NORTH 40
RESOURCES LTD.

September 3, 2025

PRESIDENT'S MESSAGE

North 40 Resources Ltd. is pleased to report its operating and financial results for the three and six months ended June 30, 2025.

Highlights for this period include:

- Q2 2025 production averaged 7,245 boe per day (57% oil and liquids) which is a 63% increase from Q2 2024 average of 4,436 boe per day (68% oil and liquids). Production for the first six months of 2025 averaged 7,352 boe per day (60% oil and liquids) compared to 4,921 boe per day (66% oil and liquids) in the same period of 2024.

- Generated funds flow from operations of $13.1 million in the quarter and $33.6 million in the first half of 2025.

- Operating netback of $23.07/boe and $27.88/boe for the quarter and first half of 2025.

- Invested $16.6 million in capital spending in the quarter and $51.5 million in the first half. Capital in Q2 2025 included the drilling of five wells, completion of one well at Wayne and commenced the staged approach to the construction of a battery at Aerial. In the first half of 2025 a total of 11 wells were drilled all of which were horizontal Ellerslie wells with the exception of a vertical disposal well at the Michichi 2-13 battery. Phase one of the reactivations and recompletions on wells acquired in the Aerial property acquisition commenced in May 2025 and is now complete. Phase 2 of the reactivations will commence shortly.

- In June 2025, closed the purchase of a 75% operated working interest in the Seiu Lake gas processing plant and gathering system.

- Operating expenses for Q2 2025 decreased and averaged $10.50 and $11.03 for the first half 2025. This is compared to $13.68 and $13.23 per boe in Q2 2024 and the first half 2024.The Michichi water disposal facility became operational early August 2025 and is currently disposing 4,000 barrels per day of produced water from multiple North 40 properties. Additional operating expense savings will be realized in the second half of 2025 from the Michichi water disposal scheme and North 40's ownership and operatorship at the Seiu Lake gas plant.

Q2 to Q4 2025 Activity

North 40 drilling activity in Q2 2025 was comprised of the drilling of four horizontal Ellerslie oil wells and the drilling of the vertical water disposal well at the Michichi 2-13 battery site. The disposal well is an excellent well expected to result in cost savings of $1.5 million annually.

In Q3 2025, one horizontal Ellerslie oil well has been drilled at Wayne for a total well count to date in 2025 of 11 horizontal Ellerslie oil wells and one vertical Michichi disposal well. All wells are now on production albeit delays were experienced as a result of the wet weather in July and most of August.

In June 2025, North 40 closed the purchase of a 75 percent operated working interest in the Seiu Lake gas processing facility and the related pipeline infrastructure. Immediate operating expense savings will be realized as North 40 is now an owner and will no longer be paying third party processing fees on the associated gas produced from the North 40 Banff B oil production. Longer term the Seiu Lake Gas Plant and infrastructure will accept third party natural gas volumes on a customary processing fee basis.

In July 2025, North 40 closed the sale of the two noncore oil wells in the Entice area.

For the balance of the year, we expect to drill a total of 4-5 wells, a combination of development and appraisal.

The Board of Directors has approved a 2025 capital budget of $78 million, net of third party funding proceeds (decreased from $82 million).

Production in Q3 has averaged approximately 7,000 boe to date (57% oil and liquids).

Staffing

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

- Dermot O'Connor has joined as Exploration Manager. Dermot is a Petroleum Geologist with 35 years experience in exploration and development in a wide variety of oil and gas plays in the Western Canadian Sedimentary Basin.

- Jim Iverson, another geologist, has also joined North 40. Jim is a Petroleum Geologist with 45 years experience in the Western Canadian Sedimentary Basin building prospects from northeast British Columbia to Southeast Saskatchewan.

- Audrey Boston has joined as a Senior Joint Venture Accountant with over 25 years experience in operational accounting.

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

Sincerely,

NORTH 40 RESOURCES LTD.

Don W Robson
President & CEO

NORTH 40
RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following analysis was prepared as at September 3, 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 year ended December 31, 2024 and the unaudited condensed interim financial statements for the three and six months ended June 30, 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.*

<u>Funds flow from operations</u>

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

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

	Three months ended June 30		Six months ended June 30	
(thousands)	*2025*	*2024*	*2025*	*2024*
Cash provided by (used in) operating activities	*$13,467*	*$7,707*	*$34,084*	*$21,243*
Plus: Decommissioning expenditures	*-*	*78*	*-*	*78*
Plus: Net change in non-cash working capital	*(341)*	*4,770*	*(517)*	*4,283*
Funds flow from operations	*$13,126*	*$12,555*	*$33,567*	*$25,604*

