CANADIAN SPIRIT RESOURCES INC.

Financial Statements of

Canadian Spirit Resources Inc.

December 31, 2017

1. REPORT OF MANAGEMENT
2. AUDITOR'S REPORT
3. STATEMENTS OF FINANCIAL POSITION
4. STATEMENTS OF CHANGES IN SHAREHOLDERS' CAPITAL
5. STATEMENTS OF OPERATIONS
6. STATEMENTS OF CASH FLOWS
7. NOTES TO FINANCIAL STATEMENTS

Canadian Spirit Resources Inc.
REPORT OF MANAGEMENT

April 25, 2018

The accompanying financial statements of Canadian Spirit Resources Inc. for the years ended December 31, 2017 and 2016 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.

PricewaterhouseCoopers LLP, the external auditors, have audited the financial statements for the years ended December 31, 2017 and 2016 in accordance with auditing standards generally accepted in Canada on behalf of the shareholders. PricewaterhouseCoopers LLP have full and free access to the Audit Committee.

(signed) "J.R. Richard Couillard"
Chief Executive Officer

(signed) "Dean G. Hill"
Chief Financial Officer

April 25, 2018

Independent Auditor's Report

To the Shareholders of
Canadian Spirit Resources Inc.

We have audited the accompanying financial statements of Canadian Spirit Resources Inc., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016 and the statements of operations, changes in shareholders' capital and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Spirit Resources Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Canadian Spirit Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Canadian Spirit Resources Inc.

STATEMENTS OF FINANCIAL POSITION

	As at December 31, 2017	As at December 31, 2016
Assets		
Non-current assets:		
Exploration and evaluation assets (notes 6, 7, 9)	$ 33,273,818	$ 32,989,956
Property, plant and equipment (notes 8, 9)	5,360,675	6,014,730
Restricted deposits (note 5)	1,749,420	1,668,220
Royalty credits (note 10)	3,420,321	3,417,218
	43,804,234	44,090,124
Current assets:		
Cash and cash equivalents	2,058,742	1,347,289
Accounts receivable & other accrued receivables (note 11)	39,303	107,287
Prepaid expenses and other deposits	108,972	103,150
Royalty credits (note 10)	11,730	24,690
	2,218,747	1,582,416
	$ 46,022,981	$ 45,672,540
Liabilities and Shareholders' Capital		
Non-current liabilities:		
Decommissioning liability (note 12)	$ 2,213,342	$ 2,268,193
Current liabilities:		
Accounts payable & other accrued liabilities	256,511	426,509
Shareholders' capital:		
Common shares (note 13)	116,737,374	114,276,295
Share purchase warrants (note 13)	-	256,464
Contributed surplus (note 15)	9,334,484	8,975,339
Deficit	(82,518,730)	(80,530,260)
	43,553,128	42,977,838
	$ 46,022,981	$ 45,672,540

Corporate information, going concern and basis of presentation (note 1)
Commitments (note 18)

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

	Common Shares (note 13)	Share Purchase Warrants (note 13)	Contributed Surplus (note 15)	Deficit	Total
As at January 1, 2017	$ 114,276,295	$ 256,464	$ 8,975,339	$ (80,530,260)	$ 42,977,838
Equity issues:					
Rights offerings	2,014,217	-	-	-	2,014,217
Exercise of share purchase warrants	420,000	-	-	-	420,000
Share issue costs	(79,138)	10,952	-	-	(68,186)
Transfers:					
Exercise of share purchase warrants	106,000	(106,000)	-	-	-
Share purchase warrants expired	-	(161,416)	161,416	-	-
Net loss and comprehensive loss	-	-	-	(1,988,470)	(1,988,470)
Share-based compensation, gross	-	-	197,729	-	197,729
As at December 31, 2017	$ 116,737,374	$ -	$ 9,334,484	$ (82,518,730)	$ 43,553,128
As at January 1, 2016	$ 112,553,010	$ 255,500	$ 8,538,797	$ (50,461,163)	$ 70,886,144
Equity issues:					
Private placements	1,822,584	267,416	-	-	2,090,000
Share issue costs	(99,299)	(10,952)	-	-	(110,251)
Transfers:					
Share purchase warrants expired	-	(255,500)	255,500	-	-
Net loss and comprehensive loss	-	-	-	(30,069,097)	(30,069,097)
Share-based compensation, gross	-	-	181,798	-	181,798
Recovery of forfeited options	-	-	(756)	-	(756)
As at December 31, 2016	$ 114,276,295	$ 256,464	$ 8,975,339	$ (80,530,260)	$ 42,977,838

Canadian Spirit Resources Inc.

STATEMENTS OF OPERATIONS

	For the year ended December 31, 2017	For the year ended December 31, 2016
Revenue		
Petroleum and natural gas sales	$ 378,912	$ 324,114
Royalties expense (note 10)	(9,857)	(3,850)
	369,055	320,264
Interest and other income (note 7)	10,099	437,835
Expenses		
Operating costs	319,724	287,174
Exploration and evaluation (note 6)	331,500	255,500
Depletion and depreciation (note 8)	659,212	467,826
Finance costs, accretion (note 12)	48,637	88,527
General and administrative, net	856,435	837,247
Impairment of natural gas assets (notes 6, 9)	-	29,153,284
Share-based compensation, net (note 14)	152,116	127,638
Flow-through shares premium (note 13)	-	(390,000)
	2,367,624	30,827,196
Net loss and comprehensive loss	$ (1,988,470)	$ (30,069,097)
Basic loss per share (note 16)	*$ (0.01)*	*$ (0.20)*
Diluted loss per share (note 16)	*$ (0.01)*	*$ (0.20)*

Corporate information, going concern and basis of presentation (note 1)
Deferred income taxes (note 17)
Commitments (note 18)

Canadian Spirit Resources Inc.

STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2017	For the year ended December 31, 2016
Cash Flows from (used in) Operating Activities:		
Net loss and comprehensive loss	$ (1,988,470)	$ (30,069,097)
Add (deduct) items not affecting cash:		
Royalty credits applied (note 10)	9,857	3,850
Flow-through shares premium (note 13)	-	(390,000)
Depletion and depreciation (note 8)	659,212	467,826
Finance costs, accretion (note 12)	48,637	88,527
Exploration and evaluation expense (note 6)	331,500	255,500
Impairment of natural gas assets (notes 6, 9)	-	29,153,284
Share-based compensation, net (note 14)	152,116	127,638
Changes in non-cash working capital (note 19)	132,839	(139,260)
	(654,309)	(501,732)
Cash Flows from (used in) Financing Activities:		
Common shares issued for cash (note 13)	2,014,217	2,105,000
Exercise of share purchase warrants (note 13)	420,000	-
Share issue costs (note 13)	(68,186)	(110,251)
	2,366,031	1,994,749
Cash Flows from (used in) Investing Activities:		
Exploration and evaluation expenditures (note 6)	(615,362)	(3,909,039)
Net expenditures on property, plant and equipment (note 8)		
Development costs of petroleum and natural gas assets	(3,182)	(23,605)
Facilities and equipment	(1,975)	(12,329)
Net additions to capital assets	(620,519)	(3,944,973)
Add (deduct) items not affecting cash:		
Revisions to decommissioning liability (notes 6, 8, 12)	(103,488)	(42,323)
Decommissioning liabilities incurred (note 12)	-	38,283
Capitalized share-based compensation (notes 6, 8)	45,613	53,404
Gross additions to capital assets	(678,394)	(3,895,609)
Changes in non-cash working capital (note 19)	(240,675)	267,532
Change in restricted deposits (note 5)	(81,200)	-
	(1,000,269)	(3,628,077)
Change in cash and cash equivalents	711,453	(2,135,060)
Cash and cash equivalents, beginning of period	1,347,289	3,482,349
Cash and cash equivalents, end of period	$ 2,058,742	$ 1,347,289
Cash taxes paid	$ -	$ -
Cash interest paid	$ -	$ -

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 1520, First Alberta Place, 777 8th Avenue S.W., Calgary, Alberta, Canada T2P 3R5.

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. For the year ended December 31, 2017 the Corporation has reported a net loss and comprehensive loss of $2.0 million (2016: $30.0 million, including a $29.1 million impairment of natural gas assets) and an accumulated deficit of $82.5 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 used in operating activities, the Corporation will need to secure additional funding for any future exploration and development programs (see note 21). 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 cause material uncertainties that may cast significant doubt upon the Corporation's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the Corporation raised a total of $2.4 million of equity in 2017 via a rights offering and the exercise of share purchase warrants (see note 13). Management has also undertaken steps going forward to reduce per unit of production operating costs and general and administrative expenses, including, but not limited to, field operational efficiencies, renegotiation of its office lease terms and reductions in staffing levels/remuneration.

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

CSRI's ability to continue as a going concern is dependent upon its ability to fund any future exploration and development programs as well as generate positive cash flows from operating activities. These 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.

Basis of Presentation

The financial statements, and notes hereto, have been prepared for the years ended December 31, 2017 and 2016. All amounts are presented in Canadian dollars, the Corporation's functional currency. The Audit Committee has reviewed and the Board of Directors of the Corporation has approved the release of these financial statements, and notes hereto, as at April 25, 2018.

Statement of Compliance
These financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of Measurement
The financial statements have been prepared on a going concern basis using the historical cost convention, except as detailed in the Corporation's accounting policies (see note 2).

Use of Judgments and Estimates
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:

- Exploration and Evaluation Assets and Property, Plant and Equipment;
- Petroleum and Natural Gas Reserves;
- Decommissioning Liability;
- Share-based Compensation; and
- Deferred Income Tax Assets.

<u>Exploration and Evaluation Assets and Property, Plant and Equipment</u>
Upon the determination that a group of petroleum and natural gas properties are moving from the evaluation stage to the development stage, the underlying exploration and evaluation assets are transferred to developed and producing assets. The Corporation has determined that this transfer is effective upon a well or field becoming both technically feasible and commercially viable, which is determined upon the assignment of proved reserves.

Capitalized developed and producing assets less accumulated depletion, depreciation, and impairment losses are limited to an amount equal to the recoverable amount. The recoverable amount is the higher of value in use or fair value less costs of disposal. Fair value less costs of disposal is calculated as estimated future net revenue from proved plus probable reserves (less royalties and operating costs plus future development costs). If the carrying value exceeds the recoverable amount, the excess is recorded as an impairment of petroleum and natural gas properties. The Corporation tests the petroleum and natural gas properties for impairment whenever indicators of impairment become apparent.

The Corporation's assets are aggregated into cash generating units ("CGUs"). CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity, stratigraphic formation type, and exposure to market risk and materiality. The Farrell Creek Montney Formation project and the Farrell Creek Gething Formation project have been determined to be the Corporation's CGUs. The recoverable amounts of CGUs and individual assets are based on the calculations of the higher of value in use or fair value less costs of disposal. These calculations require the use of estimates and assumptions, including future forecasted commodity prices, discount rates and recent land sale values.

Petroleum and Natural Gas Reserves
Reserve estimates impact a number of estimates made by the Corporation, including the valuation of petroleum and natural gas properties and the calculations of depletion and depreciation.

The effects of changes in estimates on the unit of production calculations are accounted for prospectively over the estimated remaining recoverable reserves.

Independent reservoir engineering consultants are retained to evaluate the Corporation's recoverable reserves and to prepare an evaluation report at least annually. Reserves evaluation requires significant judgments to be made on future petroleum and natural gas prices, expected rates of production, future capital expenditures and engineering data. Future costs to develop are estimated by the independent reservoir engineers by taking into account the level of development required to produce the reserves by reference to operators, and where applicable, to internal engineers. The Corporation expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of drilling, testing and production levels. Reserves are determined pursuant to National Instrument 51-101: *Standards of Disclosure for Oil and Gas Activities*, and the Canadian Oil and Gas Evaluations Handbook.

Decommissioning Liability
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 selected a risk-free nominal discount rate to calculate the net present value of the future decommissioning costs.

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

Share-based Compensation
Key judgments used to calculate the fair value of share-based compensation involve the use of the Black-Scholes option pricing model, including share price volatility, option life estimates, and the risk-free nominal discount rate used.

