



MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 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 twelve months ended December 31, 2020 should be read in conjunction with the audited financial statements for the year ended December 31, 2020 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 April 19, 2021, 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 manner; the Corporation’s ability to obtain financing on acceptable terms; field production rates and decline

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

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

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 31, 2020

RESULTS FROM OPERATIONS

	Three months ended December 31, 2020		2019		Twelve months ended December 31, 2020		2019	
Natural gas sales	\$	-	\$	-	\$	-	\$	-
Operating costs		(6,199)		(68,573)		(204,767)		(304,586)
Operating netback	\$	(6,199)	\$	(68,573)	\$	(204,767)	\$	(304,586)
Other income and gains		44		267,234		23,247		345,055
Other Expenses		(299,069)		(93,096)		(1,241,089)		(1,461,903)
Settlement of claims		(40,961)		-		(555,513)		-
Net comprehensive loss for the period	\$	(346,185)	\$	(105,565)	\$	(1,978,122)	\$	(1,421,434)

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/Altas (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.

Net Comprehensive Loss

For the three months ended December 31, 2020:

The Corporation's loss and comprehensive loss for the three months ended December 31, 2020 was \$346,185 (December 31, 2019 income - \$105,565) resulting in an increased loss of 451,750 for the three months. Items that caused the net increase in loss are noted in the following:

In comparison to the three-month period ended December 31, 2019:

Other income and gains:

- Interest and other income of \$44 (2019 - \$4,229) decreased by \$4,185 mainly due to a reduction in Interest income of \$2,954 Mining, forestry and road use income of \$1,231.
- Gain on remeasurement of ARO of \$Nil (2019 - \$263,005) was due to the remeasurement at the Company's year end.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

Expenses:

- Operating costs of \$6,199 (2019 - \$68,573) decreased by \$62,374 due to a reduction in activities on the Company's properties in the current period compared to the three-month period end in 2019.
- General and administrative expenses of \$148,320 (2019 - \$205,874) decreased by \$57,554 mainly due to the transition from employees to consultants and the use of a virtual office resulting in a cost savings.
- Depletion and depreciation of \$72,532 (2019 - \$72,532) was consistent to the comparative period.
- Finance costs of \$12,691 (2019 - \$8,114) increased slightly by \$4,577.
- Share-based compensation of \$31,234 (2019 - \$12,407) increased by \$18,827 due to timing of stock options issued and the timing of vesting of the options.
- Exploration and evaluation, credit of \$6,708 (2019 credit - \$354,426) was due to reclassifications of prior quarter costs.
- Impairment of \$41,000 (2019 - \$148,595) decreased by \$107,595 and was due to impairments of royalty credits.
- Settlement of claims of \$40,961 (2019 - \$Nil) increased by \$40,961 due to an increase in estimated settlements on the termination of two executive employment contracts.

For the twelve months ended December 31, 2020:

The Corporation's loss and comprehensive loss for the twelve months ended December 31, 2020 was \$1,978,122 (December 31, 2019 - \$1,421,434) resulting in an increased loss of 556,688 for the twelve months. Items that caused the net increase in loss are noted in the following:

In comparison to the twelve-month period ended December 31, 2019:

Other income and gains:

- Interest and other income of \$8,797 (2019 - \$29,108) decreased by \$20,311 mainly due to a reduction in interest income and Mining, forestry and road use income.
- Gain on remeasurement of ARO of \$Nil (2019 - \$263,005) was due to the remeasurement at the Company's year end.
- Gain on sale of property, plant and equipment of \$14,450 (2019 - \$52,942) decreased by \$38,492 and is due to idle assets not being utilized and sold.

Expenses:

- Operating costs of \$204,767 (2019 - \$304,586) decreased by \$99,819 due to a reduction in activities on the Company's properties in the current period compared to the twelve-month period end in 2019.
- General and administrative expenses of \$822,338 (2019 - \$916,901) decreased by \$94,563 mainly due to the transition from employees to consultants and the use of a virtual office resulting in a cost savings.
- Depletion and depreciation of \$290,128 (2019 - \$291,354) was relatively consistent to the comparative period.
- Finance costs of \$39,862 (2019 - \$54,351) decreased by \$14,489 due to the reduction in accreted interest on lease and decommissioning liabilities.
- Share-based compensation of \$47,761 (2019 - \$50,702) decreased by \$2,941 due to timing of stock options issued and the timing of vesting of the options.
- Impairment of \$41,000 (2019 - \$148,595) decreased by \$107,595 and was due to impairments of royalty credits.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

- Settlement of claims of \$555,513 (2019 - \$Nil) was due to accrued settlement expenses on the termination of two executive employment contracts during the period. The settlement payments were made in January 2021 .

