

NORTH 40

RESOURCES LTD.

November 27, 2024

PRESIDENT'S MESSAGE

North 40 Resources Ltd. is pleased to report its operating and financial results for the three and nine months ended September 30, 2024.

Highlights for the quarter include:

- Realized Q3 2024 average quarterly production of 4,860 boe/day (65% oil and liquids), which represents a 29% decrease over the same period in 2023 and an increase of 10% from Q2 2024.
- Generated funds flow from operations of \$11.7 million in the quarter.
- Invested \$22.3 million in capital spending in the quarter that included the drilling of seven horizontal oil wells. Welcome activity after six months of asset review.
- Commenced construction of the 2-13-30-19W4 Michichi (in the greater area of Sheerness) oil battery with the battery becoming operational in late 2024.
- Maintained strong LMR rating of 13.18 as at November 2024.

Drumheller

The three horizontal Banff development wells drilled in Q3 2024 performed in accordance with our expectations. Two of these wells commenced production in August, while the final well began production in early September 2024. Collectively, the three wells recorded an average initial production rate (IP30) of 240 boe/day (86% oil and liquids) and are currently producing a collective average of 220 boe/day (85% oil and liquids). Two additional Drumheller wells will be drilled in late Q4 2024.

Wayne

Two development Ellerslie horizontal wells will be drilled in late Q4 2024.

Sheerness

While highly restricted due to gas flaring the three new horizontal Ellerslie wells drilled at Michichi (in the greater area of Sheerness) in late Q3 2024 and on production in Q4 2024 collectively recorded an average initial production rate (IP30) of 349 boe/day (82% oil and liquids). Battery construction will be complete in late Q4 2024 which will serve to centralize the production from this pool.

We have also commenced the construction on a pipeline for the associated gas production from the 2-13 battery, which will be complete in early 2025. We have entered into an agreement to acquire an interest in a gas plant which will serve the Michichi 2-13 battery, which is expected to close late December 2024. In order to fund this infrastructure development, North 40 has entered into funding agreements, pursuant to which third parties will fund the construction and purchase of the Michichi infrastructure in return for a royalty and production payment. Further details in respect of these agreements will be set out in our year-end financial statements and MD&A.

First Quarter 2025

We are pleased to report our Board of Directors has approved a capital expenditure budget of \$24 million for the first quarter of 2025. The budget includes 6 - 8 horizontal Ellerslie oil wells in the Sheerness area, with capital mainly focused on development at Michichi.

Unlike 2024 we expect to have an evenly spaced drilling/appraisal program throughout 2025.

A further update on North 40 activity and production will be provided in January 2025 once the 2-13 battery and pipeline are complete and all wells drilled late in Q4 2024 are on production.

Sheerness Commentary

Similar to the Wayne oil pool, recent operations demonstrate our theory that multi-staged fracked horizontal wells would unlock the potential of the thick Mannville sands is correct.

On testing three different prospects in the area, we have encountered / producing light oil (250-500 BOPD) or liquids rich natural gas (1-2 mmcf/d) with 50-100 bbls. of liquids /mmcf.

Pool sizes are variable.

Our current focus will be on Michichi (4-6 sections in size) where North 40 now has a total of five producing wells where three of these wells were put on production in Q4 2024.

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

Sincerely,

NORTH 40 RESOURCES LTD.

Don W Robson
President & CEO

NORTH 40

RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following analysis was prepared as at November 27, 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 financial statements and notes thereto for the three and nine months ended September 30, 2024 and 2023 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 (used in) operating activities, which is the most directly comparable measure calculated in accordance with IFRS.

(thousands)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Cash provided by operating activities	\$12,513	\$20,309	\$33,757	\$47,926
Plus: Decommissioning expenditures	-	-	78	-
Plus: Net change in non-cash working capital	(811)	2,250	3,471	7,379
Funds flow from operations	\$11,702	\$22,559	\$37,306	\$55,305

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.

