NORTH 40
RESOURCES LTD.

September 4, 2024

PRESIDENT'S MESSAGE

North 40 Resources Ltd. Is pleased to report its operating and financial results for the three and six months ended June 30, 2024.

Highlights for this period include:

- Realized Q2 2024 average quarterly and first half production of 4,436 boe/day (68% oil and liquids) and 4,921 boe/day (66% oil and liquids), respectively, a decrease from 6,331 boe/day and 6,098 boe/day in the same periods in 2023. Factors contributing to the decrease are natural expected declines, of note are the expected declines from three highly productive Wayne wells drilled in Q1 2023, shut-in of non-associated natural gas production and restrictions on and shut-in of certain oil wells due to facility limitations.

- Generated funds flow from operations of $12.6 million in the quarter and $25.6 million in the first half of 2024.

- Operating netback of $34.25/boe and $31.44/boe for the quarter and first half of 2024.

- Invested $3.6 million in capital spending in the quarter and $18.3 million in the first half that included drilling of three wells, the tie in of a Sheerness well which was drilled in 2023, workovers/optimization on several wells and the electrification of the Wayne battery sites, 3D seismic shoots at Connorsville South and Sheerness. Capital was also expended on equipment purchases for the Sheerness battery which construction commenced mid July 2024.

- Maintained strong LMR rating by virtue of our greenfield approach which was 15.48 at August 2024.

- No bank debt at June 30, 2024.

Q2 2024 Activity

As indicated in June, the first half of the year has been comparatively quiet from a capital spend perspective with most capital activity planned for the second half of 2024.

Production additions from new wells have been modest in the first half of the year with two 2024 drills put on production with most production additions coming late in Q3 and in Q4.

Activity in Q2 2024 included planning and preparing for the second half drilling program and the construction of the Sheerness battery. The pipeline for the associated gas production from the Sheerness battery has been surveyed and construction will commence later this fall.

North 40 has also targeted focused acquisitions to acquire assets in the Sheerness area. One land acquisition closed at the end of August where the team has identified several locations. This acquisition was financed through the sale of a royalty on future production from the acquired lands.

During the quarter, North 40 pursued optimization and workover programs on the North 40 base production, results of which will be realized in the second half of the year.

One Sheerness well which was drilled in Q4 2023 was tied in and commenced production in early July.

North 40 Second Half Program - "High Activity Period"

North 40's capital program is $64 million for Q3/Q4. The second half drilling program commenced in July. The three Drumheller Banff wells drilled and completed in Q3 are on production in the last few days. The Drumheller Banff well drilled and placed on production in Q1 2024 has performed as expected.

Three wells have been drilled at Sheerness with additional wells to be drilled in 2024. The first Sheerness well has been completed and is producing to an existing facility. The remaining Sheerness wells will be completed and tied into the newly constructed Sheerness battery.

We expect to drill seven to nine horizontal wells for the balance of the year. The wells will consist of horizontal wells at Sheerness, and we are evaluating three to four development horizontal wells at Wayne. Except for a 30-day window in mid September North 40 expects to have drilling operations for the remainder of 2024. Total wells drilled in 2024 is expected to be 16 to 18 wells.

Current North 40 production is approximately 5,000 boe/day with oil and liquids representing 65% of production with approximately 870 boe/day of natural gas shut in.

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 September 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 and six months ended June 30, 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.*

<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 June 30		Six months ended June 30	
(thousands)	*2024*	*2023*	*2024*	*2023*
Cash provided by operating activities	*$7,707*	*$15,679*	*$21,243*	*$27,618*
Plus: Decommissioning expenditures	*78*	*-*	*78*	*-*
Plus: Net change in non-cash working capital	*4,770*	*1,310*	*4,283*	*5,127*
Funds flow from operations	*$12,555*	*$16,989*	*$25,604*	*$32,745*

<u>Operating netback</u>

Management uses operating netbacks as a profitability measure relative to current commodity prices. Operating netback is calculated as the 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 June 30		Six months ended June 30	
(thousands, except per unit amounts and where indicated)	2024	2023	2024	2023
FINANCIAL				
Petroleum and natural gas revenue	$26,057	$33,839	$53,317	$64,507
Funds flow from operations *(1)*	$12,555	$16,989	$25,604	$32,745
Per share – basic	$0.16	$0.22	$0.33	$0.43
Per share – diluted	$0.15	$0.21	$0.31	$0.41
Net income	$4,244	$4,572	$5,037	$9,883
Per share – basic	$0.06	$0.06	$0.07	$0.13
Per share – diluted	$0.05	$0.06	$0.06	$0.12
Capital expenditures (2)	$3,554	$18,656	$18,264	$46,464
Working capital surplus (deficiency) *(3)* at end of period	$1,086	$(6,644)	$1,086	$(6,644)
Common shares outstanding at end of period	76,624	76,624	76,624	76,624
OPERATING				
Sales volumes				
Oil and liquids (bbls/day)	3,034	4,203	3,250	3,875
Natural gas (mcf/day)	8,413	12,767	10,027	13,334
Total (boe/day) (4)	4,436	6,331	4,921	6,098
% Oil and liquids	68	66	66	64
Commodity prices realized (before pipeline tariffs)				
Oil and liquids ($/bbl)	94.73	84.41	87.49	85.45
Natural gas ($/mcf)	1.33	2.72	2.21	3.18
Total ($/boe)	67.31	61.53	62.27	61.26
Operating netback ($/boe) (5)	34.25	32.91	31.44	32.94
Funds flow from operations netback ($/boe) *(1)*	31.10	29.49	28.59	29.67
Net wells drilled	-	3.0	3.0	9.0
Net acres of land at end of period	283,585	307,909	283,585	307,909

