**NORTH 40**
**RESOURCES LTD.**

June 4, 2024

## PRESIDENT'S MESSAGE

North 40 Resources Ltd. Is pleased to report its operating and financial results for the three months ended March 31, 2024.

Highlights for this period include:

- Realized Q1 2024 average quarterly production of 5,405 boe/day (64% oil and liquids). Represents an 8% decrease from the first quarter average of 5,862 boe per day (60% oil and liquids) over the same period in 2023. In February 2024, North 40 shut-in volumes of non-associated gas of about 700 boe/day and had an additional 700 bbls/day oil restricted or shut-in due to facility limitations.

- Generated operating netback of $29.12 per boe.

During the quarter North 40 drilled three horizontal wells. A delineation oil well in Sheerness, an oil development well in our Drumheller Banff Pool and an unsuccessful oil well in our Tide Lake prospect. Our capital program included a 3D seismic purchase in Sheerness and our own 3D seismic programs in Sheerness and Connorsville South.

Our program for the remainder of the year is back-end loaded with all drilling activity to start in early July.

The 2nd quarter was spent evaluating seismic and acquiring surface leases and pipeline easements.

We expect to drill 13-15 horizontal wells in the second half of this year. The wells will consist of 3-4 development wells at Wayne and Drumheller Banff. The remainder of the wells will be around recent discoveries and 2-3 exploration wells. All are in our Sheerness prospect area.

Construction of a central oil processing facility and sales line are underway. We expect these to be operating in the early fall.

An additional oil discovery at Sheerness will be pipeline connected mid summer.

Expected 2024 capital expenditures are estimated at $80 mm.

Current North 40 production is approximately 4,800 boe/day with oil and liquids representing 65% of production. Shut-in and curtailed production volumes are approximately 1,400 boe/day.

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 4, 2024 and should be read in conjunction with North 40 Resources Ltd.'s ("North 40" or "the Company") audited financial statements and the accompanying notes for the years ended December 31, 2023 and the unaudited condensed interim financial statements for the three months ended March 31, 2024, which have been prepared in accordance with IFRS Accounting 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.*

*Funds flow from operations*

*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 operating activities, which is the most directly comparable measure calculated in accordance with IFRS.*

| | *Three months ended March 31* | |
|---|---|---|
| *(millions)* | *2024* | *2023* |
| *Cash provided by operating activities* | *$13.5* | *$11.9* |
| *Plus (Less): Net change in non-cash working capital* | *(0.5)* | *3.9* |
| *Funds flow from operations* | *$13.0* | *$15.8* |

*Operating netback*

*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.*

*Working capital surplus (deficiency)*

*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 | | |
|---|---|---|---|
| *(thousands, except per unit amounts and where indicated)* | March 31 2024 | March 31 2023 | December 31 2023 |
| **FINANCIAL** | | | |
| Petroleum and natural gas revenue | $27,260 | $30,668 | $34,594 |
| Funds flow from operations [(1)] | $13,049 | $15,755 | $17,289 |
| Per share – basic | $0.17 | $0.21 | $0.23 |
| Per share – diluted | $0.16 | $0.20 | $0.21 |
| Net income | $793 | $5,311 | $ 945 |
| Per share – basic | $0.01 | $0.07 | $0.01 |
| Per share – diluted | $0.01 | $0.07 | $0.01 |
| Capital expenditures [(2)] | $14,711 | $27,808 | $21,512 |
| Working capital deficiency [(3)] at end of period | $(7,807) | $(4,946) | $(6,114) |
| Common shares outstanding at end of period | 76,624 | 76,624 | 76,624 |
| **OPERATING** | | | |
| Sales volumes | | | |
| Oil and liquids (bbls/day) | 3,465 | 3,544 | 4,076 |
| Natural gas (mcf/day) | 11,642 | 13,907 | 14,052 |
| Total (boe/day) [(4)] | 5,405 | 5,862 | 6,418 |
| % Oil and liquids | 64 | 60 | 64 |
| Commodity prices realized (before pipeline tariffs) | | | |
| Oil and liquids ($/bbl) | 81.14 | 86.71 | 87.40 |
| Natural gas ($/mcf) | 2.84 | 3.60 | 2.54 |
| Total ($/boe) | 58.14 | 60.96 | 61.08 |
| Operating netback [(5)] ($/boe) | 29.12 | 32.96 | 30.74 |
| Funds from operations netback ($/boe) [(1)] | 26.53 | 29.86 | 29.28 |
| Net wells drilled | 3.0 | 6.0 | 4.0 |
| Net acres of land at end of period | 298,158 | 191,849 | 285,480 |

*(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 March 31, 2024, includes $4.1 million in cash ($7.9 million at March 31, 2023 and $8.0 million at December 31, 2023).*
*(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 March 31 | |
|---|---|---|
| | 2024 | 2023 |
| Oil (bbls per day) | 3,157 | 3,245 |
| Liquids (bbls per day) | 308 | 299 |
| Natural gas (mcf per day) | 11,642 | 13,907 |
| BOE per day | 5,405 | 5,862 |

Production in the first quarter of 2024 averaged 5,405 boe per day (64% oil and liquids) which is an 8% decrease from the first quarter 2023 average of 5,862 boe per day (60% oil and liquids). Contributing to the Q1 2024 decrease in production compared to Q1 2023 is the shut-in of non-associated natural gas production and restrictions on and shut-in of certain oil wells due to facility limitations, extreme weather in January, and natural expected declines. Two wells drilled in the Q1 2024 were brought on production in the first quarter.

