



MANAGEMENT DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2020

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 the Corporation for the three and nine months ended September 30, 2020 should be read in conjunction with the unaudited Interim Financial Statements for the nine months ended September 30, 2020 and the accompanying notes, and the audited financial statements for the year ended December 31, 2019 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 27, 2020, 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 their impact on the Corporation, 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 the Corporation 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 the Corporation 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

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manner; the Corporation's ability to obtain financing on acceptable terms; field production rates and decline rates; future natural gas prices; 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 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, the Corporation 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 the Corporation 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.

DIRECTORS AND OFFICERS

Louisa DeCarlo, CEO and Director (Chairperson)

Luigi Liberatore, Director

David Monroe, Director

Stuart Ross, Director

Sead Hamzagic, CFO

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RESULTS FROM OPERATIONS

	Three months ended		Nine months ended	
	September 30,	2019	September 30,	2019
	2020		2020	
Natural gas sales	\$ -	\$ -	\$ -	\$ -
Operating costs	(59,363)	(94,928)	(198,568)	(236,013)
Operating netback	\$ (59,363)	\$ (94,928)	\$ (198,568)	\$ (236,013)
Other income and gains	44	4,905	23,203	77,821
Other Expenses	(286,856)	(516,611)	(942,020)	(1,368,807)
Settlement of claims	-	-	(514,552)	-
Net comprehensive loss for the period	\$ (346,175)	\$ (606,634)	\$ (1,631,937)	\$ (1,526,999)

Overview

Lack of pipeline egress for Canadian natural gas production coupled with an excess supply of North American natural gas 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 where the Corporation's natural gas production is delivered. Natural gas prices stabilized in early 2018, however, after the schedule of significant planned outages on the major pipeline systems was published, forward strip natural gas prices showed sub-economic returns on the Corporation's production. On May 1, 2018, the Corporation and its joint venture partner announced the shut-in of the natural gas production at the Farrell Creek/Altares (Montney) property. The Corporation and its joint venture partner will continue to monitor natural gas prices for the optimal time to return the field to production. The Corporation and its joint venture partner estimate that it would require a sustained price in the range of \$3.20 to \$3.50 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 tight control on 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.

For the three months ended September 30, 2020:

The Corporation's operating costs for the three months ended September 30, 2020 of \$53,363 is \$35,565 lower than the \$94,928 reported in the same period of 2019 mainly due to timing of expenses.

For the nine months ended September 30, 2020:

The Corporation's operating costs for the nine months ended September 30, 2020 of \$198,568 is slightly lower than the \$236,013 reported in the same period of 2019.

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Net Comprehensive Loss

For the three months ended September 30, 2020:

The Corporation's loss and comprehensive loss for the three months ended September 30, 2020 was \$346,175 (September 30, 2019 - \$606,634). When compared to the prior period, lower income and increase in net expenses, respectively, were reported. The lower income for the three months ended September 30, 2020 was due to interest and other income of \$44 compared to \$4,905 in the same period of 2019. Expenses were lower by \$265,320 during the period ended September 30, 2020 and mainly due to a reduction in Operating costs, General and Administrative expenses and Exploration and evaluation expenses.

For the nine months ended September 30, 2020:

The Corporation's loss and comprehensive loss for the nine months ended September 30, 2020 was \$1,631,937 (September 30, 2019 - \$1,526,999). When compared to the prior period, lower income and increase in net expenses, respectively, were reported. The lower income for the nine months ended September 30, 2020 was due to lower income on interest and other income of \$8,753 compared to \$24,879 and lower gains on sale of property plant and equipment of \$14,450 compared to \$52,942 in the same period of 2019. Expenses were higher by \$50,320 during the period ended September 30, 2020 and mainly due to an accrual of claims in the amount of \$514,552 which was accrued during the period as discussed in the narratives below and interest of \$25,000 on the \$600,000 debenture.

Settlement of Claims

For the three and nine months ended September 30, 2020:

In the case of a change of control or the termination of employment of two of the Corporation's executive officers there was a \$514,552 commitment as at March 31, 2020, (December 31, 2019: \$514,552). The Corporation terminated the employment of such executive officers in April 2020 and is negotiating a settlement of the \$514,552 commitment. The Corporation may or may not be successful in negotiating a lesser amount and as such accrued the \$514,522 in the Statements of Loss and Comprehensive Loss during the period ended June 30, 2020.

