

NORTH 40

RESOURCES LTD.

June 4, 2025

PRESIDENT'S MESSAGE

North 40 Resources Ltd. is pleased to report its operating and financial results for the three months ended March 31, 2025.

Highlights for this period include:

- Realized Q1 2025 average quarterly production of 7,460 boe/day (64% oil and liquids), an increase of approximately 26 % from the Q4 2024 average quarterly production of 5,892 boe/day (65 % oil and liquids).
- Executed a \$35.0 million capital program in Q1 2025, investing in six horizontal oil wells in the Sheerness project area consisting of five delineation / development wells around our Michichi oil pool and one exploration well.
- Closed both the property acquisition in Aerial and the related third party funding agreements.
- Generated operating netback of \$32.63 per boe.
- Reduced operating expenses per boe to \$11.55 for Q1 2025 compared to \$ 12.70 per boe in Q4 2024. Additional operating cost reductions will be realized in July 2025 when the Michichi water disposal facility is operational.

Q1 2025

The six Eilerslie horizontal oil wells drilled in Q1 2025 in the Sheerness project area are all on production. Four of the wells were equipped with gas lift to minimize down hole pump gas interference. This system did not deliver the expected production results. North 40 is now running pump and rods in these wells which we expect to be completed shortly. When back on production we expect these wells to meet type curve.

Q2 to Q4 2025

The re-activation and re-completion program on the property acquisition is underway and is expected to be complete in early Q3 2025.

Additional trade 3D seismic data has been acquired on the acquisition lands to delineate multiple channel prospects.

The first North 40 horizontal Eilerslie well has spud at Wayne. The next well is a vertical water disposal well to be drilled at the Michichi 2-13 battery site and will provide operating cost savings across the greater Sheerness area, Drumheller and Wayne areas.

For Q2 to Q4 2025 we expect to drill a total of 10 - 12 wells, a combination of development and appraisal.

The Board of Directors has approved a 2025 capital budget of \$82 million, net of third party funding proceeds.

Current North 40 production is approximately 7,300 boe/day with oil and liquids representing 63% of production.

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 June 4, 2025 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, 2024 and the unaudited condensed interim financial statements for the three months ended March 31, 2025, which have been prepared in accordance with IFRS Accounting Standards ("IFRS" or "GAAP").

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

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

Non-IFRS Measurements – Within Management's Discussion and Analysis, references are made to terms commonly used in the oil and gas industry. This document contains "funds flow from operations" which is a non-IFRS financial measure. This document also contains the terms "operating netback", "working capital surplus (deficiency)", and capital expenditures which are non-IFRS financial measures. These non-IFRS terms do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures for other entities.

Funds flow from operations

Management uses funds flow from operations to evaluate performance. Funds flow from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities. Funds flow from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income or loss per share. Total boe is calculated by multiplying the daily production by the number of days in the period.

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

(thousands)	Three months ended	
	March 31	
	2025	2024
Cash provided by operating activities	\$20,618	\$13,537
Plus (Less): Net change in non-cash working capital	(176)	(488)
Funds flow from operations	\$20,442	\$13,049

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, and acquisitions disclosed in the Statements of Cash Flow.

(thousands, except per unit amounts and where indicated)	Three Months Ended		
	March 31 2025	March 31 2024	December 31 2024
FINANCIAL			
Petroleum and natural gas revenue	\$38,595	\$27,260	\$30,591
Funds flow from operations ⁽¹⁾	\$20,442	\$13,049	\$14,712
Per share – basic	\$0.27	\$0.17	\$0.19
Per share – diluted	\$0.25	\$0.16	\$0.18
Net income	\$5,756	\$793	\$3,494
Per share – basic	\$0.08	\$0.01	\$0.05
Per share – diluted	\$0.07	\$0.01	\$0.04
Capital expenditures ⁽²⁾	\$34,977	\$14,711	\$27,847
Working capital deficiency ⁽³⁾ at end of period	\$9,708	\$7,807	\$8,365
Common shares outstanding at end of period	76,624	76,624	76,624
OPERATING			
Sales volumes			
Oil and liquids (bbls/day)	4,754	3,465	3,809
Natural gas (mcf/day)	16,231	11,642	12,498
Total (boe/day) ⁽⁴⁾	7,460	5,405	5,892
% Oil and liquids	64	64	65
Commodity prices realized (before pipeline tariffs)			
Oil and liquids (\$/bbl)	85.83	81.14	85.33
Natural gas (\$/mcf)	2.47	2.84	1.73
Total (\$/boe)	60.07	58.14	58.84
Operating netback ⁽⁵⁾ (\$/boe)	32.63	29.12	30.12
Funds from operations netback (\$/boe) ⁽¹⁾	29.87	26.53	27.14
Net wells drilled	6.0	3.0	4.0
Net acres of land at end of period	285,113	298,158	265,397

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

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

⁽³⁾ Working capital surplus (deficiency) does not have a standardized measure prescribed by IFRS. See Non-IFRS Measurements section of the MD&A. Working capital deficiency at March 31, 2025, includes nil in cash (\$4.1 million at March 31, 2024 and \$5.7 million at December 31, 2024).

