



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

**March 31, 2017**

1. STATEMENTS OF FINANCIAL POSITION
2. STATEMENTS OF CHANGES IN SHAREHOLDERS' CAPITAL
3. STATEMENTS OF OPERATIONS
4. STATEMENTS OF CASH FLOWS
5. NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

**NOTICE: The interim condensed financial statements and notes thereto for the three month period ended March 31, 2017 have not been reviewed by the Corporation's external auditors.**

# Canadian Spirit Resources Inc.

## STATEMENTS OF FINANCIAL POSITION

	As at March 31, 2017 <i>(unaudited)</i>	As at December 31, 2016 <i>(audited)</i>
<b>Assets</b>		
Non-current assets:		
Exploration and evaluation assets (note 5)	\$ 33,037,660	\$ 32,989,956
Property, plant and equipment (note 6)	5,861,341	6,014,730
Restricted deposits (note 7)	1,668,220	1,668,220
Royalty credits (note 4)	3,412,348	3,417,218
	<u>43,979,569</u>	<u>44,090,124</u>
Current assets:		
Cash and cash equivalents	837,403	1,347,289
Accounts receivable	58,407	107,287
Prepaid expenses and other deposits	122,340	103,150
Royalty credits (note 4)	23,033	24,690
	<u>1,041,183</u>	<u>1,582,416</u>
	<u>\$ 45,020,752</u>	<u>\$ 45,672,540</u>
<b>Liabilities and Shareholders' Capital</b>		
Non-current liabilities:		
Decommissioning liability (note 8)	\$ 2,107,022	\$ 2,268,193
Current liabilities:		
Accounts payable and other accrued liabilities	224,505	426,509
Shareholders' capital:		
Common shares (note 9)	114,276,295	114,276,295
Share purchase warrants (note 9)	111,714	256,464
Contributed surplus (note 11)	9,131,984	8,975,339
Deficit	(80,830,768)	(80,530,260)
	<u>42,689,225</u>	<u>42,977,838</u>
	<u>\$ 45,020,752</u>	<u>\$ 45,672,540</u>

Corporate information, basis of presentation and going concern (note 1)  
Commitments (note 13)

ON BEHALF OF THE BOARD:

(signed) "Donald R. Gardner"  
Director

(signed) "Alfred B. Sorensen"  
Director

# Canadian Spirit Resources Inc.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' CAPITAL (unaudited)

	Common Shares (note 9)	Share Purchase Warrants (note 9)	Contributed Surplus (note 11)	Deficit	Total
<b>As at January 1, 2017</b>	\$ 114,276,295	\$ 256,464	\$ 8,975,339	\$ (80,530,260)	\$ 42,977,838
Transfers:					
Share purchase warrants expired	-	(144,750)	144,750	-	-
Net loss and comprehensive loss	-	-	-	(300,508)	(300,508)
Share-based compensation, gross	-	-	11,895	-	11,895
<b>As at March 31, 2017</b>	<u>\$ 114,276,295</u>	<u>\$ 111,714</u>	<u>\$ 9,131,984</u>	<u>\$ (80,830,768)</u>	<u>\$ 42,689,225</u>
<b>As at January 1, 2016</b>	\$ 112,553,010	\$ 255,500	\$ 8,538,797	\$ (50,461,163)	\$ 70,886,144
Equity issues:					
Private placements	820,250	144,750	-	-	965,000
Share issue costs	(32,450)	(5,726)	-	-	(38,176)
Net loss and comprehensive loss	-	-	-	(141,749)	(141,749)
Share-based compensation, gross	-	-	101,165	-	101,165
Recovery of forfeited options	-	-	(756)	-	(756)
<b>As at March 31, 2016</b>	<u>\$ 113,340,810</u>	<u>\$ 394,524</u>	<u>\$ 8,639,206</u>	<u>\$ (50,602,912)</u>	<u>\$ 71,771,628</u>

# Canadian Spirit Resources Inc.

## STATEMENTS OF OPERATIONS

(unaudited)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 164,102	\$ 83,978
Royalties expense (note 4)	<u>(6,527)</u>	<u>(532)</u>
	157,575	83,446
<b>Interest and other income</b>	846	2,178
<b>Expenses</b>		
Operating costs	75,872	103,782
Depletion and depreciation (note 6)	150,452	136,737
Finance costs, accretion (note 8)	12,645	63,563
General and administrative, net	211,574	224,950
Share-based compensation, net (note 10)	8,386	73,341
Flow-through shares premium	<u>-</u>	<u>(375,000)</u>
	458,929	227,373
<b>Net loss and comprehensive loss</b>	<u>\$ (300,508)</u>	<u>\$ (141,749)</u>
<b>Basic loss per share (note 12)</b>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
<b>Diluted loss per share (note 12)</b>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>

