



MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine month periods ended September 30, 2018

The following management discussion and analysis (“MD&A”) of the financial conditions and results of operations of Canadian Spirit Resources Inc. (“CSRI” or the “Corporation”) for the three and nine months ended September 30, 2018 should be read in conjunction with the unaudited interim condensed financial statements for the same periods, as well as the MD&A and audited financial statements for the year ended December 31, 2017 prepared under International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee. The financial data presented herein is in accordance with IFRS and all amounts are presented in Canadian dollars. This MD&A has been prepared by management and includes information up to November 28, 2018, the date of review and approval by the Corporation’s Board of Directors.

This MD&A contains non-GAAP measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Corporation’s disclosures under the heading **Reader’s Advisories** located on pages 11 of this MD&A.

Corporate Overview

CSRI is a natural resources company whose shares are listed under the trading symbol ‘SPI’ on the TSX Venture Exchange (the “Exchange”). Operating on its own 100% working interest lands, and together with its joint venture partner Canbriam Energy Inc. (“Canbriam”), the Corporation’s principal activity is exploring for and developing the productive capability of the Montney Formation natural gas and natural gas liquids resource play in the Farrell Creek/Altares area of northeastern British Columbia (“NEBC”). The Corporation commenced natural gas production from the Montney Formation in 2011.

Selected Quarterly Information⁽¹⁾

The following is a summary of the results of the Corporation for the eight most recently completed quarters (000’s, unless otherwise indicated):

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Average sales volumes	(2)	(2)						
- natural gas (MMcf/d)	-	0.55	0.54	0.57	0.64	0.61	0.74	1.10
Sales price (per Mcf)	\$ -	\$ 1.43	\$ 1.88	\$ 0.53	\$ 0.93	\$ 2.39	\$ 2.48	\$ 2.37
Total sales volumes								
- natural gas (MMcf)	-	16.5	48.4	52.3	59.0	55.4	66.3	101.1
Natural gas sales	\$ -	\$ 24	\$ 91	\$ 27	\$ 55	\$ 132	\$ 164	\$ 240
Operating netbacks ⁽³⁾	\$ (22)	\$ (36)	\$ 4	\$ (47)	\$ (19)	\$ 37	\$ 88	\$ 190
Net cash flows from (used in) operating activities	\$ (243)	\$ (218)	\$ (275)	\$ (185)	\$ (170)	\$ (196)	\$ (104)	\$ (133)
Net loss	\$ (389)	\$ (326)	\$ (327)	\$ (858)	\$ (482)	\$ (348)	\$ (301)	\$ (29,356)
Net loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.19)
Net working capital	\$ 816	\$ 1,209	\$ 1,597	\$ 1,962	\$ 356	\$ 732	\$ 817	\$ 1,156
Total assets	\$ 44,939	\$ 45,323	\$ 45,661	\$ 46,023	\$ 44,604	\$ 45,115	\$ 45,021	\$ 45,673
Shareholders' capital	\$ 42,618	\$ 42,929	\$ 43,243	\$ 43,553	\$ 42,284	\$ 42,623	\$ 42,689	\$ 42,978
Common shares outstanding	177,494	177,494	177,494	177,494	159,459	159,459	156,759	156,759
Net capital expenditures	\$ 156	\$ 155	\$ 175	\$ 215	\$ 67	\$ 294	\$ 45	\$ 183

Notes:

- Quarterly amounts may not total or calculate to year-to-date amounts due to rounding.
- Production was shut-in by the Corporation's joint venture partner effective May 1, 2018. The second quarter average sales volume is the average for the days on which there was production (30 days) and is not averaged over the period.
- Non-GAAP measure see page 11.