Deferred Income Tax Assets
The Corporation uses judgment in determining the tax classification and deductibility of costs incurred, as well as in determining the probability and timing of realizing deferred income tax assets based on applying income tax laws and regulations and the likelihood of reversal of temporary differences between the accounting and tax bases of the Corporation's assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies as set out below have been consistently applied to the years ended December 31, 2017 and 2016, respectively, unless otherwise noted.

Exploration and Evaluation Assets

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. However, costs incurred relating to general prospecting prior to obtaining any legal rights to explore are expensed as incurred. 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. Upon the determination of proved reserves, the carried forward E&E costs together with the accumulated developed and producing ("D&P") costs of the related 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 would be determined to be impaired if both commercial viability and technical feasibility are not established through the determination of proved reserves, or if there are no future plans for activity and leases have expired.

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 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 completing productive and non-productive wells, 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 cost centers based on CGUs.

Costs are depleted or depreciated using the unit-of-production method based upon estimated proved plus probable reserves. Costs subject to depletion include estimated future costs to develop proved plus probable reserves and exclude estimated salvage value. Reserve and production volumes of natural gas are converted to common units on the equivalency basis of six thousand cubic feet ("Mcf") to one barrel of oil, reflecting the approximate relative energy content. 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 operations 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.

Petroleum and Natural Gas Activities

The Corporation capitalizes, within both E&E assets and property, plant and equipment, the portion of overhead costs that are directly attributable to the respective exploration and development activity.

Impairment

Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of operations.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of operations.

Non-financial Assets

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

For the purpose of impairment testing, 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 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 an after-tax 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 and operating costs plus future development costs).

E&E assets are allocated by CGU and are assessed for impairment if sufficient data exists to undermine 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 operations.

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.

Office Equipment and Fixtures
Computer equipment and software, as well as office equipment, are recorded at cost and amortized on a straight-line basis over their estimated useful life of three years. Furniture and fixtures are recorded at cost and amortized on a straight-line basis over their estimated useful life of five years.

Royalty Credits
Royalty credits received from provincial regulatory authorities are recorded as assets at their carrying value and are offset against property, plant and equipment costs. The unapplied royalty credits balance is drawn down upon and recorded as royalties expense once calculated and invoiced monthly by the provincial regulatory authority. The current portion of unapplied royalty credits is determined from the calculation of royalty burdens for the subsequent period as per the reserve report prepared by the Corporation's independent reservoir engineer consultants.

Financial Instruments
Non-derivative Financial Instruments
Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable, restricted deposits and accounts payable and other accrued liabilities. Non-derivative financial instruments are recognized initially at fair value including, for instruments not at fair value through comprehensive loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents are comprised of cash on hand, unrestricted term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Other non-derivative financial instruments include accounts receivable and accounts payable and other accrued liabilities. Accounts receivable are measured using the effective interest rate method, less any impairment losses. Accounts payable and other accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payable to fair value.

The Corporation has adopted the following accounting classifications for its financial assets: cash and cash equivalents and accounts receivable are classified as loans and receivables, and restricted deposits are classified as held to maturity. The Corporation has no financial assets classified as available-for-sale. Financial liabilities include accounts payable and other accrued liabilities and are classified as other financial liabilities.

Derivative Financial Instruments
The Corporation may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, shares prices, interest rates or foreign exchange rates. These instruments are not used for trading or speculative purposes. Any embedded derivatives are valued at fair value at each reporting period. Transaction costs are recognized in the statement of operations when incurred.

Finance Income and Expenses
Finance income comprises interest and other income and is recognized in the statement of operations as it accrues using the effective interest rate.

Finance expense consists of accretion on the decommissioning liability. Interest expense and standby fees on credit facilities, as well as any costs related to the implementation of credit facilities, are included in general and administrative expenses.

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.

Flow-through Shares
The Corporation has from time to time financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these share issuances, the related resource expenditure deductions for income tax purposes are renounced to investors. In the period the shares are issued, a premium liability is recorded if there is a difference between the offering price and the market price on the Exchange on the date of announcement of the offering. Accordingly, in the period the expenditures are incurred the premium liability is extinguished and is offset by the recording of a flow-through shares premium income item. The deferred income tax effect of both the flow-through shares renouncement and the flow-through shares premium income is reflected in the period the expenditures are incurred.

Income Taxes
Income tax expense represents the sum of current tax and deferred tax expense. Income tax is recognized in the statement of operations 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.

Decommissioning Liability
The Corporation recognizes the estimated net present value of future decommissioning liabilities associated with E&E assets and property, plant and equipment 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 liability.

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.

Revenue Recognition
Revenues from the sale of petroleum and natural gas products are recognized when title passes from the Corporation to an external party and collectability is reasonably assured. Title passes from the Corporation to an external party once the product is credited at the station point within the pipeline system.

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 assigned to share purchase warrants.

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. The Corporation capitalizes, within both E&E assets and property, plant and equipment, the portion of share-based compensation that is directly attributable to the respective exploration and development activity.

Leases
Payments made under operating leases are recognized as an expense in the statement of operations on a straight-line basis over the lease term. Lease incentives received are recognized as part of the total lease expense over the lease term.

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 operations.

3. NEW ACCOUNTING STANDARDS

Changes in Accounting Policies

There were no changes in accounting policies during the recently completed fiscal year, and therefore no effect nor impact on the amounts recorded in the financial statements for the years ended December 31, 2017 and 2016.

Future Accounting Pronouncements

The IASB and IFRIC have issued the following new accounting standards, or amendments to standards, that are effective for future fiscal periods but have not been applied in preparing CSRI's financial statements for the year ended December 31, 2017. The standards applicable to the Corporation are as follows and will be adopted on their respective effective dates:

IFRS 9: *Financial Instruments*

The IASB has issued the final version of IFRS 9: *Financial Instruments,* which addresses the classification and measurement of financial instruments and which replaces IAS 39: *Financial Instruments, Recognition and Measurement*. The new standard comes into effect for fiscal periods beginning on or after January 1, 2018. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple category and measurement models contained in IAS 39; this approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than in the statements of operations. The Corporation does not anticipate these changes to have a material impact on its financial statements. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. The new model will result in more timely recognition of expected credit losses. CSRI does not anticipate the new impairment model to have a material impact on its financial statements. IFRS 9 also contains a new model to be applied for hedge accounting, aligning hedge accounting more closely with risk management. The Corporation currently does not apply hedge accounting and currently has not entered into any risk management contracts that would require the application of hedge accounting upon the adoption of IFRS 9.