<u>Operating netback</u>

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

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

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

Capital Expenditures

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

(thousands, except per unit amounts and where indicated)	Three months ended June 30 2025	2024	Six months ended June 30 2025	2024
FINANCIAL				
Petroleum and natural gas revenue	$29,818	$26,057	$68,413	$53,317
Funds flow from operations [(1)]	$13,126	$12,555	$33,567	$25,604
Per share – basic	$0.17	$0.16	$0.44	$0.33
Per share – diluted	$0.15	$0.15	$0.39	$0.31
Net income (loss)	$(8,210)	$4,244	$(2,455)	$5,037
Per share – basic	$(0.11)	$0.06	$(0.03)	$0.07
Per share – diluted	$(0.11)	$0.05	$(0.03)	$0.06
Capital expenditures [(2)]	$16,553	$3,554	$51,530	$18,264
Working capital surplus (deficiency) [(3)] at end of period	$(12,829)	$1,086	$(12,829)	$1,086
Common shares outstanding at end of period	77,612	76,624	77,612	76,624
OPERATING				
Sales volumes				
Oil and liquids (bbls/day)	4,135	3,034	4,443	3,250
Natural gas (mcf/day)	18,662	8,413	17,453	10,027
Total (boe/day) [(4)]	7,245	4,436	7,352	4,921
% Oil and liquids	57	68	60	66
Commodity prices realized (before pipeline tariffs)				
Oil and liquids ($/bbl)	74.94	94.73	80.74	87.49
Natural gas ($/mcf)	1.91	1.33	2.17	2.21
Total ($/boe)	47.69	67.31	53.93	62.27
Operating netback ($/boe) [(5)]	23.07	34.25	27.89	31.44
Funds flow from operations netback ($/boe) [(1)]	19.91	31.10	25.23	28.59
Net wells drilled	5.0	-	11.0	3.0
Net acres of land at end of period	266,003	283,585	266,003	283,585

(1) *Funds flow from operations and funds flow from operations netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*
(2) *Capital expenditures does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*
(3) *Working capital surplus (deficiency) does not have a standardized measure prescribed by IFRS. See Non-IFRS Measurements section of the MD&A. Working capital deficiency at June 30, 2025, includes $1.8 million of bank debt (nil at June 30, 2024) and nil in cash ($5.5 million at June 30, 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 June 30 2025	2024	Six months ended June 30 2025	2024
Oil (bbls per day)	3,555	2,773	3,900	2,965
Liquids (bbls per day)	580	261	543	285
Natural gas (mcf per day)	18,662	8,413	17,453	10,027
BOE per day	7,245	4,436	7,352	4,921

Production in Q2 2025 averaged 7,245 boe per day (57% oil and liquids) which is a 63% increase from Q2 2024 average of 4,436 boe per day (68% oil and liquids). Production for the first six months of 2025 averaged 7,352 boe per day (60% oil and liquids) compared to 4,921 boe per day (66% oil and liquids) in the same period of 2024. Contributing to the increase in production are additions from the Q4 2024 and Q1 2025 drilling programs partially offset by natural expected declines.

Five wells were drilled in Q2 2025, one well at Wayne was brought on production late in June, one well was a water disposal well at Michichi and the other three wells drilled were brought on production in Q3 2025.

Oil and liquids production increased 36% to 4,135 bbls per day in Q2 2025 from 3,034 bbls per day in Q2 2024 and increased 37% to 4,443 bbls per day in the first six months of 2025 from 3,250 bbls per day in the comparable 2024 period. Production increases from the wells drilled and brought on production in Q1 2025 and Q4 2024 were partially offset by naturally expected production declines.

Natural gas production increased 122% to 18,662 mcf per day in Q2 2025 from 8,413 mcf per day in Q2 2024. Production in the first six months of 2025 averaged 17,453 mcf per day which is a 74% increase from the 10,027 mcf per day in the same period of 2024. Production increases are from the same factors for oil and liquids as well the Company had non-associated natural gas production shut in during the first six months of 2024 due to low natural gas price realizations.

OPERATING NETBACK

	Three months ended June 30		Six months ended June 30	
($ per BOE)	2025	2024	2025	2024
Revenue [(1)]	$45.22	$64.55	$51.40	$59.53
Royalties	(9.55)	(13.93)	(10.32)	(12.44)
Operating expenses	(10.50)	(13.68)	(11.03)	(13.23)
Transportation expenses	(2.10)	(2.69)	(2.16)	(2.42)
Operating netback [(2)]	$23.07	$34.25	$27.89	$31.44

(1) *Net of pipeline tariff amount of $2.47 and $2.53 per boe for the three and six months ended June 30, 2025, and $2.76 and $2.74 per boe in the comparable periods of 2024 respectively.*
(2) *Operating netback does not have a standardized meaning prescribed by IFRS. See Non-IFRS Measurements section of the MD&A.*

The operating netback was lower both in Q2 2025 and for the first six months of 2025 compared to the same periods in 2024 primarily due to lower realized prices for crude oil partially offset by lower royalties, operating and transportation expenses.

COMMODITY PRICES

	Three months ended June 30		Six months ended June 30	
($ per bbl)	2025	2024	2025	2024
WTI (US$/bbl)	$64.15	$80.57	$67.79	$78.77
MSW benchmark price [(1)]	$84.86	$105.32	$90.14	$98.77
WCS benchmark price [(2)]	$74.58	$91.71	$79.48	$84.73
Realized crude oil price	$80.13	$98.45	$85.34	$90.67

(1) *Mixed sweet blend (MSW) is the benchmark conventionally produced light sweet crude for Western Canada. It is often referenced as Edmonton Par Crude.*
(2) *Western Canadian Select (WCS) is a Hardisty based blend of conventional and oil sands production. WCS is a heavy sour blend of crude oil.*

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

North 40's realized crude oil price (before pipeline tariffs) in Q2 2025 was $80.13 per barrel which is 19% lower than the Q2 2024 price of $98.45 per barrel. WTI benchmark prices decreased 20% from $80.57 per barrel in Q2 2024 to $64.15 per barrel in Q2 2025 contributing to most of the decrease in North 40's realized price. Partially offsetting the decline in the WTI price was stronger differentials and a weaker Canadian dollar. The WCS differential narrowed to average US$10.27 per barrel in Q2 2025 from US$13.61 per barrel in Q2 2024. The MSW differential narrowed to average US$2.84 per barrel in Q2 2025 compared to US$3.63 per barrel in Q2 2024.