Oil and liquids production decreased 2% to 3,465 bbls per day in Q1 2024 compared to 3,544 bbls per day in Q1 2023. Production increases from the two wells drilled and brought on production were offset by expected natural declines and temporary restrictions and shut-in oil production due to facility limitations.

Natural gas production declined 16% from 13,907 mcf per day in Q1 2023 to 11,642 mcf per day in Q1 2024. In response to weakness in near-term natural gas prices, North 40 shut in non-associated natural gas production in Q1 2024. This production will be brought back on production with stronger natural gas prices.

**OPERATING NETBACKS**

| | Three Months Ended March 31 | |
|---|---|---|
| *($ per BOE)* | 2024 | 2023 |
| Revenue [1] | $55.42 | $58.13 |
| Royalties | (11.22) | (13.28) |
| Operating expenses | (12.87) | (9.87) |
| Transportation expenses | (2.21) | (2.02) |
| Operating netback [2] | $29.12 | $32.96 |

*[1] Includes pipeline tariff amount of $2.72 per boe for the three months ended March 31, 2024 and $2.83 per boe in the comparable period of 2023.*
*[2] Operating netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS measurements section of the MD&A.*

The operating netback was lower in Q1 2024 compared to the same period in 2023 primarily due to lower realized prices for both oil and natural gas and higher operating and transportation costs partially offset by lower royalties.

**COMMODITY PRICES**

| | Three Months Ended March 31 | |
|---|---|---|
| *($ per bbl)* | 2024 | 2023 |
| WTI (US$/bbl) | $76.97 | $76.13 |
| MSW benchmark price [1] | $92.18 | $99.01 |
| WCS benchmark price [2] | $77.39 | $69.43 |
| Realized crude oil price | $83.83 | $88.92 |

*[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 2024 was $83.83 per barrel which is 6% lower than the Q1 2023 price of $88.92 per barrel. The average WTI price and the Canadian dollar were relatively flat in Q1 2024 when compared to Q1 2023. In the first quarter of 2024, the WCS differential narrowed to average US$19.58 per barrel from US$24.88 per barrel in the comparable period of 2023 in anticipation of the TMX pipeline expansion start-up. The MSW differential widened to average US$8.65 per barrel from US$2.88 per barrel in the first quarter of 2023.

The majority of the decrease in the Company’s crude oil price realizations in Q1 2024 compared to the same period in 2023 is due to wider average Canadian stream differentials applicable to North 40’s production.

| | Three Months Ended March 31 | |
|---|---|---|
| *($ per mcf)* | 2024 | 2023 |
| AECO Daily (5A) index | $2.51 | $3.20 |
| Realized natural gas price | $2.84 | $3.60 |

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 21% to $2.84 per mcf in Q1 2024 from $3.60 per mcf in the comparable period of 2023.

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**

| | Three Months Ended March 31 | |
|---|---|---|
| *($ thousands)* | 2024 | 2023 |
| Oil and liquids | $24,602 | $26,579 |
| Natural gas | 2,658 | 4,089 |
| Petroleum and natural gas revenue | $27,260 | $30,668 |
| % Oil and liquids | 90 | 87 |

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

Revenue in Q1 2024 decreased 11% to $27.3 million from $30.7 million in Q1 2023. Approximately 38% of the decrease in revenue is due to lower production volumes and 62% of the decrease is due to lower realized prices for all commodities.

Oil and liquids revenue of $24.6 million represents 90% of total revenue in Q1 2024 and decreased 7% from $26.6 million in Q1 2023. The majority of the decrease was due to lower realized prices with lower crude oil production also contributing and was partially offset by an increase in NGL production.

Natural gas revenue decreased 35% in Q1 2024 to $2.7 million from $4.1 million in the same period of 2023 about equally due to lower realized natural gas prices and lower production volumes.

Oil pipeline tariffs of $1.0 million ($1.1 million in Q1 2023) are included in revenue for the three months ended March 31, 2024. The custody transfer to the purchaser is at the point the oil is offloaded at the terminal. Gas pipeline tariffs of $0.4 million ($0.4 million in Q1 2023) are also included in revenue for the three months ended March 31,2024. Gas pipeline tariffs have increased on a per unit basis due to an increase in NGTL tolls. The custody transfer to the purchaser is at the point the natural gas enters the receipt meter.