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

Commitments (note 13)

# Canadian Spirit Resources Inc.

## STATEMENTS OF CASH FLOWS

(unaudited)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
<b>Cash Flows from (used in) Operating Activities:</b>		
Net loss and comprehensive loss	\$ (300,508)	\$ (141,749)
Add (deduct) items not affecting cash:		
Royalty credits applied (note 4)	6,527	532
Flow-through shares premium	-	(375,000)
Depletion and depreciation (note 6)	150,452	136,737
Finance costs, accretion (note 8)	12,645	63,563
Share-based compensation, net (note 10)	8,386	73,341
Funds flow from operations	<u>(122,498)</u>	<u>(242,576)</u>
Changes in non-cash working capital (note 14)	<u>18,954</u>	<u>(164,743)</u>
	<u>(103,544)</u>	<u>(407,319)</u>
<b>Cash Flows from (used in) Financing Activities:</b>		
Common shares issued for cash	-	965,000
Share issue costs	-	(38,176)
	<u>-</u>	<u>926,824</u>
<b>Cash Flows from (used in) Investing Activities:</b>		
Exploration and evaluation expenditures (note 5)	(47,704)	(2,979,463)
Net expenditures on property, plant and equipment (note 6)		
Development costs of petroleum and natural gas assets	1,395	(122,036)
Facilities and equipment	1,542	5,249
Fixtures and office equipment	-	-
Net additions to capital assets	<u>(44,767)</u>	<u>(3,096,250)</u>
Add (deduct) items not affecting cash:		
Revisions to decommissioning liability (notes 5, 6, 8)	(173,816)	54,575
Decommissioning liabilities incurred (note 8)	-	38,200
Capitalized share-based compensation (notes 5, 6)	3,509	27,068
Gross additions to capital assets	<u>(215,074)</u>	<u>(2,976,407)</u>
Changes in non-cash working capital (note 14)	<u>(191,268)</u>	<u>1,383,214</u>
	<u>(406,342)</u>	<u>(1,593,193)</u>
<b>Change in cash and cash equivalents</b>	<b>(509,886)</b>	<b>(1,073,688)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,347,289</b>	<b>3,482,349</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 837,403</b>	<b>\$ 2,408,661</b>
<i>Cash taxes paid</i>	<u>\$ -</u>	<u>\$ -</u>
<i>Cash interest paid</i>	<u>\$ -</u>	<u>\$ -</u>

# Canadian Spirit Resources Inc.

## NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (*unaudited*)

For the three month period ended March 31, 2017

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

#### **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 is 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 1520, First Alberta Place, 777 8<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada T2P 3R5.

#### **Basis of Presentation**

The unaudited interim condensed financial statements and the notes hereto have been prepared as at, and for the three month period ended, March 31, 2017. All amounts are presented in Canadian dollars. The Corporation has consistently applied the same accounting policies throughout the three month period ended March 31, 2017 as those set out in the annual audited financial statements for the year ended December 31, 2016. Certain disclosures included in the notes to the December 31, 2016 annual audited financial statements have been condensed in the note disclosures hereto or have been disclosed only on an annual basis. Accordingly, these unaudited interim condensed financial statements should be read in conjunction with the annual audited financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### ***Statement of Compliance***

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

The accounting policies applied in these unaudited interim condensed financial statements are based on IFRS issued and outstanding as at May 29, 2017, the date of Board of Directors approval.