North 40's realized oil price decreased 6% in the first half of 2025 to $85.34 per barrel from $90.67 per barrel realized in the first half of 2024 due to a 14% decrease in WTI benchmark prices partially offset by stronger differentials and a weaker Canadian dollar. The WCS differential narrowed to average US$11.47 per barrel in the first half of 2025 from US$16.59 per barrel in the same period of 2024. The MSW differential narrowed to average US$3.91 per barrel in the first six months of 2025 compared to US$6.14 per barrel in the same period of 2024.

Benchmark WTI prices weakened in the first half of 2025 compared to the first half of 2024. Heightened economic uncertainty with trade policy volatility, global supply growth and OPEC+'s decision to accelerate its planned reintroduction of voluntary production cuts have contributed to the decline in WTI benchmark prices. WCS differentials improved materially with the May 2024 successful start up of the TMX (Trans Mountain) pipeline expansion.

	Three months ended June 30		Six months ended June 30	
($ per mcf)	2025	2024	2025	2024
AECO Daily (5A) index	$1.69	$1.18	$1.93	$1.84
Realized natural gas price	$1.91	$1.33	$2.17	$2.21

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 increased 44% to $1.91 per mcf in Q2 2025 from $1.33 per mcf in Q2 2024 and decreased 2% to $2.17 per mcf for the first six months of 2025 from $2.21 per mcf in the same period of 2024.

The LNG Canada export terminal started up July 1, 2025 and will be ramped up over the next several months to approximately 2 bcf per day which is expected to be positive for AECO natural gas prices.

REVENUE

	Three months ended June 30		Six months ended June 30	
($ thousands)	2025	2024	2025	2024
Oil and liquids	$27,132	$25,273	$62,634	$49,875
Natural gas	2,686	784	5,779	3,442
Petroleum and natural gas revenue	$29,818	$26,057	$68,413	$53,317
% Oil and liquids	91	97	92	94

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

Revenue in Q2 2025 increased to $29.8 million from $26.1 million in Q2 2024. The increase is due to an increase in production volume of all products and an increase in realized natural gas prices partially offset by a decrease in realized oil and liquids prices.

Revenue for the six months ended June 30 increased by 28% from $53.3 million in 2024 to $68.4 million in 2025. The increase is due to increased production volume for all products offset by lower realized prices for all products. The increase in oil production was predominately the reason for the increase in revenue.

Oil and liquids revenue represents 91% of total revenue in Q2 2025 and increased 7% from $25.3 million in Q2 2024 to $27.1 million in Q2 2025. Crude oil realizations were 19% lower and oil production volumes were 28% higher in Q2 2025 compared to the same quarter last year.

Oil and liquids revenue represents 92% of total revenue in first half of 2025 and increased 28% from $49.9 million in the first half of 2024 to $62.6 million in the comparable period of 2025. Crude oil realizations were 6% lower and oil production volumes were 32% higher in the first half of 2025 compared to the same period last year.

Natural gas revenue increased 143% in Q2 2025 from $0.8 million in Q2 2024 to $2.7 million. The increase is due to a 44% increase in price realizations and a 122% increase in production volume in Q2 2025 compared to Q2 2024.

Natural gas revenue increased 68% in the first half of 2025 from $3.4 million in 2024 to $5.8 million in 2025. The increase is due to a 74% increase in production volume partially offset by a 2% decrease in price realizations in the first half of 2025 compared to the same period in 2024.

Oil pipeline tariffs of $1.1 million and $2.3 million are included in revenue for the second quarter and the first six months of 2025 respectively. This compares to $0.9 million and $1.9 million in the same periods of 2024. The custody transfer to the purchaser is at the point the oil is offloaded at the terminal. Gas pipeline tariffs of $0.6 million and $1.1 million are also included in revenue for the three months and six months ended June 30, 2025, respectively. This compares to $0.2 million and $0.6 million in the same periods of 2024. The custody transfer to the purchaser is at the point the natural gas enters the receipt meter.

ROYALTIES

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Royalties	$6,299	$5,621	$13,730	$11,139
Per BOE	$9.55	$13.93	$10.32	$12.44
% of Revenue before pipeline tariffs	20%	21%	19%	20%

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 $9.55 per boe and increased to $6.3 million in the second quarter of 2025 compared to $13.93 per boe and $5.6 million in the second quarter of 2024 commensurate with lower realized oil prices and higher production volumes.

Royalties on a boe basis decreased to $10.32 per boe and increased to $13.7 million in first half of 2025 compared to $12.44 per boe and $11.1 million in the same period of 2024 for the same reasons above.

Royalties as a percentage of revenue were 20% and 21% in the second quarters of 2025 and 2024. Royalties as a percentage of revenue decreased to 19% for the first six months of 2025 compared to 20% for the first six months of 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

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Operating expenses	$6,921	$5,522	$14,673	$11,851
Per BOE	$10.50	$13.68	$11.03	$13.23
Transportation expenses	$1,383	$1,085	$2,880	$2,170
Per BOE	$2.10	$2.69	$2.16	$2.42

Operating expenses averaged $10.50 and $11.03 per boe for the second quarter and the first six months of 2025 respectively compared to $13.68 and $13.23 per boe in the second quarter and first six months of 2024. The decrease in both periods compared to the prior year 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 $2.10 and $2.16 per boe in the second quarter and the first six months of 2025, respectively compared to $2.69 and $2.42 per boe in the second quarter and first half of 2024, respectively. The cost is incurred on oil production only. Oil production as a percentage of total production was lower in 2025 compared to 2024 which is the main contributor to the decrease in boe costs.

