



**Canadian Spirit Resources Inc.**

**Financial Statements**

**For the year ended June 30, 2024, six months period ended June 30, 2023  
and year ended December 31, 2022**

**(Expressed in Canadian Dollars)**

## **Canadian Spirit Resources Inc.**

### **INDEX**

3. REPORT OF MANAGEMENT
4. INDEPENDENT AUDITORS' REPORT
8. STATEMENTS OF FINANCIAL POSITION
9. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
10. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
11. STATEMENTS OF CASH FLOWS
12. NOTES TO FINANCIAL STATEMENTS

## **Canadian Spirit Resources Inc.**

### **REPORT OF MANAGEMENT**

October 22, 2024

The accompanying financial statements of Canadian Spirit Resources Inc. for the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022 are the responsibility of management.

Management has prepared the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements include certain estimates that reflect management's best judgements. Management has ensured that the financial statements are presented fairly in all material respects.

Canadian Spirit Resources Inc. maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for reviewing and approving the financial statements and Management Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Audit Committee meets regularly with management, and periodically with the external auditors, to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the financial statements and the external auditor's report. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

Kenway Mack Slusarchuk Stewart LLP ("KMSS"), the external auditors, have audited the financial statements for the year ended June 30, 2024 and the six months ended June 30, 2023 in accordance with auditing standards generally accepted in Canada on behalf of the shareholders. KMSS have full and free access to the Audit Committee.

KPMG LLP audited the financial statements for the year ended December 31, 2022 in accordance with auditing standards generally accepted in Canada on behalf of the shareholders. KPMG LLP had full and free access to the Audit Committee.

(signed) Louisa DeCarlo  
Chief Executive Officer

(signed) Greg Florence  
Chief Financial Officer

## Independent Auditors' Report

To: The Shareholders of **Canadian Spirit Resources Inc.**

### Opinion

We have audited the financial statements of Canadian Spirit Resources Inc. (the "Corporation"), which comprise the statement of financial position as at June 30, 2024 and June 30, 2023 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended June 30, 2024 and the six months ended June 30, 2023 and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2024 and June 30, 2023, and its financial performance and its cash flows for the twelve and six month periods then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements which indicates that as at June 30, 2024 the Corporation had a working capital balance of \$5,213,913, incurred a net loss and comprehensive loss of \$9,900,906 and used cash flows in operating activities of \$1,322,416 for the year then ended. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and not otherwise addressed in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### Assessment of impairment indicators of exploration and evaluation assets for the Montney Cash Generating Unit (the "Montney E&E Assets").

#### *Description of the matter:*

As reported in the statement of financial position and Notes 2, 3, 6 and 10 at June 30, 2024, the total book value of exploration and evaluation assets for the Montney E&E assets amounted to \$19,428,484.

## Independent Auditors' Report (continued)

As indicated in Note 2(b), the E&E assets are initially recorded at cost and any additional expenditures are capitalized in accordance with the Corporation's accounting policy. At each reporting period, Management assesses the Montney E&E assets for indicators of impairment.

*Why the matter is a key audit matter:*

We determined that this is a key audit matter due to the significant judgement involved in the assessment of indicators of impairment and the significance of the balance of the Montney E&E Assets.

*How the matter was addressed in the audit:*

We evaluated the Corporation's assessment of indicators of impairment and performed the following procedures to address this key audit matter:

- assessed the remaining period and right to explore for the Montney E&E Assets by comparing to a selection of provincial government lease reports;
- assessed whether further expenditures for exploration and evaluation are planned for the Montney E&E Assets by examining the Corporation's internal documents and minutes of the meetings of the Board of Directors;
- assessed whether exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of resources and the Corporation has decided to discontinue such activities in the specific area; and
- assessed whether data exists to suggest the carrying amount of the Montney E&E Assets is unlikely to be recovered by examining external market and industry data, the Corporation's press releases, internal documents and minutes of the meetings of the Board of Directors.

Assessment of the impact of estimated proved and probable oil and gas reserves on the recoverable amount of the Corporation's Montney Developed and Producing Cash Generating Unit (the "Montney D&P CGU").

*Description of the matter:*

As reported in the statement of financial position and Notes 2, 3, 7 and 10, at June 30, 2024, the total book value of property, plant and equipment ("PP&E") assets amounted to \$2,850,558.

The Corporation uses estimated proved and probable oil and gas reserves to deplete its petroleum and natural gas properties included within PP&E, to assess for indicators of impairment or impairment reversal on the Corporation's CGUs and if any such indicators exist, to perform an impairment test to estimate recoverable amount of the CGU.

The estimated recoverable amount of the Corporation's CGU involves significant estimates, including an estimate of proved and probable oil and gas reserves and discount rates. The estimate of proved and probable oil and gas reserves requires the expertise of independent third-party reserve evaluators and includes significant assumptions related to forecasts of oil and gas commodity prices, production volumes, royalty obligations, operating costs and future development costs.

*Why the matter is a key audit matter:*

Significant judgment is required in the assessment of the impact of estimated proved and probable oil and gas reserves on the recoverable amount of the Montney D&P CGU. Significant judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the discount rates. Additionally, the assessment of the recoverable amount of the Montney D&P CGU for impairment or impairment reversal requires the use of professionals with specialized skills and knowledge in valuation.

## Independent Auditors' Report (continued)

### *How the matter was addressed in the audit:*

We performed the following procedures to address the estimate of proved and probable oil and gas reserves:

- evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Corporation;
- compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators;
- compared the 2024 actual production, operating costs and royalty costs of the Corporation to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Corporation's ability to accurately forecast; and
- evaluated the appropriateness of forecasted production, forecasted operating cost and forecasted royalty cost assumptions by comparing to 2024 results. We took into account changes in conditions and events affecting the Corporation to assess the adjustments or lack of adjustments made by the Corporation in arriving at the assumptions.

### Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

### Other Matter

The financial statements of the Corporation for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on May 1, 2023.

## Independent Auditors' Report (continued)

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Kevin B. Napady, CPA, CA.