**ROYALTIES**

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands, except per unit amounts)* | 2024 | 2023 |
| Royalties | $5,518 | $7,005 |
| Per BOE | $11.22 | $13.28 |
| % of Revenue before pipeline tariffs | 19% | 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 2024 were $5.5 million ($11.22 per boe) compared to $7.0 million ($13.28 per boe) in Q1 2023. The decrease from the comparable period in 2023 is due to lower production volumes and realized prices and the decrease in the per boe amount is due to lower realized commodity prices.

Royalties as a percentage of revenue averaged 19% in Q1 2024 compared to 22% in Q1 2023.

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)* | 2024 | 2023 |
| Operating expenses | $6,329 | $5,208 |
| Per BOE | $12.87 | $9.87 |
| Transportation expenses | $1,085 | $1,070 |
| Per BOE | $2.21 | $2.02 |

Operating expenses averaged $12.87 per boe ($6.3 million) for the first quarter of 2024 compared to $9.87 per boe ($5.2 million) in the first quarter of 2023. Main contributors to the increase were well servicing, maintenance and chemical costs. A decrease in production volume also contributed to the increase in the per boe expense.

Transportation costs, which are clean oil trucking expenses, averaged $2.21 per boe for the first quarter of 2024 and $2.02 boe for the comparative period in 2023. 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 36% of production in Q1 2024 compared to 40% in Q1 2023.

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)* | 2024 | 2023 |
| G&A – cash-based expenses | $1,008 | $875 |
| Capitalized G&A | (91) | (46) |
| Net G&A | $917 | $829 |
| Per BOE | $1.86 | $1.57 |

Net general and administrative ("G&A") expenses were $0.9 million in Q1 2024 compared to $0.8 million in Q1 2023. The increase in G&A is largely contributed to higher personnel costs commensurate with an increase in office staff partially offset by lower contract and professional services in Q1 2024 compared to Q1 2023.

On a boe basis, net G&A was $1.86 per boe in Q1 2024 compared to $1.57 per boe in Q1 2023 due to both higher G&A expenses and lower production volumes in Q1 2024.

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)* | 2024 | 2023 |
| Share based compensation | $287 | $70 |
| Capitalized share-based compensation | (28) | (4) |
| | $259 | $66 |
| Per BOE | $0.53 | $0.12 |

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.

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.

An incremental value of $0.6 million was determined for the vested Class B shares and options. This incremental value was recognized immediately in Q2 2023 and does not impact Q1 2024 nor Q1 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 $136,448 as share based compensation expense and capitalized $15,361 in the first quarter of 2024 related to the modification.

The increase in share-based compensation expense in the first quarter of 2024 compared to the same period in 2023 is due to additional grants in Q1 2024 and the incremental value on the Class C term extension.

Detailed information regarding the Class B and Class C shares and options have been disclosed in Note 11 of the financial statements.

**DEPLETION AND DEPRECIATION**

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands, except per unit amounts)* | 2024 | 2023 |
| Depletion and depreciation | $9,635 | $9,627 |
| Per BOE | $19.59 | $18.25 |

The Company recognized depletion and depreciation expense ("D&D") of $9.6 million in both the first quarter of 2024 and 2023. On a boe basis, D&D was $19.59 per boe in the first quarter of 2024 and $18.25 per BOE in the same period 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 Q1 2024 was about the same amount compared to the same period in 2023 due to a higher rate which was offset by lower production volume. 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 2024.

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

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 $2.4 million In Q1 2024 ($4.92 per boe) compared to $0.1 million ($0.17 per boe) in Q1 2023. Exploration expense in Q1 2024 relates to an unsuccessful test well at Tide Lake drilled in the quarter and undeveloped land expiries. Exploration expense in Q1 2023 related to undeveloped land expiries.

## FINANCE EXPENSE

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands)* | 2024 | 2023 |
| Accretion of decommissioning obligations | $67 | $52 |
| Banking fees | 14 | 23 |
| Interest on lease liabilities | 4 | 5 |
| Total | $85 | $80 |
| Per BOE | $0.17 | $0.15 |

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

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands)* | 2024 | 2023 |
| Current income tax expense | $443 | $1,000 |
| Deferred income tax recovery | (126) | 608 |
| Income taxes | $317 | $1,608 |
| Per BOE | $0.64 | $3.05 |

North 40 recognized a current income tax expense of $0.4 million and a deferred income tax recovery of $0.1 million for the three months ended March 31, 2024 compared to $1.0 million of current income tax and $0.6 million of deferred income tax expense for the comparable period in 2023.

