



MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended June 30, 2024

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 Montney area of northeastern British Columbia.

READER ADVISORIES

The Corporation has changed its year-end from December 31 to June 30, effective June 30, 2023. The following management discussion and analysis (“MD&A”) of the financial conditions and results of operations of the Corporation should be read in conjunction with the audited Financial Statements for the year ended June 30, 2024 and the accompanying notes prepared under International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) 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 October 22, 2024, the date of review and approval by the Corporation’s Board of Directors.

Forward-looking Statements

The 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 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 that 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

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statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-IFRS 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. 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.

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)

Marc-Andre Liberatore, Director

David Monroe, Director

Sarah Hawco, Director

Greg Florence, CFO

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RESULTS FROM OPERATIONS

	Periods ended		
	June 30, 2024 (12 months)	June 30, 2023 (6 months)	December 31, 2022 (12 months)
Natural gas sales	\$ 293,811	\$ 400,783	\$ 284,006
Royalties	(16,101)	(52,473)	(10,544)
Operating costs	(458,999)	(444,698)	(640,087)
Operating netback	\$ (181,289)	\$ (96,388)	\$ (366,625)
Interest and other income	86,568	79,964	19,517
Other expenses	(1,634,323)	(1,095,716)	(1,357,149)
Impairment	(4,940,000)	-	(121,695)
Loss on disposition	(3,231,862)	-	-
Net comprehensive loss for the period	\$ (9,900,906)	\$ (1,112,140)	\$ (1,825,952)

OPERATING NETBACK (\$ per MCF)

	Periods ended		
	June 30, 2024 (12 months)	June 30, 2023 (6 months)	December 31, 2022 (12 months)
Natural gas sales	\$ 2.19	\$ 2.58	\$ 2.60
Royalties	(0.12)	(0.34)	(0.10)
Operating costs	(3.42)	(2.86)	(5.86)
Operating netback	\$ (1.35)	\$ (0.62)	\$ (3.36)

Overview

As a result of the continued deterioration of Station 2 natural gas prices accompanied by the further discounted price experienced by producers in northeastern British Columbia producing into the Spectra main pipeline, the Corporation's natural gas production at Farrell Creek/Altares was shut-in for a total of 212 days during the year ended June 30, 2024.

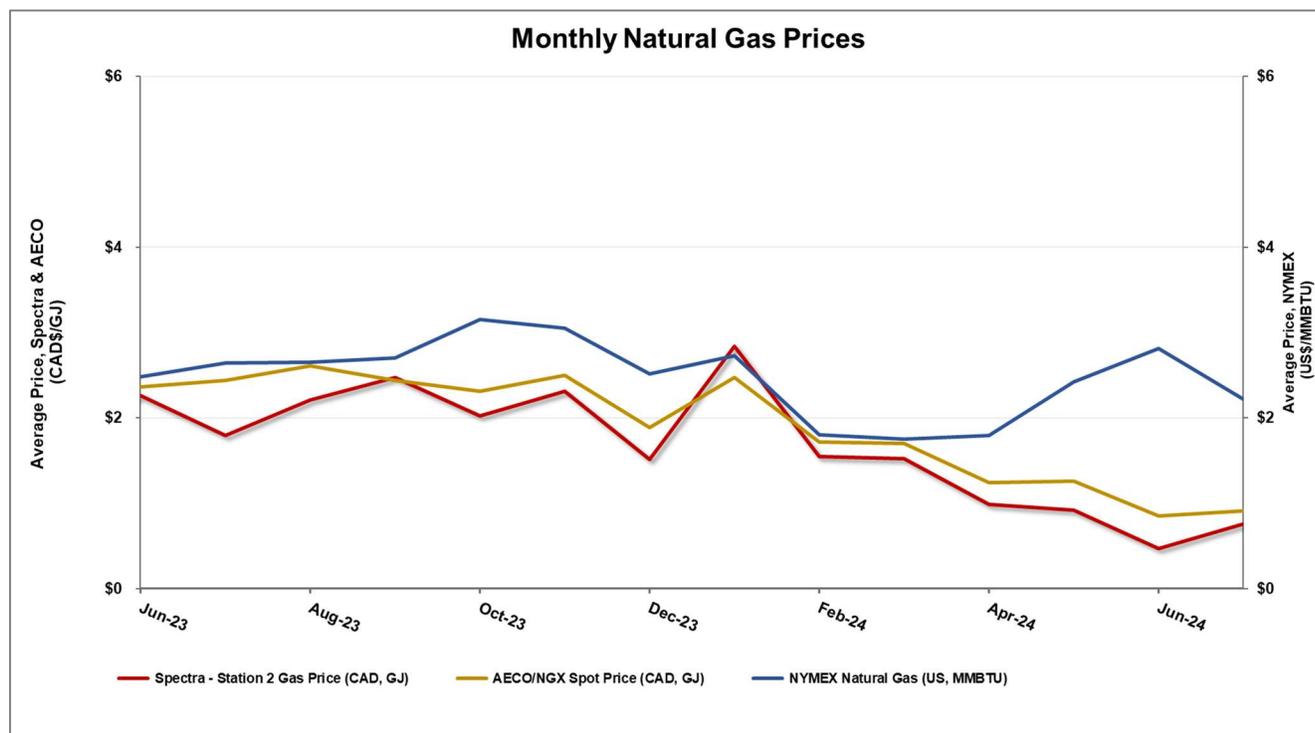
During the year ended June 30, 2024, the Corporation's joint venture Montney wells produced 134,166 mcf (net to the Corporation) over a period of 154 days, averaging 871 mcf per day. During the six months period ended June 30, 2023, the Corporation's Montney wells produced 155,335 mcf (net to the Corporation) over a period of 154 days, averaging 1,009 mcf per day, in comparison to 109,115 mcf over a period of 62 days, and an average of 1,760 mcf per day for the year ended December 31, 2022.

