



Interim Condensed Financial Statements of
Canadian Spirit Resources Inc.
(unaudited)

September 30, 2018

1. STATEMENTS OF FINANCIAL POSITION
2. STATEMENTS OF OPERATIONS
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NOTICE: The interim condensed financial statements and notes thereto for the three and nine month periods ended September 30, 2018 have not been reviewed by the Corporation's external auditors.

Canadian Spirit Resources Inc.

STATEMENTS OF FINANCIAL POSITION

	As at September 30, 2018 <i>(unaudited)</i>	As at December 31, 2017 <i>(audited)</i>
Assets		
Non-current assets:		
Exploration and evaluation assets (note 5)	\$ 33,711,763	\$ 33,273,818
Property, plant and equipment (note 6)	5,102,195	5,360,675
Restricted deposits (note 7)	1,749,420	1,749,420
Royalty credits (note 3)	3,440,635	3,420,321
	<u>44,004,012</u>	<u>43,804,234</u>
Current assets:		
Cash and cash equivalents	855,286	2,058,742
Accounts receivable & other accrued receivables	45,108	39,303
Prepaid expenses and other deposits	77,592	108,972
Royalty credits (note 3)	12,420	11,730
	<u>990,406</u>	<u>2,218,747</u>
	<u>\$ 44,994,418</u>	<u>\$ 46,022,981</u>
Liabilities and Shareholders' Capital		
Non-current liabilities:		
Decommissioning liability (note 8)	\$ 2,201,834	\$ 2,213,342
Current liabilities:		
Accounts payable & other accrued liabilities	119,282	256,511
Shareholders' capital:		
Common shares (note 9)	116,737,374	116,737,374
Contributed surplus (note 11)	9,440,722	9,334,484
Deficit	(83,504,794)	(82,518,730)
	<u>42,673,302</u>	<u>43,553,128</u>
	<u>\$ 44,994,418</u>	<u>\$ 46,022,981</u>

Corporate information, basis of presentation and going concern (note 1)

Commitments (note 13)

Subsequent event (note 15)

See accompanying notes to the condensed interim financial statements.

ON BEHALF OF THE BOARD:

(signed) "Donald R. Gardner"

Director

(signed) "Alfred B. Sorensen"

Director

Canadian Spirit Resources Inc.

STATEMENTS OF CHANGES IN SHAREHOLDERS' CAPITAL (unaudited)

	Common Shares (note 9)	Share Purchase Warrants (note 9)	Contributed Surplus (note 11)	Deficit	Total
As at January 1, 2018	\$ 116,737,374	\$ -	\$ 9,334,484	\$ (82,518,730)	\$ 43,553,128
Net loss and comprehensive loss	-	-	-	(986,064)	(986,064)
Share-based compensation, gross (note 11)	-	-	106,238	-	106,238
As at September 30, 2018	<u>\$ 116,737,374</u>	<u>\$ -</u>	<u>\$ 9,440,722</u>	<u>\$ (83,504,794)</u>	<u>\$ 42,673,302</u>
As at January 1, 2017	\$ 114,276,295	\$ 256,464	\$ 8,975,339	\$ (80,530,260)	\$ 42,977,838
Equity issues:					
Exercise of share purchase warrants	270,000	-	-	-	270,000
Share issue costs	(15,820)	9,783	-	-	(6,037)
Transfers:					
Exercise of share purchase warrants	81,000	(81,000)	-	-	-
Share purchase warrants expired	-	(144,750)	144,750	-	-
Net loss and comprehensive loss	-	-	-	(1,129,983)	(1,129,983)
Share-based compensation, gross (note 10)	-	-	172,061	-	172,061
As at September 30, 2017	<u>\$ 114,611,475</u>	<u>\$ 40,497</u>	<u>\$ 9,292,150</u>	<u>\$ (81,660,243)</u>	<u>\$ 42,283,879</u>

See accompanying notes to the condensed interim financial statements.

Canadian Spirit Resources Inc.