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, 2024:

| *(thousands)* | Maximum Annual Deduction | March 31 2024 | March 31 2023 |
|---|---|---|---|
| Canadian oil and gas property expense (COGPE) | 10% | $15,028 | $15,205 |
| Canadian development expense (CDE) | 30% | 55,440 | 47,798 |
| Undepreciated capital cost (UCC) | 25% | 41,479 | 35,836 |
| | | $111,947 | $98,839 |

## NET INCOME AND COMPREHENSIVE INCOME

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands)* | 2024 | 2023 |
| Net income and comprehensive income | $793 | $5,311 |
| Per share – basic and diluted | $0.01 | $0.07 |

North 40 recognized net income and comprehensive income of $0.8 million ($0.01 per basic and diluted share) in the first quarter of 2024 and a net income and comprehensive income of $5.3 million ($0.07 per basic and diluted share) for the same period in 2023.

The decrease in net income for the three months ended March 31, 2024 as compared to the same period in 2023 is primarily due to a decrease in petroleum and natural gas revenue, an increase in exploration expense and an increase in operating expenses partially offset by lower royalties and income taxes.

## CAPITAL EXPENDITURES

Capital expenditures by type and by area for the three months ended March 31, 2024 and 2023 were as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands)* | 2024 | 2023 |
| Land and lease rentals [(1)] | $430 | $242 |
| Seismic and geological | 2,293 | 151 |
| Drilling and completion | 8,225 | 16,183 |
| Equipping and tie-ins | 3,370 | 9,044 |
| Facilities | 300 | 2,142 |
| Office and other | 93 | 46 |
| Total capital expenditures | $14,711 | $27,762 |

*(1) Net of land fund reimbursements*

| | Three Months Ended March 31 | |
|---|---|---|
| *(thousands)* | 2024 | 2023 |
| Sheerness | $5,351 | $ - |
| Drumheller | 4,000 | 7,293 |
| Wayne | 373 | 12,614 |
| Tide Lake | 3,195 | 107 |
| Matziwin | 1,598 | 5,062 |
| Other | 194 | 2,732 |
| Total field capital expenditures | $14,711 | $27,808 |

Wells drilled by property were as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | 2024 | 2023 |
| Sheerness | 1 | - |
| Drumheller | 1 | 1 |
| Wayne | - | 3 |
| Tide Lake | 1 | - |
| Matziwin South | - | 1 |
| Princess | - | 1 |
| Total | 3 | 6 |

First quarter 2024 capital expenditures were $14.7 million. Activities included the drilling, completion, equipping and tie-in of two wells, the drilling of a test well at Tide Lake, and workovers on a number of wells. In addition, 3D seismic shoots were completed at both Connorsville South (Matziwin area) and Sheerness. Capital was also expended to purchase 3D seismic date at Sheerness.

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.

North 40's land holdings per area at March 31, 2024 and 2023 were as follows:

| *(acres)* | March 31 2024 | March 31 2023 |
|---|---|---|
| Sheerness | 118,685 | 12,818 |
| Drumheller | 54,643 | 61,972 |
| Wayne | 16,263 | 15,012 |
| Tide Lake | 28,326 | 10,444 |
| Matziwin | 36,058 | 62,052 |
| Princess | 19,175 | 18,700 |
| Other | 25,008 | 10,851 |
| Total | 298,158 | 191,849 |

The increase in land holdings at March 31, 2024 compared to the same time last year is largely due to the acquisition of additional crown leases at Sheerness and Tide Lake partially offset by undeveloped land expiries at Drumheller and Matziwin.

The land holdings consist of 70% crown and 30% freehold leases at March 31, 2024. 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 $7.6 million at March 31, 2024 ($7.6 million at December 31, 2023).

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 3.52% (3.05% at December 31, 2023) and an inflation rate of 2.20% (2.20 % at December 31, 2023) were used to calculate the best estimate of the decommissioning obligation

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2024 the Company had no drawn debt and working capital deficiency of $7.8 million comprised of $4.1 million in cash and a working capital deficiency of $11.9 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.

At March 31, 2024, 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 March 31, 2024.

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, 2024. 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, 2024 is 18.3. 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. The next review date has been set for May 31, 2024.

The review was completed on May 31, 2024. The credit facility was increased from $25.0 million to $30.0 million with an increase to the pricing grid for standby fees on undrawn amounts. Standby fees on undrawn amounts would increase from 0.25% as disclosed above to 0.50%. The next review date has been set for November 30, 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, 2025. The agreement includes a funding limit of $17 million, which may be increased at the sole discretion of the party. At March 31, 2024, there is $3.4 million remaining on the funding limit.