(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 June 30, 2024, includes $5.5 million in cash ($6.9 million at June 30, 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 June 30		Six months ended June 30	
	2024	2023	2024	2023
Oil (bbls per day)	2,773	3,882	2,965	3,565
Liquids (bbls per day)	261	321	285	310
Natural gas (mcf per day)	8,413	12,767	10,027	13,334
BOE per day	4,436	6,331	4,921	6,098

Production in Q2 2024 averaged 4,436 boe per day (68% oil and liquids) which is a 30% decrease from Q2 2023 average of 6,331 boe per day (66% oil and liquids). Production for the first six months of 2024 averaged 4,921 boe per day (66% oil and liquids) compared to 6,098 boe per day (64% oil and liquids) in the same period of 2023. Factors contributing to the decrease are natural expected declines, shut-in of non-associated natural gas production and restrictions on and shut-in of certain oil wells due to facility limitations. Production additions from new drills also contributed less to production volume in 2024 compared to 2023. In the first six months of 2024, two new wells were brought on production compared to six wells in 2023.

Oil and liquids production decreased 28% to 3,034 bbls per day in Q2 2024 from 4,203 bbls per day in Q2 2023 and decreased 16% to 3,250 bbls per day in the first six months of 2024 from 3,875 bbls per day in the comparable 2023 period. Production increases from the two wells drilled and brought on production in Q1 2024 were more than offset by natural expected production declines most significantly from three Wayne wells drilled and brought on production in Q1 2023.

Natural gas production decreased 34% and 25% in the quarter and six months ended June 30, 2024, respectively compared to the same periods in 2023. Expected natural declines from 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 decrease.

The Company shut in non-associated natural gas production (excluding the Drumheller natural gas well drilled in 2023 which was being evaluated) on April 1, 2023, due to low natural gas price realizations. The volume was brought back on production later in 2023. In Q1 and Q2 2024, the Company again shut in non-associated natural gas production due to low natural gas price realizations. More wells were shut in during 2024 and at an earlier date than in 2023.

OPERATING NETBACK

	Three months ended June 30		Six months ended June 30	
($ per BOE)	2024	2023	2024	2023
Revenue [(1)]	$64.55	$58.73	$59.53	$58.45
Royalties	(13.93)	(12.55)	(12.44)	(12.90)
Operating expenses	(13.68)	(10.39)	(13.23)	(10.14)
Transportation expenses	(2.69)	(2.88)	(2.42)	(2.47)
Operating netback [(2)]	$34.25	$32.91	$31.44	$32.94

(1) Net of pipeline tariff amount of $2.76 and $2.74 per boe for the three and six months ended June 30, 2024, and $2.80 and $2.81 per boe in the comparable periods of 2023 respectively.

(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 higher in Q2 2024 compared to the same period in 2023 primarily due to higher realized prices for crude oil and lower transportation costs partially offset by lower realized prices for natural gas and higher royalty and operating expenses.

For the six months ended June 30, 2024, the operating netback was lower than the same period in 2023 primarily due to lower natural gas price realizations and higher operating costs partially offset by higher oil price realizations and lower royalty and transportation expense.

COMMODITY PRICES

	Three months ended June 30		Six months ended June 30	
($ per bbl)	2024	2023	2024	2023
WTI (US$/bbl)	$80.57	$73.78	$78.77	$74.95
MSW benchmark price [(1)]	$105.32	$95.19	$98.77	$97.26
WCS benchmark price [(2)]	$91.71	$78.76	$84.73	$74.04
Realized crude oil price	$98.45	$87.15	$90.67	$87.95

(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 Q2 2024 was $98.45 per barrel which is 13% higher than the Q2 2023 price of $87.15 per barrel. WTI benchmark prices increased 9% from $73.78 per barrel in Q2 2023 to $80.57 per barrel in Q2 2024 contributing to most of the increase in North 40's realized price. Also contributing to a higher realized oil price was narrower Canadian stream differentials and a weaker Canadian dollar.

North 40's realized oil price increased 3% in the first half of 2024 to $90.67 per barrel from $87.95 per barrel realized in the first half of 2023 due to a 5% increase in WTI benchmark prices and a weaker Canadian dollar partially offset by wider Canadian stream differentials.