⁽⁴⁾ Boe conversion is 6:1

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

PRODUCTION

	Three Months Ended March 31	
	2025	2024
Oil (bbls per day)	4,249	3,157
Liquids (bbls per day)	505	308
Natural gas (mcf per day)	16,231	11,642
BOE per day	7,460	5,405

Production in the first quarter of 2025 averaged 7,460 boe per day (64% oil and liquids) which is a 38% increase from the first quarter 2024 average of 5,405 boe per day (64% oil and liquids). Contributing to the Q1 2025 increase in production compared to Q1 2024 are additions from wells drilled and brought on production in Q1 2025 and from seven wells brought on production in Q4 2024 which was partially offset by natural expected declines.

All six wells drilled in Q1 2025 were brought on production in the quarter and contributed about 700 boe per day. Two of these wells were brought on production in February and four in March.

Oil and liquids production increased 37% to 4,754 bbls per day in Q1 2025 compared to 3,465 bbls per day in Q1 2024. Production increases from the six wells drilled and brought on production in Q1 2025 and wells brought on production in Q4 2024 were partially offset by expected natural declines.

Natural gas production increased 39% from 11,642 mcf per day in Q1 2024 to 16,231 mcf per day in Q1 2025. Increase in production is mostly due to additions from both the Q1 2025 and Q4 2024 drilling programs. North 40 shut in non-associated natural gas production in Q1 2024 in response to weakness in near-term natural gas prices.

OPERATING NETBACKS

(\$ per BOE)	Three Months Ended March 31	
	2025	2024
Revenue ⁽¹⁾	\$57.49	\$55.42
Royalties	(11.07)	(11.22)
Operating expenses	(11.55)	(12.87)
Transportation expenses	(2.24)	(2.21)
Operating netback ⁽²⁾	\$32.63	\$29.12

⁽¹⁾ Net of pipeline tariff amount of \$2.58 per boe for the three months ended March 31, 2025 and \$2.72 in the comparable period of 2024.

⁽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 Q1 2025 compared to the same period in 2024 primarily due to lower operating expenses, higher realized price for oil, and lower royalties costs partially offset by lower natural gas prices and higher transportation expenses.

COMMODITY PRICES

(\$ per bbl)	Three Months Ended March 31	
	2025	2024
WTI (US\$/bbl)	\$71.42	\$76.97
MSW benchmark price ⁽¹⁾	\$95.30	\$92.18
WCS benchmark price ⁽²⁾	\$84.33	\$77.39
Realized crude oil price	\$89.75	\$83.83

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

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

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

North 40's realized crude oil price (before pipeline tariffs) in Q1 2025 was \$89.75 per barrel which is 7% higher than the Q1 2024 price of \$83.83 per barrel. The increase in North 40's realized price is predominantly due to stronger differentials and a weaker Canadian dollar partially offset by a lower WTI price. In the first quarter of 2025, the WCS differential narrowed to average US\$12.67 per barrel from US\$19.58 per barrel in the comparable period of 2024 as the Trans Mountain pipeline expansion came online. The MSW differential narrowed to average US\$4.98 per barrel from US\$8.65 per barrel in the first quarter of 2024.

Recent announcements of US tariffs, OPEC+ production increases and economic uncertainty has resulted in significant volatility in commodity prices.

(\$ per mcf)	Three Months Ended March 31	
	2025	2024
AECO Daily (5A) index	\$2.16	\$2.51
Realized natural gas price	\$2.47	\$2.84

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 13% to \$2.47 per mcf in Q1 2025 from \$2.84 per mcf in the comparable period of 2024.

The weakness in benchmark natural gas prices can be contributed to lower demand on mild winter weather and an increase in storage levels with increased production in anticipation of the mid-2025 start up of LNG Canada export terminal.

REVENUE

(\$ thousands)	Three Months Ended March 31	
	2025	2024
Oil and liquids	\$35,502	\$24,602
Natural gas	3,093	2,658
Petroleum and natural gas revenue	\$38,595	\$27,260
% Oil and liquids	92	90

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

Revenue in Q1 2025 increased 42% to \$38.6 million from \$27.3 million in Q1 2024. Approximately 86% of the increase in revenue is due to higher production volumes with the remainder due to higher realized prices for oil partially offset by lower realized prices for natural gas.

Oil and liquids revenue of \$35.5 million represents 92% of total revenue in Q1 2025 and increased 44% from \$24.6 million in Q1 2024. The majority of the increase was due to higher crude oil production with higher realized prices also contributing to the increase.

Natural gas revenue increased 16% in Q1 2025 to \$3.1 million from \$2.7 million in the same period of 2024 resulting from higher production volume partially offset by lower realized prices.

Oil pipeline tariffs of \$1.2 million (\$1.0 million in Q1 2024) are included in revenue for the three months ended March 31, 2025. The custody transfer to the purchaser is at the point the oil is offloaded at the terminal. Gas pipeline tariffs of \$0.5 million (\$0.4 million in Q1 2024) are also included in revenue for the three months ended March 31, 2025. Gas pipeline tariffs have increased on a per unit basis due to an increase in NGTL tolls. The custody transfer to the purchaser is at the point the natural gas enters the receipt meter.