Gas prices at Station 2 continue to be extremely volatile as shown below, but the Corporation remains cautiously optimistic that prices will stabilize once LNG export facilities in British Columbia become operational in 2025. If prices improve and show stability, the Corporation has additional production that it can tie-in.

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The board of directors of the Corporation determined that it is in the best interest of shareholders to seek strategic alternatives and engaged Sayer Energy Advisors to assist in developing opportunities to maximize the value of its Montney assets while maintaining and extending the life of its mineral leases on prospective Montney lands.

As part of the strategic process, the Corporation disposed of 10,472 net acres of undeveloped Montney lands located in the Farrell Creek and Attachie areas of Northeastern British Columbia on June 25, 2024 for gross proceeds to the Corporation of \$5,000,000, subject to closing adjustments. The Corporation continues to work with Sayer Energy Advisors to review strategic alternatives and maximize the value of the remaining assets in northeastern British Columbia and other corporate assets.

Throughout the year ended June 30, 2024, the Corporation maintained its disciplined approach to streamline its operations and reduce expenses while meeting and exceeding regulatory requirements to minimize its environmental footprint. The Corporation's 13 operated wells have all been abandoned and require only surface remediation which commenced in 2024 and will continue through the 2025 fiscal year.

GOING CONCERN

As at June 30, 2024 the Corporation had a working capital balance of \$5,213,913 (June 30, 2023: \$123,980) and incurred a net loss and comprehensive loss of \$9,900,906 for the year ended June 30, 2024 (six months period ended June 30, 2023: \$1,112,140; year ended December 31, 2022: \$1,825,592) and used cash flows in operating activities of \$1,322,416 for the year period ended June 30, 2024 (six months period ended June 30, 2023: \$303,502; year ended December 31, 2022: \$1,332,214). In addition to covering on-going working capital requirements and recurring negative cash flows used in operating activities, the Corporation will need to secure additional funding for any future exploration and development programs. Natural gas prices in the Corporation's operating area do not generate revenues sufficient to cover ongoing operating and general and administrative expenses and the Corporation's working interest wells were shut in from July to October 2023 and May and June 2024. There is no guarantee that natural gas

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prices will improve to levels required for the Corporation's wells to be placed back on production. The Corporation's ability to continue as a going concern is dependent upon its ability to fund any future exploration and development programs as well as generate positive cash flows from operating activities. Significant additional financing is required in order for the Corporation to be able to further develop its oil and gas properties and exploration and evaluation assets and meet both its existing and future obligations. There is no guarantee that the Corporation will be successful in this regard. As such a material uncertainty exists that casts significant doubt on the Corporation's ability to continue as a going concern.

Management believes that the use of the going concern assumption is appropriate in the preparation of these financial statements. Management will need to pursue other financing alternatives to fund the Corporation so that it may continue as a going concern. The necessary financing may be secured through either the issue of new equity or debt instruments or entering into new joint venture or farm-in arrangements. Nevertheless, there is no assurance that such initiatives will be successful.

These financial statements do not reflect any adjustments to the carrying values and classifications of assets and liabilities, or to the reported revenues and expenses that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

The Corporation continues its disciplined approach of streamlined operations and minimal administrative expenses while meeting and exceeding regulatory requirements to minimize its environmental footprint. The Corporation had previously abandoned 12 shallow (non-Montney) idle wells, which represented approximately 70 % of the Corporation's operated idle wells. These wells are scheduled for surface remediation work to be completed during the year ended June 30, 2025.