#### ***Basis of Measurement***

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

#### **Going Concern**

These interim condensed financial statements have been prepared using IFRS as they apply to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they come due. For the three months ended March 31, 2017 the Corporation has reported a net loss and comprehensive loss of \$0.3 million (2016: \$0.1 million) and an accumulated deficit of \$80.8 million as at that date (December 31, 2016: \$80.5 million). In addition to covering on-going working capital requirements and recurring negative cash flows from operating activities, the Corporation will need to secure additional funding for any future exploration and development programs. In conjunction with recent energy price fluctuations, the current natural gas market continues to experience low commodity prices due to excess supply and lack of additional international markets to sell into. These circumstances result in material uncertainties that may cast significant doubt upon the Corporation’s ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the Corporation raised a total of \$4.6 million of equity via various non-brokered private placements from December 2015 to December 2016. Management has also undertaken steps to reduce operating costs and general administrative expenses, including but not limited to field operational efficiencies, renegotiation of its office lease terms

**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

and reductions in staffing levels. These undertakings, while significant, are not sufficient in and of themselves to enable the Corporation to fund all aspects of its forecasted operations and any future exploration and development program, and accordingly, management will need to pursue other financing alternatives to fund the Corporation so that it may continue as a going concern. The necessary financing may be secured through either the exercise of existing warrants for the purchase of common shares, the issue of new equity or debt instruments, or entering into new joint venture or farm-in arrangements. Nevertheless, there is no assurance that such initiatives would be successful.

CSRI's ability to continue as a going concern is dependent upon its ability to fund any future exploration and development programs as well as generate positive cash flows from operating activities. These interim condensed financial statements do not reflect any adjustments to the carrying values and classifications of assets and liabilities, 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed financial statements have been prepared following the same accounting policies as disclosed in the Corporation's annual audited financial statements for the year ended December 31, 2016. In addition, as of January 1, 2017, the Corporation adopted those IFRS standards disclosed therein that became effective for annual periods commencing on or after January 1, 2017. The adoption of those standards had no impact on the amounts recorded in the interim condensed financial statements for the three months ended March 31, 2017 or on the comparative prior period. For the purposes of calculating deferred income taxes during interim periods, the Corporation utilizes estimated annualized statutory income tax rates.

**3. FINANCIAL INSTRUMENTS**

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

**4. ROYALTY CREDITS**

During the three months ended March 31, 2017, the Corporation applied \$6,527 (2016: \$532) of royalty credits against crown royalties that would otherwise have been payable. A summary of the royalty credits applied by, as well as available to, the Corporation is as follows:

	<b>For the three months ended March 31, 2017</b>	<b>For the year ended December 31, 2016</b>
Balance, beginning of period	\$ 3,441,908	\$ 3,445,758
Royalty credits applied	(6,527)	(3,850)
Balance, end of period	<u>\$ 3,435,381</u>	<u>\$ 3,441,908</u>
Non-current portion	<u>\$ 3,412,348</u>	<u>\$ 3,417,218</u>
Current portion	<u>\$ 23,033</u>	<u>\$ 24,690</u>

**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

**5. EXPLORATION AND EVALUATION ASSETS**

	<b>Petroleum and Natural Gas Properties</b>	<b>Facilities and Equipment</b>	<b>Total</b>
<b>As at January 1, 2017</b>	\$ 31,092,095	\$ 1,897,861	\$ 32,989,956
Gross additions	206,846	8,228	215,074
Change in decommissioning liability	(167,474)	(3,405)	(170,879)
Capitalized share-based compensation	3,474	35	3,509
	<u>42,846</u>	<u>4,858</u>	<u>47,704</u>
<b>As at March 31, 2017</b>	<u>\$ 31,134,941</u>	<u>\$ 1,902,719</u>	<u>\$ 33,037,660</u>
<b>As at January 1, 2016</b>	\$ 56,581,781	\$ 1,907,920	\$ 58,489,701
Gross additions	3,840,197	20,955	3,861,152
Transfers to property, plant and equipment	(105,000)	-	(105,000)
Change in decommissioning liability	131,220	(31,548)	99,672
Capitalized share-based compensation	52,681	534	53,215
	<u>3,919,098</u>	<u>(10,059)</u>	<u>3,909,039</u>
Exploration and evaluation expense	(255,500)	-	(255,500)
Impairment of natural gas costs	(29,153,284)	-	(29,153,284)
<b>As at December 31, 2016</b>	<u>\$ 31,092,095</u>	<u>\$ 1,897,861</u>	<u>\$ 32,989,956</u>

Exploration and Evaluation (“E&E”) assets comprise the Corporation’s exploration and evaluation projects which are pending the determination of commercial viability and technical feasibility. Exploration and evaluation expense relates to the derecognition of the historical cost of land lease expiries of exploration rights that occurred during the period. The Corporation has determined that the expiry of such land leases eliminates future economic benefits on those E&E assets, and are therefore expensed in the statement of operations.