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Average field production capability has remained relatively constant due to the lower decline rate associated with each of the Corporation's Montney wells being in the stable stages of their production life. Price volatility, due to excess North American natural gas supply over the past few years, has had a significant negative impact on Canadian natural gas producers. Price erosion began to emerge in the third quarter 2017, marked by extreme volatility in day to day natural gas spot pricing. It was decided to maintain production through the fourth quarter 2017 as the duration of the price swings was difficult to predict. Natural gas prices stabilized to provide positive operating netbacks (*non-GAAP measure*) in the first quarter 2018, however, as warmer weather approached and the schedule of significant planned outages on the major pipeline systems was published, forward strip natural gas prices over the next two quarters showed sub-economic returns on CSRI's production. On May 1, 2018, CSRI and its joint venture partner Canbriam announced the shut-in of natural gas production at the Farrell Creek/Altares property. Since the production shut-in, natural gas prices have averaged less than \$1.15 per Mcf at Station 2, the benchmark pricing point on the Enbridge Westcoast Energy pipeline system. In early October 2018, an explosion on the Westcoast Energy pipeline system shut down the 36-inch pipeline and curtailed operating pressures and natural gas throughput in the adjacent 30" pipeline. The pipeline has been repaired but operating pipeline pressures are severely reduced resulting in gas producers seeing low to negative prices. Since the pipeline shutdown, Station 2 natural gas prices have averaged less than \$0.15/mcf. The joint venture partners will continue to monitor natural gas prices for the optimal time to return the field to production.

Natural Gas Properties

Farrell Creek/Altares: Operational Highlights

The lack of pipeline egress for the rapidly growing natural gas production that has been discovered in the Montney Formation in NEBC has resulted in large volumes of natural gas being trapped behind the sales point at Station 2. As a result, natural gas producers in NEBC have experienced downward pressure on natural gas prices and unpredictable production curtailment on all pipeline systems transporting natural gas out of NEBC. Significant investment is being made on new pipeline infrastructure, including TransCanada Corporation's North Montney Mainline project currently under construction. This and other projects will add additional egress for natural gas producers beginning in 2019, however, significant disruptions and outages resulting in extreme volatility in natural gas prices have and will continue to occur until this new pipeline capacity is available. As a result of the uncertainty in natural gas prices, the Corporation has curtailed all capital spending while continuing to conduct required field activities and regulatory compliance.

Liquefied natural gas ("LNG") exports from the west coast of Canada have long been seen as a significant source of value creation for natural gas producers in NEBC. On October 1, 2018, the LNG Canada Partnership that includes Shell (40%), Petronas (25%), PetroChina (15%), Mitsubishi (15%) and Korea Gas (5%) made a final investment ("FID") to proceed with the \$40 billion LNG facility at Kitimat, British Columbia. The first phase to commence shipping LNG in 2024 will require 1.5 billion cubic feet ("BCF") of natural gas with the second phase requiring an additional 2.2 BCF of natural gas per day. Current natural gas production capability in British Columbia is approximately 5.7 BCF per day.

Fresh Water Sourcing

The Williston Reservoir Water Pipeline Project (25% owned by CSRI; operated by Canbriam) is able to deliver up to 10,000 m³/d of fresh water from the Williston Reservoir to the Farrell Creek/Altares area in NEBC on a year-round basis until December 31, 2031. The project will reduce, by approximately \$500,000 per well, the cost of delivering a secure supply of fresh water used in the fracture stimulation of both vertical and horizontal wells and will lessen the impact on local communities and infrastructure by reducing the need to transport fresh water overland by truck to drilling sites. Access to water is a major concern for many oil and gas companies operating in NEBC.

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Montney Formation Resource Assessment

GLJ was engaged to prepare an independent resource assessment of the Montney Formation on the Corporation's Farrell Creek/ Altares lands in northeastern British Columbia as at December 31, 2016 with respect to the Total Petroleum Initially-In-Place ("TPIIP"), Discovered Petroleum Initially-In-Place ("DPIIP") and Undiscovered Petroleum Initially-In-Place ("UPIIP") in accordance with the resource definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook. This independent assessment has resulted in 9,044 Bcf (9.0 Tcf) of TPIIP, comprised of 4,029 Bcf (4.0 Tcf) of DPIIP and 5,015 Bcf (5.0 Tcf) of UPIIP, of shale gas being recognized on the Corporation's Montney lands.