IFRS 15: *Revenue from Contracts with Customers*

As of January 1, 2018, the Corporation will retrospectively adopt this new standard which replaces IAS 18: *Revenue*. IFRS 15 provides a single, principles-based five step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The Corporation has reviewed its revenue streams and underlying contracts with customers and has determined that there will not be a material impact on its financial statements. However, CSRI will expand its disclosures in the notes to the financial statements as prescribed by IFRS 15, including disclosing the Corporation's disaggregated revenue streams by product and type.

IFRS 16: *Leases*

This standard, and its related interpretations, will replace IAS 17: *Leases* and will provide that a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. For lessees, IFRS 16 will remove the classification of leases as either operating or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets will be exempt from the requirements and may continue to be treated as operating leases. IFRS 16 will be effective for fiscal periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15: *Revenue from Contracts with Customers* has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. CSRI is currently evaluating the impact of IFRS 16 on the Corporation's financial statements.

4. SEGMENTED INFORMATION

For the years ended December 31, 2017 and 2016, the Corporation operated in one operating segment, namely the exploration, development, and production of petroleum and natural gas. Revenue is derived from the sale of petroleum and natural gas within Canada and as such there are no other material reportable segments.

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") 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. During the year ended December 31, 2017, CSRI was assessed by the BCOGC an additional cash deposit LMR amount of $81,200 (periods up to December 31, 2016: $432,391). The total assessed LMR amount of $1,749,420 as at December 31, 2017 (December 31, 2016: $1,668,220) is secured by cash deposits. Since these cash deposits are held against future abandonment and reclamation liabilities, the balance is considered by management to be restricted in use and is therefore classified as a non-current asset.

6. EXPLORATION AND EVALUATION ASSETS

	Petroleum and Natural Gas Properties	Facilities and Equipment	Total
As at January 1, 2017	$ 31,092,095	$ 1,897,861	$ 32,989,956
Gross additions	569,148	101,466	670,614
Change in decommissioning liability	(97,824)	(3,041)	(100,865)
Capitalized share-based compensation	45,157	456	45,613
Net additions	516,481	98,881	615,362
Exploration and evaluation expense	(331,500)	-	(331,500)
As at December 31, 2017	$ 31,277,076	$ 1,996,742	$ 33,273,818
As at January 1, 2016	$ 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
Net additions	3,919,098	(10,059)	3,909,039
Exploration and evaluation expense	(255,500)	-	(255,500)
Impairment of natural gas costs (note 9)	(29,153,284)	-	(29,153,284)
As at December 31, 2016	$ 31,092,095	$ 1,897,861	$ 32,989,956

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 and expiry of the historical cost of land lease 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.

7. INSURANCE PROCEEDS

In the prior year, the Corporation agreed to a proof of loss settlement of an operator's extra expense/well control insurance claim for a well previously drilled in the first quarter 2016 for an amount of $425,000. The settlement proceeds were received on September 21, 2016. Together, the settlement and subsequent receipt of the insurance proceeds were considered a separate economic event from the drilling of the well, and were therefore accounted for separately from the well drilling costs. As a result, an amount of $425,000 was recorded in the third quarter 2016 as other income on the statement of operations, while the original cost to drill the well in the first quarter 2016 remains capitalized within exploration and evaluation assets on the statement of financial position.

8. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and Natural Gas Properties	Facilities and Equipment	Office Equipment and Fixtures	Total
Cost				
As at January 1, 2017	$ 17,220,930	$ 8,852,616	$ 226,860	$ 26,300,406
Gross additions	4,428	3,352	-	7,780
Change in decommissioning liability	(1,246)	(1,377)	-	(2,623)
Capitalized share-based compensation	-	-	-	-
Net additions	3,182	1,975	-	5,157
As at December 31, 2017	17,224,112	8,854,591	226,860	26,305,563
Accumulated depletion, depreciation and impairment				
As at January 1, 2017	15,966,415	4,095,644	223,617	20,285,676
Charge for the year				
Depletion and depreciation	329,102	327,680	2,430	659,212
As at December 31, 2017	16,295,517	4,423,324	226,047	20,944,888
Carrying amount as at December 31, 2017	$ 928,595	$ 4,431,267	$ 813	$ 5,360,675
Cost				
As at January 1, 2016	$ 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
Net additions	23,605	12,329	-	35,934
As at December 31, 2016	17,220,930	8,852,616	226,860	26,300,406
Accumulated depletion, depreciation and impairment				
As at January 1, 2016	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
As at December 31, 2016	15,966,415	4,095,644	223,617	20,285,676
Carrying amount as at December 31, 2016	$ 1,254,515	$ 4,756,972	$ 3,243	$ 6,014,730

During the year ended December 31, 2017, the Corporation capitalized $272,523 (2016: $300,068 of general and administrative costs within both E&E assets and property, plant and equipment directly related to the respective exploration and development activities. During the year ended December 31, 2017, the Corporation also capitalized $45,613 (2016: $53,404) 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 year ended December 31, 2017 are future development costs of $10.6 million (2016: $10.7 million).

The Williston Reservoir Water Pipeline licence term expires on December 31, 2031, thus on a straight-line basis the Corporation has recorded depreciation for the year ended December 31, 2017 of $284,396 (2016: $272,870).

9. IMPAIRMENT

E&E Assets

The Corporation performed impairment tests as at December 31, 2017 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/Altares area, as well as resource and reserve values as at December 31, 2017 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. 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 also calculated to be greater than the carrying value and as such there was no impairment as at December 31, 2017. Using these same metrics in the prior year however, the Gething E&E assets were found to be impaired as compared to the carrying value, and therefore an impairment of natural gas assets for the Gething E&E assets of $29.1 million was recorded in the statement of operations for the year ended December 31, 2016.