The Corporation continues to actively seek strategic alternatives to maximize the value of its Montney assets while maintaining and extending the life of its mineral leases on prospective Montney lands.

NET COMPREHENSIVE LOSS

The Corporation changed its year-end from December 31 to June 30 effective, June 30, 2023. As such, the amounts shown in this MD&A are not comparable.

Year-ended June 30, 2024

The Corporation's loss and comprehensive loss for the year ended June 30, 2024 was \$9,900,906 (six months period ended June 30, 2023: \$1,112,140 and year ended December 31, 2022: \$1,825,952). Items that impacted the loss are noted in the following:

Revenues

- Gross revenues for the year ended June 30, 2024 totaled \$293,811 (six months period ended - \$400,783; year ended December 31, 2022 - \$284,006) as wells produced a total of 154 days for the year ended June 30, 2024, (six months ended June 30, 2023: 154 days; year ended December 31, 2022: 62 days). The Corporation's natural gas prices averaged \$2.19 per mcf (six months ended June 30, 2023 - \$2.58; year ended December 31, 2022: \$2.60).
- Royalties for the year ended June 30, 2024 totaled \$16,101 (six months period ended June 30, 2023 - \$52,473; year ended December 31, 2022 - \$10,544) or approximately 5.5% of gross revenues (six months period ended June 30, 2023 - 13.1%; year ended December 31, 2022: 3.7%). During the three periods reviewed above, the Corporation was able to utilize drilling credits from its Deep Well Bank and Summer Drilling Royalty Bank to offset all royalties payable. As a result, no cash payments were required.

Expenses:

- Operating costs of \$458,999 were incurred during the year ended June 30, 2024 (six months ended June 30, 2023 - \$444,698 and year ended December 31, 2022 - \$640,087). Operating costs per mcf were \$3.42 for the

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year ended June 30, 2024 (six months period ended June 30, 2023 - \$2.86; year ended December 31, 2022 - \$5.86). It should be noted that in 2022 the company spent approximately \$258,000 to recommission the Farrell Creek gas plant and the associated gathering system and wells; preparing them to bring production back on.

- General and administrative expenses were \$683,785 during the year ended June 30, 2024 (six months ended June 30, 2023 - \$507,814; December 30, 2022 - \$620,557).
 - Consulting fees were \$313,459 during 2024 (six months ended June 30, 2023 - \$182,239; year ended December 31, 2022 - \$287,446). 2024 includes costs associated the E&E asset sale and mineral lease continuation work. 2023 reflects a lower management costs from 2022.
 - Professional fees were \$215,715 during 2024 (six months ended June 30, 2023 - \$234,936; year ended December 31, 2022 - \$204,496). 2024 includes an advisory fee related to the Montney E&E asset sale. Audit fees for the year ended June 30, 2023 were significantly higher than in other periods.
 - Director’s fees were \$16,000 in 2024 (six months ended June 30, 2023- \$8,000; December 30, 2022 - \$18,000).
 - Investor relations and filing fees were \$41,481 in 2024 (six months ended June 30, 2023- \$23,371; year ended December 31, 2022 - \$49,355). 2024 includes higher costs associate with the Corporation’s AGM. 2022 includes higher filing fee, transfer agent fees and new release costs.
 - Insurance costs increased substantially in 2024 to \$55,448 (six months ended June 30, 2023- \$19,260; year ended December 31, 2022 - \$13,876) as a result of premium increases.
 - Office supplies, software licenses and other were \$41,682 (six months ended June 30, 2023- \$40,008, year ended December 31, 2022 – \$47,384).
- Depletion and depreciation expenses were \$439,620 for the year ended June 30, 2024 (six months ended June 30, 2023- \$316,020; year ended December 31, 2022 - \$290,128).
- Finance costs of \$103,607 were recorded in June 30, 2024, including accretion expenses related to decommissioning liabilities of \$100,143 (June 30, 2024 - \$53,652, including \$50,110 in accretion expense; December 31, 2022 - \$69,379, including \$64,886 of accretion expense).
- Share-based compensation recorded during the year ended June 30, 2024 was \$322,770 (six months ended June 30, 2023- \$229,141; year ended December 31, 2022 - \$369,157).

Other income and gains:

- Interest and other income was \$86,568 during the year ended June 30, 2024 (six months ended June 30, 2023– (\$10,911), December 31, 2022 - \$7,928). Drilling credits granted and included as other income in 2024 were \$67,424 (six months ended June 30, 2023- \$19,674, year ended December 31, 2022 - \$Nil).