The Corporation performed impairment tests as at December 31, 2016 to assess the recoverable value of E&E assets of both the Corporation’s Farrell Creek Montney Formation project and the Farrell Creek Gething Formation project. Estimates of fair value less costs of disposal for the Montney E&E assets were determined in part using merger and acquisition metrics, prevailing land tender prices in the Farrell Creek area, as well as resource and reserve values as at December 31, 2016 prepared by independent reservoir engineering consultants. Based on these and other factors, the estimated recoverable amount of the Montney E&E assets was calculated to be greater than the carrying value and as such there was no impairment. However, the estimated recoverable amount of the Gething E&E assets, determined in part by project status as well as feasible future development opportunities available, was found to be impaired as compared to the carrying value. As such, an impairment of natural gas costs for the Gething E&E assets of \$29.1 million was recorded in the statement of operations as at December 31, 2016.



**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

**6. PROPERTY, PLANT AND EQUIPMENT**

	Petroleum and Natural Gas Properties	Facilities and Equipment	Office Equipment and Fixtures	Total
<i>Cost</i>				
<b>As at January 1, 2017</b>	\$ 17,220,930	\$ 8,852,616	\$ 226,860	\$ 26,300,406
Gross additions	-	-	-	-
Change in decommissioning liability	(1,395)	(1,542)	-	(2,937)
Capitalized share-based compensation	-	-	-	-
	<u>(1,395)</u>	<u>(1,542)</u>	<u>-</u>	<u>(2,937)</u>
<b>As at March 31, 2017</b>	17,219,535	8,851,074	226,860	26,297,469
<i>Accumulated depletion, depreciation and impairment</i>				
<b>As at January 1, 2017</b>	15,966,415	4,095,644	223,617	20,285,676
Charge for the year				
Depletion and depreciation	66,267	83,577	608	150,452
<b>As at March 31, 2017</b>	<u>16,032,682</u>	<u>4,179,221</u>	<u>224,225</u>	<u>20,436,128</u>
<b>Carrying amount as at March 31, 2017</b>	<u>\$ 1,186,853</u>	<u>\$ 4,671,853</u>	<u>\$ 2,635</u>	<u>\$ 5,861,341</u>
<i>Cost</i>				
<b>As at January 1, 2016</b>	\$ 17,197,325	\$ 8,840,287	\$ 226,860	\$ 26,264,472
Gross additions	2,770	31,687	-	34,457
Transfers from exploration and evaluation assets	105,000	-	-	105,000
Change in decommissioning liability	(84,353)	(19,359)	-	(103,712)
Capitalized share-based compensation	188	1	-	189
	<u>23,605</u>	<u>12,329</u>	<u>-</u>	<u>35,934</u>
<b>As at December 31, 2016</b>	17,220,930	8,852,616	226,860	26,300,406
<i>Accumulated depletion, depreciation and impairment</i>				
<b>As at January 1, 2016</b>	15,807,507	3,790,481	219,862	19,817,850
Charge for the year				
Depletion and depreciation	158,908	305,163	3,755	467,826
<b>As at December 31, 2016</b>	<u>15,966,415</u>	<u>4,095,644</u>	<u>223,617</u>	<u>20,285,676</u>
<b>Carrying amount as at December 31, 2016</b>	<u>\$ 1,254,515</u>	<u>\$ 4,756,972</u>	<u>\$ 3,243</u>	<u>\$ 6,014,730</u>

During the three months ended March 31, 2017, the Corporation capitalized within the additions category \$72,796 (2016: \$73,052) of general and administrative costs within both E&E assets (see note 5) and property, plant and equipment directly related to the respective exploration and development activities. During the three months ended March 31, 2017, the Corporation also capitalized \$3,509 (2016: \$27,068) of share-based compensation for those employees of the Corporation directly involved in exploration and development activities. Included in the calculation of depletion for the three months ended March 31, 2017 of \$78,788 (2016: \$66,587) are future development costs of \$10.6 million (2016: \$10.7 million).

The Williston Reservoir Water Pipeline (included within the facilities and equipment category) licence term expires on December 31, 2031. The Corporation has recorded depreciation for the three months ended March 31, 2017 of \$71,056 (2016: \$68,217).