Chartered Professional Accountants

October 28, 2024  
Calgary, Alberta

## Canadian Spirit Resources Inc.

### Statements of Financial Position

As at June 30, 2024, June 30, 2023 and December 31, 2022

(Expressed in Canadian Dollars)

	June 30, 2024	June 30, 2023	December 31, 2022
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	\$ 5,608,224	\$ 1,176,782	\$ 770,283
Accounts receivable	17,388	23,308	185,345
Prepaid expenses	47,743	9,630	28,890
	<u>5,673,355</u>	<u>1,209,720</u>	<u>984,518</u>
Exploration and evaluation assets (Note 6)	19,528,484	32,950,945	32,855,873
Property, plant and equipment (Note 7)	2,850,558	3,279,778	3,609,170
Right-of-use assets (Note 8)	18,818	24,194	26,882
Restricted deposits (Note 5)	1,531,540	1,531,540	1,531,540
Royalty credits (Note 11)	319,586	271,341	266,460
	<u>24,248,986</u>	<u>38,057,798</u>	<u>38,289,925</u>
	<u>\$ 29,922,341</u>	<u>\$ 39,267,518</u>	<u>\$ 39,274,443</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 310,674	\$ 548,627	\$ 487,257
Decommissioning liabilities (Note 12)	142,541	531,553	233,686
Lease liability (Note 9)	6,227	5,560	4,006
	<u>459,442</u>	<u>1,085,740</u>	<u>724,949</u>
<b>Non-current liabilities</b>			
Decommissioning liabilities (Note 12)	1,794,707	1,729,247	2,007,952
Lease liability (Note 9)	16,904	23,107	29,119
	<u>1,811,611</u>	<u>1,752,354</u>	<u>2,037,071</u>
	<u>2,271,053</u>	<u>2,838,094</u>	<u>2,762,020</u>
<b>Shareholders' equity</b>			
Common shares (Note 13)	124,027,558	123,227,558	122,427,558
Contributed surplus	10,581,756	10,258,986	10,029,845
Deficit	(106,958,026)	(97,057,120)	(95,944,980)
	<u>27,651,288</u>	<u>36,429,424</u>	<u>36,512,423</u>
<b>Total shareholders' equity</b>	<u>27,651,288</u>	<u>36,429,424</u>	<u>36,512,423</u>
	<u>\$ 29,922,341</u>	<u>\$ 39,267,518</u>	<u>\$ 39,274,443</u>

Going concern and basis of presentation (Note 1)

Commitments (Note 21)

ON BEHALF OF THE BOARD:

(signed) Louisa DeCarlo  
Director

(signed) Sarah Hawco  
Director

The accompanying notes are an integral part of these financial statements

## Canadian Spirit Resources Inc.

### Statements of Loss and Comprehensive Loss

For the year ended June 30, 2024, the six months period ended June 30, 2023 and the year ended December 31, 2022

(Expressed in Canadian Dollars)

	June 30, 2024	June 30, 2023	December 31, 2022
	(12 months)	(6 months)	(12 months)
<b>Revenues</b>	\$ 293,811	\$ 400,783	\$ 284,006
Less: royalties	(16,101)	(52,473)	(10,544)
	277,710	348,310	273,462
Interest and other income (Note 11)	86,568	79,964	19,517
	364,278	428,274	292,979
<b>Expenses and other items</b>			
Operating costs	458,999	444,698	640,087
General and administrative (Note 19)	683,785	507,814	620,557
Depletion and depreciation (Notes 7 and 8)	439,620	316,020	290,128
Finance costs (Notes 9 and 12)	103,607	53,652	69,379
Share-based compensation (Note 14)	322,770	229,141	369,157
Change in estimate on decommissioning liabilities (Note 12)	84,541	(10,911)	7,928
Impairment (Note 10)	4,940,000	-	121,695
Loss on disposition (Note 6)	3,231,862	-	-
	10,265,184	1,540,414	2,118,931
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (9,900,906)</b>	<b>\$ (1,112,140)</b>	<b>\$ (1,825,952)</b>
Basic and diluted loss per common share	\$ (0.04)	\$ (0.00)	\$ (0.01)
Weighted average number of shares outstanding - basic and diluted (Note 15)	281,756,818	268,785,318	264,122,788

The accompanying notes are an integral part of these financial statements

## Canadian Spirit Resources Inc.

### Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

	Common Shares		Contributed		
	Number	Amount	Surplus	Deficit	Total
Unlimited number of common shares with no par value					
<b>Balance as at December 31, 2021</b>	<b>248,177,583</b>	<b>121,377,558</b>	<b>9,660,688</b>	<b>(94,119,028)</b>	<b>36,919,218</b>
Unit issuance (Note 13)	20,000,000	1,050,000	-	-	1,050,000
Share-based compensation (Note 14)	-	-	369,157	-	369,157
Net loss and comprehensive loss	-	-	-	(1,825,952)	(1,825,952)
<b>Balance as at December 31, 2022</b>	<b>268,177,583</b>	<b>122,427,558</b>	<b>10,029,845</b>	<b>(95,944,980)</b>	<b>36,512,423</b>
Warrant exercise (Note 13)	10,000,000	800,000	-	-	800,000
Share-based compensation (Note 14)	-	-	229,141	-	229,141
Net loss and comprehensive loss	-	-	-	(1,112,140)	(1,112,140)
<b>Balance as at June 30, 2023</b>	<b>278,177,583</b>	<b>123,227,558</b>	<b>10,258,986</b>	<b>(97,057,120)</b>	<b>36,429,424</b>
Warrant exercise (Note 13)	10,000,000	800,000	-	-	800,000
Share-based compensation (Note 14)	-	-	322,770	-	322,770
Net loss and comprehensive loss	-	-	-	(9,900,906)	(9,900,906)
<b>Balance as at June 30, 2024</b>	<b>288,177,583</b>	<b>\$ 124,027,558</b>	<b>\$ 10,581,756</b>	<b>\$ (106,958,026)</b>	<b>\$ 27,651,288</b>

The accompanying notes are an integral part of these financial statements

## Canadian Spirit Resources Inc.

### Statements of Cash Flows

For the year ended June 30, 2024, the six months period ended June 30, 2023 and the year ended December 31, 2022  
(Expressed in Canadian Dollars)