ROYALTIES

(\$ thousands, except per unit amounts)	Three Months Ended March 31	
	2025	2024
Royalties	\$7,431	\$5,518
Per BOE	\$11.07	\$11.22
% of Revenue before pipeline tariffs	18%	19%

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

Royalties in Q1 2025 were \$7.4 million (\$11.07 per boe) compared to \$5.5 million (\$11.22 per boe) in Q1 2024. The increase from the comparable period in 2024 is due to higher production volumes and realized oil prices.

Royalties as a percentage of revenue averaged 18% in Q1 2025 compared to 19% in Q1 2024.

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

OPERATING AND TRANSPORTATION

(\$ thousands, except per unit amounts)	Three Months Ended March 31	
	2025	2024
Operating expenses	\$7,752	\$6,329
Per BOE	\$11.55	\$12.87
Transportation expenses	\$1,497	\$1,085
Per BOE	\$2.24	\$2.21

Operating expenses averaged \$11.55 per boe (\$7.8 million) for the first quarter of 2025 compared to \$12.87 per boe (\$6.3 million) in the first quarter of 2024. The decrease is largely due to an increase in production volume as fixed costs are allocated over higher production volume.

Transportation costs, which are clean oil trucking expenses, averaged \$2.24 per boe for the first quarter of 2025 and \$2.21 boe for the comparative period in 2024. This 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 March 31	
	2025	2024
G&A – cash-based expenses	\$1,326	\$1,008
Capitalized G&A	(96)	(91)
Net G&A	\$1,230	\$917
Per BOE	\$1.83	\$1.86

Net general and administrative (“G&A”) expenses were \$1.2 million in Q1 2025 compared to \$0.9 million in Q1 2024. The increase in G&A is largely contributed to higher legal and consulting expenses mostly associated with asset transactions.

On a boe basis, net G&A was \$1.83 per boe in Q1 2025 compared to \$1.86 per boe in Q1 2024 due to higher production volume partially offset by 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 March 31	
	2025	2024
Share based compensation	\$251	\$287
Capitalized share-based compensation	(27)	(28)
	\$224	\$259
Per BOE	\$0.33	\$0.53

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

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 March 31	
	2025	2024
Depletion and depreciation	\$11,793	\$9,635
Per BOE	\$17.57	\$19.59

The Company recognized depletion and depreciation expense (“D&D”) of \$11.8 million in Q1 2025 compared to \$9.6 million in Q1 2024. On a boe basis, D&D was \$17.57 per boe in the first quarter of 2025 and \$19.59 per BOE in the same period of 2024. The D&D expense was based on an internal evaluation of proved and probable reserves and an internal estimate of future development costs.

D&D expense Q1 2025 was higher due to higher production volume and partially offset by lower rate.

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

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

EXPLORATION EXPENSE

<i>(thousands, except per unit amounts)</i>	Three months ended March 31	
	2025	2024
Exploration expense	\$1,252	\$2,421
Per BOE	\$1.86	\$4.92

North 40 recognized exploration expense of \$1.3 million in Q1 2025 (\$1.86 per boe) compared to \$2.4 million (\$4.92 per boe) in Q1 2024. Exploration expense in Q1 2025 relates to undeveloped land expiries and costs related to drilling two test evaluation wells in prior years. Exploration expense in Q1 2024 relates to an unsuccessful test well at Tide Lake drilled in the quarter and undeveloped land expiries

FINANCE EXPENSE

<i>(thousands)</i>	Three Months Ended March 31	
	2025	2024
Accretion of decommissioning obligations	\$124	\$67
Interest	28	-
Banking fees	40	14
Interest on lease liabilities	5	4
Total	\$197	\$85
Per BOE	\$0.29	\$0.17

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

INCOME TAXES

<i>(thousands)</i>	Three Months Ended March 31	
	2025	2024
Current income tax expense	\$ 200	\$443
Deferred income tax expense (recovery)	1,293	(126)
Income taxes	\$1,493	\$317
Per BOE	\$2.23	\$0.64

North 40 recognized a current income tax expense of \$0.2 million and a deferred income tax expense of \$1.3 million for the three months ended March 31, 2025 compared to \$0.4 million of current income tax expense and a deferred income tax recovery of \$0.1 million in Q1 2024.

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

The following tax pool balances are estimated at March 31, 2025:

<i>(thousands)</i>	Maximum Annual Deduction	March 31 2025	March 31 2024
Canadian oil and gas property expense (COGPE)	10%	\$3,668	\$15,028
Canadian development expense (CDE)	30%	70,079	55,440
Undepreciated capital cost (UCC)	25%	48,770	41,479
		\$122,517	\$111,947

NET INCOME AND COMPREHENSIVE INCOME

<i>(thousands)</i>	Three Months Ended March 31	
	2025	2024
Net income and comprehensive income	\$5,756	\$793
Per share – basic	\$0.08	\$0.01
– diluted	\$0.07	\$0.01

North 40 recognized net income and comprehensive income of \$5.8 million (\$0.08 per basic and \$0.07 per diluted share) in the first quarter of 2025 and a net income and comprehensive income of \$0.8 million (\$0.01 per basic and diluted share) for the same period in 2024.