(thousands, except per unit amounts and where indicated)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
FINANCIAL				
Petroleum and natural gas revenue	\$25,197	\$44,318	\$78,514	\$108,824
Funds flow from operations ⁽¹⁾	\$11,702	\$22,560	\$37,306	\$55,305
Per share – basic	\$0.15	\$0.29	\$0.49	\$0.72
Per share – diluted	\$0.14	\$0.28	\$0.45	\$0.69
Net income (loss)	\$(1,130)	\$9,306	\$3,907	\$19,189
Per share – basic	\$(0.02)	\$0.12	\$0.05	\$0.25
Per share – diluted	\$(0.02)	\$0.11	\$0.05	\$0.24
Capital expenditures ⁽²⁾	\$22,314	\$17,740	\$40,579	\$64,204
Working capital surplus (deficiency) ⁽³⁾ at end of period	\$(10,757)	\$(1,857)	\$(10,757)	\$(1,857)
Common shares outstanding at end of period	76,624	76,624	76,624	76,624
OPERATING				
Sales volumes				
Oil and liquids (bbls/day)	3,169	4,740	3,223	4,167
Natural gas (mcf/day)	10,150	12,550	10,068	13,070
Total (boe/day) ⁽⁴⁾	4,860	6,832	4,900	6,345
% Oil and liquids	65	69	66	66
Commodity prices realized (before pipeline tariffs)				
Oil and liquids (\$/bbl)	87.55	97.95	87.51	90.24
Natural gas (\$/mcf)	0.77	2.92	1.72	3.10
Total (\$/boe)	58.69	73.33	61.08	65.64
Operating netback (\$/boe) ⁽⁵⁾	27.59	40.47	30.16	35.66
Funds flow from operations netback (\$/boe) ⁽¹⁾	26.17	35.89	27.78	31.93
Net wells drilled	7.0	3.0	10.0	12.0
Net acres of land at end of period	267,272	297,608	267,272	297,608

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

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

⁽³⁾ Working capital surplus (deficiency) does not have a standardized measure prescribed by IFRS. See Non-IFRS Measurements section of the MD&A. Working capital deficiency at September 30, 2024, includes \$5.2 million in cash (\$5.7 million at September 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 September 30		Nine months ended September 30	
	2024	2023	2024	2023
Oil (bbls per day)	2,840	4,377	2,923	3,839
Liquids (bbls per day)	329	363	300	328
Natural gas (mcf per day)	10,150	12,550	10,068	13,070
BOE per day	4,860	6,832	4,900	6,345

Production in Q3 2024 averaged 4,860 boe per day (65% oil and liquids) which is a 29% decrease from Q3 2023 average of 6,832 boe per day (69% oil and liquids). Production for the first nine months of 2024 averaged 4,900 boe per day (66% oil and liquids) compared to 6,345 boe per day (66% oil and liquids) in the same period of 2023. Factors contributing to the decrease are natural expected declines (most notably from the Wayne wells drilled and brought on production in 2023) and shut-in of non-associated natural gas production. The decrease is further impacted by timing of new wells drilled as production came on late in Q3 and in Q4. Four of the seven wells drilled in Q3 2024 came on production late in Q3 and the other three in Q4.

Oil and liquids production decreased 33% to 3,169 bbls per day in Q3 2024 from 4,740 bbls per day in Q3 2023 and decreased 23% to 3,223 bbls per day in the first nine months of 2024 from 4,167 bbls per day in the comparable 2023 period. Production increases from the two wells drilled and brought on production in Q1 2024 and another four wells late in Q3 were more than offset by natural expected production declines most significantly from three Wayne wells drilled and brought on production in Q1 2023 and another three Wayne wells brought on production early in Q3 2023.

Natural gas production decreased 19% and 23% in the quarter and nine months ended September 30, 2024, respectively compared to the same periods in 2023. Expected natural declines from associated natural gas production as well as shut-in natural gas production 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 first nine months of 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

(\$ per BOE)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Revenue ⁽¹⁾	\$56.35	\$70.51	\$58.47	\$62.82
Royalties	(13.00)	(15.27)	(12.62)	(13.76)
Operating expenses	(13.53)	(12.01)	(13.33)	(10.82)
Transportation expenses	(2.24)	(2.76)	(2.36)	(2.58)
Operating netback ⁽²⁾	\$27.59	\$40.47	\$30.16	\$35.66

⁽¹⁾ Includes pipeline tariff amount of \$2.34 and \$2.60 per boe for the three and nine months ended September 30, 2024, and \$2.82 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 lower operating netback in Q3 2024 and for the nine months ended September 30, 2024 compared to the same periods in 2023 was primarily due to lower realized prices for crude oil and natural gas and higher operating expenses which was partially offset by lower royalty and transportation expenses.

COMMODITY PRICES

(\$ per bbl, before pipeline tariffs)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
WTI (US\$/bbl)	\$75.09	\$82.26	\$77.54	\$77.39
MSW benchmark price ⁽¹⁾	\$98.00	\$107.90	\$98.54	\$100.63
WCS benchmark price ⁽²⁾	\$83.99	\$93.05	\$84.48	\$80.37
Realized crude oil price	\$91.68	\$101.49	\$91.00	\$93.15

⁽¹⁾ Mixed sweet blend (MSW) is the benchmark conventionally produced light sweet crude for Western Canada. It is often referenced as Edmonton Par Crude.

