



Canadian Spirit Resources Inc.

Condensed Interim Financial Statements
(Unaudited – Prepared by Management)

For the nine-month period ended September 30, 2022
(Expressed in Canadian Dollars)

Canadian Spirit Resources Inc.

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Canadian Spirit Resources Inc.

Dated November 25, 2022

Management's Comments on Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements of Canadian Spirit Resources Inc. for the nine months ended September 30, 2022 and 2021 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the nine-month period ended September 30, 2022.

Canadian Spirit Resources Inc.

Condensed Interim Statements of Financial Position

As at September 30, 2022 and December 31, 2021

(Unaudited - Expressed in Canadian Dollars)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,407,795	\$ 1,282,795
Accounts receivables	41,303	23,172
Prepaid expenses and deposits	-	48,893
	<u>1,449,098</u>	<u>1,354,860</u>
Exploration and evaluation assets (Note 4)	32,957,476	32,853,633
Property and equipment (Note 5)	2,989,361	2,959,140
Right-of-use assets (Note 6)	28,226	32,258
Restricted deposits (Note 3)	1,531,540	1,531,540
Royalty credits (Note 9)	266,460	266,460
	<u>37,773,063</u>	<u>37,643,031</u>
	\$ 39,222,161	\$ 38,997,891
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 700,503	\$ 441,362
Lease liability (Note 7)	4,006	4,006
	<u>704,509</u>	<u>445,368</u>
Non-current liabilities		
Decommissioning liabilities (Note 10)	1,767,339	1,869,326
Lease liability (Note 7)	29,625	33,605
	<u>1,796,964</u>	<u>1,902,931</u>
	<u>2,501,473</u>	<u>2,348,299</u>
Shareholders' equity		
Common shares (Note 11)	122,427,558	121,377,558
Contributed surplus	9,836,266	9,660,688
Deficit	(95,543,136)	(94,388,654)
	<u>36,720,688</u>	<u>36,649,592</u>
Total shareholders' equity	<u>36,720,688</u>	<u>36,649,592</u>
	\$ 39,222,161	\$ 38,997,891

Going concern and basis of presentation (Note 1)

Subsequent event (Note 18)

ON BEHALF OF THE BOARD:

(signed) "Louisa DeCarlo"

Director

(signed) "Sarah Hawco"

Director

The accompanying notes are an integral part of these interim financial statements

Canadian Spirit Resources Inc.

Condensed Interim Statements of Loss and Comprehensive Loss

For the three and nine months ended September 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenues				
Natural gas sales	\$ 28,712	\$ -	\$ 28,712	\$ -
Royalties	(3,445)	-	(3,445)	-
	<u>25,267</u>	<u>-</u>	<u>25,267</u>	<u>-</u>
Expenses				
Operating costs	83,777	45,437	398,987	186,596
General and administrative (Note 16)	150,326	101,331	507,360	384,136
Depletion and depreciation (Notes 5 and 6)	72,532	72,533	217,596	217,596
Finance costs (Notes 7 and 10)	12,084	7,169	40,272	22,854
Share-based compensation (Note 12)	104,549	38,389	175,578	79,418
	<u>(423,268)</u>	<u>(264,859)</u>	<u>(1,339,793)</u>	<u>(890,600)</u>
Other income and gains				
Interest and other income	8,119	44	12,294	131
Gain on sale of property, plant & equipment (Note 8)	-	-	147,750	-
	<u>8,119</u>	<u>44</u>	<u>160,044</u>	<u>131</u>
Net loss and comprehensive loss for the period	<u>\$ (389,882)</u>	<u>\$ (264,815)</u>	<u>\$ (1,154,482)</u>	<u>\$ (890,469)</u>
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding - basic and diluted (Note 13)	268,177,583	248,177,583	262,756,338	240,485,275

The accompanying notes are an integral part of these interim financial statements

Canadian Spirit Resources Inc.