The increase in net income for the three months ended March 31, 2025 as compared to the same period in 2024 is primarily due to an increase in petroleum and natural gas revenue and lower exploration expense partially offset by higher royalties, operating and transportation expenses, general and administrative expenses, depletion and depreciation, and income taxes.

CAPITAL EXPENDITURES

Capital expenditures by type and by area for the three months ended March 31, 2025 and 2024 were as follows:

<i>(thousands)</i>	Three Months Ended March 31	
	2025	2024
Acquisition	\$12,392	\$ -
Land and lease rentals ⁽¹⁾	140	430
Seismic and geological	-	2,293
Drilling and completion	15,325	8,225
Equipping and tie-ins	6,805	3,370
Facilities	213	300
Office and other	102	93
Total capital expenditures	\$34,977	\$14,711

⁽¹⁾ Net of land fund reimbursements

<i>(thousands)</i>	Three Months Ended March 31	
	2025	2024
Sheerness	\$34,810	\$5,351
Drumheller	110	4,000
Wayne	-	373
Tide Lake	-	3,195
Matziwin	-	1,598
Other	57	194
Total field capital expenditures	\$34,977	\$14,711

Wells drilled by property were as follows:

	Three Months Ended March 31	
	2025	2024
Sheerness ⁽¹⁾	6	1
Drumheller	-	1
Tide Lake	-	1
Total	6	3

⁽¹⁾ Five wells in Michichi and one in Aerial

First quarter 2025 capital expenditures of \$35.0 million were expended almost entirely in the Sheerness area. The Company drilled, six wells (five wells in Michichi and one well in Aerial) in Q1 which were all brought on production in the quarter. A pipeline connecting the Company's Michichi production to a natural gas plant (50% working interest) purchased in Q4 2024 was completed and put into operation in Q1 2025.

The Company acquired certain crude oil and natural gas properties with minimal current production for \$12.4 million of cash consideration in the quarter. The property consists of approximately 8,300 hectares which has been developed by vertical wells identifying multi-zone potential in Aerial. The property includes a number of inactive and/or suspended wells and facilities. A reactivation and recompletion program will be undertaken later in 2025. To fund this acquisition, the Company sold a royalty interest and an infrastructure volumetric payment on future production. Proceeds from the sale was \$12 million and is not included in the capital expenditure values disclosed above.

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

North 40's net land holdings per area at March 31, 2025 and 2024 were as follows:

<i>(acres)</i>	March 31 2025	March 31 2024
Sheerness	139,515	118,685
Wayne	15,951	16,263
Drumheller	55,874	54,643
Tide Lake	26,427	28,326
Matziwin	23,609	36,058
Princess	1,261	19,175
Other	22,476	25,008
Total	285,113	298,158

The decrease in land holdings at March 31, 2025 compared to the same time last year is largely due to the acquisition of additional leases in Sheerness partially offset by undeveloped land expiries at Princess and Matziwin.

The land holdings consist of 73% crown and 27% freehold leases at March 31, 2025. Working interest in North 40's land holdings is 98 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 \$15.7 million at March 31, 2025 (\$9.1 million at December 31, 2024). The increase in the decommissioning obligations is largely due to obligations associated with the properties acquired in Q1 2025.

Estimated abandonment and reclamation costs are based on the directives issued by the Alberta Energy Regulator and management's experience. The decommissioning obligation is measured using the estimated present value of costs to abandon and reclaim all ownership interests. A risk-free rate of 3.20% (3.35% at December 31, 2024) and an inflation rate of 2.00% (2.00 % at December 31, 2024) were used to calculate the best estimate of the decommissioning obligation.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2025 the Company had a working capital deficiency of \$9.7 million. All activities to date have been funded with proceeds from the Company's initial equity financing, cash flow from operations, land fund reimbursements, working capital, interest income on cash balances, and bank debt.

At March 31, 2025, the Company had a \$35.0 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 March 31, 2025 that reduces the amount otherwise available to be drawn on the operating facility.

The facility includes a financial covenant that requires the "Adjusted Working Capital" ratio (as defined in the credit agreement, with undrawn capacity under the facility included in the definition of current assets) be not less than 1.0 at each fiscal quarter end. The Company was in compliance with this covenant at March 31, 2025. 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. The next review date has been set for May 31, 2025.

The review was completed on June 3, 2025. The credit facility was increased to \$45.0 million from \$35.0 million. The next review date has been set for November 30, 2025.

The Company has entered into a Royalty Acquisition Agreement (the "agreement") with an arm's length party (the "party") whereby the party will fund certain crown land purchases incurred by the Company in exchange for a royalty on future production from those crown lands. The term of the agreement is to October 31, 2025. The agreement includes a funding limit of \$17 million, which may be increased at the sole discretion of the party. At March 31, 2025, there is \$3.3 million remaining on the funding limit.