⁽²⁾ Western Canadian Select (WCS) is a Hardisty based blend of conventional and oil sands production. WCS is a heavy sour blend of crude oil.

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

North 40's realized crude oil price (before pipeline tariffs) in Q3 2024 was \$91.68 per barrel which is 10% lower than the Q3 2023 price of \$101.49 per barrel. WTI benchmark prices decreased 9% from \$82.26 per barrel in Q3 2023 to \$75.09 per barrel in Q3 2024 resulting in a decrease in North 40's realized price. The impact of a lower WTI benchmark and wider average Canadian stream differentials was partially offset by a weaker Canadian dollar.

North 40's realized crude oil price decreased 2% in the first nine months of 2024 to \$91.00 per barrel from \$93.15 per barrel realized in the comparable period of 2023. WTI benchmark prices were flat however wider average Canadian stream differentials partially offset by a weaker Canadian dollar resulted in a lower realized price.

(\$ per mcf, before pipeline tariffs)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
AECO Daily (5A) index	\$0.69	\$2.60	\$1.46	\$2.75
Realized natural gas price	\$0.77	\$2.92	\$1.72	\$3.10

North 40's natural gas production is sold at the AECO daily 5A index, adjusted for delivery location and heat content, and realizes a slightly better price than the index due to its higher-than-standard heat content. North 40's realized price decreased 74% to \$0.77 per mcf in Q3 2024 from \$2.92 per mcf in Q3 2023 and decreased 45% to \$1.72 per mcf for the first nine months of 2024 from \$3.10 per mcf in the same period of 2023.

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

REVENUE

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Oil and liquids	\$24,761	\$41,277	\$74,636	\$98,868
Natural gas	436	3,041	3,878	9,956
Petroleum and natural gas revenue	\$25,197	\$44,318	\$78,514	\$108,824
% Oil and liquids	98	93	95	91

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

Revenue in Q3 2024 decreased to \$25.2 million from \$44.3 million in Q3 2023. Approximately 76% of the revenue decrease resulted from lower production volume with the remainder due to lower realized prices for crude oil and natural gas. The majority of the revenue decrease was due to lower crude oil production volumes.

Revenue for the nine months ended September 30 decreased by 28% from \$108.8 million in 2023 to \$78.5 million in 2024 for the same reasons as the Q3 decrease.

Oil and liquids revenue represents 98% of total revenue in Q3 2024 and decreased 40%, from \$41.3 million in Q3 2023 to \$24.8 million in Q3 2024. Crude oil realizations were 10% lower and oil production volumes were 35% lower in Q3 2024 compared to the same quarter last year.

Oil and liquids revenue represents 95% of total revenue in the first nine months of 2024 and decreased 25%, from \$98.9 million in the first nine months of 2023 to \$74.6 million in the comparable period of 2024. Crude oil realizations were 2% lower and oil production volumes were 24% lower in the first nine months of 2024 compared to the same period last year.

Natural gas revenue decreased 86% in Q3 2024 to \$0.4 million from \$3.0 million in Q3 2023. The decrease is due to a 74% decrease in price realizations and a 19% decrease in production volume in Q3 2024 compared to the same period in 2023.

Natural gas revenue decreased 61% in the first nine months of 2024 from \$10.0 million in 2023 to \$3.9 million in 2024. The decrease is due to a 45% decrease in price realizations and a 23% decrease in production volume in the first nine months of 2024 compared to the same period in 2023.

Oil pipeline tariffs of \$0.8 million and \$2.6 million are included in revenue for the third quarter and the first nine months of 2024 respectively. This compares to \$1.4 million and \$3.8 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 \$0.3 million and \$0.9 million are also included in revenue for the three months and nine months ended September 30, 2023, respectively. This compares to \$0.3 million and \$1.1 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

(thousands, except per unit amounts)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Royalties	\$5,812	\$9,596	\$16,951	\$23,832
Per BOE	\$13.00	\$15.27	\$12.62	\$13.76
% of Revenue	22%	22%	21%	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 decreased to \$13.00 and \$12.62 per boe in the third quarter and first nine months of 2024 respectively compared to \$15.27 and \$13.76 per boe in the comparable periods of 2023 commensurate with lower realized prices in 2024. On an absolute basis, royalties decreased to \$5.8 million and \$17.0 million in Q3 and in the first nine months of 2024 respectively from \$9.6 million and \$23.8 million in the same periods of 2023 due to lower production volumes and price realizations.

