



MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019

ABOUT CSRI

Canadian Spirit Resources Inc. (“CSRI” or the “Corporation”) is a natural resources company whose shares are listed under the trading symbol ‘SPI’ on the TSX Venture Exchange (the “Exchange”). 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”).

READER ADVISORIES

The following management discussion and analysis (“MD&A”) of the financial conditions and results of operations of CSRI for the three and nine months ended September 30, 2019 should be read in conjunction with the audited financial statements for the year ended December 31, 2018 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 26, 2019, the date of review and approval by the Corporation’s Board of Directors.

Forward-looking Statements

Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management’s assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on CSRI, expected increase in royalty rates, and the timing of and impact of adoption of new accounting policies under GAAP may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with natural gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources.

Although management believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words “anticipate”, “believe”, “continue”, “estimate”, “expect”, “forecast”, “may”, “intend”, “likely”, “will”, “project”, “plan”, “should”, “possible”, “probable”, “schedule”, “position”, “goal”, “objective”, and similar expressions are intended to identify forward-looking information. Forward looking statements or information are based on several factors and assumptions which have been used to develop such statements and information, but which may prove to be incorrect. Although CSRI believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on these statements because the Corporation can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in the document and other documents filed by the Corporation, assumptions have been made regarding, among other things: the timing of resuming production of shut-in natural gas wells; the general stability of the economic and political environment in which CSRI operates; the ability of the operator of the projects, in which the Corporation has an interest, to operate the field in a safe, efficient and effective manner; CSRI’s ability to obtain financing on acceptable terms; field production rates and decline rates; future natural gas prices; the

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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 natural gas products. Readers are cautioned the foregoing list of factors is not exhaustive.

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.

Non-GAAP Measures

This MD&A contains important, comparable industry benchmarks such as net working capital and operating netback which are not recognized measures under IFRS, referred to as 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.

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 netback is calculated by taking petroleum and natural gas sales, less royalties and operating costs as reported in the statements of loss and comprehensive loss and adding back the royalty credits applied. Per unit operating netback is the resulting of dividing operating netback by production for the period. Management feels that operating netback is 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. The calculation of operating netback is consistent with the definition found in the Canadian Oil and Gas Evaluation Handbook.

Conversion

The oil and gas industry commonly reports production volumes and reserves on a "barrel of oil equivalent" basis ("boe"), whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparison with other industry participants.

Throughout this MD&A, CSRI has used the 6:1 boe measure which is the approximate energy equivalency of the two commodities at the burner tip. Boe does not represent a value equivalency at the wellhead nor at the plant gate which is where CSRI sells its production volumes and therefore may be a misleading measure, particularly if used in isolation. 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 6:1 conversion may be misleading as an indication of value.

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RESULTS FROM OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Total sales volumes of natural gas (Mcf)	-	16,542	-	64,950
Average sales volumes (mcf/d) ⁽¹⁾	-	551	-	541
Average sales volumes (boe/d)	-	92	-	90
Natural gas price (\$/mcf)	\$ -	\$ 1.43	\$ -	\$ 1.77
Natural gas sales	\$ -	\$ -	\$ -	\$ 114,749
Royalty expense	-	-	-	(552)
Royalty credits applied	-	-	-	552
Operating costs	(94,928)	(21,746)	(236,013)	(168,043)
Operating netback	\$ (94,928)	\$ (21,746)	\$ (236,013)	\$ (53,294)

Note:

1. Production was shut-in by the Corporation's joint venture partner effective May 1, 2018.

Overview

Lack of pipeline egress for Canadian natural gas production coupled with an excess supply of North American natural gas supply continues to keep natural gas prices volatile and on average at uneconomic levels. This is especially true for Station 2 sales point in British Columbia which CSRI's natural gas production is tied into. The Corporation started generating negative operating netback in the fourth quarter of 2017. Natural gas prices stabilized in early 2018 to provide positive operating netback in the first quarter of 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 announced the shut-in of the natural gas production at the Farrell Creek/Altares (Montney) property. Since the production shut-in, natural gas prices have averaged approximately \$0.88 per Mcf at Station 2, the benchmark pricing point on the Enbridge Westcoast Energy pipeline system. CSRI and its joint venture partner will continue to monitor natural gas prices for the optimal time to return the field to production. Station 2 sales price has seen a sharp increase in pricing in the last few weeks due to interruptible service restrictions being lifted in Alberta and the T- South operating pressures returning to normal, however CSRI and its joint venture partner would require a sustained price above \$1.80 per mcf to consider resuming production.