North 40's crude oil production may be sold in different sales streams in Alberta which may vary month to month depending on the netback at those different streams. As a result, there will be fluctuations in crude oil differentials and transportation costs as the Company seeks out the highest netback opportunity.

GENERAL AND ADMINISTRATIVE

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Gross G&A	$1,938	$1,072	$3,265	$2,079
Capitalized G&A	(92)	(85)	(188)	(176)
Net G&A	$1,846	$987	$3,077	$1,903
Per BOE	$2.80	$2.44	$2.31	$2.13

Net general and administrative ("G&A") expenses were $1.8 million and $3.1 million for the second quarter and first half of 2025 respectively compared to $1.0 million and $1.9 million in the same periods of 2024. The increase G&A is mostly attributable to payments related to the termination of the Company's former Vice President Exploration and higher legal and consulting expenses mostly associated with asset transactions.

On a boe basis, net G&A was $2.80 and $2.31 per boe in Q2 and first half of 2025 respectively compared to $2.44 and $2.13 per boe in same periods of 2024. The increase in the per boe amount is due to higher G&A expenses in 2025 partially offset by higher production volume when compared to 2024.

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

SHARE-BASED COMPENSATION

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Share-based compensation	$103	$287	$353	$574
Capitalized share-based compensation	(12)	(27)	(39)	(55)
	$91	$260	$314	$519
Per BOE	$0.14	$0.64	$0.24	$0.58

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

The decrease in share-based compensation in Q2 2025 and the first six months of 2025 compared to the same periods in 2024 is due to the additional expense associated with the 2023 term extension of the Class C shares and options being fully amortized in Q2 2025.

Detailed information regarding the Class B and Class C shares and options have been disclosed in Note 12 of the financial statements.

DEPLETION AND DEPRECIATION

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Depletion and depreciation	$11,991	$7,987	$23,785	$17,621
Per BOE	$18.19	$19.79	$17.87	$19.68

The Company recognized depletion and depreciation expense ("D&D") of $12.0 million ($18.19 per boe) and $23.8 million ($17.87 per boe) for the quarter and six months ended June 30, 2025, respectively compared to $8.0 million ($19.79 per boe) and $17.6 million ($19.68 per BOE) in the same periods 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 increased in both Q2 and for the first six months of 2025 compared to the same periods in 2024 largely due to higher production volume partially offset by a lower rate.

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

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

EXPLORATION EXPENSE

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Exploration expense	$5,776	$35	$7,028	$2,457
Per BOE	$8.76	$0.09	$5.28	$2.74

North 40 recognized exploration expense of $5.8 million ($8.76 per boe) in Q2 2025 and $7.0 million ($5.28 per boe) in the first half of 2025. Undeveloped land expiries, most notably in Matziwin South and Wayne, led to the Q2 expense. The first half expense of $7.0 million is related to undeveloped land expiries and costs related to drilling two test wells in prior years.

Exploration expense in Q2 2024 and in the first half of 2024 was $0.1 million ($0.09 per boe) and $2.5 million ($2.74 per boe) respectively and relates to an unsuccessful test well at Tide Lake drilled in the first quarter of 2024 and undeveloped land expiries.

LOSS ON ASSETS HELD-FOR-SALE

	Three months ended June 30		Six months ended June 30	
(thousands, except per unit amounts)	2025	2024	2025	2024
Loss on assets held-for-sale	$4,479	$-	$4,479	$-
Per BOE	$6.79	$-	$3.37	$-

North 40 entered into a purchase and sale agreement on June 4, 2025 for the disposition of its non-core Entice assets for $0.3 million in cash. As at June 30, 2025 the Company determined the closing was highly probable and reclassified the Entice assets to asset held for sale. Reclassification of the assets resulted in recognition of a loss of $4.5 million based on the consideration expected.

The transaction closed on July 30, 2025.

FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
(thousands)	2025	2024	2025	2024
Accretion of decommissioning obligations	$129	$64	$253	$130
Interest	126	32	193	28
Banking fees	113	92	114	110
Interest on lease liabilities	5	7	10	12
Total	$373	$195	$570	$280
Per BOE	$0.57	$0.48	$0.43	$0.31

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

INCOME TAXES

	Three months ended June 30		Six months ended June 30	
(thousands)	2025	2024	2025	2024
Current income tax expense	$ -	$205	$200	$648
Deferred income tax expense (recovery)	(1,130)	(35)	163	(160)
Income taxes	$(1,130)	$170	$363	$488
Per boe	$(1.71)	$0.42	$0.27	$0.54

North 40 recognized current income tax expense of nil in Q2 2025 and $0.2 million for the first half of the year compared to $0.2 million and $0.6 million in the comparable periods of 2024 respectively.

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

For the three and six months ended June 30, 2025, a deferred income tax recovery of $1.1 million and an expense of $0.2 million, respectively, was recognized compared to a deferred income tax recovery of $0.1 million and $0.2 million for the comparable periods in 2024.

The following tax pool balances are estimated at June 30, 2025:

(thousands)	Maximum Annual Deduction	June 30 2025	June 30 2024
Canadian oil and gas property expense (COGPE)	10%	$3,786	$14,795
Canadian development expense (CDE)	30%	71,249	51,924
Undepreciated capital cost (UCC)	25%	49,224	41,059
		$124,259	$107,778

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30		Six months ended June 30	
(thousands)	2025	2024	2025	2024
Net income (loss) and comprehensive income (loss)	$(8,210)	$4,244	$(2,455)	$5,037
Per share - basic	$(0.11)	$0.06	$(0.03)	$0.07
Per share - diluted	$(0.11)	$0.05	$(0.03)	$0.06

The increase in the net loss for the three months ended June 30, 2025, as compared to the same period in 2024 is primarily due to an increase in exploration expense, loss on assets held for sale, increase in depletion and operating and general and administrative expenses partially offset by an increase in petroleum and natural gas revenue.