**SELECTED QUARTERLY INFORMATION**

| Three Months Ended | Mar 31 2024 | Dec 31 2023 | Sept 30 2023 | Jun 30 2023 | Mar 31 2023 | Dec 31 2022 | Sept 30 2022 | Jun 30 2022 |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL** | | | | | | | | |
| Petroleum and natural gas revenue | $27,260 | $34,594 | $44,318 | $33,839 | $30,668 | $34,029 | $28,699 | $30,675 |
| Funds flow from operations (1) | $13,049 | $17,289 | $22,560 | $16,989 | $15,755 | $18,206 | $15,011 | $16,467 |
| Per share – basic | $0.17 | $0.23 | $0.29 | $0.22 | $0.21 | $0.24 | $0.20 | $0.22 |
| Per share – diluted | $0.16 | $0.21 | $0.28 | $0.21 | $0.20 | $0.23 | $0.18 | $0.20 |
| Net income | $793 | $ 945 | $9,306 | $4,572 | $5,311 | $8,186 | $6,291 | $10,222 |
| Per share – basic | $0.01 | $0.01 | $0.12 | $0.06 | $0.07 | $0.11 | $0.08 | $0.14 |
| Per share – diluted | $0.01 | $0.01 | $0.11 | $0.06 | $0.07 | $0.10 | $0.08 | $0.13 |
| Capital expenditures (2) | $14,711 | $21,512 | $17,740 | $18,656 | $27,808 | $17,774 | $20,385 | $18,850 |
| Working capital surplus (deficiency) at end of period (3) | $(7,807) | $(6,114) | $(1,857) | $(6,644) | $(4,946) | $7,139 | $6,737 | $12,141 |
| Common shares outstanding end of period | 76,624 | 76,624 | 76,624 | 76,624 | 76,624 | 76,624 | 76,624 | 75,340 |
| **OPERATING** | | | | | | | | |
| Sales volumes | | | | | | | | |
| Oil and liquids (bbls/day) | 3,465 | 4,076 | 4,740 | 4,203 | 3,544 | 3,391 | 2,656 | 2,155 |
| Natural gas (mcf/day) | 11,642 | 14,052 | 12,550 | 12,767 | 13,907 | 10,693 | 9,897 | 9,363 |
| Total (boe/day) (4) | 5,405 | 6,418 | 6,832 | 6,331 | 5,862 | 5,174 | 4,306 | 3,715 |
| % Oil and liquids | 64 | 64 | 69 | 66 | 60 | 66 | 62 | 58 |
| Commodity prices realized (before pipeline tariffs) | | | | | | | | |
| Oil and liquids ($/bbl) | 81.14 | 87.40 | 97.95 | 84.41 | 86.71 | 96.05 | 104.34 | 126.40 |
| Natural gas ($/mcf) | 2.84 | 2.54 | 2.92 | 2.72 | 3.60 | 5.42 | 4.59 | 7.91 |
| Total ($/boe) | 58.14 | 61.08 | 73.33 | 61.53 | 60.96 | 74.17 | 74.91 | 93.24 |
| Operating netback (5) ($/boe) | 29.12 | 30.74 | 40.47 | 32.91 | 32.96 | 42.56 | 41.97 | 56.99 |
| Funds flow from operations netback ($/boe) (1) | 26.53 | 29.28 | 35.89 | 29.49 | 29.86 | 38.25 | 37.89 | 48.71 |
| Net wells drilled | 3.0 | 4.0 | 3.0 | 3.0 | 6.0 | 3.0 | 5.0 | 5.0 |
| Net acres of land at end of period | 298,158 | 285,480 | 297,608 | 307,909 | 191,849 | 224,578 | 221,828 | 221,777 |

(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 March 31, 2024, includes $4.1 million in cash ($7.9 million at March 31, 2023 and $8.0 million at December 31, 2023).*

(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
# March 31, 2024

# North 40 Resources Ltd.
## Interim Statements of Financial Position

| As at | March 31 2024 | December 31 2023 |
|---|---|---|
| *($ thousands)* | | |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | 4,075 | 8,036 |
| Accounts receivable | 11,577 | 11,693 |
| Current income taxes (Note 8) | 44 | 487 |
| Prepaids and deposits | 1,032 | 1,036 |
| Total Current Assets | 16,728 | 21,252 |
| | | |
| Exploration and evaluation assets (Note 4) | 22,302 | 19,275 |
| Property and equipment (Note 5) | 168,867 | 169,260 |
| Right-of-use asset (Note 6) | 286 | 122 |
| **Total Assets** | **208,183** | **209,909** |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 24,535 | 27,366 |
| Total Current Liabilities | 24,535 | 27,366 |
| | | |
| Lease liabilities (Note 10) | 274 | 118 |
| Decommissioning obligations (Note 9) | 7,639 | 7,644 |
| Deferred income taxes | 16,467 | 16,593 |
| **Total Liabilities** | 48,915 | 51,721 |
| | | |
| **Shareholders' Equity** | | |
| Share capital (Note 11) | 76,245 | 76,245 |
| Contributed surplus | 4,948 | 4,661 |
| Retained earnings | 78,075 | 77,282 |
| Total Shareholders' Equity | 159,268 | 158,188 |
| **Total Liabilities and Shareholders' Equity** | **208,183** | **209,909** |