The Corporation continues to seek strategic alternatives to maximize the value of its prospective Montney undeveloped acreage. Accordingly, the focus of the Corporation has been to maintain or extend the life of its mineral leases on prospective Montney lands while maintaining a tight control all other expenditures and ensuring the Corporation meets all regulatory requirements.

Operating Costs

Operating costs subsequent to the shut-in of production on May 1, 2018 are comprised mainly of fixed costs required to maintain the leases, basic operations and meet regulatory requirements.

The Corporation's operating costs for the three months ended September 30, 2019 of \$94,928 is \$73,182 higher than the \$21,746 reported in the same period last year. CSRI's operating costs for the nine months ended September 30, 2019 of \$236,013 are \$67,970 higher than the \$168,043 reported last year. The primary reason of the increased operating costs for the third quarter and year-to-date is that land related costs for the Farrell Creek Gething area (100% impaired at December 31, 2018) have been expensed as operating costs when they were previously recorded as exploration and evaluation assets. These costs were approximately \$40,000 for the quarter and \$100,000 for the nine months ended September 30, 2019. In

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addition, CSRI incurred approximately \$20,000 of costs for the long term suspension of the Farrel Creek Montney sweet gas facility during the third quarter of 2019.

General and Administrative Expenses (“G&A”)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Salaries, incentives and benefits	\$ 129,147	\$ 137,478	\$ 403,191	\$ 432,474
Office premises and insurance	28,908	28,677	80,931	84,705
Professional fees	29,362	25,020	74,374	76,289
Consulting fees	9,100	9,000	34,375	30,400
Directors' fees	16,000	12,000	41,333	36,000
Office supplies and software licences	10,896	11,638	39,471	36,490
Investor relations and filing fees	4,247	8,247	24,323	37,294
Staffing costs	3,233	2,264	12,083	9,247
Other expenses	411	(313)	946	85
Gross G&A	231,304	234,011	711,027	742,984
Capitalized portion of G&A	-	(62,611)	-	(192,914)
	\$ 231,304	\$ 171,400	\$ 711,027	\$ 550,070

Gross G&A for the three and nine months ended September 30, 2019 of \$231,304 and \$711,027, are respectively 1% and 4% lower than the comparable periods primarily due to lower salaries, incentive and benefits as management continues to control costs during these difficult economic times for the industry.

Effective January 1, 2019 the Corporation has suspended the practice of capitalizing certain salary and benefit costs associated with staff directly involved in exploration and development activities until such time as there is a more substantial exploration and development program. Accordingly, during the three and nine months ended September 30, 2019 CSRI capitalized a total of \$ nil (2018 - \$62,611 and \$192,914, respectively) of general and administrative expenses, including consulting fees, salaries and benefits directly related to exploration and development activities.

Exploration and Evaluation Expense

The Corporation expensed \$186,955 and \$354,426, respectively, of exploration and evaluation expense for the the three and nine months ended September 30, 2019. The expense for the third quarter and year-to-date are due to the increase in decommissioning liability which was recorded as exploration and evaluation expense as it related to exploration and evaluation assets that were impaired to nil at December 31, 2018.

Depletion and Depreciation

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Depletion	\$ -	\$ -	\$ -	\$ 71,010
Depreciation of property, plant and equipment (“PP&E”)	71,188	71,188	213,564	214,302
Depreciation of Right-of-use assets	1,344	-	5,258	-
	72,532	71,188	218,822	285,312

Depletion expense for the three and nine months ended September 30, 2019 is nil as the Corporation’s natural gas production is shut-in. Depreciation of PP&E is primarily comprised of straight-line depreciation on the Corporation’s 25% interest in the Williston Reservoir water pipeline. As this pipeline has not had any capital improvement in the year, depreciation is comparable to prior periods for both the quarter ended and nine months ended September 30, 2019.