General and Administrative Expenses ("G&A")

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries, incentives and benefits	\$ -	\$ 129,147	\$ 164,537	\$ 403,191
Office premises and insurance	10,832	28,908	49,306	80,931
Professional fees	60,428	29,362	162,096	74,374
Consulting fees	84,273	9,100	210,931	34,375
Directors' fees	8,000	16,000	13,000	41,333
Office supplies and software licences	7,106	10,896	20,667	39,471
Investor relations and filing fees	4,578	4,247	19,646	24,323
Interest	18,261	-	25,000	-
Staffing costs	707	3,233	733	12,083
Other expenses (recovery)	1,536	411	8,101	946
	\$ 195,721	\$ 231,304	\$ 674,017	\$ 711,027

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For the three months ended September 30, 2020:

Gross G&A for the three months ended September 30, 2020 of \$195,721 has decreased by \$35,583 from the \$231,304 reported in the prior period is mainly due to Salaries and benefits which were replaced with increases in Professional fees and Consulting fees which increased due to the addition of contracted professional consultants to perform certain employees duties. The overall decrease was \$60,583, however, interest of \$25,000 on the \$600,000 debenture offset the reduction in G&A expenses to \$35,583.

For the nine months ended September 30, 2020:

Gross G&A for the nine months ended September 30, 2020 of \$674,018 has decreased by \$37,009 from the \$711,027 reported in the prior period. In the first three months there was an overlap between employees and consultants which is reflected in the nine month figure, however, now that the transition from employees to consultants has been fully implemented in the period ended June 30, 2020, it is anticipated that Gross G&A will continue to be lower each quarter. The overall decrease was \$55,270, however, interest of \$18,261 on the \$600,000 debenture offset the reduction in G&A expenses to \$37,009.

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.

Management has undertaken steps to reduce general and administrative expenses, including, but not limited to, field operational efficiencies, renegotiation of its office lease terms and reductions in staffing levels/remuneration. The changes began in March 2020 where management began reducing general and administrative expenses by eliminating its office lease and staff and replacing them with consultants with significant cost reductions. The office lease and staffing costs ended in April 2020 and the transition to consultants is now starting to show reduced G&A expenses.

Depletion and Depreciation

	Three months ended September 30, 2020		2019		Nine months ended September 30, 2020		2019	
Depreciation of property, plant and equipment ("PPE")	\$	71,188	\$	71,188	\$	213,564	\$	213,564
Depreciation of Right-of-use		1,344		1,344		4,032		5,258
	\$	72,532	\$	72,532	\$	217,596	\$	218,822

Depletion expense for the three and nine months ended September 30, 2020 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 period, depreciation is comparable to the same three and nine month periods ended September 30, 2019.

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Exploration and Evaluation Expense

From time to time, certain mineral leases expire thus eliminating the future economic benefits related to such leases. The expiring leases are primarily the Farrell Creek Gething formation containing coalbed methane. For the three months ended September 30, 2020, the Corporation expensed a total of \$Nil (2019 - \$186,955) and nine months ended September 30, 2020, the Corporation expensed a total of \$6,708 (2019 - \$354,426) of land lease costs as exploration and evaluation expense.

Impairment Expense

At December 31, 2019, the Corporation completed an assessment of the indicators for impairment for its Cash Generating Units (“CGUs”). As a result of indicators being present for the Farrell Creek Montney CGU, Farrell Creek Gething CGU and the Williston Reservoir Water Pipeline CGU, impairment tests were completed. Royalty credits were also tested for impairment. The impairment tests resulted in the Corporation recording an impairment charge to royalty credits in aggregate of \$148,595 in the year ended December 31, 2019. For the three and nine months ended September 30, 2020 no impairment charge was recorded (three and nine months ended 2019 - \$Nil).

Significant declines in petroleum and natural gas prices and in stock market valuations have occurred for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide petroleum and natural gas supply and demand. The impairment tests for the Corporation’s petroleum and gas assets are based on fair value less costs of disposal. The Corporation has not reflected these conditions in the recoverable amount estimates of the Corporation’s assets as at September 30, 2020. However, impairment indicators for the Corporation’s PP&E and E&E assets could exist subsequent to September 30, 2020, if current conditions persist. Management continues to work on revisions to the Corporation’s forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in the Corporation’s impairment indicator analysis and for impairment tests in the fourth quarter of 2020.