Three months ended June 30, 2024

The Corporation’s loss and comprehensive loss for the three months ended June 30, 2024 was \$3,761,450 (three months ended June 30, 2023: \$686,008 and December 31, 2022: \$671,470). Items that impacted the loss are noted in the following:

Revenues

- Gross revenues for the three months ended June 30, 2024 totaled \$14,915 (three months ended June 30, 2023: \$84,119; December 31, 2022: \$255,294) as wells produced a total of 8,859 mcf over a total of 16 days during the three months ended June 30, 2024 or 554 mcf per day (50,660 mcf net to the Corporation during 64 days in the three months ended June 30, 2023 or 792 mcf per day; 99,805 mcf net to the Corporation during 56 days in the three months ended December 31, 2022 or 1,782 mcf per day). For the three months ended June 30, 2024, the Corporation’s natural gas prices averaged \$1.70 per mcf (three months ended June 30, 2023: \$1.66; three months ended December 31, 2022: \$2.56).
- Royalties for the three months ended June 30, 2024 totaled \$1,298 (three months period ended June 30, 2023: \$3,026; December 31, 2022 - \$7,099) or approximately 8.7% of gross revenues (three months period ended June 30, 2023: 3.6%; December 31, 2022: 2.8%). During the three periods reviewed above, the Corporation was able to utilize drilling credits from its Deep Well Bank and Summer Drilling Royalty Bank to offset all royalties payable. As a result, no cash payments were required.

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Expenses:

- Operating costs of \$105,345 were incurred during the three months ended June 30, 2024 (three months ended June 30, 2023: \$256,519; December 31, 2022: \$241,100). Operating costs per mcf were \$11.89 for the three months ended June 30, 2024 (three months period ended June 30, 2023: \$3.29; December 31, 2022: \$2.42). Fluctuating operating costs per mcf are the result of periods where wells are shut in but still incur fixed operating expense (the Corporation's wells produced for 16 days during the three months ended June 30, 2024, 64 days during the three months ended June 30, 2023 and 58 days for the three months ended December 31, 2022).
- General and administrative expenses were \$262,152 during the three months ended June 30, 2024 (three months ended June 30, 2023: \$287,129; December 31, 2022: \$113,197).
 - Consulting fees were \$94,350 during the three months ended June 30, 2024 (three months ended June 30, 2023: \$97,367; December 31, 2022: \$68,816). 2024 includes costs associate with the strategic alternative activities and work on mineral lease continuation. 2023 includes higher asset management costs.
 - Professional fees were \$163,143 for the three months ended June 30, 2024 (three months ended June 30, 2023: \$141,789; December 31, 2022: \$51,655). 2024 includes lower audit costs but higher fees and costs associated with the E&E asset sale. 2023 includes higher audit fees and engineering expenses.
 - Director's fees were \$4,000 for the three months ended June 30, 2024 (three months ended June 30, 2023: \$4,000; December 31, 2022: \$4,000).
 - Investor relations and filing fees were (\$2,375) for the three months ended June 30, 2024 due to a accrual adjustment (three months ended June 30, 2023: \$15,234; December 31, 2022: \$7,409).
 - Insurance costs increased for the three months ended June 30, 2024 were \$15,273 (three months ended June 30, 2023: \$9,630; December 31, 2022: (\$35,017)). 2024 insurance premiums were higher than 2023. 2022 reflects an accrual adjustment.
 - Office supplies, software licenses and other were (\$12,239) (three months ended June 30, 2023: \$19,109, year ended December 31, 2022: \$16,334). 2024 reflects an accrual adjust from the previous period.
- Depletion and depreciation expenses were \$145,049 for the three months ended June 30, 2024 (three months ended June 30, 2023: \$162,280; year ended December 31, 2022: \$72,532). 2024 and 2023 include depletion expense for most of the respective three-month periods, where the 2022 period did not include depletion.
- Finance costs of \$17,462 were recorded in the three months ended June 30, 2024 (three months ended June 30, 2023: \$28,057; December 31, 2022: \$29,107). The majority of the finance costs in all periods relate to accretion expense related to decommissioning liabilities.
- Share-based compensation recorded during the three months ended June 30, 2024 was \$23,657 (three months ended June 30, 2023: \$97,600; December 31, 2022: \$193,579). The expenses vary as a result of the different vesting dates for stock options issued.
- A loss on disposition of \$3,231,862 was recorded in the three months ended June 30, 2024 as a result of the sale of certain of its Montney assets (three months ended June 30, 2023 and December 31, 2022: \$Nil).
- An impairment expense of \$121,695 was recorded in the three months ended December 31, 2022 related to its Gething E&E CGU (three months ended June 30, 2024 and 2023: \$Nil).