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Share-Based Compensation

At September 30, 2019, CSRI had 5,953,000 stock options to purchase common shares outstanding with a weighted average exercise price of \$0.15. CSRI expensed \$14,920 and \$38,295, respectively, for the three months and nine months ended September 30, 2019. There was no capitalized portion of share-based compensation expense recorded as the Corporation suspended capitalizing certain G&A costs including salaries until such time as there is a more significant exploration and development program.

Loss and comprehensive loss

		Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
	\$	606,634	\$ 333,796	\$ 1,526,999	\$ 986,064

The Corporation's loss and comprehensive loss for the three and nine months ended September 30, 2019 are \$606,634 and \$1,526,999, respectively, and are higher than the reported amounts in the comparable periods. The higher losses are substantially due to expensing revisions to the estimate of decommissioning liability for exploration and evaluation assets that have been impaired and the suspension of the practice of capitalizing G&A.

Capital expenditures

During the third quarter of 2019, the Corporation had no material capital expenditures. For the nine months ended September 30, 2019, CSRI incurred \$149,603 of capital expenditures for land maintenance costs associated with its undeveloped Montney lands and received \$52,942 of proceeds for disposing of idle equipment. The net capital expenditures for the nine months ended September 30, 2019 was \$96,661.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital balance as at September 30, 2019 was \$0.9 million which is primarily composed of cash and cash equivalents. CSRI has no established credit facility and accordingly no outstanding bank debt at September 30, 2019. The Corporation's shareholders capital is \$36.3 million at September 30, 2019.

CSRI's capital and operating budget is approved on an annual basis, and subsequently reviewed quarterly, by the Corporation's Board of Directors. The Board of Directors has approved an aggregate capital and operating budget of \$1.7 million for fiscal 2019. Based on the 2019 natural gas price forecast, the 2019 budget does not assume the shut-in natural gas wells will be back on production during the year. The first nine months of financial results were comparable to budget.

The Corporation will continue to pursue financing alternatives to maintain CSRI as a going concern as it seeks and evaluates its strategic alternatives. 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 future working capital requirements and any future exploration and development programs. The financial statements for the three and nine months ended September 30, 2019 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.

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SHARE CAPITAL

As at September 30, 2019 the Corporation 196,177,583 common shares outstanding and 5,953,000 options to acquire common shares at an average exercise price of \$0.15 per share. There was no change in common shares or outstanding stock options during the nine months ended September 30, 2019.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation had no off-balance sheet transactions during the three months ended September 30, 2019.

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the three months ended March 31, 2019, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business are as follows:

The Corporation retains Jeffrey E. Dyck Professional Corporation (“DyckCorp”) to provide legal, director and corporate secretary services. During the six months ended September 30, 2019, the Corporation incurred \$18,690 (December 31, 2018: \$26,125) of total fees and disbursements, including taxes, from DyckCorp. Such fees have been recorded at amounts agreed upon by the respective parties. As at September 30, 2019 an accounts payable balance of \$5,050 (December 31, 2018: \$18,386) was outstanding to DyckCorp.

COMMITMENTS

The Corporation had no capital commitments as at September 30, 2019 (December 31, 2018 – nil). In the case of a change of control or the termination of employment of the Corporation’s executive officers there would be a \$644,236 commitment as at September 30, 2019 (December 31, 2018 – \$587,088).

CRITICAL ACCOUNTING ESTIMATES

CSRI’s significant accounting policies are disclosed in Note 2 to the December 31, 2018 financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. CSRI continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated. CSRI’s financial and operating results incorporate certain estimates and assumptions including the following:

- Estimated depletion and depreciation charges that are based on estimates of natural gas reserves that CSRI expects to recover in the future;
- Estimated value of decommissioning liabilities that is dependent upon estimates of future costs and timing of expenditures;
- Estimated future recoverable value of E&E, PP&E and Royalty Credits any associated impairment charges or recoveries;
- Estimated compensation expense for Corporation’s share-based compensation plan; and
- Assumptions regarding going concern.