Benchmark WTI prices strengthened in the first half of 2024 compared to the first half of 2023 supported by escalated conflicts in the Middle East and Ukraine as well as continued OPEC+ production curtailments. WCS differentials improved materially with the May 2024 successful start up of the TMX (Trans Mountain) pipeline expansion.

	Three months ended June 30		Six months ended June 30	
($ per mcf)	2024	2023	2024	2023
AECO Daily (5A) index	$1.18	$2.45	$1.84	$2.83
Realized natural gas price	$1.33	$2.72	$2.21	$3.18

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 51% to $1.33 per mcf in Q2 2024 from $2.72 per mcf in Q2 2023 and decreased 31% to $2.21 per mcf for the first six months of 2024 from $3.18 per mcf in the same period of 2023.

Both Nymex and AECO natural gas prices have moved materially lower due to a mild weather and an increase in Canadian and US supply causing higher storage levels.

REVENUE

	Three months ended June 30		Six months ended June 30	
($ thousands)	2024	2023	2024	2023
Oil and liquids	$25,273	$31,012	$49,875	$57,592
Natural gas	784	2,827	3,442	6,915
Petroleum and natural gas revenue	$26,057	$33,839	$53,317	$64,507
% Oil and liquids	97	92	94	89

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

Revenue in Q2 2024 decreased to $26.1 million from $33.8 million in Q2 2023. Approximately 89% of the revenue decrease was due to lower production volume with the remainder due to lower price realizations for natural gas and liquids. Most of the decrease resulted from lower crude oil production volumes. Partially offsetting the impact of lower production volumes and natural gas and liquids prices was higher oil price realizations.

Revenue for the six months ended June 30 decreased by 17% from $64.5 million in 2023 to $53.3 million in 2024 for the same reasons as the Q2 decrease.

Oil and liquids revenue represents 97% of total revenue in Q2 2024 and decreased 19%, from $31.0 million in Q2 2023 to $25.3 million in Q2 2024. Crude oil realizations were 13% higher and oil production volumes were 28% lower in Q2 2024 compared to the same quarter last year.

Oil and liquids revenue represents 94% of total revenue in first half of 2024 and decreased 13%, from $57.6 million in the first half of 2023 to $49.9 million in the comparable period of 2024. Crude oil realizations were 3% higher and oil production volumes were 17% lower in the first half of 2024 compared to the same period last year.

Natural gas revenue decreased 72% in Q2 2024 from $2.8 million in Q2 2023 to $0.8 million in Q2 2024. The decrease is due to a 51% decrease in price realizations and a 34% decrease in production volume in Q2 2024 compared to Q2 2023.

Natural gas revenue decreased 50% in the first half of 2024 from $6.9 million in 2023 to $3.4 million in 2024. The decrease is due to a 31% decrease in price realizations and a 25% decrease in production volume in the first half of 2024 compared to the same period in 2023.

Oil pipeline tariffs of $0.9 million and $1.9 million are included in revenue for the second quarter and the first six months of 2024 respectively. This compares to $1.3 million and $2.3 million in the same periods of 2023. The custody transfer to the purchaser is at the point the oil is offloaded at the terminal. Gas pipeline tariffs of $0.2 million and $0.6 million are also included in revenue for the three months and six months ended June 30, 2024, respectively. This compares to $0.3 million and $0.8 million in the same periods of 2023. The custody transfer to the purchaser is at the point the natural gas enters the receipt meter.

ROYALTIES

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2024	2023	2024	2023
Royalties	$5,621	$7,231	$11,139	$14,236
Per BOE	$13.93	$12.55	$12.44	$12.90
% of Revenue	21%	21%	20%	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 on a boe basis increased to $13.93 per boe and $5.6 million in the second quarter of 2024 compared to $12.55 per boe and $7.2 million in the second quarter of 2023 commensurate with higher realized oil prices and lower production volumes.

Royalties on a boe basis decreased to $12.43 per boe and $11.1 million in first half of 2024 compared to $12.90 per boe and $14.2 million in the same period of 2023.

Royalties as a percentage of revenue were 21% in second quarters of 2024 and 2023. Royalties as a percentage of revenue decreased to 20% for the first six months of 2024 compared to 22% for the first six months of 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 June 30		Six months ended June 30	
(thousands, except per unit amounts)	2024	2023	2024	2023
Operating expenses	$5,522	$5,986	$11,851	$11,193
Per BOE	$13.68	$10.39	$13.23	$10.14
Transportation expenses	$1,085	$1,660	$2,170	$2,730
Per BOE	$2.69	$2.88	$2.42	$2.47

Operating expenses averaged $13.68 and $13.23 per boe for the second quarter and the first six months of 2024 respectively compared to $10.39 and $10.14 per boe in the second quarter and first six months of 2023. Main contributors to the increase were well servicing costs, maintenance and chemical costs. A decrease in production volume also contributed to the increase in the per boe expense as fixed costs are allocated over less production volume.