STATEMENTS OF OPERATIONS

(unaudited)

	For the three month periods ended September 30,		For the nine month periods ended September 30,	
	2018	2017	2018	2017
Revenue				
Petroleum and natural gas sales	\$ -	\$ 55,070	\$ 114,749	\$ 351,417
Royalties expense (note 3)	-	(1,449)	(552)	(9,743)
	-	53,621	114,197	341,674
Interest and other income	2,797	(391)	18,247	5,617
Expenses				
Operating costs	21,746	74,213	168,043	245,121
Depletion and depreciation (note 6)	71,188	141,863	285,312	429,885
Finance costs, accretion (note 8)	12,097	11,558	35,972	36,055
General and administrative, net	171,400	189,338	550,070	631,468
Share-based compensation, net (note 10)	60,163	117,972	79,112	134,745
	336,593	534,944	1,118,508	1,477,274
Net loss and comprehensive loss	<u>\$ (333,796)</u>	<u>\$ (481,714)</u>	<u>\$ (986,064)</u>	<u>\$ (1,129,983)</u>
Basic loss per share (note 12)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Diluted loss per share (note 12)	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

See accompanying notes to the condensed interim financial statements.

Canadian Spirit Resources Inc.

STATEMENTS OF CASH FLOWS

(unaudited)

	For the three month periods ended September 30,		For the nine month periods ended September 30,	
	2018	2017	2018	2017
Cash Flows used in Operating Activities:				
Net loss and comprehensive loss	\$ (333,796)	\$ (481,714)	\$ (986,064)	\$ (1,129,983)
Add (deduct) items not affecting cash:				
Royalty credits applied (note 3)	-	1,449	552	9,743
Depletion and depreciation (note 6)	71,188	141,863	285,312	429,885
Finance costs, accretion (note 8)	12,097	11,558	35,972	36,055
Share-based compensation, net (note 10)	60,163	117,972	79,112	134,745
Funds flow from operations	(190,348)	(208,872)	(585,116)	(519,555)
Changes in non-cash working capital (note 14)	(52,745)	39,074	(150,814)	49,762
	(243,094)	(169,798)	(735,931)	(469,793)
Cash Flows from (used in) Financing Activities:				
Exercise of share purchase warrants	-	-	-	270,000
Share issue costs	-	(6,037)	-	(6,037)
	-	(6,037)	-	263,963
Cash Flows from (used in) Investing Activities:				
Exploration and evaluation expenditures (note 5)	(156,654)	(82,730)	(437,945)	(412,056)
Net expenditures on property, plant and equipment (note 6)				
Development costs of petroleum and natural gas assets	823	6,496	3,736	3,630
Facilities and equipment	911	9,568	(50,786)	3,047
Fixtures and office equipment	(1,338)	-	(1,338)	-
Net additions to capital assets	(156,258)	(66,666)	(486,333)	(405,379)
Add (deduct) items not affecting cash:				
Revisions to decommissioning liability (notes 5, 6, 8)	(9,649)	(123,127)	(47,480)	(171,659)
Capitalized share-based compensation (notes 5, 6, 10)	18,074	30,299	27,126	37,316
Gross additions to capital assets	(147,833)	(159,494)	(506,687)	(539,722)
Changes in non-cash working capital (note 14)	(229)	(61,097)	39,161	(218,866)
	(148,062)	(220,591)	(467,526)	(758,588)
Change in cash and cash equivalents	(391,155)	(396,426)	(1,203,456)	(964,418)
Cash and cash equivalents, beginning of period	1,246,441	779,297	2,058,742	1,347,289
Cash and cash equivalents, end of period	\$ 855,286	\$ 382,871	\$ 855,286	\$ 382,871
<i>Cash taxes paid</i>	\$ -	\$ -	\$ -	\$ -
<i>Cash interest paid</i>	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the condensed interim financial statements.

Canadian Spirit Resources Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (*unaudited*)

For the three and nine month periods ended September 30, 2018

1. **CORPORATE INFORMATION, BASIS OF PRESENTATION AND GOING CONCERN**

Corporate Information

Canadian Spirit Resources Inc. (“CSRI” or the “Corporation”) is a natural resources company whose shares are listed under the trading symbol ‘SPI’ on the TSX Venture Exchange. The Corporation’s principal activity is exploring for and developing the productive capability of the Montney Formation natural gas and natural gas liquids resource play in the Farrell Creek/Altares area of northeastern British Columbia. The Corporation is continued under the laws of the province of Alberta and its head office is located at Suite 1520, First Alberta Place, 777 8th Avenue S.W., Calgary, Alberta, Canada T2P 3R5.

