

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2009

This management discussion and analysis (“MD&A”) of the financial conditions and results of operations should be read in conjunction with the interim financial statements for the three and nine month periods ended September 30, 2009 and the audited financial statements and MD&A for the year ended December 31, 2008.

Date

This MD&A includes information up to November 24, 2009.

Quarterly Review

Neither the interim financial statements for the three and nine month periods ended September 30, 2009 nor this MD&A have been reviewed by the Company’s external auditors.

Reader’s Advisory

Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management’s assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Canadian Spirit Resources Inc. (“CSRI” or the “Company”), expected increase in royalty rates, and the timing of and impact of adoption of International Financial Reporting Standards and other accounting policies 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. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

- Fluctuations in natural gas production levels
- CSRI’s ability to raise funds in the current volatile and uncertain equity market conditions
- Volatility in market prices for natural gas
- Changes in foreign currency exchange and interest rates

The Company will endeavor to update all forward-looking statements for any material changes to the circumstances or information and estimates presented herein as feasible or as required by applicable securities laws.

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Corporate Overview

Canadian Spirit Resources Inc. is a natural resources company listed on the TSX Venture Exchange focusing on the identification and development of opportunities in the unconventional gas sector of the energy industry.

Since early 2002, the Company's focus has been to evaluate the resource potential of certain unconventional natural gas exploration properties and is considered to be in its development stage of operations. In 2003, CSRI drilled its first well and acquired a small land position in the Farrell Creek area of northeastern British Columbia. In the years following, the Company significantly increased its land position in this same area, drilled eight additional wells and by year-end 2007 was evaluating the productive capability of the Gething Formation with a five well pilot project. In 2008, the Company entered into joint venture agreements with Shell Canada Energy ("Shell" or the "Operator") and Canbriam Energy Inc. ("Canbriam") to explore and further advance the development of its major resource property at Farrell Creek. The joint venture with Canbriam will result in the exploration and evaluation of petroleum and natural gas rights (primarily in the Montney Formation) below the base of the Cadomin/Nikanassin Formation ("Deep Rights") and the joint venture with Shell will advance the development of rights (primarily the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation ("Shallow Rights").

During the past eighteen months, the Company took several steps to improve its strategic position. In February 2008, during a period of low natural gas prices and difficult equity market conditions, a \$5.6 million private placement was successfully completed. By the middle of 2008, petroleum commodity prices had rebounded and the Company further strengthened its working capital position through a \$3.1 million private placement in July and the exercise of \$1.6 million of previously issued share purchase warrants. During this period, the Company also entered into the Deep Rights and Shallow Rights joint ventures that included capital spending commitments by Shell and Canbriam and a \$5.0 million reimbursement to the Company to recognize prior capital expenditures in the Gething Formation. Despite changing economic conditions, lower petroleum commodity prices and tight equity market conditions in the latter part of 2008 and into 2009, the Company is now well-positioned to further the development of its Farrell Creek property and move forward with additional strategic initiatives. The Company expects to have minimal capital requirements through at least the first quarter of 2010.

As of the date of this report, the Company has a strong working capital position of approximately \$9.7 million (or \$0.20 per share) composed primarily of cash and receivables from its joint venture partners.

The downturn in the global economy has had an adverse affect on capital markets and commodity prices. This has impacted the ability of many companies to raise equity capital and may represent an increased number of opportunities for well capitalized companies. CSRI may investigate some of these opportunities.

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Results of Operations

Farrell Creek, British Columbia:

The focus of the Company's activities is currently on the evaluation and development of its principal resource property in the Farrell Creek area of northeastern British Columbia, located approximately 70 kilometers west of Fort St. John. In a report dated April 6, 2009, Sproule Unconventional Limited estimated total petroleum initially-in-place ("PIIP") to be approximately 1.7 trillion cubic feet in the Gething, Moosebar and Gates Formations on the Company's lands at Farrell Creek. Through joint ventures with Canbriam and Shell, the Company is continuing to evaluate and develop the Deep Rights and the Shallow Rights on its Farrell Creek properties. With our joint venture partners currently bearing the exploration and development costs on these lands, the Company is able to look at new opportunities without immediate need to access the equity markets. See **Business Risks** on Page 9 of this MD&A.

Farrell Creek: Gething

On July 17, 2008 the Company announced that it had entered into a joint venture with Shell to advance the development of the identified unconventional natural gas resource in the Gething Formation on a combined total of approximately 150 contiguous sections or 96,000 acres located in the Farrell Creek area. Shell's \$50.0 million initial capital commitment included the acquisition of additional land, the drilling of five vertical wells and the construction of facilities to tie-in the Pilot Project. The Pilot Project processing facility is scaleable and currently has a capacity of up to 1.1 mmcf/d.

The Company announced its first sale of natural gas from the Pilot Project in June 2009 with gas flowing from four previously completed and tested Gething Formation wells. Production volumes from the announcement of first sales gas to September 30, 2009 have, as per the terms of the joint venture agreement, been substantially utilized by the Operator of the Farrell Creek Pilot Project for plant operating requirements. As a result the Company has not recorded any production revenue, royalties or operating costs through the end of the third quarter 2009. The Company anticipates reporting (net) revenue and production volumes by the end of 2009. By year-end, it is anticipated that up to seven wells will be flowing gas as part of the Pilot Project.

The purpose of the Pilot Project is to allow the joint venture to optimize the completion and production techniques to be used in anticipation of commercial production. Should Shell make a decision to move to the development stage following evaluation of the Pilot Project, that would result in the pooling of Shell and CSRI lands to create a combined project of approximately 150 sections (96,000 acres) of Gething rights (37 sections net to CSRI) and a commitment to carry the Company through an additional capital investment.