Subsequent Event (Note 7)

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

## North 40 Resources Ltd.

## Interim Statements of Net Income and Comprehensive Income

(unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | **2024** | **2023** |
| *($ thousands except per share amounts)* | | |
| **Revenue** | | |
| Petroleum and natural gas revenue (Note 12) | 27,260 | 30,668 |
| Less: Royalties | 5,518 | 7,005 |
| | 21,742 | 23,663 |
| Interest income | 99 | 227 |
| | 21,841 | 23,890 |
| **Expenses** | | |
| Operating | 6,329 | 5,208 |
| Transportation | 1,085 | 1,070 |
| General and administrative | 917 | 829 |
| Share based compensation (Note 11) | 259 | 66 |
| Depletion and depreciation (Notes 5 and 6) | 9,635 | 9,627 |
| Exploration expense (Note 4) | 2,421 | 91 |
| Finance expense | 85 | 80 |
| Total expenses | 20,731 | 16,971 |
| **Income before taxes** | 1,110 | 6,919 |
| Current income tax expense (Note 8) | 443 | 1,000 |
| Deferred income tax recovery | (126) | 608 |
| Income taxes | 317 | 1,608 |
| **Net Income and Comprehensive Income** | **793** | **5,311** |
| **Net Income per share (Note 13)** | | |
| Basic and diluted | $0.01 | $0.07 |

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

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

| ($ thousands) | Share Capital | Contributed Surplus | Retained Earnings | Total Equity |
|---|---|---|---|---|
| **Balance as at December 31, 2022** | **76,245** | **3,342** | **57,148** | **136,736** |
| Net income | - | - | 5,311 | 5,311 |
| Share based compensation (Note 11) | - | 70 | - | 70 |
| **Balance as at March 31, 2023** | **76,245** | **3,412** | **62,459** | **142,116** |
| | | | | |
| **Balance as at December 31, 2023** | **76,245** | **4,661** | **77,282** | **158,188** |
| Net income | - | - | 793 | 793 |
| Share based compensation (Note 11) | - | 287 | - | 287 |
| **Balance as at March 31, 2024** | **76,245** | **4,948** | **78,075** | **159,268** |

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

# North 40 Resources Ltd.

## Interim Statements of Cash Flow

| (unaudited) | Three months ended March 31 | |
|---|---|---|
| | **2024** | **2023** |
| *($ thousands)* | | |
| **Cash provided by (used in):** | | |
| **Operating activities** | | |
| Net income for the period | 793 | 5,311 |
| Adjusted for: | | |
| Depletion and depreciation (Notes 5 and 6) | 9,635 | 9,627 |
| Exploration expense (Note 4) | 2,421 | 91 |
| Accretion expense (Note 9) | 67 | 52 |
| Share based compensation (Note 11) | 259 | 66 |
| Deferred income tax recovery | (126) | 608 |
| | 13,049 | 15,755 |
| Net change in non-cash working capital (Note 14) | 488 | (3,817) |
| | 13,537 | 11,938 |
| **Financing activities** | | |
| Repayment of lease liabilities (Note 10) | (31) | (31) |
| | (31) | (31) |
| **Investing activities** | | |
| Exploration and evaluation expenditures (Note 4) | (5,449) | (344) |
| Property and equipment expenditures (Note 5) | (9,262) | (27,464) |
| Net change in non-cash working capital (Note 14) | (2,756) | 4,755 |
| | (17,467) | (23,053) |
| Change in cash | (3,961) | (11,146) |
| Cash, beginning of period | 8,036 | 19,066 |
| **Cash, end of period** | **4,075** | **7,920** |
| Cash income tax paid | - | 5,268 |

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

As at March 31, 2024 and December 31, 2023, and for the three months ended March 31, 2024 and 2023 *(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 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 interim financial statements have been prepared by management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"). They are condensed as they do not include all of the information required for full annual consolidated financial statements, and they should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2023.

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 4, 2024.

## 3. MATERIAL ACCOUNTING POLICIES

All accounting policies followed in preparation of these financial statements are consistent with those of the previous financial year. The Company's material accounting policies are disclosed in Note 3 of the financial statements for the year ended December 31, 2023.

## 4. EXPLORATION AND EVALUATION ASSETS

| ($) | March 31 2024 | December 31 2023 |
|---|---|---|
| Balance, beginning of period | 19,275 | 23,318 |
| Additions | 5,449 | 6,417 |
| Exploration expense | (2,421) | (4,027) |
| Transferred to property and equipment | - | (6,433) |
| Balance, end of period | 22,302 | 19,275 |

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.

Exploration expense relates to undeveloped land expiries and costs related to drilling an unsuccessful test well.