Transportation costs, which are clean oil trucking expenses, averaged $2.69 and $2.42 per boe in the second quarter and the first six months of 2024, respectively compared to $2.88 and $2.47 per boe in the second quarter and first half of 2023, respectively. The cost is incurred on oil production only.

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 June 30		Six months ended June 30	
(thousands, except per unit amounts)	2024	2023	2024	2023
Gross G&A	$1,072	$740	$2,079	$1,614
Capitalized G&A	(85)	(43)	(176)	(88)
Net G&A	$987	$697	$1,903	$1,526
Per BOE	$2.44	$1.21	$2.13	$1.38

Net general and administrative ("G&A") expenses were $1.0 million and $1.9 million for the second quarter and first half of 2024 respectively compared to $0.7 million and $1.5 million in the same periods of 2023. The increase G&A is largely contributed to higher personnel costs commensurate with an increase in office staff and higher computer software costs which were partially offset by lower costs for contract and professional services in 2024 when compared to the same periods in 2023.

On a boe basis, net G&A was $2.44 and $2.13 per boe in Q2 and first half of 2024 respectively compared to $1.21 and $1.38 per boe in same periods of 2023. The increase in the per boe amount is due to both higher costs as well as lower production volumes in 2024 when compared to 2023.

The most significant costs in the first half of 2024 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 June 30		Six months ended June 30	
(thousands, except per unit amounts)	2024	2023	2024	2023
Share-based compensation	$287	$734	$574	$804
Capitalized share-based compensation	(27)	(92)	(55)	(96)
	$260	$642	$519	$708
Per BOE	$0.64	$1.11	$0.58	$0.64

Share-based compensation expense is a non-cash expense and 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 was recognized immediately in Q2 2023 ($0.5 million was expensed and $0.1 million was capitalized).

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 $136,449 and $272,898 as share based compensation expense and capitalized $15,361 and $30,722 in the three and six months ended June 30, 2024 respectively. The Company recognized $25,803 as share based compensation expense and capitalized $1,590 in the comparable periods of 2023.

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 June 30		Six months ended June 30	
(thousands, except per unit amounts)	2024	2023	2024	2023
Depletion and depreciation	$7,987	$11,003	$17,621	$20,630
Per BOE	$19.79	$19.10	$19.68	$18.69

The Company recognized depletion and depreciation expense (“D&D”) of $8.0 million ($19.79 per boe) and $17.6 million ($19.68 per boe) for the quarter and six months ended June 30, 2024, respectively compared to $11.0 million ($19.10 per boe) and $20.6 million ($18.69 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 decreased in both Q2 and for the first six months of 2024 compared to the same periods in 2023 largely due to lower production volume partially offset by 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 2024.

The D&D expense recognized was comprised primarily of depletion expense with minor amounts related 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 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

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2024	2023	2024	2023
Exploration expense	$35	$138	$2,457	$229
Per BOE	$0.09	$0.24	$2.74	$0.21

North 40 recognized exploration expense of $0.1 million ($0.09 per boe) in Q2 2024 and $2.5 million ($2.74 per boe) in the first half of 2024 related to an unsuccessful test well at Tide Lake drilled in the first quarter and undeveloped land expiries. This compares to $0.1 million ($0.24 per boe) in Q2 2023 and $0.2 million ($0.21 per boe) in the first half of 2023. Exploration expense in 2023 relates to undeveloped land expiries.

FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
(thousands)	2024	2023	2024	2023
Accretion of decommissioning obligations	$64	$55	$130	$107
Interest	32	-	28	-
Banking fees	92	85	110	108
Interest on lease liabilities	7	5	12	10
Total	$195	$145	$280	$225
Per BOE	$0.48	$0.25	$0.31	$0.20

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.

INCOME TAXES

	Three months ended June 30		Six months ended June 30	
(thousands)	2024	2023	2024	2023
Current income tax expense	$205	$1,290	$648	$2,290
Deferred income tax expense	(35)	579	(160)	1,188
Income taxes	$170	$1,869	$488	$3,478
Per boe	$0.42	$3.24	$0.54	$3.15

North 40 recognized current income tax expense of $0.2 million in Q2 2024 and $0.6 million for the first half of the year compared to $1.3 million and $2.3 million in the comparable periods of 2023 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 six months ended June 30, 2024, a deferred income tax recovery of $0.1 million and $0.2 million, respectively, was recognized compared to a deferred income tax expense of $0.6 million and $1.2 million for the comparable periods in 2023.