Results from Operations

Natural Gas Production and Revenues

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Total sales volumes of natural gas (Mcf)	-	58,975	64,950	180,665
Average sales volumes of natural gas				
Mcf/d	- (1)	640	541 (1)	662
boe/d	- (1)	107	90 (1)	110
Total natural gas sales (\$)	\$ -	\$ 55,070	\$ 114,749	\$ 351,417
Average sales price of natural gas				
\$/Mcf	\$ -	\$ 0.93	\$ 1.77	\$ 1.95
\$/boe	\$ -	\$ 5.60	\$ 10.60	\$ 11.67

Note:

1. Production was shut-in by the Corporation's joint venture partner effective May 1, 2018. The year-to-date average sales volume is the average for the days on which there was production (120 days) and is not averaged over the period.

Due to the low natural gas price environment and the focus of CSRI's joint venture partner on their own 100% working interest lands at Altares, the Corporation has not added any new production over the last seven years. Accordingly, the 19% lower average sales volumes per day for the nine months ended September 30, 2018 of 551 Mcf/d from 662 Mcf/d is due to the inherent declines associated with each producing natural gas well. Although the rate of decline has diminished, future production additions are required to alleviate this decline.

Royalties

The five Montney Formation wells tied into the Farrell Creek/Altares Montney joint venture gas plant are all deep horizontal wells and as such, each of these producing wells qualifies for the British Columbia Government's Deep Royalty Credit Program. This Program generates up to \$2.8 million (gross) in royalty credits for each well and the royalty credits are drawn down over time as the wells produce natural gas. Commencing with the second quarter 2013, the government of British Columbia introduced a minimum 3% royalty which is applicable to wells within the Deep Royalty Credit Program. Royalty credits that were previously generated from the discontinued Summer Drilling Credit Program can be used to offset this minimum royalty. Between these two well royalty credit programs, and at the current rates of production, the Corporation does not expect to remit any crown royalties to the government of British Columbia for the next five years or more. Royalty credits applied are accounted for as an offset against the capital costs accumulated within Property, Plant and Equipment ("P,P&E").

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Operating Costs

Operating costs, which have fixed and variable rate components, relate to the Corporation's share of plant maintenance, supervision and other production expenses in conjunction with the five producing Montney Formation wells at Farrell Creek/Altares. Operating costs also include transportation costs to transfer the natural gas from the pipeline system at Farrell Creek/Altares to the sales point at Enbridge Westcoast Energy Station 2 and the British Columbia provincial carbon taxes.

Operating costs for the three months and nine months ended September 30, 2018 were 71% and 31% lower, respectively, than the comparable periods for 2017 (see the table for *Operating Netbacks (non-GAAP measure)*) due to the shut-in of the Corporation's natural gas production on May 1, 2018. The third quarter 2018 operating costs are primarily fixed costs. Year-to-date costs also include costs to shut-in the natural gas processing facility and producing wells. Accordingly, per unit operating cost measurements are not meaningful.

Operating Netbacks (non-GAAP measure)

During the three months ended September 30, 2018, the Corporation applied \$nil (2017: \$1,449) of royalty credits against crown royalties that would otherwise have been payable:

For the three months ended September 30, 2018			\$/Mcf	\$/boe
Natural gas sales	\$ -		\$ -	\$ -
Royalties expense	-	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Net revenue	-		-	-
Royalty credits applied	-		<i>n/a</i>	<i>n/a</i>
Operating costs	(21,746)		<i>n/a</i>	<i>n/a</i>
Operating netbacks	<u>\$ (21,746)</u>		<u>\$ -</u>	<u>\$ -</u>
For the three months ended September 30, 2017			\$/Mcf	\$/boe
Natural gas sales	\$ 55,070		\$ 0.93	\$ 5.60
Royalties expense	(1,449)	2.6%	(0.02)	(0.15)
Net revenue	53,621		0.91	5.45
Royalty credits applied	1,449		0.02	0.15
Operating costs	(74,213)		(1.26)	(7.55)
Operating netbacks	<u>\$ (19,143)</u>		<u>\$ (0.33)</u>	<u>\$ (1.95)</u>

During the nine months ended September 30, 2018, the Corporation applied \$552 (2017: \$9,743) of royalty credits against crown royalties that would otherwise have been payable:

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For the nine months ended September 30, 2018			\$/Mcf	\$/boe
Natural gas sales	\$ 114,749		\$ 1.77	\$ 10.60
Royalties expense	(552)	0.5%	(0.01)	(0.05)
Net revenue	114,197		1.76	10.55
Royalty credits applied	552		0.01	0.05
Operating costs	(168,043)		(2.59)	(15.52)
Operating netbacks	\$ (53,294)		\$ (0.82)	\$ (4.92)

For the nine months ended September 30, 2017			\$/Mcf	\$/boe
Natural gas sales	\$ 351,417		\$ 1.95	\$ 11.67
Royalties expense	(9,743)	2.8%	(0.05)	(0.32)
Net revenue	341,674		1.90	11.35
Royalty credits applied	9,743		0.05	0.32
Operating costs	(245,121)		(1.36)	(8.14)
Operating netbacks	\$ 106,296		\$ 0.59	\$ 3.53

Depletion

Depletion of P,P&E is calculated using the unit of production method based on proved plus probable reserves. The depletion expense for the three and nine months ended September 30, 2018 of \$nil and \$71,010, respectively, (2017: \$70,142 and \$214,780, respectively) equates to \$1.09 per Mcf (2017: \$1.19 per Mcf). The decrease in depletion for the respective three and nine month periods both on a gross basis and on a per Mcf basis is due principally to the decrease in, and shut-in effective May 1, 2018 of, natural gas production (see *Natural Gas Production and Revenues* on page 3).

Impairment

There were no impairment indicators identified at September 30, 2018. Commodity prices remain volatile, and accordingly impairment charges could be recorded in future periods.

Capital Expenditures

The Corporation's capital expenditures for the three and nine month periods ended September 30, 2018 and 2017 are detailed in the following table:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Lease acquisitions and retentions	\$ 34,433	\$ 6,495	\$ 145,960	\$ 112,897
Net expenditure on drilling, completion and facilities costs	\$ 49,449	87,903	\$ 166,473	219,595
Other capitalized amounts	\$ 72,374	(27,732)	\$ 173,898	72,887
Total net capital expenditures	\$ 156,256	\$ 66,666	\$ 486,333	\$ 405,379

As a result of the uncertainty in natural gas prices, the Corporation has limited its capital spending to focus on the maintenance of existing land holdings, maintenance of oil and gas assets and infrastructure and regulatory compliance.

For the three and nine months ended September 30, 2018, net capital expenditures totaled \$0.2 million and \$0.5 million, respectively, as compared to an allocated budgeted capital expenditure of \$0.1 million and \$0.4 million, respectively, (2017: \$0.1 million and \$0.4 million, respectively). The spending is higher than budget due to the timing of expenditures.

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Exploration Expense

From time to time, certain older Gething Formation land leases are allowed to expire thus eliminating the future economic benefits related to such leases and the net capitalized amounts are expensed. There have been no expensed lease costs for the three and nine months ended September 30, 2018 nor for the comparable periods in 2017.

Reclamation and Abandonment Management

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 September 30, 2018, CSRI has been assessed by the BCOGC additional cash deposit LMR amounts totaling \$513,591. The total assessed LMR amount of \$1,749,420 as at September 30, 2018 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.

General and Administrative Expenses

General and Administrative Expenses

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Consulting fees	\$ 64,000	\$ 9,000	\$ 85,400	\$ 29,619
Salaries, incentives and benefits	137,478	151,828	432,474	493,742
Other general and administrative	87,533	93,606	280,110	315,337
	<u>289,011</u>	<u>254,434</u>	<u>797,984</u>	<u>838,698</u>
Capitalized portion of general and administrative expenses	<u>(62,611)</u>	<u>(65,096)</u>	<u>(192,914)</u>	<u>(207,230)</u>
	<u>226,400</u>	<u>189,338</u>	<u>605,070</u>	<u>631,468</u>
Share-based compensation	78,237	148,271	106,238	172,061
Capitalized portion of share-based compensation	<u>(18,074)</u>	<u>(30,299)</u>	<u>(27,126)</u>	<u>(37,316)</u>
	<u>60,163</u>	<u>117,972</u>	<u>79,112</u>	<u>134,745</u>
	<u>\$ 286,563</u>	<u>\$ 307,310</u>	<u>\$ 684,182</u>	<u>\$ 766,213</u>

Consulting fees for the three and nine months ended September 30, 2018 are comprised of computer network maintenance fees, software technical support, land administration fees, economic analysis project work, geological consulting services and investor consulting fees.