General and Administrative Expenses (“G&A”)

	Three months ended December 31, 2020		2019		Twelve months ended December 31, 2020		2019	
Salaries, incentives and benefits	\$	320	\$	116,740	\$	164,857	\$	519,931
Office premises and insurance		10,523		18,009		59,829		98,940
Professional fees		72,088		16,123		234,184		90,497
Consulting fees		52,158		14,882		263,089		49,257
Directors’ fees		5,480		16,300		18,480		57,633
Office supplies and software licences		13,268		17,166		33,935		56,637
Investor relations and filing fees		16,080		4,076		35,726		28,399
Staffing costs		-		2,019		733		14,102
Other expenses		3,404		559		11,505		1,505
	\$	173,321	\$	205,874	\$	822,338	\$	916,901

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 December 31, 2020		2019		Twelve months ended December 31, 2020		2019	
Depreciation of property, plant and equipment (“PPE”)	\$	71,188	\$	71,188	\$	284,752	\$	285,978
Depreciation of Right-of-use		1,344		1,344		5,376		5,376
	\$	72,532	\$	72,532	\$	290,128	\$	291,354

Depletion expense for the three and twelve months ended December 31, 2020 is \$Nil as the Corporation’s natural gas production is shut-in.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

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 twelve month periods ended December 31, 2019.

Impairment Expense

At December 31, 2020, 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 \$41,000 (2019 - \$148,595).

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, 2020 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, 2020 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 December 31, 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 year ended December 31, 2020.

As at December 31, 2020, the Corporation determined that there was no impairment required for the 25% interest in the Williston water pipeline.

Royalty Credits

For the year ended December 31, 2020, 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 \$41,000 (2019 - \$148,595).

Share-Based Compensation

	Three months ended December 31, 2020		2019		Twelve months ended December 31, 2020		2019	
Share-based compensation, gross	\$	31,234	\$	12,407	\$	47,761	\$	50,702

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

At December 31, 2020, the Corporation had options to purchase 4,650,000 (December 31, 2019 – 5,025,000) common shares outstanding with a weighted average exercise price of \$0.09. For the three months ended December 31, 2020, the Corporation expensed share compensation of \$31,234 (2019 - \$12,407) and for the twelve months ended December 31, 2020, the Corporation expensed \$47,761 (2019 - \$50,702).

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 \$104,789,968 including \$79,874,427 of non-capital loss carry-forwards, available for deduction against future taxable income. The non-capital losses expire between 2026 and 2040.

	As at December 31, 2020	As at December 31, 2019
Non-capital losses	\$ 79,874,427	\$ 52,714,657
Cumulative Canadian Exploration Expense	7,871,250	7,526,547
Cumulative Canadian Development Expense	6,603,850	26,732,026
Cumulative Canadian Oil and Gas Property Expense	10,072,731	15,352,432
Undepreciated capital costs	199,986	425,803
Share issue costs and other	167,724	247,011
	\$ 104,789,968	\$ 102,998,476

Capital expenditures

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

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Exploration & evaluation	\$ 254,133	\$ 29,491	\$ 344,702	\$ 179,389
Property, plant & equipment	-	-	-	-
	\$ 254,133	\$ 29,491	\$ 344,702	\$ 179,389

During the twelve month period ended December 31, 2020, the Corporation had capital expenditures of \$344,702 compared to \$179,389 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 during 2020 compared to proceeds of \$52,942 for a gain of \$52,942 during 2019.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 31, 2020

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital as at December 31, 2020 was \$464,264 (December 31, 2019 - \$588,325). The Corporation's shareholders equity is \$36,047,484 at December 31, 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, which was settled in November 2020. In November 2020, the Corporation also received \$1,000,000 in a private placement. 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 negotiated with terminated officers respecting lowering the commitment of their contracted liability to \$555,513.

During the period ended December 31, 2020, the 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 December 31, 2020. However, impairment indicators for the Corporation's petroleum and gas assets could exist at subsequent to December 31, 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 first quarter of 2021, 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 twelve months ended December 31, 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 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 December 31, 2020 financial statements.

CRITICAL ACCOUNTING ESTIMATES

The Corporation's significant accounting policies are disclosed in Note 2 to the December 31, 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 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.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 31, 2020

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 year ended December 31, 2020.

CHANGES IN ACCOUNTING POLICIES

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.

NEW ACCOUNTING POLICIES AND AMENDMENTS TO BE ADOPTED

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting periods beginning on or after January 1, 2022 and will have no impact for the Corporation.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023 and will have 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 December 31, 2020, the Corporation had 228,177,583 common shares outstanding.

As at April 19, 2021 the Corporation had 248,177,583 common shares outstanding.