The following tax pool balances are estimated at June 30, 2024:

(thousands)	Maximum Annual Deduction	June 30 2024	June 30 2023
Canadian oil and gas property expense (COGPE)	10%	14,795	$15,239
Canadian development expense (CDE)	30%	51,924	50,350
Undepreciated capital cost (UCC)	25%	41,059	38,316
		$107,778	$103,905

NET INCOME AND COMPREHENSIVE INCOME

	Three months ended June 30		Six months ended June 30	
(thousands)	2024	2023	2024	2023
Net income and comprehensive income	$4,244	$4,572	$5,037	$9,883
Per share - basic	$0.06	$0.06	$0.07	$0.13
Per share - diluted	$0.05	$0.06	$0.06	$0.12

The decrease in net income for the three months ended June 30, 2024, as compared to the same period in 2023 is primarily due to a decrease in petroleum and natural gas revenue mostly offset by decreases in royalties, operating and transportation costs, depletion and depreciation, and current and deferred income taxes.

The decrease in net income for the six months ended June 30, 2024, as compared to the same period in 2023 is primarily due to a decrease in petroleum and natural gas revenue and increases in operating costs and exploration expense partially offset by decreases in royalties, transportation costs, depletion and depreciation and current and deferred income taxes.

CAPITAL EXPENDITURES

Capital expenditures by type and by property for the three and six months ended June 30, 2024, and 2023 were as follows:

	Three months ended June 30		Six months ended June 30	
(thousands)	2024	2023	2024	2023
Land and lease rentals [(1)]	$318	$528	$747	$769
Seismic and geological	153	1,738	2,447	1,889
Drilling and completion	145	7,343	8,370	23,527
Equipping and tie-ins	2,765	4,037	6,135	13,081
Facilities	87	4,875	387	7,017
Office and other	86	135	178	181
Total capital expenditures	$3,554	$18,656	$18,264	$46,464

(1) Net of land fund reimbursements.

	Three months ended June 30		Six months ended June 30	
(thousands)	2024	2023	2024	2023
Sheerness	$1,197	$1,880	$6,549	$1,880
Drumheller	1,086	2,193	5,188	9,687
Wayne	889	12,764	1,187	25,379
Tide Lake	(109)	112	3,086	219
Matziwin	372	493	1,970	5,555
Other	119	1,214	284	3,744
Total capital expenditures	$3,554	$18,656	$18,264	$46,464

Wells drilled by property were as follows:

	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Sheerness	-	-	1	-
Drumheller	-	-	1	1
Tide Lake	-	-	1	-
Wayne	-	3	-	6
Matziwin South [(1)]	-	-	-	1
Princess	-	-	-	1
Total	-	3	3	9

[(1)] Included in Matziwin area

Capital expenditures in Q2 2024 were $3.6 million. Capital activity included the tie in of a Sheerness well drilled in 2023, workovers on several wells, and the electrification of three battery sites at Wayne. Capital was also expended on equipment purchases for future capital projects.

For the first six months of 2024 capital expenditures were $18.3 million which included the drilling of three wells. Activities included the drilling, completion, equipping and tie in of two wells (Drumheller and Sheerness) drilled in the first quarter, the drilling of a test well at Tide Lake, tie in of a Sheerness well drilled in 2023, workovers at several wells, electrification of three Wayne battery sites as well as equipment purchases for future capital projects. In addition, 3D seismic shoots were completed at both Connorsville South (Matziwin area) and Sheerness.

Capital expenditures in Q2 2023 were $18.7 million. Capital activity included the drilling of three wells at Wayne, leasing of land and purchase of 3D seismic data at Sheerness, continued construction and start up of the Wayne oil battery, continued construction of the water disposal facility at Drumheller and well workovers. Capital was also expended on equipment purchases for future locations and equipping and tie in projects.

For the first six months of 2023 capital expenditures were $46.5 million which included the drilling of nine 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 one well and construction of water disposal facilities which will become operational later in the year. Other activities include acquisition of land leases and purchase of 3D seismic data at Sheerness, one well at each of Matziwin South and Princess, workover and recompletion operations, and equipment purchases for future locations.

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

(acres)	June 30, 2024	June 30 2023
Sheerness	118,685	118,527
Drumheller	55,121	57,175
Wayne	15,951	15,630
Tide Lake	28,326	10,444
Matziwin	24,168	54,902
Princess	18,858	18,858
Other	22,476	32,372
Total	283,585	307,908

The decrease in land holdings at June 30, 2024, compared to the same time last year is primarily due to undeveloped land expiries at Drumheller and Matziwin partially offset by the acquisition of additional crown leases at Tide Lake.

The land holdings consist of 68% crown and 32% freehold leases at June 30, 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 $7.1 million at June 30, 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 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 3.54% (3.05% at December 31, 2023) and an inflation rate of 2.00% (2.20% at December 31, 2023) were used to calculate the best estimate of the decommissioning obligation. The decrease in the decommissioning obligation at June 30, 2024, compared to December 31, 2023, is primarily due to the increase in the risk-free rate and decrease in the inflation rate used in the calculation of the liability.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2024, the Company had no drawn debt and a working capital surplus of $1.1 million comprised of $5.5 million in cash and a working capital deficit of $4.4 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 June 30, 2024, the Company had a $30.0 million revolving demand operating facility with a Canadian chartered bank. The facility bears interest based on the prime rate or Canadian Overnight Repo Rate Average ("CORRA") 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 0.50%. The Company has a letter of credit outstanding for $0.1 million at June 30, 2024 that reduces the amount otherwise available to be drawn on the operating facility.