The increase in the net loss for the six months ended June 30, 2025, as compared to the same period in 2024 is primarily due to an increase in exploration expense, loss on assets held for sale, increase in depletion, royalties, operating and general and administrative expenses partially offset by and increase in petroleum and natural gas revenue and the deferred income tax recovery.

CAPITAL EXPENDITURES

Capital expenditures by type and by property for the three and six months ended June 30, 2025, and 2024 were as follows:

	Three months ended June 30		Six months ended June 30	
(thousands)	2025	2024	2025	2024
Acquisition	$ -	$ -	$12,392	$ -
Land and lease rentals [1]	351	318	491	747
Seismic and geological	980	153	980	2,447
Drilling and completion	9,050	145	24,375	8,370
Equipping and tie-ins	3,293	2,765	10,070	6,135
Facilities	2,777	87	3,019	387
Office and other	102	86	203	178
Total capital expenditures	$16,553	$3,554	$51,530	$18,264

(1) Net of land fund reimbursements.

	Three months ended June 30		Six months ended June 30	
(thousands)	2025	2024	2025	2024
Sheerness	$12,462	$1,197	$47,272	$6,549
Drumheller	269	1,086	379	5,188
Wayne	3,461	889	3,206	1,187
Tide Lake	-	(109)	-	3,086
Matziwin	-	372	-	1,970
Other	361	119	673	284
Total capital expenditures	$16,553	$3,554	$51,530	$18,264

Wells drilled by property were as follows:

	Three months ended June 30		Six months ended June 30	
	2025	2024	2025	2024
Sheerness[1]	4	-	10	1
Wayne	1	-	1	-
Drumheller	-	-	-	1
Tide Lake	-	-	-	1
Total	5	-	11	3

(1) 2 wells in Michichi (7 wells for the six month period) and 2 wells in Aerial (3 wells for the six month period) in Q2 2025. Includes a water disposal well in Michichi in Q2 2025.

Capital expenditures in Q2 2025 were $16.6 million. Capital activity included the drilling of five wells (one of which was a water disposal well at Michichi (Sheerness)), completion of one well at Wayne, construction of a water disposal facility at Michichi, (Sheerness), commenced construction of an oil battery at Aerial (Sheerness), acquisition of a 75% working interest in the Seiu Lake natural gas plant in the Drumheller area and several well workovers.

First half 2025 capital expenditures were $51.5 million and predominantly expended in the Sheerness area. The Company drilled 11 wells. Other capital activities included construction of a water disposal facility at Michichi (Sheerness), commenced construction of an oil battery at Aerial (Sheerness), completion of a pipeline connecting Michichi natural gas production to a natural gas plant (50% working interest), acquisition of a 75% working interest in the Seiu Lake natural gas plant in the Drumheller area, several well workovers, and an acquisition of properties described below.

The Company acquired certain crude oil and natural gas properties with minimal current production for $12.4 million of cash consideration in the first quarter of 2025. 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.

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

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

LAND HOLDINGS

North 40's net land holdings per area at June 30, 2025 and 2024 were as follows:

(acres)	June 30, 2025	June 30 2024
Sheerness	139,515	118,685
Drumheller	54,092	55,121
Wayne	8,937	15,951
Tide Lake	26,427	28,326
Matziwin	13,294	24,168
Other	23,738	41,334
Total	266,003	283,585

The decrease in land holdings at June 30, 2025, compared to the same time last year is primarily due to undeveloped land expiries at Matziwin and Wayne partially offset by the acquisition of additional crown leases at Sheerness.

The land holdings consist of 79% crown and 21% freehold leases at June 30, 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 $14.5 million at June 30, 2025 ($9.1 million at December 31, 2024). The increase in decommissioning obligations is largely due to obligations associated with properties acquired.

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 3.55% (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 June 30, 2025, the Company had a working capital deficiency of $12.8 million which includes $1.8 million of bank debt. 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, sales of royalty interests and volumetric payments, interest income on cash balances, and bank debt.

At June 30, 2025, the Company had a $45.0 million revolving demand operating facility with a Canadian chartered bank. The facility bears interest based on the prime rate or Canadian Overnight Repo Rate Average ("CORRA") rates plus a margin. Interest rates applicable to draws and standby fees are based on a pricing margin grid and will change as a result of the ratio of net debt to cash flow as calculated in accordance with the credit facility agreement. Standby fees on undrawn amounts are currently 0.50%. The Company has a letter of credit outstanding for $0.1 million at June 30, 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 June 30, 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 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. At June 30, 2025, there is $2.3 million remaining on the funding limit. Subsequent to June 30, 2025 the term of the agreement was extended to October 31, 2026.