SELECTED QUARTERLY INFORMATION

Three Months Ended	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30
	2025	2024	2024	2024	2024	2023	2023	2023
FINANCIAL								
Petroleum and natural gas revenue	\$38,595	\$30,591	\$25,197	\$26,057	\$27,260	\$34,594	\$44,318	\$33,839
Funds flow from operations ⁽¹⁾	\$20,442	\$14,712	\$11,702	\$12,555	\$13,049	\$17,289	\$22,560	\$16,989
Per share – basic	\$0.27	\$0.19	\$0.15	\$0.16	\$0.17	\$0.23	\$0.29	\$0.22
Per share – diluted	\$0.25	\$0.18	\$0.14	\$0.15	\$0.16	\$0.21	\$0.28	\$0.21
Net income (loss)	\$5,756	\$3,494	\$(1,130)	\$4,244	\$793	\$ 945	\$9,306	\$4,572
Per share – basic	\$0.08	\$0.05	\$(0.02)	\$0.06	\$0.01	\$0.01	\$0.12	\$0.06
Per share – diluted	\$0.07	\$0.04	\$(0.02)	\$0.05	\$0.01	\$0.01	\$0.11	\$0.06
Capital expenditures ⁽²⁾	\$34,977	\$27,847	\$22,314	\$3,554	\$14,711	\$21,512	\$17,740	\$18,656
Working capital surplus (deficiency) at end of period ⁽³⁾	\$(9,708)	\$(8,365)	\$(10,757)	\$1,086	\$(7,807)	\$(6,114)	\$(1,857)	\$(6,644)
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)	4,754	3,809	3,169	3,034	3,465	4,076	4,740	4,203
Natural gas (mcf/day)	16,231	12,498	10,150	8,413	11,642	14,052	12,550	12,767
Total (boe/day) ⁽⁴⁾	7,459	5,892	4,860	4,436	5,405	6,418	6,832	6,331
% Oil and liquids	64	65	65	68	64	64	69	66
Commodity prices realized (before pipeline tariffs)								
Oil and liquids (\$/bbl)	85.83	85.33	87.55	94.73	81.14	87.40	97.95	84.41
Natural gas (\$/mcf)	2.47	1.73	0.77	1.33	2.84	2.54	2.92	2.72
Total (\$/boe)	60.07	58.84	58.69	67.31	58.14	61.08	73.33	61.53
Operating netback ⁽⁵⁾ (\$/boe)	32.63	30.12	27.59	34.25	29.12	30.74	40.47	32.91
Funds flow from operations netback (\$/boe) ⁽¹⁾	29.87	27.14	26.17	31.10	26.53	29.28	35.89	29.49
Net wells drilled	6.0	4.0	7.0	-	3.0	4.0	3.0	3.0
Net acres of land at end of period	285,113	265,397	267,272	283,585	298,158	285,480	297,608	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.

⁽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.

NORTH 40

RESOURCES LTD.

**Quarterly Condensed Interim Financial Statements
March 31, 2025**

North 40 Resources Ltd.

Interim Statements of Financial Position

(unaudited)	March 31	December 31
As at	2025	2024
<i>(\$ thousands)</i>		
ASSETS		
Current Assets		
Cash	-	5,710
Accounts receivable	14,268	13,261
Current income taxes (Note 9)	759	959
Prepays and deposits	875	839
Total Current Assets	15,902	20,769
Deposit on asset acquisition bid (Note 5)	-	1,200
Exploration and evaluation assets (Notes 4, 5, and 6)	17,793	15,927
Property, plant and equipment (Notes 5, 6, 7)	200,439	185,931
Total Assets	234,134	223,827
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	24,459	29,134
Bank debt (Note 8)	1,151	-
Total Current Liabilities	25,610	29,134
Lease liabilities	177	184
Decommissioning obligations (Note 10)	15,654	9,115
Deferred income taxes	19,952	18,659
Total Liabilities	61,393	57,092
Shareholders' Equity		
Share capital (Note 11)	76,245	76,245
Contributed surplus	6,056	5,806
Retained earnings	90,440	84,684
Total Shareholders' Equity	172,741	166,735
Total Liabilities and Shareholders' Equity	234,134	223,827

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

North 40 Resources Ltd.

Interim Statements of Net Income and Comprehensive Income

(unaudited)

Three months ended March 31

2025 2024

(\$ thousands except per share amounts)

Revenue

Petroleum and natural gas revenue (Note 12)	38,595	27,260
Less: Royalties	7,431	5,518
	31,164	21,742
Interest income	30	99
	31,194	21,841

Expenses

Operating	7,752	6,329
Transportation	1,497	1,085
General and administrative	1,230	917
Share based compensation (Note 11)	224	259
Depletion and depreciation (Notes 7)	11,793	9,635
Exploration expense (Note 4)	1,252	2,421
Finance expense	197	85
Total expenses	23,945	20,731

Income before taxes 7,249 1,110

Current income tax expense (Note 9) 200 443

Deferred income tax expense (recovery) 1,293 (126)

Income taxes 1,493 317

Net Income and Comprehensive Income **5,756** **793**

Net Income per share (Note 13)

Basic and diluted	\$0.08	\$0.01
Diluted	\$0.07	\$0.01

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

North 40 Resources Ltd.
Interim Statements of Changes in Equity

(unaudited)

	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
<i>(\$ thousands)</i>				
Balance as at December 31, 2023	76,245	4,661	77,282	158,188
Net income	-	-	793	793
Share based compensation (Note 11)	-	287	-	287
Balance as at March 31, 2024	76,245	4,948	78,075	159,268
Balance as at December 31, 2024	76,245	5,806	84,684	166,735
Net income	-	-	5,756	5,756
Share based compensation (Note 11)	-	250	-	250
Balance as at March 31, 2025	76,245	6,056	90,440	172,741

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

North 40 Resources Ltd.