	June 30, 2024	June 30, 2023	December 31, 2022
	(12 months)	(6 months)	(12 months)
<b>Cash Flows used in Operating Activities:</b>			
Net loss	\$ (9,900,906)	\$ (1,112,140)	\$ (1,825,952)
Add items not affecting cash:			
Depletion and depreciation (Note 7 and 8)	439,620	316,020	290,128
Finance costs (Notes 9 and 12)	103,607	53,652	69,379
Change in estimate on decommissioning liabilities (Note 12)	84,541	(11,890)	7,928
Impairment (Note 10)	4,940,000	-	121,695
Loss on disposition (Note 6)	3,231,862	-	-
Share-based compensation (Note 14)	322,770	229,141	369,157
Decommissioning liabilities expenditures (Note 12)	(225,519)	(16,073)	(171,643)
	<u>(1,004,025)</u>	<u>(541,290)</u>	<u>(1,139,308)</u>
Changes in non-cash working capital			
Accounts receivable	5,920	178,611	(162,173)
Prepaid expenses	(38,113)	19,260	20,002
Royalty credits	(48,245)	(4,881)	-
Accounts payable and accrued liabilities	(237,953)	44,798	(50,735)
	<u>(1,322,416)</u>	<u>(303,502)</u>	<u>(1,332,214)</u>
<b>Cash Flows provided by Financing Activities:</b>			
Proceeds on issuance of shares (Note 13)	800,000	800,000	1,050,000
Principal and accretion payments of lease liabilities (Note 9)	(9,000)	(8,000)	(9,000)
	<u>791,000</u>	<u>792,000</u>	<u>1,041,000</u>
<b>Cash Flows used in Investing Activities:</b>			
Exploration and evaluation expenditures (Note 6)	(37,772)	(78,191)	(95,981)
Property, plant and equipment expenditures (Note 7)	630	(3,808)	(369,697)
Proceeds on sale of exploration and evaluation assets (Note 6)	5,000,000	-	147,750
Change in non-cash working capital	-	-	96,630
	<u>4,962,858</u>	<u>(81,999)</u>	<u>(221,298)</u>
<b>Change in cash</b>	<b>4,431,442</b>	<b>406,499</b>	<b>(512,512)</b>
<b>Cash, beginning of the period</b>	<b>1,176,782</b>	<b>770,283</b>	<b>1,282,795</b>
<b>Cash, end of the period</b>	<b>\$ 5,608,224</b>	<b>\$ 1,176,782</b>	<b>\$ 770,283</b>

The accompanying notes are an integral part of these financial statements

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 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 - 4<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada T2P 3N3.

#### Change in Year End

To ensure that the Corporation is able to engage external auditors in a timely and cost efficient manner, the Corporation made the decision to change its year end from December 31 to June 30. As such, certain amounts shown in these financial statements are not comparable.

#### 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 June 30, 2024 the Corporation had a working capital balance of \$5,213,913 (June 30, 2023: \$123,980; December 31, 2022: \$259,569) and incurred a net loss and comprehensive loss of \$9,900,906 for the year ended June 30, 2024 (six months period ended June 30, 2023: \$1,112,140; year ended December 31, 2022: \$1,825,592) and used cash flows in operating activities of \$1,322,416 for the year period ended June 30, 2024 (six months period ended June 30, 2023: \$303,502; year ended December 31, 2022: \$1,332,214). 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 and June 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 (refer to note 6 for additional disclosures). 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.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

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

#### 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 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 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These financial statements are presented in Canadian dollars, the Corporation's functional currency.

The Board of Directors approved the financial statements for issue on October 23, 2024.

#### Basis of Presentation

The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 2. 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 Note 3.

### 2. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all fiscal periods presented in these financial statements and notes.

#### a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, market deposits and similar type instruments with an original maturity of three months or less when purchased.

#### b) Exploration and Evaluation Assets

Costs incurred relating to general exploration prior to obtaining any legal rights to explore are expensed as incurred. Costs incurred relating to establishing the commercial viability and technical feasibility of exploration and evaluation ("E&E") assets are initially capitalized as either intangible E&E petroleum and natural gas properties or as tangible E&E facilities and equipment. These include costs such as land and lease acquisition, geological and geophysical expenditures, and the drilling and completion of test wells. E&E costs are not depleted and are carried forward at cost until proved reserves are determined to exist. A review of all exploration or drilling licences is carried out at least annually to determine if reserves exist.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 2. MATERIAL ACCOUNTING POLICIES (Continued)

Upon the determination of proved or probable reserves, the carried forward E&E costs together with the accumulated developed and producing (“D&P”) costs of the related cost generating unit (“CGU”) are tested for impairment, and are then reclassified as intangible petroleum and natural gas properties or tangible facilities and equipment within property, plant and equipment. E&E assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount or if sufficient data exists to determine technical feasibility and commercial viability. The Corporation assesses its E&E assets to determine whether any indication of impairment exists at the end of each reporting period. Significant judgment is required in determining whether indicators of impairment exist, including factors and considerations such as the remaining period for which the Corporation has the right to explore, whether expenditures on further exploration and evaluation of petroleum and natural gas properties are planned, whether commercially viable quantities of petroleum and natural gas resources have been discovered or whether data exists to suggest the carrying amount is unlikely to be recovered. E&E assets are considered impaired if both commercial viability and technical feasibility are not established through the determination of proved or probable reserves, or if there are no future plans for activity and leases have expired.

#### c) Property, Plant and Equipment

Unless initially classified as E&E assets, all costs related to the continuing acquisition, exploration and development of intangible petroleum and natural gas properties and tangible facilities and equipment are capitalized as property, plant and equipment (“PP&E”) and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include land and lease acquisition costs, annual charges on producing and non-producing properties, geological and geophysical costs, costs of drilling and completion, costs for production facilities, decommissioning costs, and carrying costs. Repair and maintenance costs are expensed as incurred. Intangible petroleum and natural gas properties and tangible facilities and equipment are accumulated in CGUs.

The Corporation depletes its net carrying value of petroleum and natural gas properties included within property, plant and equipment using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production and excludes salvage value and undeveloped land related to future development acreage with no associated proved and probable oil and gas reserves. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Forecasted future development costs are estimated taking into account the level of development required to produce the reserves. The Corporation engages independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves. Depreciation methods, useful lives and residual values are reviewed at each reporting date. Proceeds from the disposition of intangible petroleum and natural gas properties or tangible facilities and equipment are offset against the accumulated costs of the properties sold and any gains or losses are recorded in the statement of loss and comprehensive loss in the period when the disposition occurred.

Water pipeline project expenditures, included as tangible facilities and equipment, are recorded at cost. Once commissioned, and therefore upon the determination of being available for use, water pipeline costs are amortized on a straight-line basis over the life of the water licence issued by the regulatory authority.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 2. MATERIAL ACCOUNTING POLICIES (Continued)

#### d) Impairment

##### *Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Loss allowances are measured at an amount equal to the lifetime expected credit losses on the asset. Expected credit losses are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls for financial assets that are not credit-impaired at the reporting date and as the difference between the gross carrying amount and the present value of estimated future cash flows for financial assets that are credit-impaired at the reporting date. Loss allowances for expected credit losses for financial assets measured at amortized cost are presented in the statement of financial position as a deduction from the gross carrying amount of the asset.

##### *Non-financial Assets*

The carrying amounts of the Corporation's non-financial assets, including the water pipeline assets and royalty credits receivable, are reviewed whenever there are indicators of impairment or impairment reversal. If any such indicators exist, the asset's recoverable amount is estimated.

