrease in the per boe amount is mainly due to higher production volumes and the 2022 termination payments.

The most significant costs in the first nine months of 2023 can be attributed to employee salaries and benefits as well as professional and contractor services.

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

SHARE-BASED COMPENSATION

	Three months ended September 30		Nine months ended September 30	
(thousands, except per unit amounts)	2023	2022	2023	2022
Share-based compensation	$259	$38	$1,063	$116
Capitalized share-based compensation	(20)	(3)	(116)	(10)
	$239	$35	$947	$106
Per BOE	$0.38	$0.09	$0.55	$0.10

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

In June 2023, the Board of Directors extended the expiry of certain Class B and Class C shares and options to September 2026 from September 2023. The term extension is a modification under IFRS and requires an update to the calculation of share-based compensation expense.

Incremental value of $0.6 million was determined for the vested Class B shares and options. This incremental value is recognized immediately and $0.5 million has been expensed and $0.1 million has been capitalized in Q2 2023.

An incremental value of $1.1 million was determined for the Class C shares and options and will be recognized over the estimated remaining expected term of 1.8 years for the Class C shares and options. The Company recognized $141,794 and $25,803 as share based compensation expense and capitalized $15,717 and $17,307 in the third quarter and first nine months of 2023 respectively.

Detailed information regarding the Class B and Class C shares and options have been disclosed in Note 10 of the financial statements.

DEPLETION AND DEPRECIATION

	Three months ended September 30		Nine months ended September 30	
(thousands, except per unit amounts)	2023	2022	2023	2022
Depletion and depreciation	$12,299	$7,261	$32,929	$17,439
Per BOE	$19.57	$18.33	$19.01	$16.33

The Company recognized depletion and depreciation expense ("D&D") of $12.3 million ($19.57 per boe) and $32.9 million ($19.01 per boe) for the quarter and nine months ended September 30, 2023, respectively compared to $7.3 million ($18.33 per boe) and $17.4 million ($16.33 per BOE) in the same periods of 2023. The D&D expense was based on an internal evaluation of proved and probable reserves and an internal estimate of future development costs.

D&D expense increased in Q3, and the first nine months of 2023 compared to the same periods 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 expense 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 number 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 ($0.08 per boe) in Q3 2023 and $0.3 million ($0.16 per boe) in the first nine months of 2023. This compares to nil and $0.3 million ($0.28 per boe) in the comparable periods of 2022. Exploration expense relates to undeveloped land expiries.

FINANCE EXPENSE

	Three months ended September 30		Nine months ended September 30	
(thousands)	2023	2022	2023	2022
Accretion of decommissioning obligations	$65	$46	$172	$126
Banking fees	18	5	126	50
Interest on lease liabilities	5	7	14	22
Total	$88	$58	$312	$198
Per BOE	$0.14	$0.15	$0.18	$0.19

Finance expense relates to accretion on decommissioning obligations, banking fees and interest on lease liabilities. Banking fees include standby fees and fees associated with the annual bank facility review. Accretion of decommissioning obligations and interest on lease liabilities are non-cash charges. The increase in accretion of decommissioning obligations is mostly due to the increase in interest rates.

North 40 increased its bank credit facility to $25 million from $8.5 million in late 2022. The increase in banking fees in 2023 is largely due to fees related to this increase as well as higher standby fees.

INCOME TAXES

North 40 recognized current income tax expense of $2.3 million in Q3 2023 and $4.5 million for the first nine months of the year compared to $0.5 million and $4.2 million in the comparable periods of 2022 respectively.

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.

For the three and nine months ended September 30, 2023, a deferred income tax expense of $0.6 million and $1.8 million, respectively, was recognized compared to a deferred income tax expense of $1.4 million and $2.7 million for the comparable periods in 2022.

The following tax pool balances are estimated at September 30, 2023:

(thousands)	Maximum Annual Deduction	September 30 2023	September 30 2022
Canadian oil and gas property expense (COGPE)	10%	14,870	$14,958
Canadian development expense (CDE)	30%	51,866	43,482
Undepreciated capital cost (UCC)	25%	39,925	24,065
		$106,661	$82,505

NET INCOME AND COMPREHENSIVE INCOME

	Three months ended September 30		Nine months ended September 30	
(thousands)	2023	2022	2023	2022
Net income and comprehensive income	$9,306	$6,291	$19,189	$22,680
Per share - basic	$0.12	$0.08	$0.25	$0.30
Per share - diluted	$0.11	$0.08	$0.24	$0.28

The increase in net income for Q3 2023 as compared to Q3 2022 is primarily due to higher petroleum and natural gas revenue and decreases in general and administrative expenses and deferred income taxes partially offset by increases in royalties, operating and transportation costs, depletion and depreciation, and current income taxes.