Condensed Interim Statements of Changes in Shareholders' Equity
(Unaudited - Expressed in Canadian Dollars)

	Common Shares		Contributed		
	Number	Amount	Surplus	Deficit	Total
Unlimited number of common shares with no par value					
Balance as at December 31, 2020	228,177,583	119,777,558	9,551,143	(93,281,217)	\$ 36,047,484
Warrant exercise (Note 11)	20,000,000	1,600,000	-	-	1,600,000
Share-based compensation (Note 12)	-	-	79,418	-	79,418
Net loss and comprehensive loss	-	-	-	(890,469)	(890,469)
Balance as at September 30, 2021	248,177,583	\$ 121,377,558	\$ 9,630,561	\$ (94,171,686)	\$ 36,836,433
Share-based compensation (Note 12)	-	-	30,127	-	30,127
Net loss and comprehensive loss	-	-	-	(216,968)	(216,968)
Balance as at December 31, 2021	248,177,583	\$ 121,377,558	\$ 9,660,688	\$ (94,388,654)	\$ 36,649,592
Private placement (Note 11)	20,000,000	1,050,000	-	-	1,050,000
Share-based compensation (Note 12)	-	-	175,578	-	175,578
Net loss and comprehensive loss	-	-	-	(1,154,482)	(1,154,482)
Balance as at September 30, 2022	268,177,583	\$ 122,427,558	\$ 9,836,266	\$ (95,543,136)	\$ 36,720,688

The accompanying notes are an integral part of these interim financial statements

Canadian Spirit Resources Inc.

Condensed Interim Statements of Cash Flows

For the nine months ended September 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

	September 30, 2022	September 30, 2021
Cash Flows used in Operating Activities:		
Net loss and comprehensive loss	\$ (1,154,482)	\$ (890,469)
Add items not affecting operating cash:		
Depletion and depreciation (Note 5)	217,596	217,596
Accretion (Notes 7 and 10)	40,272	18,408
Gain on sale of property, plant and equipment (Note 8)	(147,750)	-
Share-based compensation (Note 12)	175,578	79,418
	<u>(868,786)</u>	<u>(575,047)</u>
Changes in non-cash working capital		
Accounts receivable	(18,131)	(21,579)
Prepaid expenses and other deposits	48,893	31,568
Accounts payable and other accruals	259,141	(23,651)
Accrued settlement of claims (Note 17)	-	(555,513)
Decommissioning expenditures (Note 10)	(95,846)	-
	<u>(674,729)</u>	<u>(1,144,222)</u>
Cash Flows provided from (used in) Financing Activities:		
Proceeds on issuance of shares	1,050,000	1,600,000
Principal payments of lease liabilities (Note 7)	(8,000)	(3,555)
	<u>1,042,000</u>	<u>1,596,445</u>
Cash Flows used in Investing Activities:		
Exploration and evaluation expenditures (Note 4)	(62,706)	(142,722)
Property and equipment expenditures (Note 5)	(327,315)	-
Proceeds on sale of property, plant and equipment (Note 8)	147,750	-
	<u>(242,271)</u>	<u>(142,722)</u>
Change in cash and cash equivalents	125,000	309,501
Cash and cash equivalents, beginning of the year	<u>1,282,795</u>	<u>1,324,768</u>
Cash and cash equivalents, end of the period	<u>\$ 1,407,795</u>	<u>\$ 1,634,269</u>
Cash paid for interest	\$ -	\$ -
Cash paid for tax	\$ -	\$ -

The accompanying notes are an integral part of these interim financial statements

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements

For the nine months ended September 30, 2022

1. CORPORATE INFORMATION, GOING CONCERN AND BASIS OF PRESENTATION

Corporate Information

Canadian Spirit Resources Inc. (“CSRI” or the “Corporation”) is a natural resources company focusing on the identification and development of opportunities in the unconventional natural gas sector of the energy industry and its shares are listed under the trading symbol “SPI” on the TSX Venture Exchange (the “Exchange”). The Corporation is continued under the laws of the province of Alberta and its head office is located at Suite 900, 140 - 4th Avenue S.W., Calgary, Alberta, Canada T2P 3N3.