The following summarizes the results of the assessments and tests on each category of asset:

E&E Assets

The Corporation performed impairment tests as at December 31, 2019 to assess the recoverable value of E&E assets of both the Corporation’s Farrell Creek Montney CGU and the Farrell Creek Gething CGU. 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, 2019 prepared by independent reservoir engineering consultants. Based on these and other factors, the estimated recoverable amount of the Farrell Creek Montney E&E assets was calculated to be greater than the carrying value and as such there was no impairment. As at September 30, 2020, the estimated value of the facility remained unchanged and therefore no further impairment was recorded.

PP&E

During the year ended December 31, 2018, the Corporation performed an impairment test of the Farrell Creek Montney - D&P CGU within PP&E assets under the fair value less costs of disposal model and noted that the recoverable amount was substantially below the carrying amount, and accordingly, an impairment of \$1.2 million was recorded, which brought the Farrell Creek Montney - D&P CGU to a carrying value of \$Nil. No indicators suggest a reversal of impairment should be recorded for the period ended September 30, 2020.

As at September 30, 2020, the Corporation determined that there was no impairment required for the 25% interest in the Williston water pipeline.

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Royalty Credits

For the year ended December 31, 2019, the Corporation assessed the future recoverability of the undrawn balance of the Deep Royalty Credits (available for use only against royalties assessed on the wells that gave rise to the credit) compared to the proven plus probable future cash flow forecast prepared by the Corporation's independent reserve engineers. As a result of this assessment, the Corporation recorded an impairment charge of \$148,595 in December 31, 2019. For the three and nine months ended September 30, 2020 no impairment charge was recorded (three and nine months ended 2019 - \$Nil).

Share-Based Compensation

	Three months ended September 30, 2020		2019		Nine months ended September 30, 2020		2019	
Share-based compensation, gross	\$	11,155	\$	14,920	\$	16,527	\$	38,295

At September 30, 2020, the Corporation had options to purchase 1,850,000 (December 31, 2019 – 5,025,000) common shares outstanding with a weighted average exercise price of \$0.08. For the three months ended September 30, 2020, the Corporation expensed share compensation of \$11,155 (2019 - \$14,920) and for the nine months ended September 30, 2020, the Corporation expensed \$16,527 (2019 - \$38,295).

Income Taxes

The Corporation has not recorded deferred tax assets arising from the excess of income tax bases over carrying value due to the uncertainty related to the realization of such assets. The Corporation has tax pools of approximately \$102,998,476 including \$52,714,657 of non-capital loss carry-forwards, available for deduction against future taxable income. The non-capital losses expire between 2027 and 2039.

	As at December 31, 2019
Non-capital losses	\$ 52,714,657
Cumulative Canadian Exploration Expense	7,526,547
Cumulative Canadian Development Expense	26,732,026
Cumulative Canadian Oil and Gas Property Expense	15,352,432
Undepreciated capital costs	425,803
Share issue costs and other	247,011
	\$ 102,998,476

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Capital expenditures

The following table summarizes the Corporation's cash capital expenditures:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Exploration & evaluation	\$ 7,217	\$ 739	\$ 90,569	\$ 149,898
Property, plant & equipment	-	-	-	-
	\$ 7,217	\$ 739	\$ 90,569	\$ 149,898

During the nine month period ended September 30, 2020, the Corporation had capital expenditures of \$90,569 compared to \$149,898 in capital expenditures in the prior period for land maintenance costs associated with its undeveloped Montney lands and received proceeds of \$14,450 (on disposition of idle equipment) for a gain of \$14,450 compared to proceeds of \$52,942 for a gain of \$52,942 in the comparable prior period.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital deficit as at September 30, 2020 was \$656,784 (December 31, 2019 - \$588,325). The Corporation has an loan facility of \$600,000 and no outstanding bank debt at September 30, 2020. The Corporation's shareholders equity is \$34,762,435 at September 30, 2020 (December 31, 2019 - \$36,377,845).

The Corporation will continue to pursue financing alternatives to maintain the Corporation as a going concern as it seeks and evaluates strategic alternatives. In May 2020, the Corporation issued to its largest shareholder, Elmag Investment Inc., a redeemable secured debenture to borrow \$600,000 with a term of one year at 10% interest per annum payable in quarterly instalments on the 15th day of each of August, November, February and May. The debenture is secured by a general security agreement and a first floating charge on the Corporation's real property and acquired rights. Additional 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. The Corporation is also in negotiations with terminated officers respecting lowering the commitment of \$514,552. Nevertheless, there is no assurance that such initiatives would be successful.