For the purpose of impairment testing, E&E and D&P assets are allocated by CGU, being the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of E&E and D&P assets within a CGU is the greater of its value in use and its fair value less costs of disposal.

In assessing fair value less costs of disposal of D&P assets within a CGU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves (less royalties, operating costs and future development costs).

E&E assets are allocated by CGU and are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, or facts and circumstances, including comparison to comparable market transactions, suggest that the carrying amount exceeds the recoverable amount.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of loss and comprehensive loss.

Impairment losses recognized in prior years are assessed at each reporting date for indicators that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's or CGUs carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

#### e) Office Equipment and Fixtures

Office equipment and fixtures, are recorded at cost and amortized on a straight-line basis over their estimated useful life (3 - 5 years).

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 2. MATERIAL ACCOUNTING POLICIES (Continued)

#### f) Financial Instruments

##### *Non-derivative Financial Instruments*

Non-derivative financial instruments are comprised of cash, accounts receivable, restricted deposits, accounts payable and accrued liabilities, and lease liability. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Non-derivative financial instruments, such as cash, restricted deposits, accounts receivable and accounts payable and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses.

#### g) Finance Income and Expenses

Finance income comprises interest and other income and is recognized in the statement of loss and comprehensive loss as it accrues using the effective interest rate.

Finance expense consists of accretion on the decommissioning liabilities and lease liability.

#### h) Loss per Share

The Corporation computes basic loss per share using net loss divided by the weighted average number of common shares outstanding during the period. The Corporation uses the treasury stock method in computing the weighted average number of diluted common shares outstanding.

This method assumes that the proceeds upon exercise of in-the-money stock options and share purchase warrants are used to repurchase the Corporation's common shares at the average market price during the relevant period. No adjustment to diluted loss per share is made if the result of this calculation is anti-dilutive.

#### i) Income Taxes

Income tax expense represents the sum of current tax and deferred tax expense. Income tax is recognized in the statement of loss and comprehensive loss except to the extent it relates to items recognized directly in shareholders' capital, in which case the income tax expense is recognized in shareholders' capital. Current income taxes are measured at the amount, if any, expected to be recoverable from or payable to taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period. The Corporation follows the liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect differences between the accounting and tax base of assets and liabilities, and income tax loss carry-forwards. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The effect of any changes in tax rates is recognized in the statement of operations in the period in which the change occurs or in shareholders' capital, depending on the nature of the item(s) affected by the adjustment. Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow the asset to be recovered.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 2. MATERIAL ACCOUNTING POLICIES (Continued)

#### j) Decommissioning Liabilities

The Corporation recognizes the estimated net present value of future decommissioning liabilities associated with E&E assets and PP&E assets as a liability in the period in which they are incurred, normally when the asset is purchased or developed. The liability is based on the estimated costs to abandon and reclaim the net ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods.

This estimate is evaluated on a periodic basis and any adjustments are made to the carrying amount. The change in net present value of the future decommissioning liabilities due to the passage of time and calculated using an estimated risk-free nominal discount rate for the period is expensed as finance costs, accretion. The decommissioning cost, which is the net present value of the decommissioning liabilities at the inception of the assets, is capitalized as part of the cost of the related long-lived asset and amortized using the unit-of-production method. Actual decommissioning liabilities settled during the period reduce the decommissioning liabilities.

#### k) Jointly Controlled Operations

Certain of the Corporation's petroleum and natural gas operations are conducted under joint operating agreements with external parties, whereby two or more parties jointly control the assets.

These financial statements reflect the Corporation's proportionate interest in such jointly controlled assets and, upon production, a proportionate share of the relevant revenue and related operating costs.

#### l) Revenue Recognition

Revenue from the sale of commodities, which may include natural gas, condensate and natural gas liquids are 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. Payment terms for CSRI's commodity sales contracts are on the 25th of the month following delivery. CSRI does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year and therefore the Corporation does not adjust its revenue transactions for the time value of money.

The Corporation evaluates its arrangements with third 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.

#### m) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. When the conditions of a grant relate to income or expense, it is recognized in earnings in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related assets and amortized into income through depletion and depreciation.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 2. MATERIAL ACCOUNTING POLICIES (Continued)

#### n) Share Purchase Warrants

In conjunction with certain financing activities the Corporation issues units, which are comprised of common shares and share purchase warrants. Share purchase warrants are accounted for using the residual method, which calculates the value of unit issuance proceeds as common shares equal to the market price on the Exchange on the date of announcement with the remainder, if any, assigned to share purchase warrants.

#### o) Share-based Compensation

The Corporation accounts for share-based compensation using the fair-value method of accounting for stock options granted using the Black-Scholes pricing model. Share-based compensation is recorded over the vesting period with a corresponding amount reflected as contributed surplus. Share-based compensation is calculated as the estimated fair value for the related stock options at the time of grant, amortized over their vesting period using graded vesting. When stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common shares. The amounts expensed or capitalized are adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the options are fully vested.

#### p) Leases

The Corporation assesses new contracts at inception to determine whether it contains a lease. This assessment involves the exercise of judgement about whether the asset is specified for the Corporation, whether the Corporation obtains substantially all the economic benefits from use of that asset, and whether the Corporation has the right to direct the use of the asset.

Leases are recognized as a ROU asset with a corresponding liability at the date of which the leased asset is available for use by the Corporation. Each lease payment is allocated between the lease liability and finance expense. The finance expense is charged to the statement of comprehensive income over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the late term reflects the lessee exercising that option. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Corporation's incremental borrowing rate.

ROU assets are measured at cost comprising of the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any initial direct costs and restoration costs.

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

#### 2. MATERIAL ACCOUNTING POLICIES (Continued)

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Corporation will remeasure the lease liability using the Corporation's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net income and comprehensive income that reflects the proportionate decrease in scope.

##### q) Foreign Currency

The functional and presentation currency of the Corporation is the Canadian dollar which is the principal currency of the primary economic environment in which it operates. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency transaction differences arising on translation are recognized in the statement of loss and comprehensive loss.

##### r) New and Proposed Accounting Pronouncements

The Corporation adopted the following amendments to IFRS issued by the IASB. Their adoption has not had a material impact on disclosures or amounts reported in these financial statements.

###### *Amendments to IAS 12 – "Income Taxes"*

Amendments to IAS 12 require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

###### *Amendments to IAS 1 – "Presentation of Financial Statements"*

Amendments to IAS 1 require that a company disclose its material accounting policies rather than its significant accounting policies and explain how a company can identify material accounting policies.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 3. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ materially from those estimates and assumptions.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements include:

- reserves;
- Identification of CGUs;
- Impairment of petroleum and natural gas assets;
- decommissioning liabilities; and
- going concern assumption.