Basis of Presentation

The unaudited interim condensed financial statements and the notes hereto have been prepared as at, and for the three and nine month periods ended September 30, 2018. All amounts are presented in Canadian dollars. The Corporation has consistently applied the same accounting policies throughout the three and nine month periods ended September 30, 2018 as those set out in the annual audited financial statements for the year ended December 31, 2017 except as noted in note 2 (ii). Certain disclosures included in the notes to the December 31, 2017 annual audited financial statements have been condensed in the note disclosures hereto or have been disclosed only on an annual basis. Accordingly, these unaudited interim condensed financial statements should be read in conjunction with the annual audited financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Statement of Compliance

The interim condensed financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, including IAS 34: *Interim Financial Reporting*.

The accounting policies applied in these unaudited interim condensed financial statements are based on IFRS issued and outstanding as at November 28, 2018, the date of approval by the Corporation’s Board of Directors.

Basis of Measurement

The interim condensed financial statements have been prepared on a going concern basis using the historical cost convention.

Going Concern

These interim condensed financial statements have been prepared using IFRS as they apply to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they come due. For the nine months ended September 30, 2018 the Corporation has reported a net loss and comprehensive loss of \$1.0 million (2017: \$1.1 million) and an accumulated deficit of \$83.5 million as at that date (December 31, 2017: \$82.5 million). In addition to covering on-going net working capital requirements and recurring negative cash flows used in operating activities, the Corporation will need to secure additional funding for any future exploration and development programs. In conjunction with recent energy price fluctuations, the current natural gas market continues to experience low commodity prices due to excess supply and the lack of both local pipeline egress and additional international markets to sell into. These circumstances cause material uncertainties that may cast significant doubt upon the Corporation’s ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Canadian Spirit Resources Inc.
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)
For the three and nine month periods ended September 30, 2018

In recognition of these circumstances, the Corporation has initiated a rights offering to raise gross proceeds of \$1.5 million (see note 15). Management has also undertaken steps to reduce production operating costs and general and administrative expenses, including but not limited to, field operational efficiencies, renegotiation of its office lease terms and reductions in staffing levels/remuneration. These undertakings, while significant, are not sufficient in and of themselves to enable the Corporation to fund all aspects of its forecasted operations and any future exploration and development, and accordingly, management will need to pursue other financing alternatives to fund the Corporation so that it may continue as a going concern. The necessary financing may be secured through either the issue of new equity or debt instruments or entering into new joint venture or farm-in arrangements. Nevertheless, there is no assurance that such initiatives would be successful.

CSRI's ability to continue as a going concern is dependent upon its ability to fund any future exploration and development programs as well as generate positive cash flows from operating activities. These interim condensed financial statements do not reflect any adjustments to the carrying values and classifications of assets and liabilities, nor to the reported revenues and expenses that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations; such adjustments could be material.

2. CHANGES IN ACCOUNTING POLICIES

The Corporation has applied the following new and revised accounting pronouncements in preparing the September 30, 2018 quarterly financial statements. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(i) Adoption of IFRS-9 Financial Instruments

As of January 1, 2018, the Corporation has adopted IFRS-9 Financial Instruments, which is the result of the first phase of the IASB project to replace IAS-39 Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The classification of financial assets under IFRS-9 is generally based on the business model for managing the financial assets and the financial asset's contractual cash flow characteristics. IFRS-9 eliminates the previous IFRS-39 categories of held to maturity, loans and receivables and available for sale. The new standard introduces changes to hedge accounting requirements to align accounting with an entity's risk management activities.

The transition to IFRS-9 had no material effect on the Corporation's financial statements. Cash and cash equivalents, if any, accounts receivables and accounts payables continue to be measured at amortized cost and are now classified as amortized cost. CSRI does not currently apply hedge accounting to its financial instrument contracts and currently has not entered into any risk management contracts.

(ii) Adoption of IFRS-15 Revenue from Contracts with Customers

As of January 1, 2018, the Corporation has adopted IFRS -15. The standard replaces IAS 18: *Revenue*. The standard dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. CSRI has reviewed its revenue streams and underlying contracts with customers using the IFRS -15 five-step model, which did not result in any changes to the comparative period or the opening deficit.