Going Concern

These condensed interim financial statements (the “Financial Statements”) have been prepared using International Financial Reporting Standards (“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 period ended September 30, 2022, the Corporation has reported a net loss and comprehensive loss of \$1,154,482 (September 30, 2021: \$890,469) and an accumulated deficit at September 30, 2022 of \$95,543,136 (December 31, 2021: \$94,388,654). In addition to covering on-going 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 lack of additional international markets to sell into. These circumstances lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

During the nine months ended September 30, 2022 the Corporation raised \$1,050,000 (December 2021 - \$1,600,000) (see Note 11) through a private placement from its largest shareholder, Elmag Investment Inc. Due to petroleum and natural gas market prices, the Corporation shut in its production facilities to reduce costs and losses; therefore, in the near future may not have any revenues related to petroleum and natural gas if prices do not cover costs of operations which have occurred in the last few months of 2021 and the first half of 2022. In Q2 and Q3 2022, the Corporation incurred operating costs totalling \$196,320 and capital costs totalling \$234,482 related to the overhauling of compressors and associated start-up costs in preparation of bringing production on in Q3 2022. Production of certain wells recommenced on September 25, 2022.

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 will be successful.

The Corporation'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 financial statements do not reflect any adjustments to the carrying values and classifications of assets and liabilities, or 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.

In March 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and; specifically, the regional economies in which the Company operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. These factors, among others, could have a significant impact on the Company's operations.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements

For the nine months ended September 30, 2022

1. CORPORATE INFORMATION, GOING CONCERN AND BASIS OF PRESENTATION (Continued)

On February 24, 2022, Russian troops invaded Ukraine. In response to this military action, various countries, including Canada, issued broad-ranging economic sanctions against Russia. The ramifications of the sanctions may not be limited to Russia and Ukraine and may spill over to and negatively impact other regional and global economic markets, sectors, industries and markets for securities and commodities globally. The current circumstances are dynamic and the duration of the war and related impact of imposed sanctions on the business cannot be reasonably estimated at this time. While the company expects any direct impacts of the war in Ukraine to the business to be limited, the direct impacts on the economy may negatively affect the business and future operations.

Statement of Compliance

These Financial Statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's annual audited consolidated financial statements for the year ended December 31, 2021 ("Annual Financial Statements").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates to prepare the Annual Financial Statements as at and for the year ended December 31, 2021 have been applied in the preparation of these Financial Statements.

The Board of Directors approved the financial statements for issue on November 25, 2022.

Basis of Presentation

The Financial Statements have been prepared on a going concern basis using the historical cost convention, except as detailed in the accounting policies disclosed in the Corporation's Annual Financial Statements. The preparation of the Financial Statements requires Management to use judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingencies at the date of the Financial Statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the Financial Statements are detailed in the Corporation's Annual Financial Statements.

2. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- (a) Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- (b) Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the nine months ended September 30, 2022

2. DETERMINATION OF FAIR VALUES (Continued)

- (c) Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data, such as used in the impairment testing models for E&E assets and PP&E assets.

Exploration and Evaluation Assets and Property, Plant and Equipment

The fair values of PP&E assets and E&E assets recognized in an acquisition are based on market values. The fair values of PP&E assets and E&E are the estimated amounts for which they could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Cash and Cash Equivalents, Accounts Receivable, Restricted Deposits, Accounts Payable and Other Accrued Liabilities and Lease Liabilities.

The fair value of cash and cash equivalents, accounts receivable and other accrued receivables, restricted deposits, accounts payable and other accrued liabilities and lease liabilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2022 and December 31, 2021, the fair value of these balances approximated their carrying value.

Stock Options

The fair value of stock options is measured using the Black-Scholes pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate.

3. 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") performed by the British Columbia Oil and Gas Commission ("BCOGC"), the Corporation has been assessed \$1,531,540 in aggregate as at September 30, 2022 (December 31, 2021: \$1,531,540) and these amounts are 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 use and is therefore classified as a non-current asset.

4. EXPLORATION AND EVALUATION ASSETS

	Petroleum and Natural Gas Properties	Facilities and Equipment	Total
As at December 31, 2020	\$ 32,290,965	\$ 397,466	\$ 32,688,431
Additions	508,041	-	508,041
Dispositions	-	(37,429)	(37,429)
Change in decommissioning liability	(305,410)	-	(305,410)
As at December 31, 2021	\$ 32,493,596	\$ 360,037	\$ 32,853,633
Additions	62,706	-	62,706
Change in decommissioning liability	(106,613)	147,750	41,137
As at September 30, 2022	\$ 32,449,689	\$ 507,787	\$ 32,957,476