#### Reserves

The Corporation uses estimated proved and probable oil and gas reserves to deplete its development and production assets included in property, plant and equipment, to assess for indicators of impairment or impairment reversal on the Corporation's CGUs and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. Proved and probable oil and gas reserves and the related cash flows requires estimation and are subject to significant assumptions regarding forecasted production, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate proved and probable oil and gas reserves may change from period to period. Changes in reported proved and probable oil and gas reserves can impact the carrying values of the Corporation's property, plant and equipment, the calculation of depletion, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The estimated proved and probable oil and gas reserves and the related cash flows from the Corporation's property, plant and equipment are evaluated by independent third-party reserve evaluators at least annually. The Corporation's proved and probable oil and gas reserves represent the estimated quantities of oil, natural gas and natural gas liquids ("ngl") which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such proved and probable oil and gas reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. The Corporation's proved and probable oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 3. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY (Continued)

#### Identification of CGUs

The Corporation's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods. At June 30, 2024 the Corporation had three CGUs being: 1) the Montney developed and producing CGU ("Montney D&P CGU"); 2) the Montney exploration, evaluation and related infrastructure CGU ("Montney E&E CGU"); and 3) the Gething CGU.

#### Impairment of petroleum and natural gas assets

Judgments are required to assess when internal or external indicators of impairment or impairment reversal exist and impairment testing is required. Management considers internal and external sources of information including forecasted oil and gas commodity prices, forecasted production volumes, estimated recoverable quantities of proved and probable oil and gas reserves and rates used to discount the related future cash flow estimates. Judgement is required to assess these factors when determining if the carrying amount of an asset or CGU is impaired, or in the case of a previously impaired asset or CGU, whether the carrying amount of the asset or CGU has been restored.

When management determines that circumstances indicate potential impairment, the assets are tested for impairment by comparing the carrying values to recoverable amounts. The recoverable amount is the higher of value in use or fair value less costs of disposal. Refer to Note 10 for more details.

#### Decommissioning Liabilities

Decommissioning costs will be incurred by the Corporation at the end of the operating life of the Corporation's wells and facilities. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations. The Corporation selects risk-free nominal discount rates to calculate the net present value of the future decommissioning costs.

Changes in the amount and timing of future cash outflows, the discount rates, or the inflation rates for determining future decommissioning costs could have a significant effect on the carrying amount of the decommissioning liabilities.

#### Going Concern Assumption

The Board of Directors has considered the Corporation's current activities, funding position and projected funding requirements for the period of at least twelve months from the date these financial statements, in determining the ability of the Corporation to adopt the going concern basis in preparing the financial statements for the year ended June 30, 2024. The assessment of the Corporation's ability to execute its strategy to meet its future funding requirements involves judgment. See further discussions in Note 1.

### 4. 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.

# Canadian Spirit Resources Inc.

## Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

### 4. DETERMINATION OF FAIR VALUES (Continued)

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.
- (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, Accounts Receivable, Restricted Deposits, Accounts Payable and Accrued Liabilities and Lease Liability**

The fair value of cash, accounts receivable, 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 June 30, 2024, June 30, 2023 and December 31, 2022, the fair value of these balances approximated their carrying value.

### 5. 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 Energy Regulator ("BCER"), the Corporation has been assessed \$1,531,540 in aggregate as at June 30, 2024 (June 30, 2023 and December 31, 2022 \$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.

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 6. EXPLORATION AND EVALUATION ASSETS

	Petroleum and Natural Gas Properties	Facilities and Equipment	Total
<b>As at December 31, 2021</b>	<b>\$ 32,483,938</b>	<b>\$ 369,695</b>	<b>\$ 32,853,633</b>
Additions	105,750	-	105,750
Disposition	-	(147,750)	(147,750)
Impairment	-	(121,695)	(121,695)
Changes in decommissioning liabilities	165,935	-	165,935
<b>As at December 31, 2022</b>	<b>32,755,623</b>	<b>100,250</b>	<b>32,855,873</b>
Additions	78,191	-	78,191
Changes in decommissioning liabilities	16,881	-	16,881
<b>As at June 30, 2023</b>	<b>32,850,695</b>	<b>100,250</b>	<b>32,950,945</b>
Additions	37,772	-	37,772
Disposition	(8,297,078)	-	(8,297,078)
Impairment	(4,940,000)	-	(4,940,000)
Changes in decommissioning liabilities	(223,155)	-	(223,155)
<b>As at June 30, 2024</b>	<b>\$ 19,428,234</b>	<b>\$ 100,250</b>	<b>\$ 19,528,484</b>

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

During the year ended December 31, 2022, the Corporation disposed of miscellaneous equipment related to the Corporation's Gething CGU totalling \$147,750. The recoverable value of the remaining miscellaneous equipment was estimated to be \$100,250 and therefore the Corporation recorded an impairment charge of \$121,695 relating to this equipment during fiscal 2022 (see Note 10).

As at March 31, 2024, the Corporation recorded an impairment of \$4,940,000 relating to its Montney E&E assets (refer to note 10 for additional disclosures).

On June 25, 2024, the Corporation disposed of 10,472 net acres of undeveloped Montney lands located in the Farrell Creek and Attachie areas of Northeastern British Columbia (the "Disposition") for a purchase price of \$5,000,000. The effective date of the the Disposition was March 1, 2024 and the proceeds from the properties disposed, resulting in a loss on disposition of \$3,231,862.