Canadian Spirit Resources Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)

For the three and nine month periods ended September 30, 2018

Revenue Recognition Policy

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. The Corporation recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

The Corporation evaluates its arrangements with 3rd parties and partners to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if the Corporation obtains control of the product delivered, which is indicated by the Corporation having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

(iii) **Future adoption of IFRS-16 Leases**

As of January 1, 2019, the Corporation will be required to adopt IFRS-16 Leases. For lessees applying the new standard, a single recognition and measurement model for leases would be adopted and would require recognition of assets and liabilities for most leases. The standard may be applied retrospectively or by using a modified retrospective approach. CSRI is in the process of identifying and gathering contracts impacted by the new standard. CSRI is currently evaluating the impact of IFRS-16 on the Corporation's financial statements.

3. **ROYALTY CREDITS**

During the three and nine month periods ended September 30, 2018, the Corporation applied \$nil and \$552, respectively, (2017: \$1,449 and \$9,743, respectively) of royalty credits against crown royalties that would otherwise have been payable. A summary of the royalty credits applied by, as well as available to, the Corporation is as follows:

	For the nine months ended September 30, 2018	For the year ended December 31, 2017
Balance, beginning of period	\$ 3,432,051	\$ 3,441,908
Royalty credits earned	21,556	-
Royalty credits applied	(552)	(9,857)
Balance, end of period	<u>\$ 3,453,055</u>	<u>\$ 3,432,051</u>
Non-current portion	<u>\$ 3,440,635</u>	<u>\$ 3,420,321</u>
Current portion	<u>\$ 12,420</u>	<u>\$ 11,730</u>

Canadian Spirit Resources Inc.
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)
For the three and nine month periods ended September 30, 2018

4. FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, accounts receivable & other accrued receivables, and accounts payable & other accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the restricted deposits balance approximates its carrying value as the deposits are considered by management to be low risk since they are held by an agency of the British Columbia provincial government (see note 7).

5. EXPLORATION AND EVALUATION ASSETS

	Petroleum and Natural Gas Properties	Facilities and Equipment	Total
As at January 1, 2018	\$ 31,277,076	\$ 1,996,742	\$ 33,273,818
Gross additions	360,053	92,394	452,447
Change in decommissioning liability	(30,491)	(9,122)	(39,613)
Capitalized share-based compensation	24,840	271	25,111
Net additions	354,401	83,543	437,945
Exploration and evaluation expense	-	-	-
As at September 30, 2018	<u>\$ 31,631,477</u>	<u>\$ 2,080,285</u>	<u>\$ 33,711,763</u>
As at January 1, 2017	\$ 31,092,095	\$ 1,897,861	\$ 32,989,956
Gross additions	569,148	101,466	670,614
Change in decommissioning liability	(97,824)	(3,041)	(100,865)
Capitalized share-based compensation	45,157	456	45,613
Net additions	516,481	98,881	615,362
Exploration and evaluation expense	(331,500)	-	(331,500)
As at December 31, 2017	<u>\$ 31,277,076</u>	<u>\$ 1,996,742</u>	<u>\$ 33,273,818</u>

Exploration and Evaluation (“E&E”) assets comprise the Corporation’s Montney Formation and Gething Formation exploration and evaluation projects which are pending the determination of commercial viability and technical feasibility. Exploration and evaluation expenses relate to the derecognition of the historical cost of land lease exploration rights that were permitted to expire during the period. If the Corporation determines that further exploration or development will be uneconomic on certain older Gething Formation land leases, thus eliminating any future economic benefits on those E&E assets, such land leases are allowed to expire and are therefore expensed in the statement of operations. There were no impairment indicators at September 30, 2018.