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

<i>(thousands, except per unit amounts)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Operating expenses	\$6,050	\$7,550	\$17,901	\$18,743
Per BOE	\$13.53	\$12.01	\$13.33	\$10.82
Transportation expenses	\$1,000	\$1,735	\$3,170	\$4,465
Per BOE	\$2.24	\$2.76	\$2.36	\$2.58

Operating expenses averaged \$13.53 and \$13.33 per boe for the third quarter and the first nine months of 2024, respectively compared to \$12.01 and \$10.82 per boe in the third quarter and first nine months of 2023. Main contributors to the increase were water handling 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 \$2.24 and \$2.36 per boe in the third quarter and the first nine months of 2024, respectively compared to \$2.76 and \$2.58 per boe in the third quarter and first nine months 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

<i>(thousands, except per unit amounts)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Gross G&A	\$1,066	\$731	\$3,145	\$2,345
Capitalized G&A	(85)	(43)	(261)	(131)
Net G&A	\$981	\$688	\$2,884	\$2,214
Per BOE	\$2.19	\$1.09	\$2.15	\$1.28

Net general and administrative ("G&A") expenses were \$1.0 million and \$2.9 million for the third quarter and first nine months of 2024 respectively compared to \$0.7 million and \$2.2 million in the comparable periods of 2023. The increase G&A is largely contributed to higher personnel costs commensurate with an increase in office staff and higher professional services associated with legal services when compared to the same periods in 2023.

On a boe basis, net G&A was \$2.19 and \$2.15 per boe in Q3 and in the first nine months of 2024 respectively compared to \$1.09 and \$1.28 per boe in same periods of 2023. The increase in the per boe amount is due to both lower production volumes and higher G&A expenses.

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

SHARE-BASED COMPENSATION

<i>(thousands, except per unit amounts)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Share-based compensation	\$290	\$259	\$865	\$1,063
Capitalized share-based compensation	(28)	(20)	(83)	(116)
	\$262	\$239	\$782	\$947
Per BOE	\$0.59	\$0.38	\$0.58	\$0.55

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

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

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

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 \$137,947 and \$410,843 as share based compensation expense and capitalized \$15,530 and \$46,252 in the third quarter and first nine months of 2024 respectively related to this Class C incremental value. The Company recognized \$141,794 and \$25,803 as share based compensation expense and capitalized \$15,717 and \$17,307 in the comparable periods of 2023 respectively.

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

<i>(thousands, except per unit amounts)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Depletion and depreciation	\$8,771	\$12,299	\$26,392	\$32,929
Per BOE	\$19.61	\$19.57	\$19.66	\$19.01

The Company recognized depletion and depreciation expense ("D&D") of \$8.8 million (\$19.61 per boe) and \$26.4 million (\$19.66 per boe) for the quarter and nine months ended September 30, 2024, respectively compared to \$12.3 million (\$19.57 per boe) and \$32.9 million (\$19.01 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 Q3 and for the first nine months of 2024 compared to the same periods in 2023 largely due to lower production volume partially offset by a slightly 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

<i>(thousands, except per unit amounts)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Exploration expense	\$2,468	\$48	\$4,924	\$277
Per BOE	\$5.52	\$0.08	\$3.67	\$0.16

North 40 recognized exploration expense of \$2.5 million (\$5.52 per boe) in Q3 2024 and \$4.9 million (\$3.67 per boe) in the first nine months 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 (\$0.08 per boe) in Q3 2023 and \$0.3 million (\$0.16 per boe) in the comparable periods of 2023. Exploration expense in 2023 relates to undeveloped land expiries.

FINANCE EXPENSE

<i>(thousands)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Accretion of decommissioning obligations	\$65	\$65	\$195	\$172
Interest	-	-	28	-
Banking fees	39	18	149	126
Interest on lease liabilities	6	5	18	14
Total	\$110	\$88	\$390	\$312
Per BOE	\$0.25	\$0.14	\$0.29	\$0.18

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

<i>(thousands)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Current income tax expense	\$(324)	\$2,254	\$324	\$4,544
Deferred income tax expense	1,266	603	1,106	1,791
Income taxes	\$942	\$2,857	\$1,430	\$6,335
Per boe	\$2.11	\$4.55	\$1.06	\$3.65

North 40 recognized a current income tax recovery of \$0.3 million in Q3 2024 and an expense of \$0.3 million for the first nine months of the year compared to \$2.3 million and \$4.5 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 nine months ended September 30, 2024, a deferred income tax expense of \$1.3 million and \$1.1 million, respectively, was recognized compared to a deferred income tax expense of \$0.6 million and \$1.8 million for the comparable periods in 2023.