E&E assets comprise the Corporation's exploration and evaluation projects which are pending the determination of commercial viability and technical feasibility.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the nine months ended September 30, 2022

5. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties	Facilities and Equipment	Office Equipment and Fixtures	Total
Cost				
As at December 31, 2020 and 2021	\$ 17,241,146	\$ 8,892,776	\$ 228,198	\$ 26,362,120
Additions	-	327,315	-	327,315
Change in decommissioning liability	-	(83,530)	-	(83,530)
As at September 30, 2022	\$ 17,241,146	\$ 9,136,561	\$ 228,198	\$ 26,605,905
Accumulated depletion, depreciation and impairment				
As at December 31, 2020	17,241,146	5,648,885	228,198	23,118,229
Depletion and depreciation	-	284,751	-	284,751
As at December 31, 2021	17,241,146	5,933,636	228,198	23,402,980
Depletion and depreciation	-	213,564	-	213,564
As at September 30, 2022	\$ 17,241,146	\$ 6,147,200	\$ 228,198	\$ 23,616,544
Carrying amounts				
As at December 31, 2021	\$ -	\$ 2,959,140	-	\$ 2,959,140
As at September 30, 2022	\$ -	\$ 2,989,361	-	\$ 2,989,361

The Williston Reservoir Water Pipeline licence term expires on December 31, 2031, thus on a straight-line basis the Corporation has recorded depreciation for the period ended September 30, 2022 of \$213,564 (December 31, 2021: \$284,751).

6. RIGHT-OF-USE ASSETS

The following is the continuity of the cost and accumulated depreciation of right-of-use assets (pipeline surface leases) as at and for the period ended September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Cost		
Balance, beginning and end of period	\$ 48,387	\$ 48,387
Accumulated depreciation		
Balance, beginning of period	(16,129)	(10,752)
Depreciation	(4,032)	(5,377)
Balance, end of period	(20,161)	(16,129)
Ending balance	\$ 28,226	\$ 32,258

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the nine months ended September 30, 2022

7. LEASE LIABILITY

	September 30, 2022	December 31, 2021
Balance, beginning of period	\$ 37,611	\$ 41,618
Lease payments	(8,000)	(9,001)
Interest accretion on lease liabilities	4,020	4,994
Balance, end of period	33,631	37,611
Current portion	4,006	4,006
Non-current portion	\$ 29,625	\$ 33,605

Payments recognized in the financial statements relating to short-term leases and low-value assets for the period ended September 30, 2022 were \$Nil (December 31, 2020: \$Nil).

8. IMPAIRMENT

E&E Assets

The Corporation performed impairment tests as at September 30, 2022 to assess the recoverable value of E&E assets of both the Corporation's Farrell Creek Montney CGU and the Farrell Creek Gething CGU. Estimates of fair value less costs of disposal for the Montney E&E assets were determined in part using merger and acquisition metrics, prevailing land tender prices in the Farrell Creek/Altares area, independent valuation on the undeveloped Montney holdings as well as resource and reserve values as at December 31, 2021 prepared by independent reservoir engineering consultants. Based on these and other factors, the estimated recoverable amount of the Farrell Creek Montney E&E assets was calculated to be greater than the carrying value and, as such, there was no impairment. As at December 31, 2021 and at September 30, 2022, the estimated recoverable amount of Gething facility remained to be greater than its carrying value and, therefore, no impairment was recorded.

Property, Plant and Equipment

In 2018, the Corporation performed an impairment test of the Farrell Creek Montney - D&P CGU within PP&E assets under the fair value less costs of disposal model and noted that the recoverable amount was substantially below the carrying amount, and accordingly, an impairment of \$1,246,000 was recorded, which brought the Farrell Creek Montney - D&P CGU to a carrying value of \$Nil. No indicators were noted to suggest a reversal of impairment should be recorded as at September 30, 2022.

During the period ended September 30, 2022, the Corporation received proceeds of \$147,750 (December 31, 2021 - \$Nil) on the Farrell Creek Montney fully depreciated idle equipment resulting in a gain on disposition of \$147,750 (December 31, 2021 - \$Nil).

As at September 30, 2022 and December 31, 2021, the Corporation determined that there was no impairment required for the 25% interest in the Williston water pipeline.