Interim Statements of Cash Flow

(unaudited)

Three months ended March 31

	2025	2024
<i>(\$ thousands)</i>		
Cash provided by (used in):		
Operating activities		
Net income for the period	5,756	793
Adjusted for:		
Depletion and depreciation (Notes 7)	11,793	9,635
Exploration expense (Note 4)	1,252	2,421
Accretion expense (Note 10)	124	67
Share based compensation (Note 11)	224	259
Deferred income tax expense (recovery)	1,293	(126)
	20,442	13,049
Net change in non-cash working capital (Note 14)	176	488
	20,618	13,537
Financing activities		
Increase in bank debt (Note 8)	1,151	-
Repayment of lease liabilities	(8)	(31)
	1,143	(31)
Investing activities		
Deposit paid on acquisition bid (Note 5)	1,200	-
Exploration and evaluation expenditures (Notes 4)	(811)	(5,449)
Property and equipment expenditures (Notes 7)	(21,774)	(9,262)
Acquisition (Note 5)	(12,392)	-
Proceeds from dispositions (Notes 4, 6 and 7)	12,000	-
Net change in non-cash working capital (Note 14)	(5,694)	(2,756)
	(27,471)	(17,467)
Change in cash	(5,710)	(3,961)
Cash, beginning of period	5,710	8,036
Cash, end of period	-	4,075
Cash income tax paid	-	-

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

North 40 Resources Ltd.

Notes to the Financial Statements

(unaudited)

As at March 31, 2025 and December 31, 2024, and for the three months ended March 31, 2025 and 2024 (*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 IAS 34 “Interim Financial Reporting” under accounting principles consistent 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, 2024.

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

These financial statements were approved and authorized for issuance by the Board of Directors on June 4, 2025.

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, 2024.

4. EXPLORATION AND EVALUATION ASSETS

(\$)	March 31 2025	December 31 2024
Balance, beginning of period	15,927	19,275
Acquisitions (Note 5)	14,350	-
Additions	811	10,744
Dispositions (Note 6)	(11,274)	(4,956)
Exploration expense	(1,252)	(4,970)
Transferred to property and equipment (Note 7)	(769)	(4,166)
Balance, end of period	17,793	15,927

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 in 2025 relates to undeveloped land expiries and costs related to drilling two test evaluation wells in prior years.

Exploration expense in 2024 relates to undeveloped land expiries and costs related to drilling an unsuccessful test well.

5. ACQUISITIONS

On January 13, 2025, the Company completed the acquisition of certain crude oil and natural gas properties, primarily inactive wells and related infrastructure, with minimal current production for cash consideration of \$12.4 million. The effective date of the acquisition was January 13, 2025. The acquisition has been accounted for as an asset acquisition as the acquired assets did not meet the definition of a business.

The following purchase price allocation was based on the asset acquired and the liabilities assumed:

(\$)	As at January 13, 2025
<hr/>	
Net assets (liabilities) acquired	
Exploration and evaluation assets	14,350
Property, plant & equipment	3,839
Decommissioning obligations	(5,797)
Net assets acquired	12,392
<hr/>	
Consideration	
Cash	12,392
Total consideration	12,392

A deposit of \$1.2 million was paid in 2024 in connection with this acquisition.

On December 19, 2024, the Company closed an acquisition of a 50% working interest in a natural gas plant and related infrastructure. As consideration for the assets, the Company paid \$6.3 million cash and a 50% working interest in a segment of a pipeline. The Company incurred transaction costs of \$0.1 million which were capitalized to property, plant and equipment.

The Company assessed the transaction using the concentration test in accordance with IFRS 3 and accounted for the acquisition as an asset acquisition. The purchase price was allocated as follows:

(\$)	
<hr/>	
Net assets (liabilities) acquired	
Property, plant & equipment	7,582
Decommissioning obligations	(146)
Net assets acquired	7,436
<hr/>	
Consideration	
Cash	6,250
Interest in a pipeline	1,050
Transaction costs	136
Total consideration and transaction costs	7,436

6. DISPOSITIONS

In 2025, the Company sold a royalty interest and infrastructure volume payment on future production from certain lands in the Aerial area of Sheerness included in the acquisition described in Note 5. Proceeds from the sale were \$12.0 million and were allocated to E&E assets (\$11.3 million) and to property plant and equipment (\$0.7 million). There was no gain or loss recognized on the disposition.

Persons related to two directors purchased a portion of these interests for proceeds totalling \$6.0 million. An arm's length third party purchased the remainder of these interests.

In 2024, the Company sold a royalty interest and an infrastructure volumetric payment on current and future production from certain lands in the Michichi area of Sheerness.

In this area, the Company purchased a 50% interest in a natural gas plant as described in Note 5, constructed an oil battery and began construction on a natural gas pipeline to connect the oil battery to the natural gas plant. Production volume processed at the infrastructure described are subject to the infrastructure volumetric payment.

Proceeds from the sale were \$15.6 million and were allocated to E&E assets (\$5.0 million) and to property plant and equipment (\$10.6 million). There was no gain or loss recognized on the disposition.