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

<i>(thousands)</i>	Maximum Annual Deduction	September 30 2024	September 30 2023
Canadian oil and gas property expense (COGPE)	10%	\$14,848	\$14,870
Canadian development expense (CDE)	30%	58,296	51,866
Undepreciated capital cost (UCC)	25%	42,640	39,925
		\$115,784	\$106,661

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

<i>(thousands)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Net income (loss) and comprehensive income (loss)	\$(1,130)	\$9,306	\$3,907	\$19,189
Per share - basic	\$(0.02)	\$0.12	\$0.05	\$0.25
Per share - diluted	\$(0.02)	\$0.11	\$0.05	\$0.24

The decrease in net income for the three and nine months ended September 30, 2024, as compared to the same periods in 2023 is primarily due to a decrease in petroleum and natural gas revenue and increases in general and administrative, exploration expenses, and deferred income taxes partially offset by decreases in royalties, operating and transportation costs, depletion and depreciation, and current income taxes.

CAPITAL EXPENDITURES

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

<i>(thousands)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Land and lease rentals ⁽¹⁾	\$624	\$183	\$1,371	\$1,019
Seismic and geological	-	4	2,447	1,893
Drilling and completion	15,535	10,521	23,983	34,048
Equipping and tie-ins	3,013	6,098	9,148	19,112
Facilities	3,050	884	3,437	7,901
Office and other	93	50	193	231
Total capital expenditures	\$22,314	\$17,740	\$40,579	\$64,204

(1) Net of land fund reimbursements.

<i>(thousands)</i>	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Sheerness	\$11,513	\$4,314	\$17,564	\$6,195
Drumheller	9,448	7,758	14,907	17,445
Wayne	399	4,994	1,586	30,373
Tide Lake	124	-	3,260	-
Matziwin	177	309	2,147	5,864
Other	652	365	1,115	4,327
Total capital expenditures	\$22,314	\$17,740	\$40,579	\$64,204

Wells drilled by property were as follows:

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Sheerness	4	1	5	1
Drumheller	3	2	4	3
Tide Lake	-	-	1	-
Wayne	-	-	-	6
Matziwin South ⁽¹⁾	-	-	-	1
Princess	-	-	-	1
Total	7	3	10	12

⁽¹⁾ Included in Matziwin area

Capital expenditures in Q3 2024 were \$22.3 million. Capital activity included the drilling of seven wells and the fracking of four of those wells. North 40 also commenced construction of an oil battery in the Sheerness area.

For the first nine months of 2024 capital expenditures were \$40.6 million which included the drilling of ten wells. The majority of the capital was directed in Sheerness where \$17.6 million was spent. At Sheerness five wells have been drilled, construction of an oil battery has commenced, and a 3D seismic shoot was completed. In Drumheller where \$14.9 million has been expended, four wells have been drilled. Other activities include workovers at several wells, electrification of three Wayne battery sites as well as equipment purchases for future capital projects.

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

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

LAND

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

<i>(acres)</i>	September 30, 2024	September 30 2023
Sheerness	119,951	118,527
Drumheller	55,241	57,175
Wayne	15,951	15,630
Tide Lake	28,326	11,077
Matziwin	24,066	51,333
Princess	1,261	18,858
Other	22,476	25,008
Total	267,272	297,608

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

The land holdings consist of 72% crown and 28% freehold leases at September 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 \$8.4 million at September 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 3.06% (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 increase in the decommissioning obligation at September 30, 2024, compared to December 31, 2023, is primarily due to new liabilities recognized for wells drilled.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2024, the Company had no drawn debt and a working capital deficit of \$10.8 million comprised of \$5.2 million in cash and a working capital deficit of \$16.0 million. All activities to date have been funded with proceeds from the Company's initial equity financing, cash flow from operations, land fund reimbursements and interest income on cash balances.

At September 30, 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 September 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 September 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 September 30, 2024 is 14.9. 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 September 30, 2024, there is \$3.4 million remaining on the funding limit.