<b>Proceeds from disposition</b>	<b>\$ 5,000,000</b>
Less:	
Net book value of properties disposed, net of decommissioning obligations	(8,231,862)
<b>Loss on disposition</b>	<b>(\$ 3,231,862)</b>

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 7. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties	Facilities and Equipment	Office Equipment and Fixtures	Total
<b>Cost</b>				
<b>As at December 31, 2021</b>	<b>\$ 17,241,146</b>	<b>\$ 8,892,776</b>	<b>\$ 228,198</b>	<b>\$ 26,362,120</b>
Additions	30,638	339,059	-	369,697
Change in decommissioning liabilities	578,175	(13,090)	-	565,085
<b>As at December 31, 2022</b>	<b>\$ 17,849,959</b>	<b>\$ 9,218,745</b>	<b>\$ 228,198</b>	<b>\$ 27,296,902</b>
Additions	-	3,808	-	3,808
Change in decommissioning liabilities	(18,032)	(1,836)	-	(19,868)
<b>As at June 30, 2023</b>	<b>17,831,927</b>	<b>9,220,717</b>	<b>228,198</b>	<b>27,280,842</b>
Additions	-	(630)	-	(630)
Change in decommissioning liabilities	5,130	524	-	5,654
<b>As at June 30, 2024</b>	<b>\$ 17,837,057</b>	<b>\$ 9,220,611</b>	<b>\$ 228,198</b>	<b>\$ 27,285,866</b>
<b>Accumulated depletion, depreciation and impairment</b>				
<b>As at December 31, 2021</b>	<b>\$ 17,241,146</b>	<b>\$ 5,933,636</b>	<b>\$ 228,198</b>	<b>\$ 23,402,980</b>
Depletion and depreciation	-	284,752	-	284,752
<b>As at December 31, 2022</b>	<b>\$ 17,241,146</b>	<b>\$ 6,218,388</b>	<b>\$ 228,198</b>	<b>\$ 23,687,732</b>
Depletion and depreciation	66,103	247,229	-	313,332
<b>As at June 30, 2023</b>	<b>17,307,249</b>	<b>6,465,617</b>	<b>228,198</b>	<b>24,001,064</b>
Depletion and depreciation	95,360	338,884	-	434,244
<b>As at June 30, 2024</b>	<b>\$ 17,402,609</b>	<b>\$ 6,804,501</b>	<b>\$ 228,198</b>	<b>\$ 24,435,308</b>
<b>Carrying amounts</b>				
As at December 31, 2022	\$ 608,813	\$ 3,000,357	\$ -	\$ 3,609,170
As at June 30, 2023	\$ 488,825	\$ 2,790,953	\$ -	\$ 3,279,778
<b>As at June 30, 2024</b>	<b>\$ 434,448</b>	<b>\$ 2,416,110</b>	<b>\$ -</b>	<b>\$ 2,850,558</b>

During the year ended June 30, 2024, the Corporation recorded \$5,654 (six months period ended June 30 2023: (\$19,868) and year ended December 31, 2022: 565,085) due to a change in decommissioning liabilities.

Included within facilities and equipment is a pipeline the licence term of which expires on December 31, 2031. The pipeline is being amortized on a straight-line basis over the license term and the Corporation has recorded depreciation for the year ended June 30, 2024 of \$284,752 (six months period ended June 30, 2023: \$142,376 and year ended December 31, 2022: \$284,752).

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 8. RIGHT-OF-USE ASSETS

The following is the continuity of the cost and accumulated depreciation of right-of-use assets (operating premise leases) as at June 30, 2024, June 30, 2023 and December 31, 2022:

	June 30, 2024	June 30, 2023	December 31, 2022
<b>Cost</b>			
Balance, beginning and end of period	\$ 48,387	\$ 48,387	\$ 48,387
<b>Accumulated depreciation</b>			
Balance, beginning of period	(24,193)	(21,505)	(16,129)
Depreciation	(5,376)	(2,688)	(5,376)
Balance, end of period	(29,569)	(24,193)	(21,505)
<b>Ending balance</b>	\$ 18,818	\$ 24,194	\$ 26,882

#### 9. LEASE LIABILITY

	June 30, 2024	June 30, 2023	December 31, 2022
Balance, beginning of period	\$ 28,667	\$ 33,125	\$ 37,611
Lease payments	(9,000)	(8,000)	(9,000)
Interest accretion on lease liabilities	3,464	3,542	4,514
Balance, end of period	23,131	28,667	33,125
Current portion	6,227	5,560	4,006
<b>Non-current portion</b>	\$ 16,904	\$ 23,107	\$ 29,119

#### 10. IMPAIRMENT

##### Gething CGU

During the year ended December 31, 2022, the Corporation disposed of equipment from processing facilities related to the Corporation's Gething CGU totalling \$147,750. The recoverable value of the remaining processing facility equipment was estimated to be \$100,250 and therefore the Corporation recorded an impairment charge of \$121,695 to these facilities during 2022. The facility equipment is the last remaining asset comprising the Gething CGU.

##### Montney D&P and Montney E&E CGUs

The Corporation identified an indicator of impairment reversal at December 31, 2022 with respect to its Montney D&P CGU. The impairment reversal indicator arose as a result of the commencement of production and revenues within the Montney D&P CGU, due in part from the sustained recovery of natural gas prices. 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 impairment reversal or further impairment with respect to the Montney D&P CGU.

At March 31, 2024, the Corporation identified an indicator of impairment with respect to certain assets within its Montney E&E CGU. The indicator was represented in response to continued declines in commodity prices

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 10. IMPAIRMENT (Continued)

and general market conditions. As a result, the Corporation recording an impairment charge against the Montney E&E assets of \$4,940,000. There was no indicator of impairment on the balance of the Montney E&E CGU assets.

On June 25, 2024, the Corporation completed the disposition of 10,472 net acres of undeveloped lands associated with its Montney E&E assets for gross proceeds of \$5,000,000, resulting in a loss on disposition of \$3,231,862.

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

#### 11. ROYALTY CREDITS

The British Columbia Ministry of Energy and Mines provides certain oil and gas drilling incentives including royalty credits. As at June 30, 2024, the credits were \$319,586 (June 30, 2023: \$271,341 and December 31, 2022: \$266,460). The royalty credits are drawn down as production and revenue are recognized for the wells qualifying for the royalty credits. As costs are incurred, certain credits are also earned. During the year ended June 30, 2024, the Corporation earned \$55,434 in infrastructure royalty credits and applied \$7,189 (six months period ended June 30, 2023: \$14,793 and year ended December 31, 2022: \$Nil) of summer drilling royalty credits against crown royalties payable.

In addition, credits in the Corporation's Deep Well Credit Bank totalling \$11,990 were applied against crown royalties payable during the year ended June 30, 2024 (six months period ended June 30, 2023: \$47,900 and year ended December 31, 2022: \$Nil). As the Corporation is not carrying any value for its Deep Well Credit Bank, the amount applied against royalties in fiscal 2024 have been taken into income.