The decrease in net income for the nine months ended September 30, 2023, as compared to the same period in 2022 is primarily due to increases in royalties, operating and transportation costs, share-based compensation expense, and depletion and depreciation partially offset by an increase in petroleum and natural gas revenue and deferred income taxes.

CAPITAL EXPENDITURES

Capital expenditures by type and by property for the three and six months ended September 30, 2023, and 2022 were as follows:

	Three months ended September 30		Nine months ended September 30	
(thousands)	2023	2022	2023	2022
Land and lease rentals (1)	$183	$177	$1,019	$2,789
Seismic and geological	4	288	1,893	408
Drilling and completion	10,521	12,431	34,048	30,249
Equipping and tie-ins	6,098	7,446	19,112	16,542
Facilities	884	-	7,901	-
Office and other	50	43	231	130
Total capital expenditures	$17,740	$20,385	$64,204	$50,118

(1) Net of land fund reimbursements.

	Three months ended September 30		Nine months ended September 30	
(thousands)	2023	2022	2023	2022
Wayne (formerly Drumheller North)	$4,994	$6,436	$30,373	$20,440
Drumheller	7,758	10,419	17,445	22,523
Sheerness	4,314	-	6,195	-
Matziwin	309	429	5,864	2,944
Princess	140	812	2,568	1,593
Other	225	2,289	1,759	2,618
Total capital expenditures	$17,740	$20,385	$64,204	$50,118

Wells drilled by property were as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Wayne (formerly Drumheller North)	-	2	6	6
Drumheller (1)	2	2	3	6
Sheerness	1	-	1	-
Wintering Hills (1)	-	-	-	1
Matziwin South (2)	-	-	1	-
Makepeace	-	1	-	1
Princess	-	-	1	-
Total	3	5	12	14

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

Capital expenditures in Q3 2023 were $17.7 million. Capital activity included the drilling of the three wells and the fracking of five wells. North 40 drilled its first well in Sheerness as well as a water disposal well and another well in Drumheller. The two wells drilled in Q3 and the three Wayne wells drilled in Q2 were all brought on production in the quarter. Other capital activity in Q3 included a number of well workovers as well as continued construction of the water disposal facility at Drumheller. Capital was also expended on equipment purchases for future locations and equipping and tie-in projects.

For the first nine months of 2023 capital expenditures were $64.2 million which included the drilling of 12 wells. The majority of the capital was spent at Wayne where six wells were drilled and an oil battery was constructed. The battery became operational in Q2. Activity at Drumheller included the drilling of three wells, one of which is a water disposal well, and construction of water disposal facilities which became operational in the fourth quarter. Other activities include acquisition of land leases and purchase of 3D seismic data at Sheerness (a new North 40 area), one well at each of Matziwin South and Princess, workover and recompletion operations, and equipment purchases for future locations.

Capital expenditures in the third quarter of 2022 were $20.4 million. Capital activity included the drilling of five wells and the completion, equipping and tie-in of seven wells (two which were drilled in the second quarter). All of the fourteen wells drilled to date in 2022 were producing the end of the third quarter.

For the first nine months of 2022 capital expenditures were $50.1 million which included the drilling, completion, equipping and tie-in of fourteen wells, recompletion of three acquired wellbores (two at Princess and one at Matziwin South) and the extension of freehold leases at Matziwin South. The majority of capital has been expended in the Drumheller and Wayne areas with six wells drilled at each and one well at Wintering Hills. Capital was also expended to upgrade existing surface facilities to meet new regulatory standards with new wells being added to existing leases.