Canadian Spirit Resources Inc.
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)
For the three and nine month periods ended September 30, 2018

6. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties	Facilities and Equipment	Office Equipment and Fixtures	Total
<i>Cost</i>				
As at January 1, 2018	\$ 17,224,112	\$ 8,854,591	\$ 226,860	\$ 26,305,563
Gross additions	1,223	51,680	1,338	54,241
Change in decommissioning liability	(3,736)	(4,131)	-	(7,867)
Capitalized share-based compensation	(1,223)	3,237	-	2,014
Net additions	(3,736)	50,786	1,338	48,388
Royalty credits earned	-	(21,556)	-	(21,556)
As at September 30, 2018	17,220,376	8,883,821	228,198	26,332,395
<i>Accumulated depletion, depreciation and impairment</i>				
As at January 1, 2018	16,295,517	4,423,324	226,047	20,944,888
Charge for the year				
Depletion and depreciation	59,629	224,870	813	285,312
As at September 30, 2018	16,355,146	4,648,194	226,860	21,230,200
Carrying amount as at September 30, 2018	<u>\$ 865,230</u>	<u>\$ 4,235,627</u>	<u>\$ 1,338</u>	<u>\$ 5,102,195</u>
<i>Cost</i>				
As at January 1, 2017	\$ 17,220,930	\$ 8,852,616	\$ 226,860	\$ 26,300,406
Gross additions	4,428	3,352	-	7,780
Change in decommissioning liability	(1,246)	(1,377)	-	(2,623)
Capitalized share-based compensation	-	-	-	-
Net additions	3,182	1,975	-	5,157
As at December 31, 2017	17,224,112	8,854,591	226,860	26,305,563
<i>Accumulated depletion, depreciation and impairment</i>				
As at January 1, 2017	15,966,415	4,095,644	223,617	20,285,676
Charge for the year				
Depletion and depreciation	329,102	327,680	2,430	659,212
As at December 31, 2017	16,295,517	4,423,324	226,047	20,944,888
Carrying amount as at December 31, 2017	<u>\$ 928,595</u>	<u>\$ 4,431,267</u>	<u>\$ 813</u>	<u>\$ 5,360,675</u>

During the three and nine month periods ended September 30, 2018 the Corporation capitalized, within the gross additions category of both E&E assets (see note 5) and property, plant and equipment, a combined total of \$62,611 and \$192,914, respectively, (2017: \$65,096 and \$207,230, respectively) of general and administrative expenses directly related to the respective exploration and development activities. During the three and nine month periods ended September 30, 2018, the Corporation also capitalized a combined total of \$18,073 and \$27,126, respectively, (2017: \$30,299 and \$37,316, respectively) of share-based compensation for those employees of the Corporation directly involved in exploration and development activities. Included in the calculation of depletion for the three and nine month periods ended September 30, 2018 of nil and \$71,009, respectively, (2017: \$70,142 and \$214,780, respectively) are future development costs of \$10.6 million (2017: \$10.6 million).

Canadian Spirit Resources Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)

For the three and nine month periods ended September 30, 2018

The Williston Reservoir Water Pipeline (included within the facilities and equipment category) licence term expires on December 31, 2031. The Corporation has recorded depreciation, on a straight-line basis, for the three and nine month periods ended September 30, 2018 of \$71,188 and \$213,489, respectively, (2017: \$71,114 and \$213,283, respectively). There were no impairment indicators at September 30, 2018.

7. **RESTRICTED DEPOSITS**

For operations in British Columbia, the Corporation is required to provide deposits towards future abandonment and reclamation costs based on the number of wells and facilities for which the Corporation is the primary permit holder. Based on a Liability Management Rating (“LMR”) review performed by the British Columbia Oil and Gas Commission (“BCOGC”) in 2011, the Corporation was assessed an initial LMR amount of \$1,235,829. Up to June 30, 2018, CSRI has been assessed by the BCOGC additional cash deposit LMR amounts totaling \$513,591, bringing the total LMR amount to \$1,749,420. The total assessed LMR amount of \$1,749,420 as at September 30, 2018 is secured by cash deposits. Since these cash deposits are held against future abandonment and reclamation liabilities, the balance is considered by management to be restricted in its use and is classified as a non-current asset.