	Summer Drilling Credit	Infrastructure Royalty Credit	Total Drilling Credits
<b>Balance at December 31, 2022 and 2021</b>	<b>\$ 132,769</b>	<b>\$ 133,691</b>	<b>\$ 266,460</b>
Credits earned during the period	16,981	2,693	19,674
Credits used during the period	(14,793)	-	(14,793)
<b>Balance at June 30, 2023</b>	<b>\$ 134,957</b>	<b>\$ 136,384</b>	<b>\$ 271,341</b>
Credits earned during the period	-	55,434	55,434
Credits used during the period	(7,189)	-	(7,189)
<b>Balance at June 30, 2024</b>	<b>\$ 127,768</b>	<b>\$ 191,818</b>	<b>\$ 319,586</b>

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 12. DECOMMISSIONING LIABILITIES

	June 30, 2024	June 30, 2023	December 31, 2022
<b>Balance, beginning of period</b>	<b>\$ 2,260,800</b>	<b>\$ 2,241,638</b>	<b>\$ 1,599,700</b>
Changes in estimated life, cash flows and discount rates	203,622	(14,876)	748,715
Accretion	100,143	50,110	64,866
Liabilities settled during the period	(225,519)	(16,072)	(171,643)
Liabilities disposed during the period	(401,798)	-	-
	1,937,248	2,260,800	2,241,638
Less: current portion of liability	(142,541)	(531,553)	(233,686)
<b>Non-current portion</b>	<b>\$ 1,794,707</b>	<b>\$ 1,729,247</b>	<b>\$ 2,007,952</b>

The total future decommissioning liabilities, 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 June 30, 2024 the estimated total undiscounted future liabilities of \$2,311,667 (June 30, 2023: \$2,791,065 and December 31, 2022: \$2,910,217) had a net present value of \$1,937,248 (June 30, 2023: \$2,260,800 and December 31, 2022: \$2,241,638) assuming expected decommissioning payments are to be made over the next 15 years, using an estimated risk-free nominal interest rates of 3.39%-3.99% (June 30, 2023: 3.09%-4.58% and December 31, 2022: 3.27%-4.06%), and an inflation rate of 1.80% (June 30, 2023: 1.70% and December 31, 2022: 2.09%).

The decommissioning liabilities are comprised of both the Corporation's proportionate interest in its jointly controlled operations as well as its own 100% operations. Included in the disposition of assets in its Montney E&E CGU were eight wellbores in various stages of decommissioning, three of which were owned 100% by the Corporation.

The restricted deposits held toward future abandonment and reclamation costs (see Note 5) as at June 30, 2024 of \$1,531,540 (June 30, 2023 and December 31, 2022: \$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 year ended June 30, 2024, financing costs of \$100,143 (six months period ended June 30, 2023: \$50,110 and year ended December 31, 2022 \$64,866) relate to the accretion of the decommissioning liabilities. Certain of the change in estimate amount has been recorded as an expense as it relates to assets which had been fully impaired and therefore had a carrying value of \$nil.

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 13. 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 December 31, 2022, the Corporation issued 20,000,000 units through a private placement at \$0.0525 per unit 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 expiring March 15, 2024. No finders fees were paid on this placement

During the six months period ended June 30, 2023, 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 finder's fees were paid on this transaction.

On February 20, 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 finder's fees were paid on this transaction.

#### 14. 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 June 30, 2024 was 12,267,758 (June 30, 2023: 16,392,758 and December 31, 2022: 15,392,758).

	June 30, 2024		June 30, 2023	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
<b>Balance, beginning of period</b>	<b>11,425,000</b>	<b>\$ 0.09</b>	<b>11,425,000</b>	<b>\$ 0.09</b>
Expired/Forfeited	(125,000)	0.10	-	-
Granted	5,250,000	0.07	-	-
<b>Balance, end of period</b>	<b>16,550,000</b>	<b>\$ 0.08</b>	<b>11,425,000</b>	<b>\$ 0.09</b>
<b>Options exercisable, end of period</b>	<b>13,362,500</b>	<b>\$ 0.08</b>	<b>7,750,000</b>	<b>\$ 0.09</b>

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 14. SHARE-BASED COMPENSATION PLANS (Continued)

The following table summarizes the information about stock options outstanding as at June 30, 2024 and June 30, 2023:

Expiry Date	As at June 30, 2024			As at June 30, 2023	
	Exercise Price	Number of Options Outstanding	Remaining Contractual Life (in years)	Number of Options Outstanding	Remaining Contractual Life (in years)
August 28, 2023				125,000	0.16
August 30, 2025	0.05	1,000,000	1.17	1,000,000	2.17
November 27, 2025	0.10	1,800,000	1.41	1,800,000	2.41
August 26, 2026	0.07	1,150,000	2.16	1,150,000	3.15
August 25, 2027	0.105	2,600,000	3.15	2,600,000	4.15
November 28, 2027	0.0825	4,750,000	3.41	4,750,000	4.41
July 12, 2028	0.07	5,250,000	4.04	-	-
	<b>\$ 0.081</b>	<b>16,550,000</b>	<b>3.13</b>	<b>11,425,000</b>	<b>3.67</b>

The following table summarizes the information about stock options exercisable as at June 30, 2024 and June 30, 2023:

Expiry Date	As at June 30, 2024			As at June 30, 2023	
	Exercise Price	Number of Options Vested	Remaining Contractual Life (in years)	Number of Options Vested	Remaining Contractual Life (in years)
August 28, 2023				125,000	0.16
August 30, 2025	0.05	1,000,000	1.17	1,000,000	2.67
November 27, 2025	0.10	1,800,000	1.41	1,800,000	2.91
August 26, 2026	0.07	1,150,000	2.16	1,150,000	3.65
August 25, 2027	0.105	2,600,000	3.15	1,300,000	4.65
November 28, 2027	0.0825	3,562,500	3.41	1,000,000	2.67
July 12, 2028	0.07	3,250,000	4.04	2,375,000	4.91
	<b>\$ 0.083</b>	<b>13,362,500</b>	<b>3.16</b>	<b>7,750,000</b>	<b>3.36</b>

During the year ended December 31, 2022, the Corporation granted 7,350,000 stock options with an estimated weighted average fair value of \$0.09 per option. The fair value of the options were calculated using the Black-Scholes option pricing model.

During the year ended June 30, 2024, the Corporation granted 5,250,000 stock options.

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 14. SHARE-BASED COMPENSATION PLANS (Continued)

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. The following weighted average assumptions were used for the Black-Scholes valuation of options granted during the year ended June 30, 2024:

	Options issued July 12, 2023
Share price	\$0.06
Risk-free interest rate	3.81%
Expected life of options	5 years
Annualized volatility based on historical volatility	89.5%
Dividend rate	0.00%
Forfeiture rate	15.00%
Fair value per option	\$0.039
Exercise price	\$0.07

\* Annualized volatility was determined by reference to historic volatility of the Corporation.

The fair value of stock options vested during the period and recognized as share-based payments expense for year ended June 30, 2024 was \$322,770 (six months period ended June 30, 2023: \$229,141 and year ended December 31, 2022: \$369,157).