LAND

North 40's land holdings per area were as follows:

(acres)	September 30 2023	December 31, 2022	September 30 2022
Wayne (formerly Drumheller North)	15,630	17,702	15,170
Drumheller	57,175	80,390	79,572
Sheerness	118,527	7,912	7,912
Matziwin	51,333	78,579	78,862
Princess	18,858	18,700	18,700
Tide Lake	11,077	10,444	10,444
Other	25,008	10,851	11,168
Total	297,608	224,578	221,828

The increase in land holdings at September 30, 2023, compared to the same time last year is primarily due to the acquisition of leases at Sheerness partially offset by undeveloped land expiries at Drumheller, Matziwin and Makepeace.

The land holdings consist of 66% crown and 34% freehold leases at September 30, 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 $6.7 million at September 30, 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 3.96% (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 September 30, 2023, compared to December 31, 2022, is primarily due to new liabilities recognized for wells drilled.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2023, the Company had no drawn debt and a working capital deficiency of $1.9 million comprised of $5.7 million in cash and a working capital deficit of $7.6 million. All activities to date have been funded with proceeds from the Company's initial equity financing, cash flow from operations, land fund reimbursements and interest income on cash balances.

At September 30, 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 $0.1 million at September 30, 2023 that reduces the amount otherwise available to be drawn on the operating facility.

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 September 30, 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 September 30, 2023 is 19.8. 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.

At the date of writing, the review has been completed with no changes to significant terms. The next review date has been set for May 31, 2024.

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 September 30, 2023, there is $3.9 million remaining on the funding limit.

SELECTED QUARTERLY INFORMATION

Three Months Ended	Sept 30 2023	Jun 30 2023	Mar 31 2023	Dec 31 2022	Sept 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
FINANCIAL								
Petroleum and natural gas revenue	$44,318	$33,839	$30,668	$34,029	$28,699	$30,675	$22,930	$22,927
Funds flow from operations *(1)*	$22,560	$16,989	$15,755	$18,206	$15,011	$16,467	$11,826	$13,497
Per share – basic	$0.29	$0.22	$0.21	$0.24	$0.20	$0.22	$0.16	$0.18
Per share – diluted	$0.28	$0.21	$0.20	$0.23	$0.18	$0.20	$0.15	$0.17
Net income	$9,306	$4,572	$5,311	$7,677	$6,291	$10,222	$6,166	$6,190
Per share – basic	$0.12	$0.06	$0.07	$0.10	$0.08	$0.14	$0.08	$0.08
Per share – diluted	$0.11	$0.06	$0.07	$0.10	$0.08	$0.13	$0.08	$0.08
Capital expenditures (2)	$17,740	$18,656	$27,808	$17,852	$20,385	$18,850	$10,882	$6,530
Working capital surplus (deficiency) at end of period (3)	($1,857)	($6,644)	($4,946)	$7,139	$6,737	$12,141	$14,401	$13,486
Common shares outstanding end of period	76,624	76,624	76,624	76,624	76,624	75,340	75,250	75,250
OPERATING								
Sales volumes								
Oil and liquids (bbls/day)	4,740	4,203	3,544	3,391	2,656	2,155	2,020	2,554
Natural gas (mcf/day)	12,550	12,767	13,907	10,693	9,897	9,363	10,122	8,731
Total (boe/day) (4)	6,832	6,331	5,862	5,174	4,306	3,715	3,707	4,009
% Oil and liquids	69	66	60	66	62	58	54	64
Commodity prices realized (before pipeline tariffs)								
Oil and liquids ($/bbl)	97.95	84.41	86.71	96.05	104.34	126.40	104.13	83.71
Natural gas ($/mcf)	2.92	2.72	3.60	5.42	4.59	7.91	5.26	5.11
Total ($/boe)	73.33	61.53	60.96	74.17	74.91	93.24	71.10	64.46
Operating netback (5) ($/boe)	40.47	32.91	32.96	42.56	41.97	56.99	41.20	39.66
Funds flow from operations netback ($/boe) *(1)*	35.89	29.49	29.86	38.25	37.89	48.71	35.45	36.60
Net wells drilled	3.0	3.0	6.0	3.0	5.0	5.0	4.0	-
Net acres of land at end of period	297,608	307,909	191,849	224,578	221,828	221,777	235,266	256,346

(1) *Funds flow from operations and funds flow from operations netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*

(2) *Capital expenditures does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*

(3) *Working capital surplus (deficiency) does not have a standardized measure prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*