9. ROYALTY CREDITS

The British Columbia Ministry of Energy and Mines provides certain oil and gas drilling incentives including royalty credits.

Since CSRI's development activities have, at some point, either qualified or qualify for each of the Deep Royalty Credit Program, the Summer Drilling Credit Program and the road and pipeline facilities royalty deduction program, total credits in the amount of \$4,176,422 have been earned and recorded to date by the Corporation. The royalty credits are offset against PP&E assets and the unapplied royalty credits are

Canadian Spirit Resources Inc.
Condensed Interim Notes to the Financial Statements
For the nine months ended September 30, 2022

9. ROYALTY CREDITS (Continued)

subsequently drawn down as production and revenue are recognized for the wells qualifying for the royalty credits. During the nine months ended September 30, 2022, the Corporation applied \$Nil (December 2021: \$Nil) of royalty credits against Crown royalties that would otherwise have been payable.

The Corporation assessed the future recoverability of the undrawn balance of the Deep Royalty Credits (available for use only against royalties assessed on the wells that gave rise to the credit) by comparing to the proven plus probable future cash flow forecast prepared by the Corporation's independent reserve engineers. As a result of this assessment, no impairment charge was recorded.

A summary of the unapplied royalty credits available to the Corporation is as follows:

	September 30, 2022	December 31, 2021
Balance, beginning of year	\$ 266,460	\$ 266,460
Impairment	-	-
Balance, end of period	266,460	266,460
Current portion	-	-
Non-current portion	\$ 266,460	\$ 266,460

10. DECOMMISSIONING LIABILITY

	September 30, 2021	December 31, 2021
Balance, beginning of period	\$ 1,869,326	\$ 2,147,125
Changes in discount rates	(87,122)	(225,041)
Changes in estimated life and estimated future cash flows	44,729	278,731
Accretion	36,252	27,611
Expenditures incurred during the period	(95,846)	(359,100)
Non-current portion	\$ 1,767,339	\$ 1,869,326

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, 2022 the estimated total undiscounted future liability of \$2,421,441 (December 31, 2021: \$2,376,712) had a net present value of \$1,767,339 (December 31, 2021: \$1,869,326) assuming expected decommissioning payments are to be made over the next 15 years, using an estimated risk-free nominal interest rate of 3.20% - 3.44% (December 31, 2021: 2.46 - 2.52%), and an inflation rate of 3.00% (December 31, 2021: 3.00%).

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 3) as at September 30, 2022 of \$1,531,540 (December 31, 2021: \$1,531,540) are secured against the Corporation's 100% operations, where the Corporation is the primary permit holder.

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 period, and liabilities settled refer to well-bores abandoned or well-sites reclaimed during the year.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the nine months ended September 30, 2022

11. SHAREHOLDERS' CAPITAL

Common Shares

The Corporation has authorized share capital of an unlimited number of common shares with no par value.

During the period ended September 30, 2022, the Corporation:

- issued 20,000,000 units at \$0.0525 per share for gross proceeds of \$1,050,000. Each unit consisted of one common share and one warrant exercisable into one common share at a price of \$0.08 for 2 years. No finders fees were paid on this placement.

During the year ended December 31, 2021, the Corporation:

- issued 20,000,000 shares at \$0.08 on the exercise of 20,000,000 warrants.

Share Purchase Warrants

During the period ended September 30, 2022 the Corporation issued 20,000,000 warrants in connection with a private placement with an exercise price of \$0.08 expiring March 15, 2024. There was no value allocated to the warrants upon issuance. During the year ended December 31, 2021 the 20,000,000 warrants were exercised. As at September 30, 2022 there were 20,000,000 (December 31, 2021: Nil) warrants outstanding.

12. SHARE-BASED COMPENSATION PLANS

Stock Options

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, 2022 was 26,817,758 (December 31, 2021: 18,667,758).