During the period ended September 30, 2020 and subsequent to the period, significant declines in petroleum and natural gas prices and in stock market values have occurred for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide prices. The impairment tests for the Corporation's PP&E and E&E assets are based on fair value less costs of disposal. The Corporation has not reflected these conditions in the recoverable amount estimates of the Corporation's petroleum and natural gas assets as at September 30, 2020. However, impairment indicators for the Corporation's petroleum and gas assets could exist at September 30, 2020, if current conditions persist. Management continues to work on revisions to the Corporation's forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in the Corporation's impairment indicator analysis and for impairment tests in the fourth quarter of 2020, if such tests are required.

The Corporation'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 nine months ended September 30, 2020 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

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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. Refer to the Going Concern disclosure in Note 1 to the September 30, 2020 financial statements

CRITICAL ACCOUNTING ESTIMATES

The Corporation's significant accounting policies are disclosed in Note 2 to the September 30, 2020 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. The Corporation continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated. The Corporation'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 the Corporation 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 and associated impairment charges or recoveries;
- estimated compensation expense for the Corporation's share-based compensation plan; and
- assumptions regarding going concern.

For further information on the determination of certain estimates inherent in the financial statements, refer to Note 3 "Management Judgments and Estimation Uncertainty" in the financial statements as at and for the nine month period ended September 30, 2020.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

As of January 1, 2019, the Corporation adopted IFRS 16 which applies to annual periods beginning on or after January 1, 2019. Under IFRS 16, lease assets and liabilities will be required to be recognized on the balance sheet for many leases, where the entity is acting as a lessee. The Corporation adopted IFRS 16 using the modified retrospective method. Under this method, comparative asset and liability balances were not be restated as any cumulative effect of applying the standard to prior periods would be adjusted in opening retained earnings. The value of the lease liability at January 1, 2019 was based on the present value of lease payments remaining to be made as of January 1, 2019 and the lease asset recognized was equal to the lease liability at the date of transition. The Corporation applied the following adoption expedients: i) Exemption of short-term leases. A lease is considered to be short term if, at its commencement date, it is a term of 12 months or less; ii) Exemption of low-value leases. A lease is considered to be low value if the value of its underlying asset(s), when new, is equal to \$5,000 USD or less; and iii) Application of IFRS 16 to a portfolio of leases with similar characteristics.

The transition to IFRS 16 recorded \$48,387 to Right-of-use assets and a corresponding entry to Lease liabilities of \$48,387 on the financial statements.

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

The Corporation adopted IAS 1 and IAS 8 effective January 1, 2020. 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. These amendments had no impact for the Corporation.

IFRS 3 - Business Combinations (“IFRS 3”)

The Corporation adopted IFRS 3 effective January 1, 2020. The standard 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 had no impact for the Corporation.

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, 2020 and the date of this report, the Corporation had 196,177,583 common shares outstanding. As at November 27, the Corporation had 228,177,583 common shares outstanding.

Share Purchase Warrants

As at September 30, 2020, there were no share purchase warrants outstanding.

As at November 27, 2020, there were 20,000,000 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share at a price of eight cents for a period of two years expiring November 9, 2022.

Stock Options

During the nine months ended September 30, 2020, 4,175,000 (Year ended December 31, 2019 - 1,273,000) stock options expired and 1,000,000 (Year ended December 31, 2019 - Nil) stock options were granted. As at September 30, 2020 and as at the date of this report, the Corporation had outstanding options to purchase 1,850,000 common shares (being 0.94% of the common shares outstanding) at a weighted average exercise price of \$0.08 per common share.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation had no off-balance sheet transactions during the nine months ended September 30, 2020.

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the periods ended September 30, 2020 and 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 period ended September 30, 2020, the Corporation incurred \$29,498 (September 30, 2019: \$18,690) 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, 2020 an accounts payable balance of \$Nil (December 31, 2019: \$6,552) was outstanding to DyckCorp.

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Executive compensation for the nine months ended September 30, 2020 consists of amounts paid to or earned by executive officers, including incentives and benefits, of \$213,241 (September 30, 2019 - \$342,948) as well as fees paid or accrued to non-executive directors of \$13,000 (2019 - \$41,333).

COMMITMENTS

The Corporation had no capital commitments as at September 30, 2020 (December 31, 2019 – Nil). In the case of a change of control or the termination of employment of two of the Corporation's executive officers there would be a \$514,522 commitment as at September 30, 2020 (December 31, 2019 – \$514,522). The Corporation terminated the employment of such executive officers in April 2020 and is negotiating settlements of the \$514,552 commitment. The Company may or may not be successful in negotiating a lesser amount and as such accrued the \$514,522 in the Statements of Loss and Comprehensive Loss during the period ended June 30, 2020.