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

(5) *Operating netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A*

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
September 30, 2023

North 40 Resources Ltd.
Statements of Financial Position

As at	September 30 2023	December 31 2022
($ thousands)		
ASSETS		
Current Assets		
Cash	5,724	19,066
Accounts receivable	16,365	10,853
Prepaids and deposits	1,203	691
Total Current Assets	23,292	30,610
Exploration and evaluation assets (Note 4)	23,251	23,318
Property and equipment (Note 5)	157,985	126,595
Total Assets	**204,528**	**180,523**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	23,235	18,923
Current income taxes (Note 7)	1,914	4,548
Total Current Liabilities	25,149	23,471
Lease liabilities (Note 9)	151	248
Decommissioning obligations (Note 8)	6,654	6,273
Deferred income taxes	15,587	13,796
Total Liabilities	47,541	43,788
Shareholders' Equity		
Share capital (Note 10)	76,245	76,245
Contributed surplus	4,405	3,342
Retained earnings	76,337	57,148
Total Shareholders' Equity	156,987	136,735
Total Liabilities and Shareholders' Equity	**204,528**	**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 September 30		Nine months ended September 30	
	2023	2022	2023	2022
($ thousands except per share amounts)				
Revenue				
Petroleum and natural gas revenue (Note 11)	44,318	28,699	108,824	82,304
Less: Royalties	9,596	7,154	23,832	20,115
	34,722	21,545	84,992	62,189
Interest income	88	139	419	224
Other income	-	-	-	166
	34,810	21,684	85,411	62,579
Expenses				
Operating	7,550	4,078	18,743	10,569
Transportation	1,735	837	4,465	1,976
General and administrative	688	1,233	2,214	2,501
Share-based compensation (Note 10)	239	35	947	106
Depletion and depreciation (Note 5)	12,299	7,261	32,929	17,439
Exploration expense (Note 4)	48	-	277	300
Finance expense	88	58	312	198
Total expenses	22,647	13,502	59,887	33,089
Income before taxes	12,163	8,182	25,524	29,490
Current income tax expense	2,254	513	4,544	4,157
Deferred income tax expense	603	1,378	1,791	2,653
Net Income and Comprehensive Income	**9,306**	**6,291**	**19,189**	**22,680**
Net Income per share (Note 12)				
Basic	$0.12	$0.08	$0.25	$0.30
Diluted	$0.11	$0.08	$0.24	$0.28

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	-	-	22,680	22,680
Issue of share capital	153	-	-	153
Transferred on conversion of Class B's and C's	676	(676)	-	-
Share based compensation (Note 10)	-	116	-	116
Balance as at September 30, 2022	**76,245**	**3,272**	**48,963**	**128,480**
Balance as at December 31, 2022	**76,245**	**3,342**	**57,148**	**136,735**
Net income	-	-	19,189	19,189
Share-based compensation (Note 10)	-	1,063	-	1,063
Balance as at September 30, 2023	**76,245**	**4,405**	**76,337**	**156,987**

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

North 40 Resources Ltd.
Statements of Cash Flow

(unaudited)	Three months ended September 30		Nine months ended September 30	
	2023	**2022**	**2023**	**2022**
($ thousands)				
Cash provided by (used in):				
Operating activities				
Net income for the period	9,306	6,291	19,189	22,680
Adjusted for:				
Depletion and depreciation (Note 5)	12,299	7,261	32,929	17,439
Exploration expense (Note 4)	48	-	277	300
Accretion expense (Note 8)	65	46	172	126
Share-based compensation (Note 10)	238	35	947	106
Deferred income tax expense	603	1,378	1,791	2,653
	22,559	15,011	55,305	43,304
Net change in non-cash working capital (Note 13)	(2,250)	638	(7,379)	1,638
	20,309	15,649	47,926	44,942
Financing activities				
Issue of share capital (Note 10)	-	-	-	153
Repayment of lease liabilities (Note 9)	(31)	(31)	(93)	(87)
	(31)	(31)	(93)	66
Investing activities				
Exploration and evaluation expenditures (Note 4)	(418)	(1,063)	(3,346)	(4,595)
Property and equipment expenditures (Note 5)	(17,322)	(19,322)	(60,858)	(45,523)
Net change in non-cash working capital (Note 13)	(3,692)	(2,302)	3,029	5,840
	(21,432)	(22,687)	(61,175)	(44,278)
Change in cash and cash equivalents	(1,154)	(7,069)	(13,342)	730
Cash and cash equivalents, beginning of period	6,878	21,751	19,066	13,952
Cash and cash equivalents, end of period	**5,724**	**14,682**	**5,724**	**14,682**
Cash income tax paid	1,010	-	7,178	-