The facility includes a financial covenant that requires the working capital ratio (adjusted for unrealized hedging, the current portion of debt, and the undrawn availability under the facility) be not less than 1.0 at each fiscal quarter end. The Company was in compliance with this covenant at June 30, 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 June 30, 2024 is 16.3. 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 CORRA loans. The credit facility is subject to periodic review at the lenders' discretion. A review was completed May 31, 2024 and the facility was increased by $5 million to $30 million. 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 June 30, 2024, there is $3.4 million remaining on the funding limit.

SELECTED QUARTERLY INFORMATION

Three Months Ended	Jun 30 2024	Mar 31 2024	Dec 31 2023	Sept 30 2023	Jun 30 2023	Mar 31 2023	Dec 31 2022	Sept 30 2022
FINANCIAL								
Petroleum and natural gas revenue	$26,057	$27,260	$34,594	$44,318	$33,839	$30,668	$34,029	$28,699
Funds flow from operations (1)	$12,555	$13,049	$17,289	$22,560	$16,989	$15,755	$18,206	$15,011
Per share – basic	$0.16	$0.17	$0.23	$0.29	$0.22	$0.21	$0.24	$0.20
Per share – diluted	$0.15	$0.16	$0.21	$0.28	$0.21	$0.20	$0.23	$0.18
Net income	$4,244	$793	$ 945	$9,306	$4,572	$5,311	$8,186	$6,291
Per share – basic	$0.06	$0.01	$0.01	$0.12	$0.06	$0.07	$0.11	$0.08
Per share – diluted	$0.05	$0.01	$0.01	$0.11	$0.06	$0.07	$0.10	$0.08
Capital expenditures (2)	$3,554	$14,711	$21,512	$17,740	$18,656	$27,808	$17,774	$20,385
Working capital surplus (deficiency) at end of period (3)	$1,086	$(7,807)	$(6,114)	$(1,857)	$(6,644)	$(4,946)	$7,139	$6,737
Common shares outstanding end of period	76,624	76,624	76,624	76,624	76,624	76,624	76,624	76,624
OPERATING								
Sales volumes								
Oil and liquids (bbls/day)	3,034	3,465	4,076	4,740	4,203	3,544	3,391	2,656
Natural gas (mcf/day)	8,413	11,642	14,052	12,550	12,767	13,907	10,693	9,897
Total (boe/day) (4)	4,436	5,405	6,418	6,832	6,331	5,862	5,174	4,306
% Oil and liquids	68	64	64	69	66	60	66	62
Commodity prices realized (before pipeline tariffs)								
Oil and liquids ($/bbl)	94.73	81.14	87.40	97.95	84.41	86.71	96.05	104.34
Natural gas ($/mcf)	1.33	2.84	2.54	2.92	2.72	3.60	5.42	4.59
Total ($/boe)	67.31	58.14	61.08	73.33	61.53	60.96	74.17	74.91
Operating netback (5) ($/boe)	34.25	29.12	30.74	40.47	32.91	32.96	42.56	41.97
Funds flow from operations netback ($/boe) (1)	31.10	26.53	29.28	35.89	29.49	29.86	38.25	37.89
Net wells drilled	-	3.0	4.0	3.0	3.0	6.0	3.0	5.0
Net acres of land at end of period	283,585	298,158	285,480	297,608	307,909	191,849	224,578	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.*
(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
June 30, 2024

North 40 Resources Ltd.
Interim Statements of Financial Position

As at	June 30 2024	December 31 2023
($ thousands)		
ASSETS		
Current Assets		
Cash	5,540	8,036
Accounts receivable	8,685	11,693
Current income taxes (Note 8)	312	487
Prepaids and deposits	1,397	1,036
Total Current Assets	15,934	21,252
Exploration and evaluation assets (Note 4)	22,793	19,275
Property and equipment (Note 5)	163,452	169,260
Right-of-use asset	269	122
Total Assets	**202,448**	**209,909**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	14,848	27,366
Total Current Liabilities	14,848	27,366
Lease liabilities (Note 10)	244	118
Decommissioning obligations (Note 9)	7,125	7,644
Deferred income taxes	16,432	16,593
Total Liabilities	38,649	51,721
Shareholders' Equity		
Share capital (Note 11)	76,245	76,245
Contributed surplus	5,235	4,661
Retained earnings	82,319	77,282
Total Shareholders' Equity	163,799	158,188
Total Liabilities and Shareholders' Equity	**202,448**	**209,909**