SELECTED QUARTERLY INFORMATION

Three Months Ended	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31
	2024	2024	2024	2023	2023	2023	2023	2022
FINANCIAL								
Petroleum and natural gas revenue	\$25,197	\$26,057	\$27,260	\$34,594	\$44,318	\$33,839	\$30,668	\$34,029
Funds flow from operations ⁽¹⁾	\$11,702	\$12,555	\$13,049	\$17,289	\$22,560	\$16,989	\$15,755	\$18,206
Per share – basic	\$0.15	\$0.16	\$0.17	\$0.23	\$0.29	\$0.22	\$0.21	\$0.24
Per share – diluted	\$0.14	\$0.15	\$0.16	\$0.21	\$0.28	\$0.21	\$0.20	\$0.23
Net income (loss)	\$(1,130)	\$4,244	\$793	\$ 945	\$9,306	\$4,572	\$5,311	\$8,186
Per share – basic	\$(0.02)	\$0.06	\$0.01	\$0.01	\$0.12	\$0.06	\$0.07	\$0.11
Per share – diluted	\$(0.02)	\$0.05	\$0.01	\$0.01	\$0.11	\$0.06	\$0.07	\$0.10
Capital expenditures ⁽²⁾	\$22,314	\$3,554	\$14,711	\$21,512	\$17,740	\$18,656	\$27,808	\$17,774
Working capital surplus (deficiency) at end of period ⁽³⁾	\$(10,757)	\$1,086	\$(7,807)	\$(6,114)	\$(1,857)	\$(6,644)	\$(4,946)	\$7,139
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)	3,169	3,034	3,465	4,076	4,740	4,203	3,544	3,391
Natural gas (mcf/day)	10,150	8,413	11,642	14,052	12,550	12,767	13,907	10,693
Total (boe/day) ⁽⁴⁾	4,860	4,436	5,405	6,418	6,832	6,331	5,862	5,174
% Oil and liquids	65	68	64	64	69	66	60	66
Commodity prices realized (before pipeline tariffs)								
Oil and liquids (\$/bbl)	87.55	94.73	81.14	87.40	97.95	84.41	86.71	96.05
Natural gas (\$/mcf)	0.77	1.33	2.84	2.54	2.92	2.72	3.60	5.42
Total (\$/boe)	58.69	67.31	58.14	61.08	73.33	61.53	60.96	74.17
Operating netback ⁽⁵⁾ (\$/boe)	27.59	34.25	29.12	30.74	40.47	32.91	32.96	42.56
Funds flow from operations netback (\$/boe) ⁽¹⁾	26.17	31.10	26.53	29.28	35.89	29.49	29.86	38.25
Net wells drilled	7.0	-	3.0	4.0	3.0	3.0	6.0	3.0
Net acres of land at end of period	267,272	283,585	298,158	285,480	297,608	307,909	191,849	224,578

⁽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
as at and for the period ended September 30, 2024**

North 40 Resources Ltd.
Interim Statements of Financial Position

As at	September 30	December 31
	2024	2023
<i>(\$ thousands)</i>		
ASSETS		
Current Assets		
Cash	5,228	8,036
Accounts receivable	8,370	11,693
Current income taxes (Note 8)	621	487
Prepays and deposits	1,493	1,036
Total Current Assets	15,712	21,252
Deposit	1,200	-
Exploration and evaluation assets (Note 4)	24,815	19,275
Property and equipment (Note 5)	173,784	169,260
Right-of-use asset	254	122
Total Assets	215,765	209,909
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	26,469	27,366
Current income taxes (Note 8)	-	-
Total Current Liabilities	26,469	27,366
Lease liabilities (Note 10)	214	118
Decommissioning obligations (Note 9)	8,423	7,644
Deferred income taxes	17,699	16,593
Total Liabilities	52,805	51,721
Shareholders' Equity		
Share capital (Note 11)	76,245	76,245
Contributed surplus	5,526	4,661
Retained earnings	81,189	77,282
Total Shareholders' Equity	162,960	158,188
Total Liabilities and Shareholders' Equity	215,765	209,909

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

North 40 Resources Ltd.

Interim Statements of Net Income (Loss) and Comprehensive Income (Loss)

(unaudited)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
<i>(\$ thousands except per share amounts)</i>				
Revenue				
Petroleum and natural gas revenue (Note 12)	25,197	44,318	78,514	108,824
Less: Royalties	5,812	9,596	16,951	23,832
	19,385	34,722	61,563	84,992
Interest income	69	88	217	419
	19,454	34,810	61,780	85,411
Expenses				
Operating	6,050	7,550	17,901	18,743
Transportation	1,000	1,735	3,170	4,465
General and administrative	981	688	2,884	2,214
Share-based compensation (Note 11)	262	239	782	947
Depletion and depreciation (Notes 5 and 6)	8,771	12,299	26,392	32,929
Exploration expense (Note 4)	2,468	48	4,924	277
Finance expense	110	88	390	312
Total expenses	19,642	22,647	56,443	59,887
Income (loss) before taxes	(188)	12,163	5,337	25,524
Current income tax expense	(324)	2,254	324	4,544
Deferred income tax expense	1,266	603	1,106	1,791
Net Income (Loss) and Comprehensive Income (Loss)	(1,130)	9,306	3,907	19,189
Net Income (loss) per share (Note 13)				
Basic	\$(0.02)	\$0.12	\$(0.05)	\$0.25
Diluted	\$(0.02)	\$0.11	\$(0.05)	\$0.24