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

North 40 Resources Ltd.
Notes to the Financial Statements

September 30, 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 November 22, 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

($)	September 30 2023	December 31 2022
Balance, beginning of period	23,318	21,422
Additions	3,346	8,905
Exploration expense	(277)	(523)
Transferred to property and equipment	(3,136)	(6,486)
Balance, end of period	23,251	23,318

Exploration and evaluation (“E&E”) assets consist of the Company’s undeveloped land, geological and geophysical assets and exploration drilling projects in which technical feasibility or commercial viability has yet to be determined. Costs primarily relate to undeveloped land.

Exploration expense relate primarily to undeveloped land expiries.

5. PROPERTY AND EQUIPMENT

($)	September 30 2023	December 31 2022
Property and equipment, at cost	271,418	207,099
Accumulated depletion and depreciation	(113,433)	(80,504)
Net book value, end of period	157,985	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	60,974	59,001
Transferred from exploration and evaluation assets	3,136	6,486
Changes in decommissioning obligations (Note 8)	209	(390)
Depletion and depreciation	(32,929)	(25,045)
Net book value, end of period	157,985	126,595

Included in the calculation of depletion was an estimate for future development costs of $81.1 million at September 30, 2023 ($85.0 million at December 31, 2022). An estimated future salvage value of $6.2 million was excluded from the calculation of depletion at September 30, 2023 ($5.5 million at December 31, 2022).

Included in the June 30, 2023, property and equipment balance is the right-of-use asset of $0.1 million ($0.2 million at December 31, 2022).

Included in additions is capitalized general and administrative expenses of $0.2 million ($0.3 million at December 31, 2022).

At September 30, 2023, there were no indicators of impairment identified and an impairment test was not performed.

6. CREDIT FACILITY

At September 30, 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 $0.1 million at September 30, 2023 that reduces the amount otherwise available to be drawn on the operating facility.

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 September 30, 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 September 30, 2023 is 19.8. 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.

At the date of writing, the review has been completed with no changes to significant terms. The next review date has been set for May 31, 2024.

7. CURRENT INCOME TAXES

($)	September 30 2023	December 31 2022
Balance, beginning of period	4,548	-
Current income tax expense	4,544	4,548
Payments [1]	(7,178)	-
Balance, end of period	1,914	4,548

(1) Includes instalments.

8. 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 facilities. The Company estimates the total uninflated undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $8.7 million ($7.4 million at December 31, 2022). A risk-free rate of 3.96% 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.

($)	September 30 2023	December 31 2022
Balance, beginning of period	6,273	6,486
Liabilities incurred	764	1,398
Change in estimates	(555)	(1,788)
Accretion expense	172	177
Balance, end of period	6,654	6,273

9. LEASE LIABILITIES

The Company incurs lease payments related to office facilities. For the nine months ended September 30, 2023, finance expense of $13,777 ($21,960 for the nine months ended September 30, 2022) and repayment of lease liabilities of $95,924 ($87,741 for the nine months ended September 30, 2022) were recognized for a total cash outflow of $109,701 ($109,701 for the nine months ended September 30, 2022). Lease obligations contractually expire in January 2025.

10. 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		**June 30 2023**		**December 31 2022**
	Number *(thousands)*	**Consideration**	**Number** *(thousands)*	**Consideration**
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 2026 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 September 30, 2023, 5,483,500 Class B shares and options were vested (6,802,583 at September 30, 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	300,000	1.00
Forfeited	(70,000)	(0.61)
Balance, September 30, 2023	1,632,000	$0.77

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

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 (%)	1.37
Expected life (years)	3.1- 4.0
Estimated volatility of underlying common shares (%)	51
Share Price ($)	1.20
Estimated forfeiture rate (%)	nil

The Company recognized share-based compensation expense of $67,631 and $708,290 related to the Class B shares and options for the three and nine months ended September 30, 2023 ($24,592 and $74,562 for the three and nine months ended September 30, 2022) and capitalized $2,736 and $94,343 ($2,052 and $6,090 for the quarter and nine months ended September 30, 2022).