## 5. PROPERTY AND EQUIPMENT

| ($) | March 31 2024 | December 31 2023 |
|---|---|---|
| Property and equipment, at cost | 302,705 | 293,487 |
| Accumulated depletion and depreciation | (133,838) | (124,227) |
| Net book value, end of period | 168,867 | 169,260 |
| | | |
| Reconciliations of movements during the period: | | |
| Cost, beginning of period | 293,487 | 206,477 |
| Accumulated depletion and depreciation, beginning of period | (124,227) | (80,117) |
| Net book value, beginning of period | 169,260 | 126,360 |
| Additions | 9,289 | 79,436 |
| Transferred from exploration and evaluation assets | - | 6,433 |
| Changes in decommissioning obligations | (71) | 1,141 |
| Depletion and depreciation | (9,611) | (44,110) |
| Net book value, end of period | 168,867 | 169,260 |

Included in the calculation of depletion was an estimate for future development costs of $103.0 million at March 31, 2024 ($105.6 million at December 31, 2023). An estimated future salvage value of $7.2 million was excluded from the calculation of depletion at March 31, 2024 ($7.0 million at December 31, 2023).

Included in additions is capitalized general and administrative expenses of $0.1 million ($0.4 million at December 31, 2023).

At March 31, 2024 and December 31, 2023, there were no indicators of impairment identified and an impairment test was not performed.

## 6. RIGHT-OF-USE ASSET

| ($) | March 31 2024 | December 31 2023 |
|---|---|---|
| Balance, beginning of period | 122 | 234 |
| Additions | 188 | - |
| Depreciation | (24) | (112) |
| Balance, end of period | 286 | 122 |

The Company recognizes a right-of-use asset and corresponding lease liabilities related to office facilities. In Q1 2024, the Company entered into a new lease agreement which is considered a lease modification under IFRS. The modification requires a remeasurement of the right-of-use asset and corresponding lease liability. This resulted in an addition of $0.2 million to both the right-of-use asset and lease liability.

## 7. CREDIT FACILITY

At March 31, 2024, 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 March 31, 2024.

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, 2024. 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, 2024 is 18.3. 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. The next review date has been set for May 31, 2024.

The review was completed on May 31, 2024. The credit facility was increased from $25.0 million to $30.0 million with an increase to the pricing grid for standby fees on undrawn amounts. Standby fees on undrawn amounts would increase from 0.25% as disclosed above to 0.50%. The next review date has been set for November 30, 2024.

## 8. CURRENT INCOME TAXES

| ($) | March 31 2024 | December 31 2023 |
|---|---|---|
| Balance, beginning of period | (487) | 4,548 |
| Current income tax expense | 443 | 3,629 |
| Payments (1) | - | (8,664) |
| Balance, end of period | (44) | (487) |

(1) *Includes instalments.*

## 9. 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 $10.2 million ($9.2 million at December 31, 2023). A risk-free rate of 3.52% and an inflation rate of 2.20% were used to calculate the best estimate of the decommissioning obligations compared to 3.05% and 2.20% respectively which were the rates used at December 31, 2023.

A reconciliation of the decommissioning obligations is provided below.

| ($) | March 31 2024 | December 31 2023 |
|---|---|---|
| Balance, beginning of period | 7,644 | 6,273 |
| Liabilities incurred | 582 | 1,197 |
| Change in estimates | (654) | (56) |
| Accretion expense | 67 | 230 |
| Balance, end of period | 7,639 | 7,644 |

## 10. LEASE LIABILITIES

The Company incurs lease payments related to office facilities. For the quarter ended March 31, 2023, finance expense of $4,257 ($5,302 for the quarter ended March 31, 2023) and repayment of lease liabilities of $32,310 ($31,265 for the quarter ended March 31, 2023) were recognized for a total cash outflow of $36,567 ($36,567 for the quarter ended March 31, 2023).

In Q1 2024, the Company entered into a new lease agreement resulting in an increase of $0.2 million to the lease liability. Please see Note 6 for additional details. Lease obligations contractually expire in December 2028.

## 11. 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 2024 | | December 31 2023 |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| **Common Shares** | | | | |
| Balance, beginning of period | 76,624 | $76,093 | 76,624 | $76,093 |
| 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 | 4,870 | $49 |
| Balance, end of period | 4,870 | $49 | 4,870 | $49 |
| **Class C Common Non-Voting Shares** | | | | |
| Balance, beginning of period | 10,380 | $103 | 10,380 | $103 |
| 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 March 31, 2024, 4,870,000 Class B shares and 767,750 options on Class B shares have vested (4,870,000 and 668,000 respectively at March 31, 2023).

