



Canadian Spirit Resources Inc.

Condensed Interim Financial Statements
(Unaudited – Prepared by Management)

For the three-month period ended September 30, 2024
(Expressed in Canadian Dollars)

Canadian Spirit Resources Inc.

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Canadian Spirit Resources Inc.

Dated November 29, 2024

Management's Comments on Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements of Canadian Spirit Resources Inc. for the three months ended September 30, 2024 and 2023 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 three-month period ended September 30, 2024.

Canadian Spirit Resources Inc.

Condensed Interim Statements of Financial Position

As at September 30, 2024 and June 30, 2024

(Expressed in Canadian Dollars)

	September 30, 2024 (unaudited)	June 30, 2024 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,423,661	\$ 5,608,224
Accounts receivables	32,679	17,388
Prepaid expenses and deposits	23,600	47,743
	<u>5,479,940</u>	<u>5,673,355</u>
Exploration and evaluation assets (Note 4)	19,588,950	19,528,484
Property and equipment (Note 5)	2,940,216	2,850,558
Right-of-use assets (Note 6)	17,474	18,818
Restricted deposits (Note 3)	1,531,540	1,531,540
Royalty credits (Note 9)	325,081	319,586
	<u>24,403,261</u>	<u>24,248,986</u>
	<u>\$ 29,883,201</u>	<u>\$ 29,922,341</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 438,681	\$ 310,674
Decommissioning liabilities (Note 12)	56,228	142,541
Lease liability (Note 7)	9,000	6,227
	<u>503,909</u>	<u>459,442</u>
Non-current liabilities		
Decommissioning liabilities (Note 10)	2,184,932	1,794,707
Lease liability (Note 7)	14,131	16,904
	<u>2,199,063</u>	<u>1,811,611</u>
	<u>2,702,972</u>	<u>2,271,053</u>
Shareholders' equity		
Common shares (Note 11)	124,027,558	124,027,558
Contributed surplus	10,588,497	10,581,756
Deficit	(107,435,826)	(106,958,026)
	<u>27,180,229</u>	<u>27,651,288</u>
Total shareholders' equity	<u>27,180,229</u>	<u>27,651,288</u>
	<u>\$ 29,883,201</u>	<u>\$ 29,922,341</u>

Going concern and basis of presentation (Note 1)

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 months ended September 30, 2024 and 2023

(Unaudited - Expressed in Canadian Dollars)

	Three months ended	
	September 30,	
	2024	2023
Revenues		
Natural gas sales	\$ -	\$ -
Royalties (Note 9)	(45,356)	-
	<u>45,356</u>	<u>-</u>
Expenses		
Operating costs	(18,404)	40,932
General and administrative (Note 16)	174,048	135,763
Depletion and depreciation (Notes 5 and 6)	72,532	72,532
Finance costs (Notes 7 and 10)	29,581	29,582
Share-based compensation (Note 12)	6,741	188,021
Exploration and evaluation expense (recovery) (Note 10)	<u>277,542</u>	<u>(40,679)</u>
	<u>542,040</u>	<u>426,151</u>
Other income and gains		
Interest and other income (Note 9)	<u>18,884</u>	<u>3,187</u>
	<u>18,884</u>	<u>3,187</u>
Net loss and comprehensive loss for the period	<u>\$ (477,800)</u>	<u>\$ (422,964)</u>
Basic and diluted loss per common share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding - basic and diluted (Note 13)	<u>288,177,583</u>	<u>278,177,583</u>

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 June 30, 2023	278,177,583	123,227,558	\$ 10,258,986	(97,057,120)	36,429,424
Share-based compensation (Note 12)	-	-	188,021	-	188,021
Net loss and comprehensive loss	-	-	-	(422,964)	(422,964)
Balance as at September 30, 2023	278,177,583	\$ 123,227,558	\$ 10,447,007	\$ (97,480,084)	\$ 36,194,481
Warrant exercise (Note 11)	10,000,000	800,000	-	-	800,000
Share-based compensation (Note 12)	-	-	134,749	-	134,749
Net loss and comprehensive loss	-	-	-	(9,477,942)	(9,477,942)
Balance as at June 30, 2024	288,177,583	124,027,558	\$ 10,581,756	(106,958,026)	27,651,288
Share-based compensation (Note 12)	-	-	6,741	-	6,741
Net loss and comprehensive loss	-	-	-	(477,800)	(477,800)
Balance as at September 30, 2024	288,177,583	\$ 124,027,558	\$ 10,588,497	\$ (107,435,826)	\$ 27,180,229

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

Canadian Spirit Resources Inc.