8. **DECOMMISSIONING LIABILITY**

	For the nine months ended September 30, 2018	For the year ended December 31, 2017
Balance, beginning of period	\$ 2,213,342	\$ 2,268,193
Liabilities incurred	-	-
Revisions to estimated future obligation	(47,480)	(103,488)
Accretion	35,972	48,637
Balance, end of period	<u>\$ 2,201,834</u>	<u>\$ 2,213,342</u>

The total future decommissioning liability, including costs to reclaim and abandon wells and facilities plus the years in which such costs are expected to be incurred, is estimated by management. As at September 30, 2018 the estimated total undiscounted future liability of \$3,193,706 (December 31, 2017: \$3,235,417) had a net present value of \$2,201,834 (December 31, 2017: \$2,213,342) assuming expected decommissioning payments are to be made over the next 3.5 to 23.5 years, using an estimated risk-free nominal interest rate of 2.20% (December 31, 2017: 2.15%) and an inflation rate of 1.75% (December 31, 2017: 1.75%). The total balance of the decommissioning liability is determined to be non-current.

The decommissioning liability is comprised of both the Corporation’s proportionate interest in its jointly controlled operations as well as its own 100% operations. The restricted deposits held toward future abandonment and reclamation costs (see note 7) as at September 30, 2018 of \$1,749,420 (December 31, 2017: \$1,749,420) are secured against the Corporation’s 100% operations, where the Corporation is the primary permit holder.

Canadian Spirit Resources Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)

For the three and nine month periods ended September 30, 2018

The revisions to the estimated future obligation are due to the increases or decreases in the estimated risk-free nominal interest rate and changes in the abandonment and reclamation assumptions by well. Liabilities incurred relate to new wells drilled or fracture stimulated during the respective periods, and liabilities settled refer to well-bores abandoned or well-sites reclaimed during the respective periods. Financing costs for the three and nine month periods ended September 30, 2018 of \$12,099 and \$35,972, respectively, (2017: \$11,558 and \$36,055, respectively) relate to the accretion of the decommissioning liability.

9. SHAREHOLDERS' CAPITAL

The Corporation has authorized share capital of an unlimited number of common shares with no par value. As at September 30, 2018 there were 177,494,004 common shares outstanding (at a carrying amount of \$116,737,374), unchanged from December 31, 2017.

10. SHARE-BASED COMPENSATION PLANS

The Corporation has a 10% rolling stock option plan for directors, executive officers, employees and consultants which provides for the granting of options to acquire common shares. Under the terms of the plan, options vest over periods as determined by the Board of Directors of the Corporation and expire to a maximum of five years. The number of common shares available for grant of additional options under the plan as at September 30, 2018 was 10,701,400 (December 31, 2017: 10,701,400).

As at September 30, 2018, options to acquire 8,948,000 (December 31, 2017: 7,048,000) common shares were outstanding of which 7,629,250 (December 31, 2017: 5,960,500) had vested and 1,318,750 (December 31, 2017: 1,087,500) remained unvested, as follows:

	For the nine months ended September 30, 2018		For the year ended December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,048,000	\$ 0.23	7,763,000	\$ 0.34
Granted	1,900,000	0.10	2,075,000	0.12
Expired	-	-	(2,790,000)	0.47
Outstanding, end of period	8,948,000	\$ 0.20	7,048,000	\$ 0.23
Options vested, end of period	7,629,250	\$ 0.22	5,960,500	\$ 0.24

The following table summarizes the information about stock options outstanding and vested as at September 30, 2018:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Remaining Contractual Life (in Yrs)	Weighted Average Exercise Price	Number of Vested Options	Remaining Vested Contractual Life (in Yrs)	Weighted Average Exercise Price
\$0.00 - \$0.19	3,975,000	4.38	\$ 0.11	2,656,250	4.26	\$ 0.11
\$0.20 - \$0.39	4,628,000	1.19	0.25	4,628,000	1.19	0.25
\$0.40 - \$0.59	345,000	0.86	0.50	345,000	0.86	0.50
	8,948,000	2.59	\$ 0.20	7,629,250	2.24	\$ 0.21

Canadian Spirit Resources Inc.

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For the three and nine month periods ended September 30, 2018

Options granted are accounted for using the fair value method. The Corporation granted 1,900,000 options to purchase common shares during the three and nine months ended September 30, 2018. (2017- Nil and Nil, respectively). Prior to capitalization of \$18,074 and \$27,126, respectively, (2017: \$30,299 and \$37,316, respectively), the total compensation cost for share-based compensation during the three and nine month periods ended September 30, 2018 was \$78,950 and \$106,951, respectively, (2017: \$30,299 and \$172,061, respectively).