SELECTED QUARTERLY INFORMATION

Three Months Ended	Jun 30 2025	Mar 31 2025	Dec 31 2024	Sept 30 2024	Jun 30 2024	Mar 31 2024	Dec 31 2023	Sept 30 2023
FINANCIAL								
Petroleum and natural gas revenue	$29,818	$38,595	$30,591	$25,197	$26,057	$27,260	$34,594	$44,318
Funds flow from operations (1)	$13,126	$20,442	$14,712	$11,702	$12,555	$13,049	$17,289	$22,560
Per share – basic	$0.17	$0.27	$0.19	$0.15	$0.16	$0.17	$0.23	$0.29
Per share – diluted	$0.15	$0.25	$0.18	$0.14	$0.15	$0.16	$0.21	$0.28
Net income (loss)	$(8,210)	$5,756	$3,494	$(1,130)	$4,244	$793	$ 945	$9,306
Per share – basic	$(0.11)	$0.08	$0.05	$(0.02)	$0.06	$0.01	$0.01	$0.12
Per share – diluted	$(0.11)	$0.07	$0.04	$(0.02)	$0.05	$0.01	$0.01	$0.11
Capital expenditures (2)	$16,553	$34,977	$27,847	$22,314	$3,554	$14,711	$21,512	$17,740
Working capital surplus (deficiency) at end of period (3)	$(12,829)	$(9,708)	$(8,365)	$(10,757)	$1,086	$(7,807)	$(6,114)	$(1,857)
Common shares outstanding end of period	77,612	76,624	76,624	76,624	76,624	76,624	76,624	76,624
OPERATING								
Sales volumes								
Oil and liquids (bbls/day)	4,135	4,754	3,809	3,169	3,034	3,465	4,076	4,740
Natural gas (mcf/day)	18,662	16,231	12,498	10,150	8,413	11,642	14,052	12,550
Total (boe/day) (4)	7,245	7,459	5,892	4,860	4,436	5,405	6,418	6,832
% Oil and liquids	57	64	65	65	68	64	64	69
Commodity prices realized (before pipeline tariffs)								
Oil and liquids ($/bbl)	74.94	85.83	85.33	87.55	94.73	81.14	87.40	97.95
Natural gas ($/mcf)	1.91	2.47	1.73	0.77	1.33	2.84	2.54	2.92
Total ($/boe)	47.69	60.07	58.84	58.69	67.31	58.14	61.08	73.33
Operating netback (5) ($/boe)	23.07	32.63	30.12	27.59	34.25	29.12	30.74	40.47
Funds flow from operations netback ($/boe) (1)	19.91	29.87	27.14	26.17	31.10	26.53	29.28	35.89
Net wells drilled	5.0	6.0	4.0	7.0	-	3.0	4.0	3.0
Net acres of land at end of period	266,003	285,113	265,397	267,272	283,585	298,158	285,480	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.*

(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
June 30, 2025

North 40 Resources Ltd.
Interim Statements of Financial Position

(unaudited) As at	June 30 2025	December 31 2024
($ thousands)		
ASSETS		
Current Assets		
Cash	-	5,710
Accounts receivable	10,184	13,261
Current income taxes (Note 10)	759	959
Prepaids and deposits	1,391	839
Assets held-for-sale	300	-
Total Current Assets	12,634	20,769
Deposit on asset acquisition bid (Note 5)	-	1,200
Exploration and evaluation assets (Notes 4, 5, and 6)	15,258	15,927
Property, plant and equipment (Notes 5, 6, 7, and 8)	195,688	185,931
Total Assets	**223,580**	**223,827**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	23,684	29,134
Bank debt (Note 9)	1,779	-
Total Current Liabilities	25,463	29,134
Lease liabilities	182	184
Decommissioning obligations (Note 11)	14,480	9,115
Deferred income taxes	18,821	18,659
Total Liabilities	58,946	57,092
Shareholders' Equity		
Share capital (Note 12)	77,025	76,245
Contributed surplus	5,380	5,806
Retained earnings	82,229	84,684
Total Shareholders' Equity	164,634	166,735
Total Liabilities and Shareholders' Equity	**223,580**	**223,827**

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 June 30		Six months ended June 30	
	2025	**2024**	**2025**	**2024**
($ thousands except per share amounts)				
Revenue				
Petroleum and natural gas revenue (Note 13)	29,818	26,057	68,413	53,317
Less: Royalties	6,299	5,621	13,730	11,139
	23,519	20,436	54,683	42,178
Interest income	1	49	31	148
	23,520	20,485	54,714	42,326
Expenses				
Operating	6,921	5,522	14,673	11,851
Transportation	1,383	1,085	2,880	2,170
General and administrative	1,846	987	3,077	1,903
Share-based compensation (Note 12)	91	260	314	519
Depletion and depreciation (Note 8)	11,991	7,987	23,785	17,621
Exploration expense (Note 4)	5,776	35	7,028	2,457
Loss on assets held-for-sale (Note 7)	4,479	-	4,479	-
Finance expense	373	195	570	280
Total expenses	32,860	16,071	56,806	36,801
Income (loss) before taxes	(9,340)	4,414	(2,092)	5,525
Current income tax expense	-	205	200	648
Deferred income tax (recovery) expense	(1,130)	(35)	163	(160)
Income taxes	(1,130)	170	363	488
Net Income (Loss) and Comprehensive Income (Loss)	**(8,210)**	**4,244**	**(2,455)**	**5,037**
Net Income (loss) per share (Note 14)				
Basic	$(0.11)	$0.06	$(0.03)	$0.07
Diluted	$(0.11)	$0.05	$(0.03)	$0.06

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
($ thousands)				
Balance as at December 31, 2023	**76,245**	**4,661**	**77,282**	**158,188**
Net income	-	-	5,037	5,037
Share based compensation (Note 12)	-	574	-	574
Balance as at June 30, 2024	**76,245**	**5,235**	**82,319**	**163,799**
Balance as at December 31, 2024	**76,245**	**5,806**	**84,684**	**166,735**
Net income	-	-	(2,455)	(2,455)
Transferred on conversion of Class B's and C's	780	(780)	-	-
Share-based compensation (Note 12)	-	354	-	354
Balance as at June 30, 2025	**77,025**	**5,380**	**82,229**	**164,634**