Condensed Interim Statements of Cash Flows

For the three months ended September 30, 2024 and 2023

(Unaudited - Expressed in Canadian Dollars)

	Three months ended September 30,	
	2024	2023
Cash Flows used in Operating Activities:		
Net loss and comprehensive loss	\$ (477,800)	\$ (422,964)
Add items not affecting operating cash:		
Depletion and depreciation (Note 5)	72,532	72,532
Finance costs (Notes 7 and 10)	29,581	29,582
Share-based compensation (Note 12)	6,741	188,021
Exploration and evaluation expense recovery (Note 10)	277,542	(40,679)
	<u>(91,404)</u>	<u>(173,508)</u>
Changes in non-cash working capital		
Accounts receivable	(15,291)	(3,144)
Prepaid expenses and other deposits	24,143	(13,970)
Accounts payable and other accruals	128,004	(96,395)
Royalty credits (Note 9)	(5,495)	-
Decommissioning expenditures (Note 10)	<u>(215,752)</u>	<u>(110,500)</u>
	<u>(175,795)</u>	<u>(397,517)</u>
Cash Flows used in Investing Activities:		
Exploration and evaluation expenditures (Note 4)	(8,768)	(5,288)
Property and equipment expenditures (Note 5)	-	630
	<u>(8,768)</u>	<u>(4,658)</u>
Change in cash and cash equivalents	(184,563)	(402,175)
Cash and cash equivalents, beginning of the year	<u>5,608,224</u>	<u>1,176,782</u>
Cash and cash equivalents, end of the period	<u>\$ 5,423,661</u>	<u>\$ 774,607</u>

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 three months ended September 30, 2024

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 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. As at September 30, 2024 the Corporation had a working capital balance of \$4,976,031 (June 30, 2024: \$5,213,913), incurred a net loss and comprehensive loss of \$477,800 for the three months ended September 30, 2024 (2023: \$442,964) and used cash flows in operating activities of \$175,795 for the three months ended September 30, 2024 (2023: \$397,517). 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. Natural gas prices in the Corporation’s operating area do not generate revenues sufficient to cover ongoing operating and general and administrative expenses and the Corporation’s working interest wells were shut in from July to October 2023 and May to September 2024. There is no guarantee that natural gas prices will improve to levels required for the Corporation’s wells to be placed back on production. 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. Significant additional financing is required in order for the Corporation to be able to further develop its oil and gas properties and exploration and evaluation assets and meet both its existing and future obligations. There is no guarantee that the Corporation will be successful in this regard. As such a material uncertainty exists that casts significant doubt on the Corporation’s ability to continue as a going concern.

In November 2023, the Corporation announced it had retained Sayer Energy Advisors to serve as financial advisor and initiate a process to review strategic alternatives. As a result of the strategic process, the Corporation disposed of certain oil and natural gas assets and related liabilities for gross cash proceeds of \$5.0 million in June 2024. The Corporation continues to work with Sayer Energy Advisors to review strategic alternatives and maximize the value of the Corporation’s assets in northeastern British Columbia.

Management believes that the use of the going concern assumption is appropriate in the preparation of these financial statements.

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.

Other Events Impacting the Global Economy

Worldwide events and conditions may impact, directly or indirectly, the business and future operations of the Corporation: implications of the existing conflicts between Russia and Ukraine; the armed conflicts in the Middle East; or the sanctions, actions or inactions taken by major organizations such as the Organization of the Petroleum Exporting Countries Plus, or major countries such as the U.S., may negatively impact other regional and global economic markets, sectors, industries and markets for securities and commodities globally.

Other events that may impact the Corporation’s business, but not limited to, the global recession, increased inflation, increased costs associated with additional government regulations and policies and supply chain issues. The duration of these events may create additional layers of uncertainties within the business of the

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the three months ended September 30, 2024

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

Corporation, and the impact these may have on the Corporation's future operations cannot be reasonably estimated at this time.

The duration of these events may create additional layers of uncertainties within the business of the Corporation, and the impact these may have on the Corporation's future operations cannot be reasonably estimated at this time.