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 June 30		Six months ended June 30	
	2024	**2023**	**2024**	**2023**
($ thousands except per share amounts)				
Revenue				
Petroleum and natural gas revenue (Note 12)	26,057	33,839	53,317	64,507
Less: Royalties	5,621	7,231	11,139	14,236
	20,436	26,608	42,178	50,271
Interest income	49	104	148	331
Other income	-	-	-	-
	20,485	26,712	42,326	50,602
Expenses				
Operating	5,522	5,986	11,851	11,193
Transportation	1,085	1,660	2,170	2,730
General and administrative	987	697	1,903	1,526
Share-based compensation (Note 11)	260	642	519	708
Depletion and depreciation (Note 5 and 6)	7,987	11,003	17,621	20,630
Exploration expense (Note 4)	35	138	2,457	229
Finance expense	195	145	280	225
Total expenses	16,071	20,271	36,801	37,241
Income before taxes	4,414	6,441	5,525	13,361
Current income tax expense	205	1,290	648	2,290
Deferred income tax (recovery) expense	(35)	579	(160)	1,188
Net Income and Comprehensive Income	**4,244**	**4,572**	**5,037**	**9,883**
Net Income per share (Note 13)				
Basic	$0.06	$0.06	$0.07	$0.13
Diluted	$0.05	$0.06	$0.06	$0.12

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, 2022	**76,245**	**3,342**	**57,148**	**136,735**
Net income	-	-	9,883	9,883
Share based compensation (Note 11)	-	804	-	804
Balance as at June 30, 2023	**76,245**	**4,146**	**67,031**	**147,422**
Balance as at December 31, 2023	**76,245**	**4,661**	**77,282**	**158,188**
Net income	-	-	5,037	5,037
Share-based compensation (Note 11)	-	574	-	574
Balance as at June 30, 2024	**76,245**	**5,235**	**82,319**	**163,799**

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

North 40 Resources Ltd.
Interim Statements of Cash Flow

(unaudited)	Three months ended June 30		Six months ended June 30	
	2024	**2023**	**2024**	**2023**
($ thousands)				
Cash provided by (used in):				
Operating activities				
Net income for the year	4,244	4,572	5,037	9,883
Adjusted for:				
Depletion and depreciation (Note 5)	7,987	11,003	17,621	20,630
Exploration expense (Note 4)	35	138	2,457	229
Accretion expense (Note 9)	64	55	130	107
Share-based compensation (Note 11)	260	642	519	708
Deferred income tax expense	(35)	579	(160)	1,188
	12,555	16,989	25,604	32,745
Decommissioning expenditures (Note 9)	(78)	-	(78)	-
Net change in non-cash working capital (Note 14)	(4,770)	(1,310)	(4,283)	(5,127)
	7,707	15,679	21,243	27,618
Financing activities				
Repayment of lease liabilities (Note 10)	(30)	(30)	(60)	(62)
	(30)	(30)	(60)	(62)
Investing activities				
Exploration and evaluation expenditures (Note 4)	(527)	(2,584)	(5,975)	(2,928)
Property and equipment expenditures (Note 5)	(3,027)	(16,072)	(12,289)	(43,536)
Net change in non-cash working capital (Note 14)	(2,658)	1,965	(5,415)	6,720
	(6,212)	(16,691)	(23,679)	(39,744)
Change in cash and cash equivalents	1,465	(1,042)	(2,496)	(12,188)
Cash and cash equivalents, beginning of period	4,075	7,920	8,036	19,066
Cash and cash equivalents, end of period	**5,540**	**6,878**	**5,540**	**6,878**
Cash income tax paid	**473**	**900**	**473**	**6,168**

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

North 40 Resources Ltd.
Notes to the Financial Statements

As at June 30, 2024 and December 31, 2023, and for the three and six months ended June 30, 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.

(b) Use of Estimates and Judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. Estimates are subject to management uncertainty and changes in such estimates in future years could require material change in the financial statements. These underlying assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances, and are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained as North 40's operating environment changes. Estimates and underlying assumptions are reviewed on an ongoing basis by management. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in the future periods affected.

These financial statements were approved and authorized for issuance by the Board of Directors on September 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

($)	**June 30 2024**	**December 31 2023**
Balance, beginning of period	19,275	23,318
Additions	5,975	6,417
Exploration expense	(2,457)	(4,027)
Transferred to property and equipment	-	(6,433)
Balance, end of period	22,793	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

($)	June 30 2024	December 31 2023
Property and equipment, at cost	305,260	293,487
Accumulated depletion and depreciation	(141,808)	(124,227)
Net book value, end of period	163,452	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	12,344	79,436
Transferred from exploration and evaluation assets	-	6,433
Changes in decommissioning obligations (Note 9)	(571)	1,141
Depletion and depreciation	(17,581)	(44,110)
Net book value, end of period	163,452	169,260

Included in the calculation of depletion was an estimate for future development costs of $102.7 million at June 30, 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 June 30, 2024 ($7.0 million at December 31, 2023).