Other income and gains:

- Interest and other income was \$19,386 during the three months ended June 30, 2024 (three months ended June 30, 2023 – \$66,585, December 31, 2022 - \$19,386). The majority of this income is from drilling credits issued to the company which are taken into income in the month they are issued.

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GENERAL AND ADMINISTRATIVE EXPENSES

	Periods ended		
	June 30, 2024 (12 months)	June 30, 2023 (6 months)	December 31, 2022 (12 months)
Consulting fees	\$ 313,459	\$ 182,239	\$ 287,446
Professional fees	215,715	234,936	204,496
Director's and officer's fees and expenses	16,000	8,000	18,000
Investor relations and filing fees	41,481	29,099	56,770
Insurance	55,448	19,260	13,876
Office, software and other expenses	41,682	34,280	39,969
	\$ 683,785	\$ 507,814	\$ 620,557

Management utilizes consultants to complete accounting and engineering work required.

DEPLETION AND DEPRECIATION

	Periods ended		
	June 30, 2024 (12 months)	June 30, 2023 (6 months)	December 31, 2022 (12 months)
Depletion of property, plant and equipment	\$ 149,492	\$ 101,956	\$ -
Depreciation of property, plant and equipment	284,752	211,376	284,752
Depreciation of Right-of-use	5,376	2,688	5,376
	\$ 439,620	\$ 316,020	\$ 290,128

Depletion expense recorded relates to the production from Montney gas wells that the Corporation has working interest in.

Depreciation of PP&E is comprised of straight-line depreciation on the Corporation's 25% interest in the Williston Reservoir water pipeline.

IMPAIRMENT EXPENSE

Gething CGU

During the year ended December 31, 2022, the Corporation disposed of equipment from processing facilities related to the Corporation's Gething CGU totaling \$147,750. The recoverable value of the remaining processing facility equipment was estimated to be \$100,250 and therefore the Corporation recorded an impairment charge of \$121,695 to these facilities during 2022. The facility equipment is the last remaining asset comprising the Gething CGU.

Montney D&P and Montney E&E CGUs

The Corporation identified an indicator of impairment reversal at December 31, 2022 with respect to its Montney D&P CGU. The impairment reversal indicator arose as a result of the commencement of production and revenues within the Montney D&P CGU, due in part from the sustained recovery of natural gas prices. As such, the Corporation performed an impairment test to estimate the recoverable amount of the Montney D&P CGU. As a result of the

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impairment test, the Corporation did not record any impairment reversal or further impairment with respect to the Montney D&P CGU.

At March 31, 2024, the Corporation identified an indicator of impairment with respect to certain assets within its Montney E&E CGU. The indicator was represented in response to continued declines in commodity prices and general market conditions. As a result, the Corporation recorded an impairment charge against the Montney E&E assets of \$4,940,000. There was no indicator of impairment on the balance of the Montney E&E CGU assets.

The Corporation did not identify any impairment trigger indicators with respect to the Corporation's Montney D&P CGU.

ROYALTY CREDITS

The British Columbia Ministry of Energy and Mines provides certain oil and gas drilling incentives including royalty credits. As at June 30, 2024, the credits were \$319,586 (six month ended June 30, 2023: \$271,341 and year ended December 31, 2022: \$266,460). The royalty credits are drawn down as production and revenue are recognized for the wells qualifying for the royalty credits. As costs are incurred, certain credits are also earned. During the year ended ended June 30, 2024, the Corporation earned \$55,434 in infrastructure royalty credits and applied \$7,189 (six months period ended June 30, 2023: \$19,674 and \$14,793 and year ended December 31, 2022: \$Nil) of summer drilling royalty credits against crown royalties payable.

In addition, credits in the Corporation's Deep Well Credit Bank totaling \$11,990 were applied against crown royalties payable during the year ended June 30, 2024 (six months period ended June 30, 2023: \$47,900 and year ended December 31, 2022: \$Nil). As the Corporation is not carrying any value for its Deep Well Credit Bank, the amount applied against royalties in fiscal 2024 have been taken into income.