As at September 30, 2022, options to acquire 8,625,000 (December 31, 2021: 6,150,000) common shares were outstanding of which 6,150,000 (December 31, 2021: 3,625,000) had vested and 2,475,000 (December 31, 2021: 2,525,000) remained unvested, as follows:

	For the period ended September 30, 2022		For the year ended December 31, 2021	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Balance, beginning of year	6,150,000	\$ 0.08	4,650,000	\$ 0.09
Expired/Forfeited	(125,000)	0.12	(600,000)	0.13
Granted	2,600,000	0.105	2,100,000	0.07
Balance, end of year	8,625,000	\$ 0.09	6,150,000	\$ 0.08
Options exercisable, end of period	6,150,000	\$ 0.09	3,625,000	\$ 0.09

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the nine months ended September 30, 2022

12. SHARE-BASED COMPENSATION PLANS (Continued)

The following table summarizes the information about stock options outstanding as at September 30, 2022 and December 31, 2021:

Expiry Date	For the period ended September 30, 2022			For the year ended December 31, 2021	
	Exercise Price	Number of Options Outstanding	Remaining Contractual Life (in years)	Number of Options Outstanding	Remaining Contractual Life (in years)
August 21, 2022	-	-	-	125,000	0.64
August 29, 2023	0.10	125,000	0.91	125,000	1.66
August 25, 2025	0.05	1,000,000	2.92	1,000,000	3.65
November 27, 2025	0.10	2,800,000	3.16	2,800,000	3.91
August 26, 2026	0.07	2,100,000	3.91	2,100,000	4.65
August 25, 2027	0.105	2,600,000	4.90	-	-
	\$ 0.09	8,625,000	3.81	6,150,000	3.67

The following table summarizes the information about stock options vested as at September 30, 2022 and December 31, 2021:

Expiry Date	For the period ended September 30, 2022			For the year ended December 31, 2021	
	Exercise Price	Number of Options Vested	Remaining Contractual Life (in years)	Number of Options Vested	Remaining Contractual Life (in years)
August 21, 2022	-	-	-	125,000	0.64
August 29, 2023	0.10	125,000	0.91	125,000	1.66
August 25, 2025	0.05	1,000,000	2.92	750,000	3.65
November 27, 2025	0.10	2,800,000	3.16	2,100,000	3.91
August 26, 2026	0.07	1,575,000	3.91	525,000	4.65
August 25, 2027	0.105	650,000	4.90	-	-
	\$ 0.09	6,150,000	3.45	3,625,000	2.22

During the period ended September 30, 2022, the Company granted 2,600,000 (December 31, 2021: 2,100,000) stock options with an estimated weighted average fair value of \$0.098 (December 31, 2021: \$0.039) calculated using the Black-Scholes option pricing model. The fair value of stock options vested during the period and recognized as share-based payments expense was \$175,578 (December 31, 2021: \$109,545).

13. PER SHARE AMOUNTS

Per share amounts have been calculated on the weighted average number of shares outstanding for the relevant periods. The diluted loss per share calculations for the periods ended September 30, 2022 and September 30, 2021 were not affected by the outstanding stock options or warrants as they are anti-dilutive.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements

For the nine months ended September 30, 2022

14. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as: credit risk, market risk and liquidity risk.

The Board of Directors of the Corporation oversees management's establishment and execution of the Corporation's risk management framework. Management has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Corporation's activities.

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at September 30, 2022 and December 31, 2021 is the carrying amount of the Corporation's accounts receivable balances.

The following summarized the Corporation's accounts receivable as at September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Joint venture and other	\$ 30,457	\$ 457
GST	10,846	22,715
	\$ 41,303	\$ 23,172

The Corporation did not incur any write-offs relating to accounts receivable balances during the periods ended September 30, 2022 and December 31, 2021. Accounts receivable at September 30, 2022 and December 31, 2021 were all current.

Market risk is the risk that changes in market indices, such as foreign exchange rates, interest rates and commodity prices, will affect the Corporation's income, cash flow, or the value of its held financial instruments. As the Corporation holds its cash and cash equivalents in the form of bank deposits and has limited dealings with foreign currency exchange, the Corporation's exposure to market risk is currently minimal and dependant on interest rates on its bank deposits. The Corporation is exposed to commodity price risk from the production and sale of natural gas, which is sold at prevailing market prices. There are no forward sales contracts and the Corporation does not currently engage in price hedging activities.