Two of the Company's directors and persons related to those directors purchased a portion of these interests for proceeds totalling \$7.8 million. An arm's length third party purchased the remainder of these interests.

7. PROPERTY, PLANT AND EQUIPMENT

(\$)	March 31 2025	December 31 2024
Property and equipment, at cost	370,474	346,933
Accumulated depletion and depreciation	(172,796)	(161,002)
Net book value, end of period	197,678	185,931

Reconciliations of movements during the period:

Cost, beginning of period	346,933	294,109
Accumulated depletion and depreciation, beginning of period	(161,002)	(124,727)
Net book value, beginning of period	185,931	169,382
Additions	21,764	50,500
Acquisitions (Note 5)	3,839	7,582
Right-of-use assets	-	188
Dispositions (Note 6)	(726)	(10,593)
Transferred from exploration and evaluation assets	769	4,166
Changes in decommissioning obligations (Note 10)	655	981
Depletion and depreciation	(11,793)	(36,275)
Net book value, end of period	200,439	185,931

Included in the calculation of depletion was an estimate for future development costs of \$110.4 million at March 31, 2025 (\$105.6 million at December 31, 2024). An estimated future salvage value of \$9.5 million was excluded from the calculation of depletion at March 31, 2024 (\$9.3 million at December 31, 2024).

Included in additions is capitalized general and administrative expenses of \$0.1 million (\$0.2 million at December 31, 2024).

Included in the March 31, 2025 property, plant and equipment balance is the right-of-use asset of \$0.2 million (\$0.2 million at December 31, 2024).

At March 31, 2025 and December 31, 2024, there were no indicators of impairment identified and an impairment test was not performed.

8. CREDIT FACILITY

At March 31, 2025, the Company had a \$35.0 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 March 31, 2025 that reduces the amount otherwise available to be drawn on the operating facility.

The facility includes a financial covenant that requires the "Adjusted Working Capital" ratio (as defined in the credit agreement, with undrawn capacity under the facility included in the definition of current assets) be not less than 1.0 at each fiscal quarter end. The Company was in compliance with this covenant at March 31, 2025. 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. The next review date has been set for May 31, 2025.

The review was completed on June 3, 2025. The credit facility was increased to \$45.0 million from \$35.0 million. The next review date has been set for November 30, 2025.

9. CURRENT INCOME TAXES

(\$)	March 31 2025	December 31 2024
Balance, beginning of period	(959)	(487)
Current income tax expense	200	443
Payments ⁽¹⁾	-	(960)
Balance, end of period	(759)	(959)

⁽¹⁾ Includes instalments.

10. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its responsibility to abandon and reclaim its net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total inflation adjusted and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately \$41.2 million (\$30.2 million at December 31, 2024).

A reconciliation of the decommissioning obligations is provided below.

(\$)	March 31 2025	December 31 2024
Balance, beginning of year	9,115	7,644
Liabilities incurred	539	1,392
Liabilities acquired (Note 5)	5,797	146
Change in estimates	79	(260)
Decommissioning expenditures	-	(78)
Accretion expense	124	271
Balance, end of year	15,654	9,115
Key assumptions		
Risk free rate	3.20%	3.35%
Inflation rate	2.00%	2.00%

11. SHARE CAPITAL

Authorized

Unlimited number of common voting shares ("common shares") without nominal or par value

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

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

Issued and Outstanding	March 31 2025		December 31 2024	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	76,624	\$76,093	76,624	\$76,093
Balance, end of period	76,624	\$76,093	76,624	\$76,093
Class B Common Non-Voting Shares				
Balance, beginning of period	4,870	\$49	4,870	\$49
Balance, end of period	4,870	\$49	4,870	\$49
Class C Common Non-Voting Shares				
Balance, beginning of period	10,380	\$103	10,380	\$103
Balance, end of period	10,380	\$103	10,380	\$103
Total		\$76,245		\$76,245

Common Shares

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

Class B Shares and Options on Class B Shares

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

Class B shares are convertible to common shares of the Company until expiry in September 2026 at an exercise price of \$1.00 per share. One third of the Class B shares purchased and options granted will vest equally on each of the second, third and fourth anniversary of the issue date. At March 31, 2025, 4,870,000 Class B shares and 1,040,583 options on Class B shares have vested (4,870,000 and 767,750 respectively at March 31, 2024).

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, 2024	1,732,000	\$0.77
Granted	565,000	1.00
Balance, December 31, 2024	2,297,000	\$0.83
Granted	245,000	1.40
Forfeited	(20,000)	1.00
Balance, March 31, 2025	2,522,000	\$0.83

The fair market value of each Class B option granted in 2024 was estimated on the date of issue using the Black-Scholes pricing model and the following weighted average assumptions in the calculations:

Weighted average risk-free interest rate (%)	2.90
Expected life (years)	2.0- 3.0
Estimated volatility of underlying common shares (%)	60
Share Price (\$)	2.40
Estimated forfeiture rate (%)	nil

The Company recognized share-based compensation expense of \$79,858 related to the Class B options for the quarter ended March 31, 2025 (\$90,171 for the quarter ended March 31, 2024) and capitalized \$9,046 (\$8,143 for the quarter ended March 31, 2024).