Share Purchase Warrants

As at December 31, 2020, there were 20,000,000 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share at a price of \$0.08 for a period of two years expiring November 9, 2022.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 31, 2020

As at April 19, 2021 there were no share purchase warrants outstanding. 20,000,000 share purchase warrants were exercised at \$0.08 per share for total proceeds of \$1,600,000 on April 15, 2021.

Stock Options

As at December 31, 2020 the Corporation had outstanding options to purchase 4,650,000 common shares at a weighted average exercise price of \$0.09 per common share.

As at April 19, 2021 the Corporation had outstanding options to purchase 4,050,000 common shares at a weighted average exercise price of \$0.09 per common share.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation had no off-balance sheet transactions during the year ended December 31, 2020.

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the year ended December 31, 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 year ended December 31, 2020, the Corporation incurred \$29,498 (2019: \$25,612) of total fees and disbursements, including taxes, from DyckCorp. Such fees have been recorded at amounts agreed upon by the respective parties. As at December 31, 2020 an accounts payable balance of \$Nil (2019: \$6,552) was outstanding to DyckCorp. The balance owing is unsecured, non-interest bearing, and has no specific terms of repayment.

Executive Compensation

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

	December 31, 2020	December 31, 2019
Included in general and administrative expenses		
Salaries, incentives and benefits	\$ 150,241	\$ 439,029
Professional fees (non-executive)	28,093	17,850
Professional fees (executive)	91,340	-
Directors' fees	18,480	57,633
Share-based compensation, gross	47,761	50,674
	\$ 335,915	\$ 440,426

As at December 31, 2020 an accounts payable balance of \$11,206 (2019: \$Nil) was outstanding to the officers and directors of the Corporation. The balance owing is unsecured, non-interest bearing, and has no specific terms of repayment

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 31, 2020

COMMITMENTS

The Corporation had no capital commitments as at December 31, 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 \$555,513 commitment as at December 31, 2020 (December 31, 2019 – \$514,552). The Corporation terminated the employment of such executive officers in April 2020 and negotiated settlements of the \$555,513 commitment. The Company paid the settlement in January 2021 and as such accrued the \$555,513 in the Statements of Loss and Comprehensive Loss during the year ended December 31, 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.

Subsequent to the period ended December 31, 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 December 31, 2020, if significant declines return to levels experienced during the period of decline beginning November 1, 2019 through December 31, 2020.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 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 ANNUAL INFORMATION

	2020	2019	2018
Petroleum and natural gas sales	\$ -	\$ -	\$ 114,749
Net loss and comprehensive loss	1,978,122	1,421,434	7,362,931
- per share basic and diluted	0.01	0.01	0.04
Working capital	464,264	588,325	1,920,171
Total assets	39,132,048	38,595,074	40,200,580
Long term lease liability	37,612	41,618	-
Shareholders' equity	36,047,484	36,377,845	37,748,577
Common shares outstanding	228,177,583	196,177,583	196,177,583
Net capital expenditures	344,702	179,389	650,263

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended December 31, 2020

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):

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Operating netback	\$ (7)	\$ (59)	\$ (117)	\$ (22)
Cashflow used in operating activities	\$ (59)	\$ (283)	\$ (253)	\$ (200)
Net Income (loss) and comprehensive income (loss)	\$ (347)	\$ (346)	\$ (922)	\$ (363)
- per share basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Working capital (deficit)	\$ 464	\$ (657)	\$ (394)	\$ 253
Total assets	\$ 39,132	\$ 38,198	\$ 38,567	\$ 38,305
Shareholders' equity	\$ 36,047	\$ 34,762	\$ 35,097	\$ 36,020
Common shares outstanding	228,177	196,178	196,178	196,178
Capital expenditures	\$ 254	\$ 7	\$ 24	\$ 60

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Petroleum and natural gas sales	\$ -	\$ -	\$ -	\$ -
Operating netback	\$ (69)	\$ (95)	\$ (91)	\$ (50)
Cashflow used in operating activities	\$ (253)	\$ (319)	\$ (327)	\$ (271)
Net loss and comprehensive loss	\$ 107	\$ (607)	\$ (593)	\$ (328)
- per share basic and diluted	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.00)
Working capital	\$ 588	\$ 890	\$ 1,212	\$ 1,618
Total assets	\$ 38,595	\$ 39,194	\$ 39,586	\$ 39,962
Shareholders' equity	\$ 36,378	\$ 36,260	\$ 36,852	\$ 37,433
Common shares outstanding	196,178	196,178	196,178	196,178
Capital expenditures	\$ 29	\$ -	\$ 78	\$ 72

Notes:

(1) Quarterly amounts may not total or calculate to year-to-date amounts due to rounding.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

CRITICAL ACCOUNTING ESTIMATES

The Corporation's significant accounting policies are disclosed in Note 2 to the December 31, 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 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.