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 June 30, 2024 ("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 June 30, 2024 have been applied in the preparation of these Financial Statements.

The Board of Directors approved the financial statements for issue on November 27, 2024.

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 three months ended September 30, 2024

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, 2024 and June 30, 2024, 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

BCER recently introduced the Permittee Capability Assessment ("PCA"), which is a replacement for the BCER's Liability Management program. The PCA assesses each permit holder's corporate health against the liability associated with their Dormant, Inactive, and Marginal sites (referred to as DIM Liability) to determine corrective action requirements.

Based on a Permittee Capability Assessment ("PCA") performed by the British Columbia Energy Regulator ("BCER"), the Corporation has been assessed \$1,531,540 in aggregate as at September 30, 2024 (June 30, 2024: \$1,531,540) and these amounts are secured by cash deposits. Since these cash deposits are held against future abandonment and reclamation liabilities for its operated wells and facilities, 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 June 30, 2024	\$ 19,428,234	\$ 100,250	\$ 19,528,484
Additions	8,768	-	8,768
Changes in decommissioning liabilities	51,698	-	51,698
As at September 30, 2024	\$ 19,488,700	\$ 100,250	\$ 19,588,950

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 three months ended September 30, 2024

5. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties	Facilities and Equipment	Office Equipment and Fixtures	Total
Cost				
As at June 30, 2024	\$ 17,837,057	\$ 9,220,611	\$ 228,198	\$ 27,285,866
Additions	-	-	-	-
Change in decommissioning liabilities	31,674	129,172	-	160,846
As at September 30, 2024	\$ 17,868,731	\$ 9,349,783	\$ 228,198	\$ 27,446,712
Accumulated depletion, depreciation and impairment				
As at June 30, 2024	\$ 17,402,609	\$ 6,804,501	\$ 228,198	\$ 24,435,308
Depletion and depreciation	-	71,188	-	71,188
As at September 30, 2024	\$ 17,402,609	\$ 6,875,689	\$ 228,198	\$ 24,506,496
Carrying amounts				
As at June 30, 2024	\$ 434,448	\$ 2,416,110	\$ -	\$ 2,850,558
As at September 30, 2024	\$ 466,122	\$ 2,474,094	\$ -	\$ 2,940,216

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, 2024 of \$71,188.

The Corporation had no additions to its property, plant and equipment during the period ended September 30, 2024. No depletion was recorded for the period ended September 30, 2024 as the natural gas wells were shut in as a result of low natural gas prices.

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, 2024 and June 30, 2024:

	September 30, 2024	June 30, 2024
Cost		
Balance, beginning and end of period	\$ 48,387	\$ 48,387
Accumulated depreciation		
Balance, beginning of period	(29,569)	(24,193)
Depreciation	(1,344)	(5,376)
Balance, end of period	(30,913)	(29,569)
Ending balance	\$ 17,474	\$ 18,818

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the three months ended September 30, 2024

7. LEASE LIABILITY

	September 30, 2024	June 30, 2024
Balance, beginning of period	\$ 23,131	\$ 28,667
Lease payments	-	(9,000)
Interest accretion on lease liabilities	-	3,464
Balance, end of period	23,131	23,131
Current portion	9,000	6,227
Non-current portion	\$ 14,131	\$ 16,904

8. IMPAIRMENT

Gething CGU

The Corporation did not identify any impairment trigger indicators with respect to the Corporation's Gething CGU.

Montney D&P and Montney E&E CGUs

The Corporation identified an indicator of impairment at September 30, 2024 with respect to the Montney D&P CGU as the wells were shut-in in early May 2024. As such, the Corporation performed an impairment test to estimate the recoverable amount of the Montney D&P CGU. As a result of the impairment test, the Corporation did not record any further impairment with respect to the Montney D&P CGU.

The Corporation did not identify any impairment trigger indicators with respect to the Corporation's Montney E&E CGU.

9. ROYALTY CREDITS

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

As at September 30, 2024, the credits totalled \$325,081 (June 30, 2024: \$319,586). The credits are drawn down as production and revenue are recognized for the wells qualifying for the royalty credits. During the three-month period ended September 30, 2024, the Corporation recognized an increase in credits of \$5,495 as a result of a reduction of crown royalties made by the B.C. Ministry of Finance from August 2022 to June 2023 and November 2023 to April 2024 that were credited against prior crown royalties paid in prior years.