	Summer Drilling Credit	Infrastructure Royalty Credit	Total Drilling Credits
Balance at December 31, 2022 and 2021	\$ 132,769	\$ 133,691	\$ 266,460
Adjustment to bring balances current	16,981	2,693	19,674
Credits used	(14,793)	-	(14,793)
Balance at June 30, 2023	\$ 134,957	\$ 136,384	\$ 271,341
Credits earned	-	55,434	55,434
Credit used	(7,189)	-	(7,189)
Balance at June 30, 2024	\$ 127,768	\$ 191,818	\$ 319,586

SHARE-BASED COMPENSATION

	Periods ended		
	June 30, 2024 (12 months)	June 30, 2023 (6 months)	December 31, 2022 (12 months)
Share-based compensation, gross	\$ 322,770	\$ 229,141	\$ 369,157

The Corporation granted 2,600,000 stock options on August 25, 2022 and 4,750,000 on November 28, 2022 to directors, officers and a consultant. The August stock options are exercisable for a period of five years at a price of

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\$0.105 per share and vest by February 2024. The November stock options are exercisable for period of five years at a price of \$0.0825 per share and vest by May 28, 2024.

The Corporation granted 5,250,000 stock options on July 12, 2023 to directors and officers. The stock options vest on the following intervals: 25% immediately, 25% in each of the subsequent six month periods, and are exercisable for a period of five years at a price of \$0.07 from the date of grant.

At June 30, 2024, the Corporation had options to purchase 16,550,000 (June 30, 2023: 11,425,000 and December 31, 2022: 11,425,000) common shares outstanding with a weighted average exercise price of \$0.08. As at June 30, 2024, there were 13,362,500 stock options that have vested with an average exercise price of \$0.083 (June 30, 2023: 7,750,000 with an average exercise price of \$0.085 and December 31, 2022: 5,625,000 with an average exercise price of \$0.083).

INCOME TAXES

The Corporation has not recorded a deferred tax asset arising from excess income tax basis over carrying value due to the uncertainty related to the realization of such assets. The Corporation has tax pools of approximately \$104,077,301 including \$89,098,666 of non-capital losses, available for deduction against future revenue. The non-capital losses expire between 2026 and 2044.

	Balances as at		
	June 30, 2024	June 30, 2023	December 31, 2022
Non-capital losses	\$ 89,098,666	\$ 86,708,881	\$ 84,903,389
Cumulative Canadian Exploration Expense	8,379,290	8,379,290	8,379,290
Cumulative Canadian Development Expense	2,764,534	3,947,520	4,644,142
Cumulative Canadian Oil & Gas Property Expense	3,704,320	8,612,185	9,065,458
Undepreciated capital costs	40,304	270,987	306,492
Other	90,187	80,870	83,761
	\$ 104,077,301	\$ 107,999,733	\$ 107,382,532

CAPITAL EXPENDITURES

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

	Periods ended		
	June 30, 2024 (12 months)	June 30, 2023 (6 months)	December 31, 2022 (12 months)
Exploration & evaluation	\$ 37,772	\$ 78,191	\$ 95,981
Disposition of exploration & evaluation	(8,297,078)	-	(147,750)
Property, plant & equipment	(630)	3,808	369,697
	\$ (8,259,936)	\$ 81,999	\$ 317,928

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LIQUIDITY AND CAPITAL RESOURCES

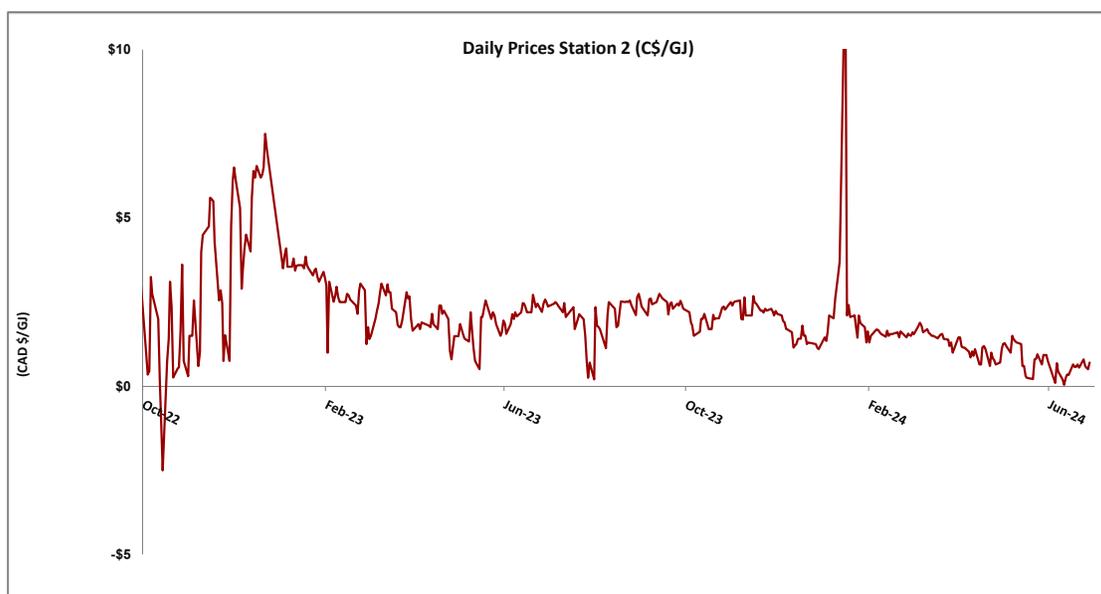
The Corporation had working capital at June 30, 2024 of \$5,213,913 compared to \$123,980 at June 30, 2023 and 259,569 at December 31, 2022. The Corporation's shareholders equity is \$27,651,288 at June 30, 2024 (June 30, 2023: \$36,429,424, December 31, 2022: \$36,512,423).