Salaries and benefits, before capitalization, for the nine months ended September 30, 2018 have decreased by \$61,268 or 12.4% as compared with the nine months ended September 30, 2017 due to a reduction in temporary administrative staffing requirements, and due to voluntary salary rollbacks agreed to by the Corporation’s executive officers which took effect September 1, 2017.

The Corporation capitalizes, within both E&E assets and P,P&E assets, certain salary and benefit costs associated with staff directly involved in exploration and development activities. For the three and nine months ended September 30, 2018, the Corporation capitalized a total of \$62,611 and \$192,914, respectively, (2017: \$65,096 and \$207,230, respectively) of general and administrative expenses, including consulting fees, salaries and benefits directly related to exploration and development activities.

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The granting from time to time of options to acquire common shares affects the share-based compensation expense recorded in the respective comparative periods. In the nine months ended September 30, 2018 there were 1,900,000 options granted (2017: 2,075,000) to acquire common shares of the Corporation. Share-based compensation expense for the three months and nine months ended September 30, 2018, before capitalization, was \$78,237 and \$106,238 (2017: \$148,271 and \$172,061), respectively. For the three and nine months ended September 30, 2018 the Corporation capitalized \$18,074 and \$27,126, respectively, (2017: \$30,299 and \$37,316, respectively) of share-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

Other General and Administrative Expenses

Other General Administration Costs

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Professional fees	\$ 25,020	\$ 27,967	\$ 76,289	\$ 95,594
Investor relations and filing fees	8,247	4,227	37,294	33,261
Directors' fees	12,000	8,000	36,000	28,000
Office premises and insurance	28,677	35,982	84,705	114,261
Office supplies and software licences	11,133	15,147	35,985	34,561
Staffing costs	2,264	4,297	9,247	8,655
Interest and other expenses	192	221	590	1,005
	<u>87,533</u>	<u>95,841</u>	<u>280,110</u>	<u>315,337</u>
Capitalized software licences	(5,946)	(6,600)	(17,836)	(17,836)
	<u>\$ 81,587</u>	<u>\$ 89,241</u>	<u>\$ 262,274</u>	<u>\$ 297,501</u>

Professional fees for the three and nine months ended September 30, 2018 and 2017 are comprised of legal counsel fees for corporate secretary services and various other corporate and joint venture matters, as well as the combined quarterly portions of annual audit and reservoir engineer fee accruals.

Directors' fees have increased in 2018 compared to 2017 due to the appointment of an additional non-executive director effective August 22, 2017 (see news release dated August 23, 2017).

Office premises and insurance expenses for the nine months ended September 30, 2018 have decreased by \$29,556 or 26.0% compared with the nine months ended September 30, 2017 due a reduction in office rent resulting from renegotiated lease terms effective as of the end of September 2017 (see **Commitments** on page 11).

Interest and other expenses are comprised of bank charges and interest, as well as any advertising, promotional costs or charitable contributions.

Liquidity and Capital Resources

The Corporation's current capital structure includes net working capital and shareholders' equity. As at September 30, 2018, the Corporation had a net working capital (*non-GAAP measure*) balance of \$816,124 comprised of cash in the amount of \$855,286, accounts receivable & other accrued receivables of \$22,592, prepaid and expenses and other deposits of \$22,592, current portion of royalty credits of 12,420 less payables of \$119,282. At September 30, 2018 CSRI had 177,494,004 shares outstanding that had a closing share price of \$0.10 per share for a market capitalization of \$17.7 million.

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For the nine months ended September 30, 2018 the Corporation has reported a net loss and comprehensive loss of \$1.0 million (2017: \$1.1 million) and an accumulated deficit of \$83.6 million as at that date (December 31, 2017: \$82.5 million). In addition to covering on-going net working capital (*non-GAAP measure*) requirements and recurring negative cash flows used in operating activities, the Corporation will need to secure additional funding for any future exploration and development programs.