The fair value of all options granted during the nine month periods ended September 30, 2018 and 2017 is estimated on the date of grant using the Black-Scholes pricing model with the following annualized weighted average assumptions:

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Risk free rate	2.16%	1.50%
Expected forfeiture rate	3.98%	3.98%
Expected stock price volatility	87.51%	91.66%
Fair value of options granted	\$ 0.07	\$ 0.08
Term of options granted	5.0 years	5.0 years

11. CONTRIBUTED SURPLUS

	For the nine months ended September 30, 2018	For the year ended December 31, 2017
Balance, beginning of period	\$ 9,334,484	\$ 8,975,339
Share-based compensation, gross	106,238	197,729
Share purchase warrants expired unexercised	-	161,416
Balance, end of period	<u>\$ 9,440,722</u>	<u>\$ 9,334,484</u>

12. PER SHARE AMOUNTS

The basic and diluted weighted average number of common shares outstanding used in the per share calculations are reconciled as follows:

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Weighted average number of common shares - basic	177,494,004	157,063,280
Dilutive effect of share-based compensation / share purchase warrants	-	921,130
Weighted average number of common shares - diluted	<u>177,494,004</u>	<u>157,984,410</u>

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For the three and nine month periods ended September 30, 2018 and 2017, the existence of stock options and share purchase warrants affects the calculation of loss per share on a diluted basis. As the effect of this dilution is to reduce the reported loss per share, diluted loss per share equals basic loss per share.

13. COMMITMENTS

Capital Commitments

The Corporation had no capital commitments as at September 30, 2018 nor at December 31, 2017.

Office Lease Arrangements

The Corporation's office sub-lease agreement was amended during a prior period to extend to September 30, 2017. The amended sub-lease required the Corporation to pay base annual rent of \$11.00 per square foot (formerly \$19.00 per square foot) plus operating costs on 3,420 square feet. In June 2017, the sub-lease agreement was amended a second time on a month-to-month term basis beyond September 30, 2017 at a base annual rent of \$Nil per square foot plus operating costs.

Operating lease payments represent monthly rent payables for the Corporation's head office location. The table below shows the year-to-date expense recorded:

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Minimum lease payments	<u>\$ 42,278</u>	<u>\$ 71,710</u>

Future Minimum Lease Payments

As at June 30, 2018, the Corporation had no operating lease contractual commitments, unchanged from December 31, 2017.

14. CHANGES IN NON-CASH WORKING CAPITAL

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Cash provided by (used for) operating activities:				
Accounts receivable and other accrued receivables	\$ 642	\$ 16,131	\$ (5,805)	\$ 44,044
Prepaid expenses and other deposits	22,206	21,952	31,380	25,551
Accounts payable and other accrued liabilities	<u>(75,594)</u>	<u>991</u>	<u>(176,390)</u>	<u>(19,833)</u>
	(52,745)	39,074	(150,814)	49,762
Cash provided by (used for) investing activities:				
Accounts payable and other accrued liabilities	<u>(229)</u>	<u>(61,097)</u>	<u>39,161</u>	<u>(218,866)</u>
	<u>\$ (52,974)</u>	<u>\$ (22,023)</u>	<u>\$ (111,653)</u>	<u>\$ (169,104)</u>

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NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS *(unaudited)*

For the three and nine month periods ended September 30, 2018

15. SUBSEQUENT EVENT

On October 18, 2018 the Corporation announced an equity financing in the form of a rights offering to holders of its common shares (at the close of business on October 26, 2017) on the basis of one right for each common share held. Each nine and one-half rights entitled the holder to subscribe for one common share of CSRI upon payment of a subscription price of \$0.08 per common share. The rights offering expires on November 30, 2018. Elmag Investments Inc., the Corporation's largest shareholder, has confirmed to the Corporation that it commits to buying all of the Rights Shares not subscribed for by other shareholders of the Corporation. Accordingly, the Rights Offering will raise gross proceeds of approximately \$1.5 million. All directors, executive officers and insiders of the Corporation have each committed to participate in the Rights Offering. The Rights Offering will provide the funds required to meet all of the Corporation's short-term liquidity requirements. The net proceeds of the Offering together with existing working capital will be used to fund the Corporation's capital, operating and G&A expenses for up to 16 months.