CHANGES IN ACCOUNTING POLICIES

The Corporation adopted IFRS 16 “Leases” on January 1, 2019. Additional information regarding the adoption of the standard and the impact can be found in Note 2 to the condensed interim financial statements for the three and nine months ended September 30, 2019.

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FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 3 - Business Combinations (“IFRS 3”)

IFRS 3 has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020. The amendment to IFRS 3 is expected to have no impact for the Corporation.

IAS 1 - Presentation of financial statements (“IAS 1”) and IAS 8 – Accounting policies, changes in accounting estimates and errors (“IAS 8”)

IAS 1 and IAS 8 have been amended to (i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; (ii) clarify the explanation of the definition of material; and (iii) incorporate guidance in IAS 1 regarding immaterial information. The amendments to IAS 1 and IAS 8 are effective for the years beginning on or after January 1, 2020. These amendments are expected to have no impact for the Corporation.

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):

SELECTED QUARTERLY INFORMATION ⁽¹⁾

(000's, unless otherwise indicated)

	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Average sales volumes	(2)	(2)	(2)	(2)	(2)	(2)		
- natural gas (MMcf/d)	-	-	-	-	-	0.55	0.54	0.57
Sales price (per Mcf)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.43	\$ 1.88	\$ 0.53
Total sales volumes								
- natural gas (MMcf)	-	-	-	-	-	16.5	48.4	52.3
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24	\$ 91	\$ 27
Operating netback	\$ (95)	\$ (91)	\$ (50)	\$ (25)	\$ (22)	\$ (36)	\$ 4	\$ (47)
Cash flows used in operating activities	\$ (319)	\$ (327)	\$ (271)	\$ (168)	\$ (243)	\$ (218)	\$ (275)	\$ (185)
Net Loss and comprehensive loss	\$ (607)	\$ (593)	\$ (328)	\$ (6,377)	\$ (334)	\$ (326)	\$ (327)	\$ (858)
- per share basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.03)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Working capital	\$ 890	\$ 1,212	\$ 1,618	\$ 1,920	\$ 871	\$ 1,209	\$ 1,597	\$ 1,962
Total assets	\$ 39,194	\$ 39,586	\$ 39,962	\$ 40,201	\$ 44,994	\$ 45,323	\$ 45,661	\$ 46,023
Shareholders' equity	\$ 36,260	\$ 36,852	\$ 37,433	\$ 37,749	\$ 42,673	\$ 42,929	\$ 43,243	\$ 43,553
Common shares outstanding	196,178	196,178	196,178	196,178	177,494	177,494	177,494	177,494
Net capital expenditures	\$ -	\$ 78	\$ 19	\$ 164	\$ 156	\$ 155	\$ 175	\$ 139

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.

- Net loss and comprehensive loss for Q3 2019 includes \$187,249 of exploration and evaluation expense due to changes in estimates for decommissioning obligations for exploration and evaluation assets that were impaired to nil at December 31, 2018.
- Net loss and comprehensive loss for Q2 2019 includes \$167,471 of exploration and evaluation expense due to changes in estimates for decommissioning obligations for exploration and evaluation assets that were impaired to nil at December 31, 2018.
- Operating netback for each of the quarters in 2019 includes lease maintenance costs that were capitalized in prior years resulting in higher operating netback losses.

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- Quarterly capital expenditures are lower in 2019 and the quarterly net losses are higher as the Corporation has suspended capitalizing G&A until such time that the Corporation has a more substantial exploration and development program.
- Q4 2018 loss and comprehensive loss is impacted by a \$6.0 million impairment charge.
- Rights offerings in Q4 2017 and Q4 2018 increased working capital and common shares outstanding.

CORPORATE INFORMATION

Additional information regarding the Corporation is available on SEDAR at www.sedar.com or the Corporation's website at www.csri.ca.