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

North 40 Resources Ltd.
Interim Statements of Cash Flow

(unaudited)	Three months ended June 30		Six months ended June 30	
	2025	**2024**	**2025**	**2024**
($ thousands)				
Cash provided by (used in):				
Operating activities				
Net income for the period	(8,210)	4,244	(2,455)	5,037
Adjusted for:				
Depletion and depreciation (Note 5)	11,991	7,987	23,785	17,621
Exploration expense (Note 4)	5,776	35	7,028	2,457
Loss on assets held-for-sale (Note 7)	4,479	-	4,479	-
Accretion expense (Note 11)	129	64	253	130
Share-based compensation (Note 12)	91	260	314	519
Deferred income tax expense	(1,130)	(35)	163	(160)
	13,126	12,555	33,567	25,604
Decommissioning expenditures (Note 11)	-	(78)	-	(78)
Net change in non-cash working capital (Note 15)	341	(4,770)	517	(4,283)
	13,467	7,707	34,084	21,243
Financing activities				
Increase in bank debt (Note 9)	628	-	1,779	-
Repayment of lease liabilities	6	(30)	(1)	(60)
	634	(30)	1,778	(60)
Investing activities				
Deposit paid on acquisition (Note 5)	-	-	1,200	-
Exploration and evaluation expenditures (Note 4)	(3,400)	(527)	(4,211)	(5,975)
Property, plant and equipment expenditures (Note 8)	(13,153)	(3,027)	(34,927)	(12,289)
Acquisition (Note 5)	-	-	(12,392)	-
Proceeds from dispositions (Notes 4,6, and 8)	-	-	12,000	-
Net change in non-cash working capital (Note 15)	2,452	(2,658)	(3,242)	(5,415)
	(14,101)	(6,212)	(41,572)	(23,679)
Change in cash	-	1,465	(5,710)	(2,496)
Cash, beginning of period	-	4,075	5,710	8,036
Cash, end of period	**-**	**5,540**	**-**	**5,540**
Cash income tax paid	**-**	**473**	**-**	**473**

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

North 40 Resources Ltd.
Notes to the Financial Statements

As at June 30, 2025 and December 31, 2024, and for the three and six months ended June 30, 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 September 3, 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

($)	June 30 2025	December 31 2024
Balance, beginning of period	15,927	19,275
Acquisitions (Note 5)	14,350	-
Additions	4,211	10,744
Dispositions (Note 6)	(11,274)	(4,956)
Exploration expense	(7,028)	(4,970)
Transferred to property and equipment (Note 8)	(928)	(4,166)
Balance, end of period	15,258	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
Net assets (liabilities) acquired	
Exploration and evaluation assets	14,350
Property, plant & equipment	3,839
Decommissioning obligations	(5,797)
Net assets acquired	12,392
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:

($)	
Net assets (liabilities) acquired	
Property, plant & equipment	7,582
Decommissioning obligations	(146)
Net assets acquired	7,436
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. ASSETS HELD-FOR-SALE

In Q2 2025, the Company signed a definitive agreement to sell its Entice assets. The closing of the sale is subject to terms that are usual and customary and it is highly probable that it will close. A loss of $4.5 million has been recognized. The assets held-for-sale value is $0.3 million.

8. PROPERTY AND EQUIPMENT

($)	June 30 2025	December 31 2024
Property and equipment, at cost	384,982	346,933
Accumulated depletion and depreciation	(189,294)	(161,002)
Net book value, end of period	195,688	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	34,927	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	928	4,166
Transferred to assets held-for-sale	(300)	-
Changes in decommissioning obligations	(647)	981
Depletion and depreciation	(23,785)	(36,275)
Loss on assets held-for-sale (Note 7)	(4,479)	-
Net book value, end of period	195,688	185,931

Included in the calculation of depletion was an estimate for future development costs of $106.7 million at June 30, 2025 ($105.6 million at December 31, 2024). An estimated future salvage value of $11.4 million was excluded from the calculation of depletion at June 30, 2025 ($9.3 million at December 31, 2024).

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

Included in the June 30, 2025 property, plant and equipment balance is the right-of-use asset of $0.2 million ($0.2 million at December 31, 2024).

At June 30, 2025 and December 31, 2024, there were no indicators of impairment identified and an impairment test was not performed.

9. CREDIT FACILITY

At June 30, 2025, the Company had a $45.0 million revolving demand operating facility with a Canadian chartered bank. The facility bears interest based on the prime rate or Canadian Overnight Repo Rate Average (“CORRA”) rates plus a margin. Interest rates applicable to draws and standby fees are based on a pricing margin grid and will change as a result of the ratio of net debt to cash flow as calculated in accordance with the credit facility agreement. Standby fees on undrawn amounts are currently 0.50%. The Company has a letter of credit outstanding for $0.1 million at June 30, 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 June 30, 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 November 30, 2025.

10. CURRENT INCOME TAXES

($)	June 30 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.*

11. 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 $41.9 million ($30.2 million at December 31, 2024), with payments estimated to occur between 2025 and 2074.

A reconciliation of the decommissioning obligations is provided below.