In addition, credits in the Corporation's Deep Well Credit Bank totalling (\$39,903) were credited against prior crown royalties paid in prior years. As the Corporation is not carrying any value for its Deep Well Credit Bank, the amount was credited against royalties in the three-month period ended September 30, 2024 was offset against income.

	Summer Drilling Credit	Infrastructure Royalty Credit	Total Drilling Credits
Balance at June 30, 2024	\$ 127,768	\$ 191,818	\$ 319,586
Increase in royalty credits	5,495	-	5,495
Balance at September 30, 2024	\$ 133,263	\$ 191,818	\$ 325,081

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the three months ended September 30, 2024

10. DECOMMISSIONING LIABILITY

	September 30, 2024	June 30, 2024
Balance, beginning of period	\$ 1,937,248	\$ 2,260,800
Changes in estimated life, cash flows and discount rates	490,082	203,622
Accretion	29,582	100,143
Liabilities settled during the period	(215,752)	(225,519)
Liabilities disposed of during the period	-	(401,798)
	2,241,160	1,937,248
Less: current portion of liability	56,228	(142,541)
Non-current portion	\$ 2,184,932	\$ 1,794,707

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, 2024 the estimated total undiscounted future liability of \$2,548,492 (June 30, 2024: \$2,311,667) had a net present value of \$2,241,160 (June 30, 2024: \$1,937,248) assuming expected decommissioning payments are to be made over the next 15 years, using an estimated risk-free nominal interest rate of 2.81% - 3.13% (June 30, 2024: 3.39% – 3.99%), and an inflation rate of 1.64% (June 30, 2024: 1.80%).

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, 2024 of \$1,531,540 (June 30, 2024: \$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 costs assumptions by well. Liabilities settled refer to well-bores abandoned or well-sites reclaimed during the year. During the three-month period ended September 30, 2024, financing costs of \$29,582 (three months ended September 30, 2023: \$29,582) relate to the accretion of the decommissioning liabilities. Certain of the change in estimate amount (\$277,542; September 30, 2023 – recovery of \$40,689) has been recorded in expenses as it relates to assets which had been fully impaired and therefore have a carrying value of \$nil.

11. SHAREHOLDERS' CAPITAL

Common Shares

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

During the year ended June 30, 2024, the Corporation issued 10,000,000 common shares on the exercise of 10,000,000 warrants at \$0.08 per share for gross proceeds of \$800,000. No finders fees were paid on this transaction.

Share Purchase Warrants

As at September 30, 2024 and June 30, 2024 there were no share purchase warrants outstanding.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the three months ended September 30, 2024

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, 2024 was 12,267,758 (June 30, 2024: 12,267,758).

	For the three months ended September 30, 2024		For the year ended June 30, 2024	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Balance, beginning of year	16,550,000	\$ 0.08	11,425,000	\$ 0.08
Expired/Forfeited	-	-	(125,000)	0.10
Granted	-	-	5,250,000	0.07
Balance, end of year	16,550,000	\$ 0.08	16,550,000	\$ 0.08
Options exercisable, end of period	15,050,000	\$ 0.08	13,362,500	\$ 0.08

The following table summarizes the information about stock options outstanding as at September 30, 2024 and June 30, 2024:

Expiry Date	As at September 30, 2024			As at June 30, 2024	
	Exercise Price	Number of Options Outstanding	Remaining Contractual Life (in years)	Exercise Price	Number of Options Outstanding
August 25, 2025	0.05	1,000,000	0.92	0.05	1,000,000
November 27, 2025	0.10	1,800,000	1.16	0.10	1,800,000
August 26, 2026	0.07	1,150,000	1.90	0.07	1,150,000
August 25, 2027	0.105	2,600,000	2.90	0.105	2,600,000
November 28, 2027	0.0825	4,750,000	3.16	0.0825	4,750,000
July 12, 2028	0.07	5,250,000	3.78	0.07	5,250,000
	\$ 0.08	16,550,000	2.88	\$ 0.08	16,550,000

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the three months ended September 30, 2024

12. SHARE-BASED COMPENSATION PLANS (Continued)

The following table summarizes the information about stock options vested as at September 30, 2024 and June 30, 2024:

Expiry Date	As at September 30, 2024			As at June 30, 2024	
	Exercise Price	Number of Options Vested	Remaining Contractual Life (in years)	Exercise Price	Number of Options Vested
August 25, 2025	0.05	1,000,000	0.92	0.05	1,000,000
November 27, 2025	0.10	1,800,000	1.16	0.10	1,800,000
August 26, 2026	0.07	1,150,000	1.90	0.07	1,150,000
August 25, 2027	0.105	2,600,000	2.90	0.105	1,950,000
November 28, 2027	0.0825	4,750,000	3.16	0.0825	2,375,000
July 12, 2028	0.07	3,750,000	3.79	0.07	2,250,000
	\$ 0.08	15,050,000	2.79	\$ 0.08	10,525,000

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in underlying assumptions can materially affect the fair value estimates.