Property, Plant and Equipment

Due to continued weak natural gas prices on average during 2017, the Corporation has determined that indicators of impairment were apparent as at December 31, 2017. Any potential impairment is based on the difference between the net book value of the D&P natural gas assets within property, plant and equipment and their recoverable amount. The recoverable amount is calculated using fair value less costs of disposal based on 12% discounted after-tax future net cash flows for proved plus probable reserves using forecasted natural gas prices, operating costs and future costs to develop. The forecasted natural gas prices used to determine fair value less costs of disposal reflect the following benchmarks as used by the Corporation's independent reservoir engineering consultants as at December 31, 2017:

Average for the Period	2018	2019	2020	2021	2022	2023-2029	Thereafter
BC Spectra Station 2: Price per Mcf	$1.87	$2.32	$2.80	$3.15	$3.34	$3.43-$3.92	$4.89

As such, the Corporation performed an impairment test of the Farrell Creek Montney Formation project D&P CGU within property, plant and equipment under the fair value less costs of disposal model, and noted that the recoverable amount was higher than the carrying amount as at December 31, 2017, thus no impairment was required to be recorded. If the discount rate used was one percent higher, an impairment of approximately $0.2 million would result. If the forecasted natural gas prices used were five percent lower, an impairment of approximately $0.5 million would result.

10. ROYALTY CREDITS

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

The Deep Royalty Credit Program applies to vertical wells deeper than 2,500 meters and horizontal wells deeper than 1,900 meters in certain geographic areas of British Columbia. Royalty credits of up to $2.8 million (gross) per well can be applied on a well-by-well basis against crown royalties once the well has commenced production. Commencing with the second quarter 2013, the British Columbia Government introduced a minimum 3% royalty which is applicable to wells within the Deep Royalty Credit Program.

The Summer Drilling Credit Program, which was discontinued effective April 11, 2013, provided a royalty credit equal to 10% of the goods and services costs attributable to the individual wells. These credits were added to the Corporation’s Summer Drilling Credit royalty pool (which continues indefinitely despite the discontinuation of the program) to a maximum of $100,000 (gross) per well for wells spud after March 31 but before December 1 each year, up to and including November 30, 2012.

CSRI is also eligible for certain road and pipeline facilities royalty deductions under terms dictated by the British Columbia Ministry of Natural Gas Development.

Since CSRI’s development activities have, at some point, either qualified or qualify for each of the Deep Royalty Credit Program, the Summer Drilling Credit Program and the road and pipeline facilities royalty deduction program, total credits in the amount of $4,176,422 have been earned and recorded to date by the Corporation. The royalty credits are offset against property, plant and equipment and the unapplied royalty credits are subsequently drawn down as production and revenue are recognized for the wells qualifying for the royalty credits. During the year ended December 31, 2017, the Corporation applied $9,857 (2016: $3,850) of royalty credits against crown royalties that would otherwise have been payable.

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

	For the year ended December 31, 2017	For the year ended December 31, 2016
Balance, beginning of period	$ 3,441,908	$ 3,445,758
Royalty credits applied	(9,857)	(3,850)
Balance, end of period	$ 3,432,051	$ 3,441,908
Non-current portion	$ 3,420,321	$ 3,417,218
Current portion	$ 11,730	$ 24,690

The current portion of the royalty credits balance is calculated using the minimum 3% royalty rate, as per above, applied against the revenue for the following twelve month periods as estimated by the Corporation’s independent reservoir engineering consultants.

11. ACCOUNTS RECEIVABLE AND OTHER ACCRUED RECEIVABLES

	As at December 31, 2017	As at December 31, 2016
Receivables from petroleum and natural gas external parties	$ 32,965	$ 98,255
Other receivables	6,338	9,032
Accounts receivable	$ 39,303	$ 107,287

12. DECOMMISSIONING LIABILITY

	For the year ended December 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	(103,488)	(42,323)
Accretion	48,637	88,527
Balance, end of period	$ 2,213,342	$ 2,268,193

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 December 31, 2017 the estimated total undiscounted future liability of $3,235,417 (December 31, 2016: $3,157,588) had a net present value of $2,213,342 (December 31, 2016: $2,268,193) assuming expected decommissioning payments are to be made over the next 5 to 25 years, using an estimated risk-free nominal interest rate of 2.15% (2016: 2.23%), and an inflation rate of 1.75% (2016: 1.75%). The total balance of the decommissioning liability is determined to be non-current.

The decommissioning liability is comprised of both the Corporation's proportionate interest in its jointly controlled operations as well as its own 100% operations. The restricted deposits held toward future abandonment and reclamation costs (see note 5) as at December 31, 2017 of $1,749,420 (2016: $1,668,220) are secured against the Corporation's 100% operations, where the Corporation is the primary permit holder.

The revisions to the estimated future obligation are due to the increases or decreases in the estimated risk-free nominal interest rate and changes in the abandonment and reclamation assumptions by well. Liabilities incurred relate to new wells drilled or fracture stimulated during the year, and liabilities settled refer to well-bores abandoned or well-sites reclaimed during the year. Financing costs for the year ended December 31, 2017 of $48,637 (2016: $88,527) relate to the accretion of the decommissioning liability.

13. SHAREHOLDERS' CAPITAL

Common Shares

The Corporation has authorized share capital of an unlimited number of common shares with no par value. The Corporation has closed the following share issuances since December 2015:

On December 11, 2015, the Corporation closed a private placement of 12,500,000 flow-through shares at a price of $0.20 per share. The $2,500,000 of total gross proceeds from the flow-through shares private placement was allocated between common shares of $2,125,000 (calculated at the closing market price of $0.17 on the Exchange on the trading day prior to the announcement of the private placement) and a flow-through shares premium liability of $375,000, and was fully expended on eligible exploration costs in the first quarter 2016. The $375,000 of flow-through shares premium liability was reversed in the period when the expenditures were incurred and offset by the recording of an equivalent flow-through share premium income amount in the first quarter 2016.