The Corporation will continue to pursue strategic alternatives to maintain the Corporation as a going concern. During the year ended June 30, 2024, the Corporation issued 10,000,000 common shares on the exercise of 10,000,000 warrants at \$0.08 per share for gross proceeds of \$800,000. No finders fees were paid on this transaction.

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.

Volatile Market Conditions

Subsequent to Q2 2022, Western Canadian natural gas prices began to drastically decline as a result of gas production surges, limited pipeline capacity, and maintenance and construction work done on export pipelines. Station 2 prices have been extremely volatile, often below the \$2.50 per mcf benchmark the Corporation needs to show positive operating cash flow.



In addition, the lack of capital investment for Micro-oil and gas companies over the last five contributed to the difficulty in developing the Corporation's Montney natural gas resource play.

The ability to produce the wells is dependent on Station 2 prices.

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 year ended June 30, 2024 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 June 30, 2024 financial statements.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended June 30, 2024

FINANCIAL AND OTHER INSTRUMENTS

The Corporation's financial instruments consist of cash. Cash in excess of that needed for operations is invested in interest bearing GICs issued by the Corporation's banker. Interest from the invested cash is recorded as interest income during the period that it is earned. As the sale of a portion of the Corporation's E&E assets occurred on June 25, 2024, only a minimal amount of interest was earned during the year.

The Corporation does not engage in hedging activities on either interest rates or natural gas prices.

NEW AND PROPOSED ACCOUNTING PRONOUNCEMENTS

The Corporation adopted the following amendments to IFRS issued by the IASB. Their adoption has not had a material impact on disclosures or amounts reported in these financial statements.

Amendments to IAS 12 – "Income Taxes"

Amendments to IAS 12 require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Amendments to IAS 1 – "Presentation of Financial Statements"

Amendments to IAS 1 require that a company disclose its material accounting policies rather than its significant accounting policies and explain how a company can identify material accounting policies.

SHARE CAPITAL

Common Shares

The Corporation has authorized share capital of an unlimited number of common shares with no par value.

On March 15, 2022, the Corporation issued 20,000,000 units in connection with a private placement. Each unit consists of one common share and one share purchase warrant. Each warrant has an exercise price of \$0.08 and expire March 15, 2024. The fair value of the warrants on issuance was \$Nil.

On June 19, 2023, 10,000,000 share purchase warrants were exercised at a price of \$0.08 per unit for gross proceeds of \$800,000. No finders fees were paid on this transaction.

On February 20, 2024, the Corporation issued 10,000,000 common shares on the exercise of 10,000,000 warrants at \$0.08 per share for gross proceeds of \$800,000. No finder's fees were paid on this transaction.

Stock Options

As at June 30, 2024 the Corporation had outstanding options to purchase 16,550,000 (June 30, 2023: 11,425,000 and December 31, 2022: 11,425,000) common shares at a weighted average exercise price of \$0.08 per common share.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation had no material off-balance sheet transactions during the year ended June 30, 2024.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended June 30, 2024

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at negotiated and agreed amounts for services provided. During the year ended June 30, 2024, six months period ended June 30, 2023 and year ended December 31, 2022, the transactions the Corporation had with its directors, related persons or controlled entities in the normal course of business were as follows:

	June 30, 2024 (12 months)	Period ended June 30, 2023 (6 months)	December 31, 2022 (12 months)
Included in general and administrative expenses			
Consulting fees (executive)	\$ 116,040	\$ 64,520	\$ 116,040
Directors' fees	16,000	8,000	18,000
Share-based compensation	322,770	229,141	337,649
	\$ 454,810	\$ 301,661	\$ 471,689

Consulting fees related to amounts paid to or earned by executive officers and fees paid and/or accrued to non-executive directors.