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
2,460,666	\$1.50	\$1.00
2,460,666	\$2.00	\$1.15
2,460,666	\$2.25	\$1.30
2,460,666	\$2.50	\$1.45
2,460,666	\$2.75	\$1.60
2,460,666	\$3.00	\$1.75

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, 2024	3,074,000	\$0.77
Granted	825,000	1.00
Balance, December 31, 2024	3,899,000	\$0.77
Granted	485,000	1.40
Balance, March 31, 2025	4,384,000	\$0.77

The fair market value of each Class C option granted in 2024 was estimated on the date of issue using the Black-Scholes pricing model and the following assumptions in the calculations:

Weighted average risk-free interest rate (%)	2.90
Expected life (years)	2.5
Estimated volatility of underlying common shares (%)	60
Share Price (\$)	2.40
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 \$143,624 related to the Class C shares and options for the quarter ended March 31, 2025 (\$169,417 for the quarter ended March 31, 2024) and capitalized \$18,064 (\$19,584 for the quarter ended March 31, 2024).

12. REVENUES

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

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

(\$)	March 31 2025	March 31 2024
Crude oil revenues	33,102	23,096
Natural gas revenues	3,093	2,659
Natural gas liquids revenues	2,400	1,505
Total	38,595	27,260

13. NET INCOME PER SHARE

	March 31 2025	March 31 2024
Net Income per share		
Basic	\$0.08	\$0.01
Diluted	\$0.07	\$0.01
Weighted average shares outstanding		
Basic	76,624	76,624
Diluted	83,125	83,125

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$)	March 31 2025	March 31 2024
Source / (use) of cash:		
Accounts receivable	(1,007)	116
Prepaid expenses and deposits	(36)	4
Accounts payable and accrued liabilities	(4,675)	(2,831)
Current income taxes	200	443
Change in non-cash working capital	(5,518)	(2,268)
Related to:		
Operating activities	176	488
Investing activities	(5,694)	(2,756)

15. COMMITMENTS

(\$)	Within 1 year	After 1 year but not more than 5 years	Total
Firm transportation – natural gas	251	335	586
Office lease	124	539	663
Total	375	874	1,249

16. RELATED PARTIES

In 2025, the Company sold a royalty interest and an infrastructure volumetric payment on future production on certain lands in the Sheerness area for proceeds of \$12.0 million. Persons related to two directors purchased a portion of these interests for proceeds totalling \$6.0 million. An arm's length third party purchased the remainder of these interests.

In 2024, the Company sold a royalty interest and an infrastructure volumetric payment on current and future production on certain lands in the Sheerness area for proceeds of \$15.6 million. Two of the Company's directors and persons related to those directors purchased a portion of these interests for proceeds totalling \$7.8 million. An arm's length third party purchased the remainder of these interests.

In 2024, the Company purchased mineral rights on a section of undeveloped land from a third party. Two directors and an arm's length third party funded the purchase in exchange for a royalty on future production from the land.

17. CAPITAL RISK MANAGEMENT

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

The Company has entered into a Royalty Acquisition Agreement (the "agreement") with an arm's length party (the "party") whereby the party will fund certain crown land purchases incurred by the Company in exchange for a royalty on future production from those crown lands. The term of the agreement is to October 31, 2025. The agreement includes a funding limit of \$17 million, which may be increased at the sole discretion of the party. At March 31, 2025, there is \$3.3 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.

18. FINANCIAL RISK MANAGEMENT

Credit risk

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

At March 31, 2025 and December 31, 2024, financial assets on the statement of financial position are comprised of cash and trade and other receivables and the maximum credit risk associated with these financial instruments is the total carrying amount of these financial assets.

Accounts receivable for crude oil and natural gas sales are collected on or about the 25th day of the month following production. At March 31, 2025, 99% of the accounts receivable amount relates to production revenue (96% at December 31, 2024).

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 \$35 million revolving demand operating facility with a Canadian chartered bank which could be accessed if required. At the date of writing, the credit facility was increased from \$35.0 million to \$45.0 million.

Market risk

Market risk is comprised of currency risk, interest rate risk and commodity price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the statement of financial position as at March 31, 2025 and December 31, 2024 has not been significantly impacted by changes in currency rates. Currency rates influence petroleum and natural gas prices; however, this influence on commodity prices and the resulting impact on financial assets and liabilities cannot be accurately quantified.

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact any bank interest earned/indebtedness that has a floating interest rate, potentially affecting future cash flows. As a means to mitigating exposure to interest rate risk, the Company has the ability to enter into interest rate swap agreements. There were no outstanding contracts at March 31, 2025 and December 31, 2024.

Commodity price risk

The Company may be exposed to commodity price risk arising from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities. There were no outstanding contracts at March 31, 2025 and December 31, 2024.

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

Lonny Tetley
Corporate Secretary

DIRECTORS

Clayton Woitas
Executive Chairman

Tyson Birchall

Jeff Lebbert

Margaret McKenzie

Don Robson

Grant Zawalsky

HEAD OFFICE

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BANKER

National Bank of Canada

LEGAL COUNSEL

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Calgary, AB

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