**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

**7. RESTRICTED DEPOSITS**

For operations in British Columbia, the Corporation is required to provide deposits towards future abandonment and reclamation costs based on the number of wells and facilities for which the Corporation is the primary permit holder. Based on a Liability Management Rating (“LMR”) review performed by the British Columbia Oil and Gas Commission (“BCOGC”) in 2011, the Corporation was assessed an initial LMR amount of \$1,235,829. Up to March 31, 2017, CSRI has been assessed by the BCOGC additional cash deposit LMR amounts totaling \$432,391, bringing the total LMR amount to \$1,668,220. The total assessed LMR amount of \$1,668,220 as at March 31, 2017 is secured by cash deposits. Since these cash deposits are held against future abandonment and reclamation liabilities, the balance is therefore considered by management to be restricted in its use and is classified as a non-current asset.

**8. DECOMMISSIONING LIABILITY**

	For the three months ended March 31, 2017	For the year ended December 31, 2016
Balance, beginning of period	\$ 2,268,193	\$ 2,183,706
Liabilities incurred	-	38,283
Revisions to estimated future obligation	(173,816)	(42,323)
Accretion	12,645	88,527
Balance, end of period	<u>\$ 2,107,022</u>	<u>\$ 2,268,193</u>

The total future decommissioning liability, including costs to reclaim and abandon wells and facilities plus the years in which such costs are expected to be incurred, is estimated by management. As at March 31, 2017 the estimated total undiscounted future liability of \$3,210,217 (December 31, 2016: \$3,157,588) had a net present value of \$2,107,022 (December 31, 2016: \$2,268,193) assuming expected decommissioning payments are to be made over the next 4.75 to 24.75 years, using an estimated risk-free nominal interest rate of 2.25% (December 31, 2016: 2.23%) and an inflation rate of 1.75% (December 31, 2016: 1.75%). The total balance of the decommissioning liability is determined to be non-current.

Liabilities incurred relate to new wells drilled or fracture stimulated during the respective periods. The revisions to the estimated future obligation are due to increases or decreases in the estimated risk-free nominal interest rate and changes in the abandonment and reclamation assumptions by well. Financing costs for the three months ended March 31, 2017 of \$12,645 (2016: \$63,563) relate to the accretion of the decommissioning liability.

**9. SHAREHOLDERS’ CAPITAL**

**Common Shares**

The Corporation has authorized share capital of an unlimited number of common shares with no par value. As at March 31, 2017 there were 156,758,860 common shares outstanding (at a carrying amount of \$114,276,295), unchanged from December 31, 2016.

**Share Purchase Warrants**

In conjunction with previous unit equity financings, the Corporation has issued share purchase warrants with a term of one year to acquire common shares at specific exercise prices.

**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

As per the two tables below, as at March 31, 2017 there were 4,783,334 share purchase warrants outstanding:

	For the three months ended March 31, 2017		For the year ended December 31, 2016	
	Number of Warrants	Amount of Warrants	Number of Warrants	Amount of Warrants
Balance, beginning of period	7,195,834	\$ 256,464	2,555,000	\$ 255,500
Issued via private placements	-	-	7,195,834	267,416
Expired unexercised	(2,412,500)	(144,750)	(2,555,000)	(255,500)
Share issue costs	-	-	-	(10,952)
Balance, end of period	4,783,334	\$ 111,714	7,195,834	\$ 256,464

Issue Date	Weighted Average Exercise Price	Number of Warrants Outstanding as at March 31, 2017	Weighted Average Fair Value (rounded)	Weighted Average Fair Value as at March 31, 2017	Expiry Date
June 27, 2016	\$0.10	2,700,000	\$0.03	\$81,000	June 27, 2017
December 21, 2016	\$0.12	2,083,334	\$0.02	\$41,666	December 21, 2017
Share issue costs				(\$10,952)	
	\$0.11	4,783,334	\$0.02	\$111,714	

**10. SHARE-BASED COMPENSATION PLANS**

The Corporation has a 10% rolling stock option plan for directors, executive officers, employees and consultants which provides for the granting of options to acquire common shares. Under the terms of the plan, options vest over periods as determined by the Board of Directors of the Corporation and expire to a maximum of five years. The number of common shares available for grant of additional options under the plan as at March 31, 2017 was 8,612,886 (December 31, 2016: 7,912,886).