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

North 40 Resources Ltd.
Statements of Changes in Equity

(unaudited)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
<i>(\$ thousands)</i>				
Balance as at December 31, 2022	76,245	3,342	57,148	136,735
Net income	-	-	19,189	19,189
Share based compensation (Note 11)	-	1,063	-	1,063
Balance as at September 30, 2023	76,245	4,405	76,337	156,987
Balance as at December 31, 2023	76,245	4,661	77,282	158,188
Net income	-	-	3,907	3,907
Share-based compensation (Note 11)	-	865	-	865
Balance as at September 30, 2024	76,245	5,526	81,189	162,960

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

North 40 Resources Ltd.

Statements of Cash Flow

(unaudited)

Three months ended
September 30

Nine months ended
September 30

2024

2023

2024

2023

(\$ thousands)

Cash provided by (used in):

Operating activities

Net income (loss) for the period	(1,130)	9,306	3,907	19,189
Adjusted for:				
Depletion and depreciation (Note 5)	8,771	12,299	26,392	32,929
Exploration expense (Note 4)	2,468	48	4,924	277
Accretion expense (Note 9)	65	65	195	172
Share-based compensation (Note 11)	262	238	782	947
Deferred income tax expense	1,266	603	1,106	1,791
	11,702	22,559	37,306	55,305
Decommissioning expenditures (Note 9)	-	-	(78)	-
Net change in non-cash working capital (Note 14)	811	(2,250)	(3,471)	(7,379)
	12,513	20,309	33,757	47,926

Financing activities

Repayment of lease liabilities (Note 9)	(30)	(31)	(90)	(93)
	(30)	(31)	(90)	(93)

Investing activities

Deposit paid	(1,200)	-	(1,200)	-
Exploration and evaluation expenditures (Note 4)	(4,596)	(418)	(10,572)	(3,346)
Property and equipment expenditures (Note 5)	(17,718)	(17,322)	(30,007)	(60,858)
Net change in non-cash working capital (Note 14)	10,719	(3,692)	5,304	3,029
	(12,795)	(21,432)	(36,475)	(61,175)

Change in cash and cash equivalents	(312)	(1,154)	(2,808)	(13,342)
Cash and cash equivalents, beginning of period	5,540	6,878	8,036	19,066
Cash and cash equivalents, end of period	5,228	5,724	5,228	5,724

Cash income tax paid	-	1,010	473	7,178
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The accompanying notes are an integral part of these Financial Statements.

North 40 Resources Ltd.

Notes to the Financial Statements

As at September 30, 2024 and December 31, 2023, and for the three and nine months ended September 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 Company was not active until April 2016. The address of the principal place of business is 400, 215 – 9th Avenue SW, Calgary, Alberta, Canada T2P 1K3.

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed 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 November 27, 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

(\$)	September 30 2024	December 31 2023
Balance, beginning of period	19,275	23,318
Additions	10,572	6,417
Exploration expense	(4,924)	(4,027)
Transferred to property and equipment	(108)	(6,433)
Balance, end of period	24,815	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

(\$)	September 30 2024	December 31 2023
Property and equipment, at cost	324,347	293,487
Accumulated depletion and depreciation	(150,563)	(124,227)
Net book value, end of period	173,784	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	30,089	79,436
Transferred from exploration and evaluation assets	108	6,433
Changes in decommissioning obligations (Note 9)	663	1,141
Depletion and depreciation	(26,336)	(44,110)
Net book value, end of period	173,784	169,260

Included in the calculation of depletion was an estimate for future development costs of \$96.0 million at September 30, 2024 (\$105.6 million at December 31, 2023). An estimated future salvage value of \$8.2 million was excluded from the calculation of depletion at September 30, 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 September 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

(\$)	September 30 2024	December 31 2023
Balance, beginning of period	122	234
Additions	188	-
Depreciation	(56)	(112)
Balance, end of period	254	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 September 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 September 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 September 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 September 30, 2024 is 14.9. 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

	September 30	December 31
(\$)	2024	2023
Balance, beginning of period	(487)	4,548
Current income tax expense	324	3,629
Payments ⁽¹⁾	(458)	(8,664)
Balance, end of period	(621)	(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 \$16.9 million (\$15.5 million at December 31, 2023).