In recognition of these circumstances, the Corporation has initiated another shareholder rights offering. On October 18, 2018 the Corporation announced an equity financing in the form of a rights offering to holders of its common shares (at the close of business on October 26, 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 a subscription price of \$0.08 per common share. The rights offering expires on November 30, 2018. Elmag Investments Inc., the Corporation's largest shareholder, has confirmed to the Corporation that it commits to buying all of the common shares not subscribed for by other shareholders of the Corporation. Accordingly, the rights offering will raise gross proceeds of approximately \$1.5 million. All directors, executive officers and insiders of the Corporation have each committed to participate in the rights offering. The rights offering will provide the funds required to meet all of the Corporation's short-term liquidity requirements. The net proceeds of the offering together with existing working capital will be used to fund the Corporation's capital, operating and G&A expenses for up to 16 months.

The Corporation will continue 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. The unaudited interim condensed financial statements for the three and nine months ended September 30, 2018 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.

Change in Accounting Policies

The Corporation has applied the following new and revised accounting pronouncements in preparing the September 30, 2018 quarterly financial statements. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(i) Adoption of IFRS-9 Financial Instruments

As of January 1, 2018, the Corporation has adopted IFRS-9 Financial Instruments, which is the result of the first phase of the IASB project to replace IAS-39 Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The classification of financial assets under IFRS-9 is generally based on the business model for managing the financial assets and the financial asset's contractual cash flow characteristics. IFRS-9 eliminates the previous IFRS-39 categories of held to maturity, loans and receivables and available for sale. The new standard introduces changes to hedge accounting requirements to align accounting with an entity's risk management activities.

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The transition to IFRS-9 had no material effect on the Corporation's financial statements. Cash and cash equivalents, if any, accounts receivables and accounts payables continue to be measured at amortized cost and are now classified as amortized cost. CSRI does not currently apply hedge accounting to its financial instrument contracts and currently has not entered into any risk management contracts.

(ii) Adoption of IFRS-15 Revenue from Contracts with Customers

As of January 1, 2018, the Corporation has adopted IFRS -15. The standard replaces IAS 18: Revenue. The standard dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. CSRI has reviewed its revenue streams and underlying contracts with customers using the IFRS -15 five-step model, which did not result in any changes to the comparative period or the opening deficit. The following is the Corporation's revenue recognition policy:

Revenue Recognition Policy

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. The Corporation recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

The Corporation evaluates its arrangements with third parties and partners to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if the Corporation obtains control of the product delivered, which is indicated by the Corporation having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Corporation acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

(iii) Future adoption of IFRS-16 Leases

As of January 1, 2019, the Corporation will be required to adopt IFRS-16 Leases. For lessees applying the new standard, a single recognition and measurement model for leases would be adopted and would require recognition of assets and liabilities for most leases. The standard may be applied retrospectively or by using a modified retrospective approach. CSRI is in the process of identifying and gathering contracts impacted by the new standard. CSRI is currently evaluating the impact of IFRS-16 on the Corporations financial statements.

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Share Capital

Common Shares

The Corporation has authorized share capital of an unlimited number of common shares with no par value. As at September 30, 2018, and as at the date of this report, there were 177,494,004 common shares outstanding.

The Corporation has closed one share issuance transaction since the beginning of 2017. The Corporation closed, effective November 17, 2017, a rights offering equity financing. 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.

Stock Options

During the nine months ended September 30, 2018, Nil (2017: 2,790,000) stock options expired and 1,900,000 (2017: 2,075,000) stock options were granted. As at September 30, 2018 the Corporation had outstanding options to purchase 8,948,000 common shares (being 5% of the common shares outstanding) at a weighted average exercise price of \$0.20 per common share.

Subsequent to September 30, 2018, 1,337,500 options were cancelled and 300,000 options were granted. Accordingly, at November 28, 2018 the Corporation had 7,798,000 options to purchase common shares outstanding (being 4% of the common shares outstanding) at a weighted average exercise price of \$0.20 per common share.

Off-Balance Sheet Transactions

The Corporation had no off-balance sheet transactions during the three and nine months ended September 30, 2018 or 2017.