On January 14, 2016, the Corporation closed a non-brokered private placement of 4,825,000 units at a price of $0.20 per unit for total gross proceeds of $965,000. Each unit consisted of one common share of the Corporation and one half of one share purchase warrant. Each whole share purchase warrant entitled the holder to purchase an additional common share of the Corporation for a period of one year at an exercise price of $0.25 per common share. The units were valued using the residual method calculated at the market price on the Exchange on the trading day prior to closing of $0.17 per common share under which the Corporation assigned a total value of $820,250 of the unit proceeds to the common shares, with the remaining $144,750 of the unit proceeds assigned to the share purchase warrants. Share issue costs of $38,176 were incurred in relation to the issuance of the units. Under the private placement closed by the Corporation on January 14, 2016, an executive officer of the Corporation subscribed to a total of 200,000 units (4.1% of the total) for gross proceeds of $40,000.

In June 2016, the Corporation closed a non-brokered private placement consisting of 1,000,000 flow-through shares at a price of $0.10 per share and 5,400,000 units at a price of $0.10 per unit for combined total gross proceeds of $640,000. The flow-through shares portion of the private placement closed on June 1, 2016 and entitled the holder to certain income tax benefits in the form of Canadian Exploration Expense. The $100,000 of total gross proceeds from the flow-through shares portion of the private placement was allocated between common shares of $85,000 (calculated at the closing market price of $0.085 on the Exchange on the trading day prior to the announcement of the private placement) and a flow-through shares premium liability of $15,000, and was fully expended on eligible exploration costs in the third quarter 2016. Therefore, the flow-through shares premium liability was reversed in the third quarter 2016 and offset by the recording of an equivalent flow-through share premium income amount. The related resource expenditure deductions were renounced to investors effective December 31, 2016. On June 27, 2016, the Corporation closed the unit portion of the private placement for total gross proceeds of $540,000. Each unit consisted of one common share of the Corporation and one half of one share purchase warrant. Each whole share purchase warrant entitled the holder to purchase an additional common share of the Corporation for a period of one year at an exercise price of $0.10 per common share. The units were valued using the residual method calculated at the closing market price on the Exchange on the trading day prior to the announcement of the private placement of $0.085 per common share, under which the Corporation assigned a total value of $459,000 of the unit proceeds to the common shares, with the remaining $81,000 of the unit proceeds assigned to the share purchase warrants. Share issue costs of $27,046 were incurred in relation to the above combined issuance of flow-through shares and units. Under the unit portion of the private placement closed by the Corporation on June 27, 2016, an executive officer of the Corporation subscribed to a total of 200,000 units (3.7% of the total) for gross proceeds of $20,000.

On December 21, 2016, the Corporation closed a non-brokered private placement of 4,166,668 units at a price of $0.12 per unit for total gross proceeds of $500,000. Each unit consisted of one common share of the Corporation and one half of one share purchase warrant. Each whole share purchase warrant entitled the holder to purchase an additional common share of the Corporation for a period of one year at an exercise price of $0.12 per common share. The units were valued using the residual method calculated at the closing market price on the Exchange on the trading day prior to the announcement of the private placement of $0.11 per common share, under which the Corporation assigned a total value of $458,334 of the unit proceeds to the common shares, with the remaining $41,666 of the unit proceeds assigned to the share purchase warrants. Share issue costs of $45,029 were incurred in relation to the issuance of the units. Under the private placement closed by the Corporation on December 21, 2016, directors and executive officers of the Corporation subscribed to a total of 625,002 units (15.0% of the total) for total gross proceeds of $75,000.

The Corporation closed, effective November 17, 2017, a rights offering equity financing (the "Rights Offering"). The Rights Offering issued rights to holders of the Corporation's common shares at the close of business on the record date of October 27, 2017 on the basis of one right for each common share held. Each nine and one-half rights entitled the holder to subscribe for one common share of CSRI upon payment of the subscription price of $0.12 per common share prior to the expiry date of November 14, 2017. The Rights Offering was fully subscribed and subsequently 16,785,143 common shares were issued resulting in total gross proceeds to the Corporation of $2,014,217. Share issue costs of $68,186 were incurred in relation to the Rights Offering. Under the Rights Offering, directors, executive officers and insiders of the Corporation subscribed to a total of 13,808,022 common shares (82.3% of the total) for total gross proceeds of $1,656,963.

The issued and outstanding common shares of the Corporation are summarized as follows:

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Number of Shares	**Amount of Shares**	**Number of Shares**	**Amount of Shares**
Balance, beginning of period	156,758,860	$ 114,276,295	141,367,192	$ 112,553,010
Common shares issued:				
Via private placements	-	-	15,391,668	1,822,584
Via rights offerings	16,785,143	2,014,217	-	-
Exercise of share purchase warrants	3,950,001	420,000	-	-
Credit from share purchase warrants	-	106,000	-	-
Share issue costs	-	(79,138)	-	(99,299)
Balance, end of period	177,494,004	$ 116,737,374	156,758,860	$ 114,276,295

Share Purchase Warrants

In conjunction with recent equity financings, the Corporation has issued share purchase warrants with a term of one year to acquire common shares at specific exercise prices. During the year ended December 31, 2017 all outstanding share purchase warrants were either exercised or allowed to expire unexercised thus resulting in a balance of Nil share purchase warrants outstanding as at December 31, 2017 as detailed in the following two tables:

	For the year ended December 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
Exercised prior to expiry	(3,950,001)	(106,000)	-	-
Expired unexercised	(3,245,833)	(161,416)	(2,555,000)	(255,500)
Share issue costs	-	10,952	-	(10,952)
Balance, end of period	-	$ -	7,195,834	$ 256,464

Issue Date	Weighted Average Exercise Price	Number of Warrants Outstanding as at December 31, 2017	Weighted Average Fair Value (Rounded)	Weighted Average Fair Value as at December 31, 2017	Expiry Date
January 14, 2016	$0.25	-	$0.06	$Nil	January 14, 2017(1)
June 27, 2016	$0.10	-	$0.03	$Nil	June 27, 2017(2)
December 21, 2016	$0.12	-	$0.02	$Nil	December 21, 2017(3)
	N/A	-	N/A	$Nil	

Notes:

(1) On January 14, 2017, all 2,412,500 of the $0.25 share purchase warrants expired unexercised.

(2) Between June 7, 2017 and June 27, 2017, all 2,700,000 of the $0.10 share purchase warrants were exercised by holders resulting in gross proceeds to the Corporation of $270,000.

(3) On December 21, 2017, out of the total of 2,083,334 of the $0.12 share purchase warrants, 833,333 expired unexercised while 1,250,001 were exercised by holders resulting in gross proceeds to the Corporation of $150,000.