As at March 31, 2017, options to acquire 7,063,000 (December 31, 2016: 7,763,000) common shares were outstanding of which 6,113,000 (December 31, 2016: 6,463,000) had vested and 950,000 (December 31, 2016: 1,300,000) remained unvested, as follows:

	For the three months ended March 31, 2017		For the year ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,763,000	\$ 0.34	6,430,000	\$ 0.43
Granted	-	-	1,600,000	0.20
Forfeited	-	-	(25,000)	0.24
Expired	(700,000)	0.75	(242,000)	1.70
Outstanding, end of period	7,063,000	\$ 0.30	7,763,000	\$ 0.34
Options vested, end of period	6,113,000	\$ 0.28	6,463,000	\$ 0.34

**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

The following table summarizes the information about stock options outstanding and vested as at March 31, 2017:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Remaining Contractual Life (in Yrs)	Weighted Average Exercise Price	Number of Vested Options	Remaining Vested Contractual Life (in Yrs)	Weighted Average Exercise Price
\$0.20 - \$0.39	5,718,000	2.31	\$ 0.25	5,368,000	2.21	\$ 0.26
\$0.40 - \$0.60	1,345,000	0.86	0.50	745,000	1.28	0.50
	<u>7,063,000</u>	<u>2.03</u>	<u>\$ 0.30</u>	<u>6,113,000</u>	<u>2.10</u>	<u>\$ 0.28</u>

Options granted are accounted for using the fair value method. During the three months ended March 31, 2017 there were options granted to purchase Nil common shares (2016: 1,600,000). Prior to capitalization of \$3,509 (2016: \$27,068), the total compensation cost for share-based compensation during the three months ended March 31, 2017 was \$11,895 (2016: \$100,409).

**11. CONTRIBUTED SURPLUS**

	For the three months ended March 31, 2017	For the year ended December 31, 2016
Balance, beginning of period	\$ 8,975,339	\$ 8,538,797
Share-based compensation, gross	11,895	181,798
Recovery of forfeited options	-	(756)
Share purchase warrants expired unexercised	144,750	255,500
Balance, end of period	<u>\$ 9,131,984</u>	<u>\$ 8,975,339</u>

**12. PER SHARE AMOUNTS**

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

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
Weighted average number of common shares - basic	156,758,860	145,449,884
Dilutive effect of share-based compensation / share purchase warrants	1,459,425	6,627,365
Weighted average number of common shares - diluted	<u>158,218,285</u>	<u>152,077,249</u>

For the three months ended March 31, 2017 and 2016, the existence of stock options and share purchase warrants affects the calculation of loss per share on a diluted basis. As the effect of this dilution is to reduce the reported loss per share, diluted loss per share equals basic loss per share.

**Canadian Spirit Resources Inc.**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (unaudited)**  
**For the three month period ended March 31, 2017**

**13. COMMITMENTS**

**Capital Commitments**

The Corporation had no capital commitments as at March 31, 2017 or at December 31, 2016.

**Office Lease Arrangements**

During a prior period, the Corporation's office sub-lease agreement (that originally terminated on May 31, 2016) was extended to September 30, 2017. The amended sub-lease requires the Corporation to pay base annual rent of \$11.00 per square foot (formerly \$19.00 per square foot) plus operating costs on 3,420 square feet. The amended sub-lease can be terminated by either party with three months notice at any point throughout the remaining term.

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

	<b>For the three months ended March 31, 2017</b>	<b>For the three months ended March 31, 2016</b>
Minimum lease payments	\$ 25,112	\$ 23,299

**Future Minimum Lease Payments**

The following is a summary of the estimated costs required to fulfill the Corporation's remaining operating lease contractual commitments:

	<b>As at March 31, 2017</b>	<b>As at December 31, 2016</b>
Payable within 12 months	\$ 43,520	\$ 65,279
Payable from 1 to 4 years subsequent	\$ -	\$ -
Thereafter	\$ -	\$ -

**14. CHANGES IN NON-CASH WORKING CAPITAL**

	<b>For the three months ended March 31, 2017</b>	<b>For the three months ended March 31, 2016</b>
Cash provided by (used for) operating activities:		
Accounts receivable	\$ 48,880	\$ (124,908)
Prepaid expenses and other deposits	(19,190)	(20,457)
Accounts payable and other accrued liabilities	(10,736)	(19,378)
	18,954	(164,743)
Cash provided by (used for) investing activities:		
Accounts payable and other accrued liabilities	(191,268)	1,383,214
	\$ (172,314)	\$ 1,218,471