A reconciliation of the decommissioning obligations is provided below.

	September 30	December 31
(\$)	2024	2023
Balance, beginning of period	7,644	6,273
Liabilities incurred	1,006	1,197
Change in estimates	(344)	(56)
Decommissioning expenditures	(78)	-
Accretion expense	195	230
Balance, end of period	8,423	7,644
Key assumptions		
Risk free rate	3.06%	3.05%
Inflation rate	2.00%	2.20%

10. LEASE LIABILITIES

The Company incurs lease payments related to office facilities. For the nine months ended September 30, 2024, finance expense of \$18,040 (\$13,777 for the nine months ended September 30, 2023) and repayment of lease liabilities of \$91,661 (\$95,924 for the nine months ended September 30, 2023) were recognized for a total cash outflow of \$109,701 (\$109,701 for the nine months ended September 30, 2023). 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	September 30		December 31	
	Number	Consideration	Number	Consideration
	(thousands)		(thousands)	
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 September 30, 2024, 4,870,000 Class B shares and 767,750 options were vested (4,870,000 and 613,500 respectively at September 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, September 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 \$91,162 and \$271,504 related to the Class B shares and options for the three and nine months ended September 30, 2024 (\$67,631 and \$708,290 for the three and nine months ended September 30, 2023) and capitalized \$8,233 and \$24,519 (\$2,736 and \$94,343 for the quarter and nine months ended September 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. The incremental value of \$0.6 million was determined for the vested Class B shares and options. This incremental value is recognized immediately and \$0.5 million has been expensed and \$0.1 million has been capitalized in 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, September 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 \$171,279 and \$510,833 related to the Class C shares and options for the three and nine months ended September 30, 2024 (\$188,136 and \$260,563 for the three and nine months ended September 30, 2023) and capitalized \$19,799 and \$58,967 (\$17,320 and \$22,063 for the three and nine months ended September 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 \$153,477 and \$457,095 for the three and nine months ended September 30, 2023 (\$157,511 and \$184,904 for the three and nine months ended September 30, 2023) which are included in the amounts described in the paragraph above.

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

	Before Modification	After Modification
Weighted average risk-free interest rate (%)	4.83	4.55
Expected life (years)	0.5	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 September 30		Nine months ended September 30	
	2024	2023	2024	2023
Crude oil revenues	23,187	39,428	70,244	93,837
Natural gas revenues	436	3,041	3,878	9,956
Natural gas liquids revenues	1,574	1,849	4,392	5,031
Total	25,197	44,318	78,514	108,824

13. NET INCOME (LOSS) PER SHARE

	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Net Income (loss) per share				
Basic	\$(0.02)	\$0.12	\$0.05	\$0.25
Diluted	\$(0.02)	\$0.11	\$0.05	\$0.24
Weighted average shares outstanding				
Basic	76,624	76,624	76,624	76,624
Diluted	83,956	81,990	82,876	80,664

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$)	September 30 2024	September 30 2023
Source / (use) of cash:		
Accounts receivable	3,323	(5,512)
Prepaid expenses and deposits	(457)	(512)
Accounts payable and accrued liabilities	(897)	4,312
Current income taxes	(134)	(2,634)
Change in non-cash working capital	1,833	4,346
Related to:		
Operating activities	(3,471)	(7,379)
Investing activities	5,304	3,029

15. COMMITMENTS

(\$)	Within 1 year	After 1 year but not more than 5 years	Total
Firm transportation – natural gas	232	425	657
Office lease	81	672	753
Total	313	1,097	1,410

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 in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets.

The Company has entered into a Royalty Acquisition Agreement (the "agreement") with an arm's length party (the "party") whereby the party will fund certain crown land purchases incurred by the Company in exchange for a royalty on future production from those crown lands. The term of the agreement is to October 31, 2025. The agreement includes a funding limit of \$17 million, which may be increased at the sole discretion of the party. At September 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 September 30, 2024, and December 31, 2023, financial assets on the statement of financial position are comprised of cash and cash equivalents and trade and other receivables and the maximum credit risk associated with these financial instruments is the total carrying amount of these financial assets.

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

Accounts receivable for crude oil and natural gas sales are collected on or about the 25th day of the month following production. At September 30, 2024, 97% 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 September 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.

Commodity price risk

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

Corporate Information

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Financial Officer*

Gerald Aleman
Vice President, Production

Calvin House
*Vice President, Land and Business
Development*

Preston Kraft
Vice President, Operations

Steven Metzger
Vice President, Exploration

Lonny Tetley
Corporate Secretary

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