Included in additions is capitalized general and administrative expenses of $0.2 million ($0.4 million at December 31, 2023).

At June 30, 2024 and December 31, 2023, there were no indicators of impairment identified and an impairment test was not performed.

6. RIGHT-OF-USE ASSET

($)	June 30 2024	December 31 2023
Balance, beginning of period	122	234
Additions	188	-
Depreciation	(41)	(112)
Balance, end of period	269	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 June 30, 2024, the Company had a $30.0 million revolving demand operating facility with a Canadian chartered bank. The facility bears interest based on the prime rate or Canadian Overnight Repo Rate Average (“CORRA”) 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 0.50%. The Company has a letter of credit outstanding for $0.1 million at June 30, 2024 that reduces the amount otherwise available to be drawn on the operating facility.

The facility includes a financial covenant that requires the working capital ratio (adjusted for unrealized hedging, the current portion of debt, and the undrawn availability under the facility) be not less than 1.0 at each fiscal quarter end. The Company was in compliance with this covenant at June 30, 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 June 30, 2024 is 16.3. 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 CORRA loans. The credit facility is subject to periodic review at the lenders’ discretion. A review was completed May 31, 2024 and the facility was increased by $5 million to $30 million. The next review date has been set for November 30, 2024.

8. CURRENT INCOME TAXES

($)	June 30 2024	December 31 2023
Balance, beginning of period	(487)	4,548
Current income tax expense	648	3,629
Payments (1)	(473)	(8,664)
Balance, end of period	(312)	(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 facilities. The Company estimates the total inflation adjusted and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $16.0 million ($15.5 million at December 31, 2023). A risk-free rate of 3.54% and an inflation rate of 2.00% 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.

($)	June 30 2024	December 31 2023
Balance, beginning of period	7,644	6,273
Liabilities incurred	582	1,197
Change in estimates	(1,153)	(56)
Decommissioning expenditures	(78)	-
Accretion expense	130	230
Balance, end of period	7,125	7,644

10. LEASE LIABILITIES

The Company incurs lease payments related to office facilities. For the six months ended June 30, 2024, finance expense of $11,518 ($9,900 for the six months ended June 30, 2023) and repayment of lease liabilities of $61,616 ($57,840 for the six months ended June 30, 2023) were recognized for a total cash outflow of $73,134 ($73,134 for the six months ended June 30, 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		June 30 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 June 30, 2024, 4,870,000 Class B shares and 767,750 options on Class B shares have vested (4,870,000 and 767,750 respectively at June 30, 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, June 30, 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 assumptions in the calculations:

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 and $180,342 related to the Class B shares and options for the three and six months ended June 30, 2024 ($460,956 and $506,264 for the three and six months ended June 30, 2023) and capitalized $8,143 and $16,286 ($88,930 and $91,607 for the quarter and six months ended June 30, 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. 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.

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, June 30, 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:

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 $169,418 and $338,835 related to the Class C non-voting shares for the three and six months ended June 30, 2024 ($35,723 and $56,548 for the three and six months ended June 30, 2023) and capitalized $19,583 and $39,167 ($3,175 and $4,743 for the three and six months ended June 30, 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 and $303,618 for the three and six months ended June 30, 2024 ($27,393 for the three and six months ended June 30, 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.

	Three months ended June 30		Six months ended June 30	
($)	2024	2023	2024	2023
Crude oil revenues	23,961	29,514	47,057	54,410
Natural gas revenues	784	2,827	3,443	6,915
Natural gas liquids revenues	1,312	1,498	2,818	3,182
Total	26,057	33,839	53,317	64,507

13. NET INCOME PER SHARE

	Three months ended June 30		Six months ended June 30	
	2024	2023	2024	2023
Net Income per share				
Basic	$0.06	$0.06	$0.07	$0.13
Diluted	$0.05	$0.06	$0.06	$0.12
Weighted average shares outstanding				
Basic	76,624	76,624	76,624	76,624
Diluted	83,832	80,152	82,678	80,585

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

($)	June 30 2024	June 30 2023
Source / (use) of cash:		
Accounts receivable	3,008	832
Prepaid expenses and deposits	(361)	(475)
Accounts payable and accrued liabilities	(12,518)	5,114
Current income taxes	175	(3,878)
Change in non-cash working capital	(9,696)	1,595
Related to:		
Operating activities	(4,283)	(5,127)
Investing activities	(5,415)	6,720

15. COMMITMENTS

($)	Within 1 year	After 1 year but not more than 5 years	Total
Firm transportation – natural gas	232	482	714
Office lease	85	704	789
Total	317	1,186	1,503

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 June 30, 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 June 30, 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 June 30, 2024, 95% 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 $30.0 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 June 30, 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 June 30, 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 June 30, 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

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

Phone: 403.817.9310
Fax: 403.974.6826

AUDITORS

KPMG LLP
Calgary, AB

BANKER

National Bank of Canada

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, AB

WEBSITE

www.north40resources.com