BUSINESS RISKS

The Corporation's production and exploration and development activities are concentrated in western Canada, where activity is highly competitive and includes a variety of companies ranging from smaller junior producers to the much larger integrated producers.

The Corporation is subject to various types of business risks and uncertainties, including but not limited to:

- production of natural gas in commercial quantities;
- finding and developing petroleum and natural gas reserves at economic costs;
- volatility of natural gas prices;
- marketability of natural gas production; and
- access to capital markets.

In order to reduce exploration risk, the Corporation strives to employ highly qualified professional employees and consultants with at demonstrated ability to generate quality proprietary geological and geophysical prospects. In addition, the Corporation has a joint venture partner for a significant portion of its producing and prospective Montney lands which maximizes access to knowledge, experience and technology while sharing the financial risks.

The Corporation's ability to continue its operations is highly dependent upon capital markets. Its ability to develop its assets and realize their carrying values is dependent upon the continued support of its shareholders and joint venture partner, favorable capital market conditions and commodity prices, obtaining additional equity financing, converting undiscovered and discovered resources into economically recoverable reserves, and ultimately, generating revenues sufficient to cover operating costs and capital requirements. Without the support of any one of these factors, or a number of them together, the Corporation's ability to continue its operations could be compromised. To minimize financial risk, the Corporation pre-funds all capital commitments.

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Subsequent to the period ended September 30, 2020, petroleum and natural gas prices and stock market values have recovered to November 2019 levels after the significant declines for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide prices. The impairment tests for the Corporation's PP&E and E&E assets are based on fair value less costs of disposal. Impairment indicators for the Corporation's oil and gas assets could exist subsequent to September 30, 2020, if significant declines return to levels experienced during the 9 months of decline beginning November 1, 2019 through July 31, 2020.

ENVIRONMENTAL RISKS

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Corporation works hard to understand the sensitivities of the environments in which it operates and its responsibilities from the beginning to the end. It also strives to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Corporation conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. The Corporation maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability.

The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. Without such insurance, and if the Corporation becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Corporation has available and result in financial distress.

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):

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Operating netback	\$ (198)	\$ (117)	\$ (22)	\$ (69)
Cashflow used in operating activities	\$ (283)	\$ (253)	\$ (200)	\$ (253)
Net Income (loss) and comprehensive income (loss)	\$ (346)	\$ (922)	\$ (363)	\$ 107
- per share basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Working capital (deficit)	\$ (657)	\$ (394)	\$ 253	\$ 588
Total assets	\$ 38,198	\$ 38,567	\$ 38,305	\$ 38,595
Shareholders' equity	\$ 34,762	\$ 35,097	\$ 36,020	\$ 36,378
Common shares outstanding	196,178	196,178	196,178	196,178
Capital expenditures	\$ 7	\$ 24	\$ 60	\$ 82

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2020

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Operating netback	\$ (95)	\$ (91)	\$ (50)	\$ (25)
Cashflow used in operating activities	\$ (319)	\$ (327)	\$ (271)	\$ (168)
Net loss and comprehensive loss	\$ (607)	\$ (593)	\$ (328)	\$ (6,377)
- per share basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.03)
Working capital	\$ 890	\$ 1,212	\$ 1,618	\$ 1,920
Total assets	\$ 39,194	\$ 39,586	\$ 39,962	\$ 40,201
Shareholders' equity	\$ 36,260	\$ 36,852	\$ 37,433	\$ 37,749
Common shares outstanding	196,178	196,178	196,178	196,178
Capital expenditures	\$ -	\$ 78	\$ 19	\$ 164

Notes:

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

SELECTED ANNUAL INFORMATION

	2019	2018	2017
Petroleum and natural gas sales	\$ -	\$ 114,749	\$ 378,912
Net loss and comprehensive loss	1,421,434	7,362,931	1,988,470
- per share basic and diluted	0.01	0.04	0.01
Working capital	588,325	1,920,171	1,962,236
Total assets	38,595,074	40,200,580	46,022,981
Long term lease liability	41,618	-	-
Shareholders' equity	36,377,845	37,748,577	43,553,128
Common shares outstanding	196,177,583	196,177,583	177,494,004
Net capital expenditures	179,833	650,263	678,394

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2020

CRITICAL ACCOUNTING ESTIMATES

The Corporation's significant accounting policies are disclosed in Note 2 to the September 30, 2020 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. The Corporation continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated.

The Corporation'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 the Corporation 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.

CORPORATE INFORMATION

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