Related Party Transactions

Transactions with related parties are recorded at exchange amounts for services provided. During the three and nine months ended September 30, 2018, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business are as follows:

The principal of Jeffrey E. Dyck Professional Corporation ("DyckCorp"), also a former partner of a major outside law firm, 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 three and nine months ended September 30, 2018, the Corporation incurred \$6,520 and \$20,260, respectively, (2017: \$9,522 and \$24,761, respectively) 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 September 30, 2018 an accounts payable balance of \$6,250 (December 31, 2017: \$20,039) was outstanding to DyckCorp.

Executive compensation for the three and nine months ended September 30, 2018 consists of amounts paid to or earned by executive officers, including incentives and benefits, of \$115,711 and \$386,804, respectively, (2017: \$155,711 and \$426,804, respectively) as well as fees paid to non-executive directors of \$12,000 and \$36,000, respectively, (2017: \$12,000 and \$28,000, respectively).

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Commitments

The Corporation had no capital commitments as at September 30, 2018. The Corporation's office sub-lease agreement was amended during a prior period to extend to September 30, 2017. 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. 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.

Reader's Advisories

Non-GAAP/IFRS Terminology

This MD&A contains important, comparable industry benchmarks such as net working capital and operating netbacks which are not recognized measures under Generally Accepted Accounting Principles ("GAAP"). Management believes these measures are useful for reporting purposes but cautions readers that these measures not be considered as alternatives in accordance with GAAP.

Net working capital is defined as total current assets less total current liabilities, which management feels is a useful supplementary measure of the liquidity of the Corporation. Operating netbacks are calculated by taking petroleum and natural gas sales, net of royalties expense (adding back royalty credits applied to P,P&E in the financial statements as the royalties expense is a non-cash item) less operating costs from the statement of operations and dividing by production for the period. Management feels that operating netbacks are a key industry benchmark and a measure of performance of the Corporation that provides investors/readers with information that is commonly used by other petroleum and natural gas producers.

Frequently-used Industry Terminology

The Corporation uses the following frequently recurring industry terms in this MD&A: "boe" refers to barrels of oil equivalent, "Mboe" refers to thousand barrels of oil equivalent, "Mbbls" refers to thousands of barrels, "GJ" refers to gigajoules, "Mcf" refers to thousand cubic feet, "MMcf" refers to million cubic feet, "Bcf" refers to billion cubic feet, "Tcf" refers to trillion cubic feet, "MMbtu" refers to million British thermal units, and "/d" refers to per day. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. The Corporation uses a boe conversion ratio of 6 Mcf of natural gas to 1 barrel of crude oil equivalent. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. The Corporation also uses a natural gas heating content conversion ratio of 1 Mcf to 1.05 GJ. These conversion ratios are based on energy equivalency conversion methods primarily applicable at the burner tip and do not necessarily represent a value equivalency at the wellhead.

Forward-looking Statements

This MD&A contains forward-looking statements. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking statements or information. In particular, this MD&A contains forward looking statements pertaining to management's assessment of future plans and operations, drilling plans, and the timing thereof, plans for the tie-in and completion of wells and the timing thereof, capital expenditures, timing of capital expenditures, and methods of financing capital expenditures and the ability to fund financial liabilities, production estimates, timing of shut-in production coming back on-stream, expected commodity mix and prices, future operating expenses, future transportation expenses, expected royalty rates, general and administrative expenses, interest rates, debt levels, funds from operations and the timing of and impact of implementing accounting policies, estimates regarding undeveloped land position and estimated future drilling, recompletion, or reactivation locations and anticipated impact on the Corporation's forecasts in respect of capital

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expenditures and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services and inability to access sufficient capital from internal and external sources. As a consequence, the Corporation's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements or information is based on a number of factors and assumptions which have been used to develop such statements and information, but which may prove to be incorrect. Although the Corporation believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements and information, but which may prove to be incorrect. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Corporation, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Corporation operates; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manner; the Corporation's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to reduce operating expenses; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Corporation to secure adequate product transportation; future petroleum and natural gas prices; currency exchange and interest rates; the regulatory framework regarding royalties, taxes, and environmental matters in the jurisdictions in which the Corporation operates; and the Corporation's ability to successfully market its petroleum and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Corporation's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at the Corporation's website (www.csri.ca). Furthermore, the forward- looking statements contained in this document are made as at the date of this document and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by applicable securities laws.