For the year ended June 30, 2024, the total amount paid to the CFO and CEO was \$116,040 (six month ended June 30, 2023: \$64,520; year ended December 31, 2022: \$116,040).

Termination and Change of Control Benefits

In the case of a change of control or the termination of employment resulting from a change in control, the Corporation's chief executive officer would be entitled to receive a payment of \$350,000 plus, if applicable, an additional payment based on the total consideration paid in the transaction resulting in a change of control of the Corporation. In the event of a change of control for which an additional payment is payable pursuant to the Executive Agreement, the additional payment would be equal to: (i) seven (7%) percent of the lesser of (A) the total consideration value under the change of control transaction, or (B) \$5,000,000; plus (ii) five (5%) percent of the lesser of (A) the amount, if any, that the total consideration value under the change of control transaction exceeds \$5,000,000, or (B) \$5,000,000; plus (iii) three (3%) percent of the amount, if any, that the total consideration value under the change of control transaction exceeds \$10,000,000.

COMMITMENTS

The Corporation had no capital commitments as at June 30, 2024 (June 30, 2023: Nil and December 31, 2022: Nil). The Corporation does expect to pay approximately \$142,541 in decommissioning liabilities during the period July 1, 2024 to June 30, 2025 to be in compliance with the British Columbia Oil & Gas Commission requirements (see Note 12 of the June 30, 2024 financial statements).

On November 9, 2023, the Corporation engaged Sayer Energy Advisors ("Sayer") to review strategic alternatives and provide financial advice. In the event of a successful sale transaction of either the Corporation's shares or its assets, Sayer would be entitled to receive a success fee based on the transaction value upon closing of the transaction. As well, following the term of the engagement agreement, for a period mutually agreed upon, Sayer may also be entitled to a success fee as a result of a successful transaction.

BUSINESS RISKS

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended June 30, 2024

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 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.

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 June 30, 2024, if significant pipeline outages, surplus natural gas available for deliver to Station 2 declines and volatility of Station 2 natural gas prices continue through 2024.

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.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS For the year ended June 30, 2024

SELECTED ANNUAL INFORMATION

	June 30, 2024	June 30, 2023	December 31, 2022
Petroleum and natural gas sales (net of royalties)	\$ 277,710	\$ 348,310	\$ 273,462
Net loss and comprehensive loss	9,900,906	1,112,140	1,852,952
- per share basic and diluted	(0.04)	0.00	(0.01)
Working capital	5,213,913	123,980	259,569
Total assets	29,922,341	39,267,518	39,274,443
Long term lease liability	16,904	23,107	29,119
Shareholders' equity	27,651,288	36,429,424	36,512,423
Common shares outstanding	288,177,583	278,177,583	268,177,583

SELECTED QUARTERLY INFORMATION ⁽¹⁾

The following is a summary of the results of the Corporation for the eight most recently completed quarters:

\$000	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023
Petroleum and natural gas sales	\$ 22	\$ 153	\$ 119	\$ -
Operating netback	\$ (91)	\$ (62)	\$ 13	\$ (41)
Cashflow used in operating activities	\$ (380)	\$ (222)	\$ (322)	\$ (398)
Net loss and comprehensive loss	\$ (3,762)	\$ (5,257)	\$ (459)	\$ (423)
- per share basic and diluted	\$ (0.01)	\$ (0.02)	\$ 0.00	\$ 0.00
Working capital (deficit)	\$ 5,214	\$ 161	\$ (445)	\$ (63)
Total assets	\$ 29,922	\$ 34,119	\$ 38,649	\$ 38,759
Shareholders' equity	\$ 27,651	\$ 31,389	\$ 37,006	\$ 36,194
Common shares outstanding	288,178	288,178	278,178	278,178

\$000	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Petroleum and natural gas sales (net of royalties)	\$ 31	\$ 317	\$ 248	\$ 25
Operating netback	\$ (224)	\$ 128	\$ 7	\$ (58)
Cashflow (used in) from operating activities	\$ (406)	\$ 102	\$ (675)	\$ (246)
Net loss and comprehensive loss	\$ (737)	\$ (375)	\$ (671)	\$ (390)
- per share basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Working capital (deficit)	\$ 124	\$ (202)	\$ 260	\$ 744
Total assets	\$ 39,268	\$ 39,223	\$ 39,274	\$ 39,222
Shareholders' equity	\$ 36,429	\$ 36,269	\$ 36,512	\$ 36,721
Common shares outstanding	278,178	268,178	268,178	268,178

(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 June 30, 2024

CORPORATE INFORMATION

Additional information regarding the Corporation is available on SEDAR+ at www.sedarplus.ca.