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, 2024 and September 30, 2023 were not affected by the outstanding stock options or warrants as they are anti-dilutive.

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, 2024 and June 30, 2024 is accounts receivable balances.

Canadian Spirit Resources Inc.

Condensed Interim Notes to the Financial Statements For the three months ended September 30, 2024

14. FINANCIAL RISK MANAGEMENT (Continued)

The following summarized the Corporation's accounts receivable as at September 30, 2024 and June 30, 2024:

	September 30, 2024	June 30, 2024
Joint venture and other	\$ 18,567	\$ 3,229
GST	14,112	14,159
	\$ 32,679	\$ 17,388

The Corporation did not incur any write-offs relating to accounts receivable balances during the periods ended September 30, 2024 and June 30, 2024. Accounts receivable at September 30, 2024 and June 30, 2024 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 a GIC 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 and the GIC. 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.

15. CAPITAL MANAGEMENT

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

	September 30, 2024	June 30, 2024
Working capital:		
Current assets	\$ 5,479,940	\$ 5,673,355
Current liabilities	(503,909)	(459,442)
	4,976,031	5,213,913
Shareholders' Equity	27,180,229	27,651,288
	\$ 32,156,260	\$ 32,865,201

Canadian Spirit Resources Inc.

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15. CAPITAL MANAGEMENT (Continued)

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 working capital position that covers all budgeted capital commitments, anticipated administration and field operating costs, current reclamation obligations and other non-contingent financial liabilities for a three-month period;
- (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 future capital programs, the Corporation would need to raise 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.

16. GENERAL AND ADMINISTRATIVE

General and Administrative Expenses

	Three months ended	
	September 30, 2024	September 30, 2023
Consulting fees	\$ 92,327	\$ 74,365
Professional fees	43,766	15,811
Directors' fees and expenses	4,000	4,000
Investor relations and filing fees	7,971	21,299
Insurance	15,273	9,630
Office supplies, software licences & other	10,711	10,658
	\$ 174,048	\$ 135,763

17. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the periods ended September 30, 2024 and September 30, 2023, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business.

Canadian Spirit Resources Inc.

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17. RELATED PARTY TRANSACTIONS (Continued)

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:

	Three months ended	
	September 30, 2024	September 30, 2023
Included in general and administrative expenses		
Consulting fees (executive)	\$ 29,010	\$ 29,010
Directors' fees	4,000	4,000
Share-based compensation	6,741	188,021
	\$ 39,751	\$ 221,031

Termination and Change of Control Benefits

In the case of a change of control or the termination of employment resulting from a change in control, the Corporation's chief executive officer would be entitled to receive a payment of \$350,000 plus, if applicable, an additional payment based on the total consideration paid in the transaction resulting in a change of control of the Corporation. In the event of a change of control for which an additional payment is payable pursuant to the Executive Agreement, the additional payment would be equal to: (i) seven (7%) percent of the lesser of (A) the total consideration value under the change of control transaction, or (B) \$5,000,000; plus (ii) five (5%) percent of the lesser of (A) the amount, if any, that the total consideration value under the change of control transaction exceeds \$5,000,000, or (B) \$5,000,000; plus (iii) three (3%) percent of the amount, if any, that the total consideration value under the change of control transaction exceeds \$10,000,000.

17. COMMITMENTS

On November 9, 2023, the Corporation engaged Sayer Energy Advisors ("Sayer") to review strategic alternatives and provide financial advice. In the event of a successful sale transaction of either the Corporation's shares or its assets, Sayer would be entitled to receive a success fee based on the transaction value upon closing of the transaction. As well, following the term of the engagement agreement, for a period mutually agreed upon, Sayer may also be entitled to a success fee as a result of a successful transaction.