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. CSRI manages its liquidity risk by synchronizing its forecasted cash requirements for operations with its anticipated capital financing activities and maintaining significant cash balances. The impacts on the Corporation's liquidity risk due to current equity and commodity price market conditions include: a) increased uncertainty in raising additional funds on reasonable terms for future capital projects; and b) a reduction in the Corporation's ability to generate sufficient revenues from the sale of natural gas to cover administrative and operating costs. See Note 1 for further discussion regarding the Corporation's ability to operate as a going concern.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements

For the nine months ended September 30, 2022

15. CAPITAL MANAGEMENT

The Corporation defines capital as shareholders' capital plus working capital based on the Corporation's financial statements as follows:

	September 30, 2022	December 31, 2021
Working capital:		
Current assets	\$ 1,449,098	\$ 1,354,860
Current liabilities	(704,509)	(445,368)
	744,589	909,492
Shareholders' Equity	36,720,688	36,649,592
	\$ 37,465,277	\$ 37,559,084

The current objectives of the capital management process are to maximize long term shareholder value by (i) ensuring sufficient funding to enable the Corporation's unconventional natural gas resource project to reach the stage of reserves, production and cash flows and by (ii) minimizing the Corporation's cost of capital consistent with a low level of financial and liquidity risk.

The policies followed by the Corporation in managing its capital include:

- (a) targeting a minimum working capital position that covers all budgeted capital commitments, anticipated administration and field operating costs for a minimum period of three months, current reclamation obligations, and other non-contingent financial liabilities;
- (b) funding 100% of capital requirements through the issue of equity instruments and debt instruments until such time as cash generated from operations exceeds anticipated overhead expenses prior to capitalization; and
- (c) holding the proceeds of equity and funding in deposit accounts of major financial institutions providing for immediate access.

The Corporation manages its capital by continuously monitoring the quality and level of working capital and the amount of its financial commitments and current obligations. An annual funding plan is approved by the Board of Directors in conjunction with the capital budget process and capital commitments are made based on a quarterly budget review and approval process (see Note 1 – Going Concern). The capital management process takes into account exploration and development results, economic conditions, cost inflation, commodity prices and capital market conditions.

The Corporation manages its liquidity risk by synchronizing its forecasted cash requirements for operations with its anticipated capital financing activities and maintaining significant cash balances. In order to finance the Corporation's capital programs and to cover administrative and overhead expenses, the Corporation is reducing its overall expenses and will be seeking equity and/or debt financing. Many factors influence the Corporation's ability to raise funds, including the health of the resource market, the climate for investment, the Corporation's track record, and the experience and caliber of its management.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the nine months ended September 30, 2022

16. GENERAL AND ADMINISTRATIVE

General and Administrative Expenses (“G&A”)

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Consulting fees	\$ 66,510	\$ 66,510	\$ 218,630	\$ 203,036
Professional fees	41,879	10,500	152,841	87,726
Directors’ fees and expenses	6,269	4,120	21,415	14,382
Investor relations and filing fees	4,689	4,169	41,946	28,979
Insurance	16,298	10,523	48,894	31,569
Office supplies, software licences & other	14,681	5,509	23,634	18,444
	\$ 150,326	\$ 101,331	\$ 507,360	\$ 384,136

17. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the periods ended September 30, 2022 and September 30, 2021, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business.

Consulting fees relate to amounts paid to or earned by executive officers and fees paid and/or accrued to non-executive directors, and also includes non-cash share-based compensation as follows:

	Period ended	
	September 30, 2022	September 30, 2021
Included in general and administrative expenses		
Consulting fees (executive)	\$ 99,831	\$ 87,030
Directors’ fees	14,000	12,000
Share-based compensation	160,486	79,418
	\$ 274,317	\$ 178,448

As at September 30, 2022 an accounts payable balance of \$10,576 (December 31, 2021: \$10,538) was outstanding to the officers and directors of the Corporation. The balance owing is unsecured, non-interest bearing, and has no specific terms of repayment.

The Corporation terminated the employment of such executive officers in April 2020 and negotiated settlements of the \$555,513 on the commitment. The Company accrued the \$555,513 in the Statements of Loss and Comprehensive Loss during the year ended December, 2020 as the amounts were settled during the year ended December 31, 2021.

18. SUBSEQUENT EVENT

On November 9th, 2022, the Farrell Creek natural gas processing facility experienced a shut down related to cold weather. Work is underway to rectify the issue and the Corporation anticipates re-start of the Farrell Creek facility and associated Montney wells by mid-December 2022.