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, 2023 | 1,402,000 | $0.70 |
| Granted | 400,000 | 1.00 |
| Forfeited | (70,000) | (0.61) |
| Balance, December 31, 2023 | 1,732,000 | $0.77 |
| Granted | 565,000 | 1.00 |
| Balance, March 31, 2024 | 2,297,000 | $0.83 |

The fair market value of each Class B option granted in 2024 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 (%) | 3.85 |
| Expected life (years) | 2.0- 3.0 |
| Estimated volatility of underlying common shares (%) | 60 |
| Share Price ($) | 2.00 |
| Estimated forfeiture rate (%) | nil |

The Company recognized share-based compensation expense of $90,171 related to the Class B options for the quarter ended March 31, 2024 ($45,308 for the quarter ended March 31, 2023) and capitalized $8,143 ($2,677 for the quarter ended March 31, 2023).

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 was recognized immediately and $0.5 million has been expensed and $0.1 million has been capitalized in Q2 2023.

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) | 0.5 | 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 |
|---|---|---|
| 2,379,833 | $1.50 | $1.00 |
| 2,379,833 | $2.00 | $1.15 |
| 2,379,833 | $2.25 | $1.30 |
| 2,379,833 | $2.50 | $1.45 |
| 2,379,833 | $2.75 | $1.60 |
| 2,379,833 | $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, 2023 | 2,544,000 | $0.71 |
| Granted | 600,000 | 1.00 |
| Forfeited | (70,000) | (0.62) |
| Balance, December 31, 2023 | 3,074,000 | $0.77 |
| Granted | 825,000 | 1.00 |
| Balance, March 31, 2024 | 3,899,000 | $0.82 |

The fair market value of each Class C option granted in 2024 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 (%) | 3.85 |
| Expected life (years) | 2.5 |
| Estimated volatility of underlying common shares (%) | 60 |
| Share Price ($) | 2.00 |
| 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 $169,417 related to the Class C shares and options for the quarter ended March 31, 2024 ($20,825 for the quarter ended March 31, 2023) and capitalized $19,584 ($1,568 for the quarter ended March 31, 2023).

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 $151,809 for the quarter ended March 31, 2024 (nil for the quarter ended March 31, 2023) which is 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) | 0.5 | 1.8 |
| Estimated volatility of underlying common shares (%) | 60 | 60 |
| Share Price ($) | 1.99 | 1.99 |
| Estimated forfeiture rate (%) | nil | nil |

## 12. 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 2024** | **March 31 2023** |
|---|---|---|
| Crude oil revenues | 23,096 | 24,895 |
| Natural gas revenues | 2,659 | 4,088 |
| Natural gas liquids revenues | 1,505 | 1,685 |
| Total | 27,260 | 30,668 |

## 13. NET INCOME PER SHARE

| | **March 31 2024** | **March 31 2023** |
|---|---|---|
| Net Income per share | | |
| Basic and diluted | $0.01 | $0.07 |
| Weighted average shares outstanding | | |
| Basic | 76,624 | 76,624 |
| Diluted | 82,486 | 79,374 |

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

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

| ($) | **March 31 2024** | **March 31 2023** |
|---|---|---|
| Source / (use) of cash: | | |
| Accounts receivable | 116 | (930) |
| Prepaid expenses and deposits | 4 | 60 |
| Accounts payable and accrued liabilities | (2,831) | 6,076 |
| Current income taxes | 443 | (4,268) |
| Change in non-cash working capital | (2,268) | 938 |
| Related to: | | |
| Operating activities | 488 | (3,817) |
| Investing activities | (2,756) | 4,755 |

## 15. COMMITMENTS

| ($) | Within 1 year | After 1 year but not more than 5 years | Total |
|---|---|---|---|
| Firm transportation – natural gas | 232 | 540 | 772 |
| Office lease | 122 | 704 | 826 |
| Total | 354 | 1,244 | 1,598 |

## 16. 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, 2025. The agreement includes a funding limit of $17 million, which may be increased at the sole discretion of the party. At March 31, 2024, there is $3.4 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.

## 17. 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, 2024 and December 31, 2023, financial assets on the statement of financial position are comprised of cash and trade and other receivables and the maximum credit risk associated with these financial instruments is the total carrying amount of these financial assets.

Accounts receivable for crude oil and natural gas sales are collected on or about the 25th day of the month following production. At March 31, 2024, 94% of the accounts receivable amount relates to production revenue (89% at December 31, 2023).

**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. At the date of writing, the credit facility was increased from $25.0 million to $30.0 million.

**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, 2024 and December 31, 2023 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. There were no outstanding contracts at March 31, 2024 and December 31, 2023.

*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. There were no outstanding contracts at March 31, 2024 and December 31, 2023.

## Corporate Information

### OFFICERS

Don Robson
*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*

### DIRECTORS

Clayton Woitas
*Executive Chairman*

Tyson Birchall

Jeff Lebbert

Margaret McKenzie

Don Robson

Grant Zawalsky

### HEAD OFFICE

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### BANKER

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### LEGAL COUNSEL

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