#### 15. PER SHARE AMOUNTS

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the year ended June 30, 2024 was 281,756,818 (six months period ended June 30, 2023: 268,785,318 and year ended December 31, 2022: 264,122,788).

The diluted loss per share calculations for the year ended June 30, 2024, the six months period ended June 30, 2023 and the year ended December 31, 2022 were not affected by the outstanding stock options as they are anti-dilutive.

#### 16. DEFERRED INCOME TAXES

The reconciliations of deferred income tax recovery as computed by applying the combined Canadian Federal and Provincial statutory income tax rates to net losses are as follows:

	June 30, 2024	June 30, 2023	December 31, 2022
Net loss	\$ (9,900,906)	\$ (1,112,140)	\$ (1,825,952)
Statutory income tax rate	27.0%	27.0%	27.0%
Expected deferred income tax recovery	\$ (2,673,245)	\$ (300,278)	\$ (493,007)
Deferred income tax effects of:			
Non-deductible share-based compensation	87,148	61,868	99,672
Non-deductible expenses	466	-	165
Change in unrecognized deferred tax assets	2,585,631	238,410	393,170
Total tax expense	\$ -	\$ -	\$ -

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 16. DEFERRED INCOME TAXES (Continued)

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Corporation has not recognized a total deferred income tax asset of \$22,492,962 as at June 30, 2024 (June 30, 2023: \$19,912,494 and December 31, 2022: \$19,887,803).

The net deferred income tax balance is comprised of the following:

	June 30, 2023	Recognized in net income	June 30, 2024
Property, plant and equipment	\$ (4,114,029)	\$ 2,022,629	\$ (2,091,400)
Decommissioning liabilities	610,416	(87,359)	523,057
Right-of-use asset	(6,532)	1,451	(5,081)
Lease liability	7,740	(1,495)	6,245
Non-capital losses	3,502,405	(1,935,226)	1,567,179
	\$ -	\$ -	\$ -

The Corporation's unrecognized deductible temporary differences are comprised of the following:

	June 30, 2024	June 30, 2023	December 31, 2022
Capital losses carried forward	\$ (25,933)	\$ (25,933)	\$ (25,933)
Non-capital losses	(82,294,300)	(73,737,015)	(73,632,133)
	\$ (83,320,233)	\$ (73,762,948)	\$ (73,658,066)

At June 30, 2024, the Corporation had approximately \$104,077,301 (June 30, 2023: \$107,999,733 and December 31, 2022: \$107,382,532) of total tax pools available for deduction against future taxable income. The Corporation has non-capital losses of approximately \$89,098,666 (June 30, 2023: \$86,708,881 and December 31, 2022: \$84,903,389) that will expire between 2026 and 2044.

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 17. 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 June 30, 2024, June 30, 2023 and December 31, 2022 is the carrying amount of the Corporation's accounts receivable balances.

The following summarized the Corporation's accounts receivable as at June 30, 2024, June 30, 2023 and December 31, 2022.

	June 30, 2024	June 30, 2023	December 31, 2022
Joint venture and other	\$ 3,229	\$ 7,651	\$ 171,233
GST and other	14,159	15,656	14,112
	<b>\$ 17,388</b>	<b>\$ 23,308</b>	<b>\$ 185,345</b>

Accounts receivable at June 30, 2024, June 30, 2023 and December 31, 2022 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. The Corporation holds its cash 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.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 17. FINANCIAL RISK MANAGEMENT (Continued)

The following table outlines the current and long-term cash outflows:

	June 30, 2024	June 30, 2023	December 31, 2022
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 310,674	\$ 548,627	\$ 487,257
Decommissioning liabilities	142,541	531,553	233,686
Lease liability	6,227	5,560	4,006
	<u>459,442</u>	<u>1,085,740</u>	<u>724,949</u>
<b>Non-current liabilities</b>			
Decommissioning liabilities	1,794,707	1,729,247	2,007,952
Lease liability	16,904	23,107	29,119
	<u>1,811,611</u>	<u>1,752,354</u>	<u>2,037,071</u>
	<u>2,271,053</u>	<u>2,838,094</u>	<u>2,762,020</u>

#### 18. CAPITAL MANAGEMENT

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

	June 30, 2024	June 30, 2023	December 31, 2022
Working capital:			
Current assets	\$ 5,673,355	\$ 1,209,720	\$ 984,518
Current liabilities	(459,442)	(1,085,740)	(724,949)
	<u>5,213,913</u>	<u>123,980</u>	<u>259,569</u>
Shareholders' Equity	<u>27,651,288</u>	<u>36,429,424</u>	<u>36,512,423</u>
	<u>\$ 32,865,201</u>	<u>\$ 36,553,404</u>	<u>\$ 36,771,992</u>

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:

- 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;
- 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
- 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

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

---

#### 18. CAPITAL MANAGEMENT (Continued)

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 and decommissioning expenditures with its anticipated capital financing activities and maintaining significant cash balances. In order to finance the Corporation's capital programs, its decommissioning liabilities obligation 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.

#### 19. GENERAL AND ADMINISTRATIVE EXPENSES

---

	Periods ended		
	June 30, 2024	June 30, 2023	December 31, 2022
	(12 months)	(6 months)	(12 months)
Consulting fees	\$ 313,459	\$ 182,239	\$ 287,446
Professional fees	215,715	234,936	204,496
Director's and officer's fees and expenses	16,000	8,000	18,000
Investor relations and filing fees	41,481	23,371	49,355
Insurance	55,448	19,260	13,876
Office, software and other expenses	41,682	40,008	47,384
	<hr/>	<hr/>	<hr/>
	\$ 683,785	\$ 507,814	\$ 620,557

---

## Canadian Spirit Resources Inc.

### Notes to the Financial Statements

For the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022

#### 20. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the year ended June 30, 2024, the six months period ended June 30, 2023 and year ended December 31, 2022, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business are as follows:

##### Executive Compensation

Executive compensation relates 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:

	Periods ended		
	June 30, 2024	June 30, 2023	December 31, 2022
Included in general and administrative expenses	(12 months)	(6 months)	(12 months)
Professional fees (executive)	\$ 116,040	\$ 64,520	\$ 116,040
Directors' fees	16,000	8,000	18,000
Share-based compensation, gross	322,770	229,141	337,649
	<b>\$ 454,810</b>	<b>\$ 301,661</b>	<b>\$ 471,689</b>

For the year ended June 30, 2024, the total amount paid to the CFO and CEO was \$116,040 (six month ended June 30, 2023: \$64,520; year ended December 31, 2022: \$116,040).

##### 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.

#### 21. 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.