($)	June 30 2025	December 31 2024
Balance, beginning of year	9,115	7,644
Obligations incurred	697	1,392
Obligations acquired (Note 5)	5,797	146
Change in estimates	(1,182)	(260)
Decommissioning expenditures	-	(78)
Liabilities associated with assets held for sale	(200)	-
Accretion expense	253	271
Balance, end of year	14,480	9,115
Key assumptions		
Risk free rate	3.55%	3.35%
Inflation rate	2.00%	2.00%

12. SHARE CAPITAL

Authorized

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

Issued and Outstanding		June 30 2025		December 31 2024
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	76,624	$76,093	76,624	$76,093
Issued on conversion of Class B's and C's	988	803	-	-
Balance, end of period	77,612	$76,896	76,624	$76,093
Class B Common Non-Voting Shares				
Balance, beginning of period	4,870	$49	4,870	$49
Converted to common shares	(1,000)	(10)	-	-
Balance, end of period	3,870	$39	4,870	$49
Class C Common Non-Voting Shares				
Balance, beginning of period	10,380	$103	10,380	$103
Converted to common shares	(650)	(7)	-	-
Forfeited	(650)	(6)	-	-
Balance, end of period	9,080	$90	10,380	$103
Total		$77,025		$76,245

Common Shares

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

Class B Shares and Options on Class B Shares

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

Class B shares are convertible to common shares of the Company until expiry in September 2026 at an exercise price of $1.00 per share. One third of the Class B shares purchased and options granted will vest equally on each of the second, third and fourth anniversary of the issue date. At June 30, 2025, 3,870,000 Class B shares and 932,250 options on Class B shares have vested (4,870,000 and 767,750 respectively at June 30, 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
Exercised	(258,333)	(0.85)
Forfeited	(111,667)	(1.05)
Balance, June 30, 2025	2,172,000	$0.79

The fair market value of each Class B option granted in 2025 was estimated on the date of issue using the Black-Scholes pricing model and the following assumptions in the calculations:

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 $66,393 and $146,251 related to the Class B shares and options for the three and six months ended June 30, 2025 ($90,171 and $180,342 for the three and six months ended June 30, 2024) and capitalized $7,185 and $16,231 ($8,143 and $16,286 for the quarter and six months ended June 30, 2024).

During the period, 1,000,000 Class B shares and 258,333 options on Class B shares were converted to common shares through a cashless exercise.

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
2,162,333	$1.50	$1.00
2,162,333	$2.00	$1.15
2,162,333	$2.25	$1.30
2,162,333	$2.50	$1.45
2,162,333	$2.75	$1.60
2,162,333	$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
Exercised	(135,832)	(0.64)
Forfeited	(354,168)	(0.90)
Balance, June 30, 2025	3,894,000	$0.78

The fair market value of each Class C option granted in 2025 was estimated on the date of issue using the Black-Scholes pricing model and the following assumptions in the calculations:

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 $24,570 and $168,194 related to the Class C non-voting shares for the three and six months ended June 30, 2025 ($169,418 and $338,835 for the three and six months ended June 30, 2024) and capitalized $4,952 and $23,016 ($19,583 and $39,167 for the three and six months ended June 30, 2024).

During the period, 650,000 Class B shares and 135,832 options on Class C shares were converted to common shares through a cashless exercise.

13. REVENUES

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

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

	Three months ended June 30		**Six months ended June 30**	
($)	**2025**	**2024**	**2025**	**2024**
Crude oil revenues	24,853	23,961	57,954	47,057
Natural gas revenues	2,686	784	5,779	3,443
Natural gas liquids revenues	2,279	1,312	4,680	2,818
Total	29,818	26,057	68,413	53,317

14. NET INCOME (LOSS) PER SHARE

	Three months ended June 30		**Six months ended June 30**	
	2025	**2024**	**2025**	**2024**
Net Income (loss) per share				
Basic	$(0.11)	$0.06	$(0.03)	$0.07
Diluted	$(0.11)	$0.05	$(0.03)	$0.06
Weighted average shares outstanding				
Basic	76,659	76,624	76,642	76,624
Diluted	85,035	83,832	85,355	82,678

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

($)	June 30 2025	June 30 2024
Source / (use) of cash:		
Accounts receivable	3,077	3,008
Prepaid expenses and deposits	(552)	(361)
Accounts payable and accrued liabilities	(5,450)	(12,518)
Current income taxes	200	175
Change in non-cash working capital	(2,725)	(9,696)
Related to:		
Operating activities	517	(4,283)
Investing activities	(3,242)	(5,415)

16. COMMITMENTS

($)	Within 1 year	After 1 year but not more than 5 years	Total
Firm transportation – natural gas	246	266	512
Office lease	185	519	704
Total	431	785	1,216

17. 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.

18. CAPITAL RISK MANAGEMENT

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

The Company has entered into a Royalty Acquisition Agreement (the "agreement") with an arm's length party (the "party") whereby the party will fund certain crown land purchases incurred by the Company in exchange for a royalty on future production from those crown lands. The term of the agreement is to October 31, 2025. The agreement includes a funding limit of $17 million, which may be increased at the sole discretion of the party. At June 30, 2025, there is $2.3 million remaining on the funding limit. Subsequent to June 30, 2025 the term of the agreement was extended to October 31, 2026.

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.

19. FINANCIAL RISK MANAGEMENT

Credit risk

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

At June 30, 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 June 30, 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 $45.0 million revolving demand operating facility with a Canadian chartered bank which could be accessed if required.

Market risk

Market risk is comprised of currency risk, interest rate risk and commodity price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the statement of financial position as at June 30, 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 June 30, 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 June 30, 2025 and December 31, 2024.

Corporate Information

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President and Chief Executive Officer

Kim Schoenroth
Vice President Finance and Chief Financial Officer

Gerald Aleman
Vice President, Production

Calvin House
Vice President, Land and Business Development

Preston Kraft
Vice President, Operations

Lonny Tetley
Corporate Secretary

DIRECTORS

Clayton Woitas
Executive Chairman

Tyson Birchall

Jeff Lebbert

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