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 December 31, 2017 was 10,701,400 (December 31, 2016: 7,912,886).

As at December 31, 2017, options to acquire 7,048,000 (December 31, 2016: 7,763,000) common shares were outstanding of which 5,960,500 (December 31, 2016: 6,463,000) had vested and 1,087,500 (December 31, 2016: 1,300,000) remained unvested, as follows:

	For the year ended December 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	2,075,000	0.12	1,600,000	0.20
Forfeited	-	-	(25,000)	0.24
Expired	(2,790,000)	0.47	(242,000)	1.70
Outstanding, end of period	7,048,000	$ 0.23	7,763,000	$ 0.34
Options vested, end of period	5,960,500	$ 0.24	6,463,000	$ 0.34

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

	Options Outstanding				Options Exercisable			
Range of Exercise Price	Number of Options Outstanding	Remaining Contractual Life (in Yrs)	Weighted Average Exercise Price		Number of Vested Options	Remaining Vested Contractual Life (in Yrs)	Weighted Average Exercise Price	
$0.00 - $0.19	2,075,000	4.64	$	0.12	987,500	4.64	$	0.12
$0.20 - $0.39	4,628,000	1.94		0.25	4,628,000	1.94		0.25
$0.40 - $0.59	345,000	1.60		0.50	345,000	1.60		0.50
	7,048,000	2.72	$	0.23	5,960,500	2.37	$	0.24

Options granted are accounted for using the fair value method. During the year ended December 31, 2017 there were options granted to acquire 2,075,000 common shares (2016: 1,600,000). Prior to capitalization of $45,613 (2016: $53,404), the total compensation cost for share-based compensation during the year ended December 31, 2017 was $197,729 (2016: $181,042).

The fair value of all options granted during the years ended December 31, 2017 and 2016 is estimated on the date of grant using the Black-Scholes pricing model with the following annualized weighted average assumptions:

	2017	2016
Risk free interest rate	1.50%	0.63%
Expected forfeiture rate	2.24%	2.74%
Expected stock price volatility	91.66%	88.99%
Expected time to exercise	4.09 years	4.17 years
Fair value of options granted	$0.08	$0.11
Term of options granted	5.0 years	5.0 years

The expected stock price volatility is based on the historical volatility of the Corporation's underlying common shares, and is calculated as the measure of the rate and magnitude of the historical changes in the stock price of the Corporation's common shares.

15. CONTRIBUTED SURPLUS

	For the year ended December 31, 2017		For the year ended December 31, 2016	
Balance, beginning of period	$	8,975,339	$	8,538,797
Share-based compensation, gross		197,729		181,798
Recovery of forfeited options		-		(756)
Share purchase warrants expired unexercised		161,416		255,500
Balance, end of period	$	9,334,484	$	8,975,339

16. 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 year ended December 31, 2017	For the year ended December 31, 2016
Weighted average number of common shares - basic	160,328,576	149,462,455
Dilutive effect of share-based compensation / share purchase warrants	273,452	279,005
Weighted average number of common shares - diluted	160,602,028	149,741,460

For the years ended December 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.

17. 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:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Net loss and comprehensive loss	$ (1,988,470)	$ (30,069,097)
Statutory income tax rate	26.5%	26.5%
Expected deferred income tax recovery	(526,945)	(7,968,311)
Deferred income tax effects of:		
Non-deductible share-based compensation	40,311	33,824
Non-deductible expenses	10,218	11,922
Effect of change in statutory income tax rate	(297,630)	-
Tax effect of Flow-through shares premium income	-	(103,350)
Tax effect of Flow-through shares renouncement	-	689,000
Unrecognized income tax benefits	774,046	7,336,915
Recovery of deferred income taxes	$ -	$ -

The combined Canadian Federal and Provincial statutory income tax rate applicable to the Corporation for 2017 was 26.5% (2016: 26.5%). In 2018, the applicable combined statutory income tax rate will rise to 27.0% due to an increase in the British Columbia basic corporate income tax rate effective January 1, 2018.

The estimated total income tax pools available to the Corporation as deductions against future taxable income are as follows:

	Rate of Utilization (%)	As at December 31, 2017	As at December 31, 2016
Non-capital losses	100	$ 18,257,043	$ 17,175,776
Capital losses	(1)	25,932	25,932
Canadian exploration expense	100	7,526,547	7,526,547
Canadian development expense	30	54,164,594	53,618,377
Canadian oil and gas property expense	10	18,953,620	18,953,620
Foreign exploration and development expense	10	120,908	120,908
Undepreciated capital cost	20-100	802,163	802,163
Cumulative eligible capital	7	1,438	1,546
Share issue costs	20	281,529	403,878
		$ 100,133,774	$ 98,628,747

Note:
1. Capital losses carried forward can only be applied against taxable capital gains.

The Corporation has not recorded deferred income tax assets in relation to its estimated total income tax pools due to the uncertainty related to the realization of such assets. As at December 31, 2017 and 2016, no deferred income tax assets were recognized in the statements of financial position for the following deductible temporary differences:

	As at December 31, 2017	As at December 31, 2016
Property, plant and equipment	$ 38,739,608	$ 37,852,946
Decommissioning liability	2,213,342	2,268,193
Share issue costs	281,529	403,878
Cumulative eligible capital	1,438	1,546
Capital losses carried forward	25,932	25,932
Non-capital losses carried forward	18,257,043	17,175,776
Temporary differences for which no deferred income tax asset has been recognized	$ 59,518,892	$ 57,728,271

Deferred income tax assets are recognized for non-capital losses carried forward to the extent that the realization of the related income tax benefit through future taxable income is probable. As at December 31, 2017, the Corporation had non-capital losses of approximately $18.3 million (December 31, 2016: $17.2 million) available for deduction against future taxable income for which no deferred income tax benefit has been recognized, as follows:

	As at December 31, 2017
Expiring in:	
2026	$ 1,166,271
2027	1,424,041
2028	1,916,596
2029	1,935,055
2030	2,301,841
2031	1,716,314
2032	2,353,826
2033	1,206,219
2034	1,311,081
2035	1,167,273
2036	677,259
2037	1,081,267
	$ 18,257,043

18. COMMITMENTS

Capital Commitments

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

Office Lease Arrangements

The Corporation's office sub-lease agreement (that originally terminated on May 31, 2016) was extended to September 30, 2017 during a prior period. The amended sub-lease required the Corporation to pay base annual rent of $11.00 per square foot (formerly $19.00 per square foot) plus operating costs on 3,420 square feet until September 30, 2017. In June 2017, the sub-lease agreement was amended a second time on a month-to-month term basis beyond September 30, 2017 at a base annual rent of $Nil per square foot plus operating costs.