In June 2023, the Board of Directors extended the expiry of certain Class B shares and options to September 2026 from September 2023. The term extension is a modification under IFRS and requires an update to the calculation of share-based compensation expense. The incremental value of $0.6 million was determined for the vested Class B shares and options. This incremental value is recognized immediately and $0.5 million has been expensed and $0.1 million has been capitalized in the second quarter.

The incremental value is the difference in value immediately before the modification (term extension) and immediately after the modification. The following assumptions were used in the calculations:

	Before Modification	**After Modification**
Weighted average risk-free interest rate (%)	4.83	4.55
Expected life (years)	0.3	1.8
Estimated volatility of underlying common shares (%)	60	60
Share Price ($)	1.99	1.99
Estimated forfeiture rate (%)	nil	nil

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 before September 2026 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**
2,242,333	$1.50	$1.00
2,242,333	$2.00	$1.15
2,242,333	$2.25	$1.30
2,242,333	$2.50	$1.45
2,242,333	$2.75	$1.60
2,242,333	$3.00	$1.75

In June 2023, the Board of Directors eliminated the terms to increase both the liquidity event price and the conversion price 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, January 1, 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	600,000	1.00
Forfeited	(70,000)	(0.62)
Balance, June 30, 2023	3,074,000	$0.77

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

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 (%)	1.22
Expected life (years)	3.7
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 $188,136 and $260,563 related to the Class C non-voting shares for the three and nine months ended September 30, 2023 ($10,321 and $31,492 for the three and nine months ended September 30, 2022) and capitalized $17,320 and $22,063 ($1,214 and $3,602 for the three and nine months ended September 30, 2022).

In June 2023, the Board of Directors extended the expiry of certain Class C shares and options to September 2026. The term extension is a modification under IFRS and requires an update to the share-based compensation expense. The incremental value of $1.1 million was determined and will be recognized over the estimated remaining expected term of 1.8 years for the Class C shares and options. The Company recognized $157,511 and $184,904 for the three and nine months ended September 30, 2023 which are included in the amounts described in the paragraph above.

The incremental value is the difference in value immediately before the modification (term extension) and immediately after the modification. The following assumptions were used in the calculations:

	Before Modification	After Modification
Weighted average risk-free interest rate (%)	4.83	4.55
Expected life (years)	0.3	1.8
Estimated volatility of underlying common shares (%)	60	60
Share Price ($)	1.99	1.99
Estimated forfeiture rate (%)	nil	nil

11. 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.

($)	Three months ended September 30 2023	2022	Nine months ended September 30 2023	2022
Crude oil revenues	39,428	23,321	93,837	63,216
Natural gas revenues	3,041	3,899	9,956	14,813
Natural gas liquids revenues	1,849	1,479	5,031	4,275
Total	44,318	28,699	108,824	82,304

12. NET INCOME PER SHARE

	Three months ended September 30 2023	2022	Nine months ended September 30 2022	2022
Net Income per share				
Basic	$0.12	$0.08	$0.25	$0.30
Diluted	$0.11	$0.08	$0.24	$0.28
Weighted average shares outstanding				
Basic	76,624	75,356	76,624	75,290
Diluted	81,990	81,289	80,664	81,118

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

($)	September 30 2023	September 30 2022
Source / (use) of cash:		
Accounts receivable	(5,512)	(4,821)
Prepaid expenses and deposits	(512)	(467)
Accounts payable and accrued liabilities	4,312	8,609
Current income taxes	(2,634)	4,157
Change in non-cash working capital	4,346	7,478
Related to:		
Operating activities	(7,379)	1,638
Investing activities	3,029	5,840

14. 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 which began in August 2023.

15. 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 in response 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 September 30, 2023, there is $3.9 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.

16. 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 September 30, 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 25th day of the month following production. At September 30, 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 $25.0 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 September 30, 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

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President and Chief Executive Officer

Kim Schoenroth
Vice President Finance and Chief Financial Officer

Gerald Aleman
Vice President, Production

Calvin House
Vice President, Land and Business Development

Preston Kraft
Vice President, Operations

Steven Metzger
Vice President, Exploration

Lonny Tetley
Corporate Secretary

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Clayton Woitas
Executive Chairman

Tyson Birchall

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