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

	For the year ended December 31, 2017	**For the year ended December 31, 2016**
Minimum lease payments	$ 85,603	$ 93,919

Future Minimum Lease Payments

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

	As at December 31, 2017	As at December 31, 2016
Payable within 12 months	$ -	$ 65,279
Payable from 1 to 4 years subsequent	$ -	$ -
Thereafter	$ -	$ -

19. CHANGES IN NON-CASH WORKING CAPITAL

	For the year ended December 31, 2017	For the year ended December 31, 2016
Cash provided by (used for) operating activities:		
Accounts receivable and other accrued receivables	$ 67,984	$ (69,268)
Prepaid expenses and other deposits	(5,822)	(55,456)
Accounts payable and other accrued liabilities	70,677	(14,536)
	132,839	(139,260)
Cash provided by (used for) investing activities:		
Accounts payable and other accrued liabilities	(240,675)	267,532
	$ (107,836)	$ 128,272

20. 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 December 31, 2017 is the carrying amount of the Corporation's accounts receivable balances.

The Corporation did not incur any write-offs relating to accounts receivable balances during 2017 nor during 2016. The accounts receivable balance as at December 31, 2017 is principally comprised of amounts due from the Corporation's natural gas marketer and its joint venture partner, and none of the accounts receivable balance as at December 31, 2017 is past due. Receivables from natural gas marketers are normally collected on the 25th day of the month following production. The Corporation's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Corporation historically has not experienced any collection issues with its natural gas marketer. Receivables from joint venture partners are typically collected within one to two months of the joint venture bill being issued. However, the accounts receivable are from participants in the oil and gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners if a disagreement were to arise, which may increase the potential for non-collection.

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. Since, as at December 31, 2017, the Corporation held no debt, held its cash and cash equivalents in the form of bank deposits and had limited dealings with foreign currency exchange, the Corporation's exposure to market risk is minimal. 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. As such, while CSRI's cash balances as at December 31, 2017 are currently sufficient to cover the Corporation's budgeted capital and operational requirements until the end of the 2018 fiscal year, they may not end up being sufficient in the case of any potential unbudgeted outlays (see **Going Concern** - note 1).

21. CAPITAL MANAGEMENT

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

	As at December 31, 2017	As at December 31, 2016
Working capital		
Current assets	$ 2,218,747	$ 1,582,416
Current liabilities	(256,511)	(426,509)
	1,962,236	1,155,907
Shareholders' capital	43,553,128	42,977,838
Total capital	$ 45,515,364	$ 44,133,745

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

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

(a) targeting a minimum working capital position that covers all budgeted capital commitments, anticipated administration and field operating costs for a minimum period of three months, current reclamation obligations, and other non-contingent financial liabilities;

(b) funding 100% of capital requirements through the issue of equity instruments until such time as cash generated from operations exceeds anticipated overhead expenses prior to capitalization; and

(c) holding the proceeds of equity funding in deposit accounts of major financial institutions providing for immediate access.

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

22. DETERMINATION OF FAIR VALUES

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

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

(a) Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

(b) Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

(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 property, plant and equipment.

Exploration and Evaluation Assets and Property, Plant and Equipment

The fair values of property, plant and equipment and E&E assets recognized in an acquisition are based on market values. The fair values of property, plant and equipment 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. The fair value of petroleum and natural gas interests included in property, plant and equipment is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production, based on externally prepared reserve reports. The risk adjusted discount rate is specific to the asset with reference to general market conditions. The fair value of petroleum and natural gas interests included in E&E assets is estimated either by measuring comparable merger and acquisition metrics and prevailing land tender prices, comparing to resource, reserve or market capitalization values, or by determining the feasible future potential development opportunities available.

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

The fair value of cash and cash equivalents, accounts receivable and other accrued receivables, restricted deposits and accounts payable and other accrued liabilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2017 and 2016, the fair value of these balances approximated their carrying value.

Stock Options

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

23. GENERAL AND ADMINISTRATIVE

Salaries, Incentives and Benefits

Included within general and administrative expenses are employee salaries, incentives and benefits (gross) of $677,567 for the year ended December 31, 2017 (2016: $673,513).

Executive Compensation

Executive compensation relates to amounts paid to or earned by executive officers and fees paid to non-executive directors, and also includes non-cash share-based compensation as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Salaries, incentives and benefits	$ 618,138	$ 592,807
Share-based compensation, gross	197,729	160,019
Directors' fees	40,000	32,000
	$ 855,867	$ 784,826

In the case of a change of control or the termination of employment of the Corporation's executive officers there would be a $890,251 commitment as at December 31, 2017, (December 31, 2016: $866,270).

24. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the years ended December 31, 2017 and 2016, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business are as follows:

Until June 30, 2016, the Corporation had retained the law firm of Gowling WLG (Canada) LLP ("Gowlings") to provide CSRI with legal, director and corporate secretary services. A former partner of Gowlings, also the principal of Jeffrey E. Dyck Professional Corporation ("DyckCorp"), has been the Corporate Secretary of the Corporation since September 1, 2014, and became a director of CSRI effective May 28, 2015. Effective July 1, 2016, CSRI retained DyckCorp to provide legal, director and corporate secretary services. During the twelve months ended December 31, 2017, the Corporation incurred $44,800 (six months ended December 31, 2016: $20,039) of total fees and disbursements, including taxes, from DyckCorp. Such fees have been recorded at amounts agreed upon by the respective parties. The Corporation expects to retain the services of both DyckCorp and other outside law firms from time to time. As at December 31, 2017 an accounts payable balance of $20,039 (December 31, 2016: $11,540) was outstanding to DyckCorp.