Farrell Creek: Montney

On March 19, 2008, the Company announced a joint venture and farmout agreement for the Deep Rights with Canbriam, a private energy company based in Calgary, Alberta, that will evaluate certain of the Company's lands for Montney and other deep formation plays covering approximately 29,000 gross acres. Through the joint venture, Canbriam is committed to an initial expenditure of up to \$29.0 million for exploration of the Deep Rights including the drilling of at least two wells to the Montney Formation in exchange for a 65% working interest. Canbriam has an option to increase their working interest position in exchange for carrying the Company through an additional capital investment.

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Since conducting two vertical Montney wells on the eastern portion of Farrell Creek in late 2008, Canbriam has focused its operations on the western portion of the Farrell Creek lands in close proximity to the Spectra Energy pipeline. A vertical well, b-17-I/94-B-1, targeting the Montney Formation has recently been drilled and will be completed and tested prior to year-end 2009.

The British Columbia Oil & Gas Commission has approved two additional well locations submitted by Canbriam (c-A48-I/94-B-1 and c-45-I/94-B-1). These locations are within close proximity to a successful Talisman Energy Inc. (“Talisman”) vertical Montney well that reported initial production of over 4 mmcf/d in December 2008.

CSRI is encouraged by the drilling and development plans announced by various operators targeting the Montney Formation in areas adjacent to Farrell Creek. To date, Talisman and other operators have licensed or drilled twenty horizontal and ten vertical Montney wells. As part of its announced plans to move segments of its Montney lands to commercial development, Talisman has constructed and commissioned a sweet gas processing facility in the area with capacity of up to 23 mmcf/d.

Bittern Lake, Alberta:

Effective May 1, 2008 the Company sold its net interests in four Horseshoe Canyon joint venture wells, including the associated abandonment and reclamation liabilities, for a consideration of \$22,500 and a 5% overriding royalty. The Company has retained a 50% interest in the rights to the Mannville Formation on three sections, however CSRI’s efforts in 2009 are focused on its Farrell Creek properties.

Isk Wollastonite Mineral Property, British Columbia:

No field work has been conducted at the Isk Wollastonite mine site since 2002. This asset is available for farm-out or sale.

British Columbia Stimulus Package:

On August 6, 2009, the Government of British Columbia announced an oil and gas stimulus package that became effective September 1, 2009. The Stimulus Package is expected to benefit CSRI and encourage drilling activity through:

- (a) Royalty incentives including a one year, 2% royalty rate for all wells drilled within a ten month window;
- (b) An increase of fifteen percent in existing royalty deductions for deep natural gas wells drilled;
- (c) The extension of the Deep Royalty Credit Program to horizontal wells drilled between 1900 and 2300 meters;
- (d) Increased funding to the Infrastructure Royalty Credit Program; and
- (e) Certain regulatory initiatives.

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Revenue

Revenues for the first three quarters of 2009 of \$34,773 (2008: \$99,181) represent interest on cash deposits. The Company has not reported any net production revenue (natural gas production revenue less royalties less operating costs) from its Farrell Creek Pilot Project since production volumes to-date have, as per the terms of the joint venture agreement, been substantially utilized by the Operator for plant operating requirements.

General and Administrative Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Consulting fees	\$ 58,305	\$ 81,939	\$ 155,699	\$ 236,195
Salaries and benefits	250,338	312,463	704,734	762,675
Other general and administrative	155,968	134,244	495,323	428,029
	<u>464,611</u>	<u>528,646</u>	<u>1,355,756</u>	<u>1,426,899</u>
Less: Capitalized costs	(122,529)	(168,155)	(330,981)	(457,316)
	<u>342,082</u>	<u>360,491</u>	<u>1,024,775</u>	<u>969,583</u>
Stock-based compensation	41,312	(277,821)	223,697	462,425
	<u>\$ 383,394</u>	<u>\$ 82,670</u>	<u>\$ 1,248,472</u>	<u>\$ 1,432,008</u>

In 2009, the Company continued the consulting contracts with a financial advisor, a land consultant, and a computer network maintenance company. Effective December 31, 2008, the Company terminated the consulting agreement with a director and executive officer of the Company upon his full-time employment with the Company. This resulted in a 34% decrease in consulting fees from the first nine months of 2008 to the first nine months of 2009. Effective September 28, 2009, the Company discontinued the consulting agreement with the land consultant.

Salaries and benefits, before capitalization, have decreased by 8% for the nine months ended September 30, 2009 compared with 2008 due to the recovery of salary and benefit costs associated with the secondment of a Company employee to a joint venture partner and a reduction in staff. This was offset by the above change from consultant to full-time employee for a director and officer of the Company effective January 1, 2009. The Company capitalizes salaries and benefits associated with staff directly related to exploration and development activities.

During the three and nine months ended September 30, 2009, the Company capitalized a total of \$121,929 and \$329,181 respectively (2008: \$163,620 and \$444,441 respectively) of general and administrative expenses directly related to exploration and development activities. These capitalized amounts are included as part of the property, plant and equipment costs recorded by the Company. The other costs capitalized for the three and nine months ended September 30, 2009 of \$600 and \$1,800 respectively (2008: \$4,535 and \$12,875 respectively) relate to consulting fees incurred relative to investor relations activities and are recorded by the Company as a reduction of shareholders' equity.

See **Summary of Quarterly Results** on Page 7 for further analysis of the effect stock-based compensation has on the overall results of the Company.

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Other General and Administrative Costs

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Professional fees	\$ -	\$ 1,273	\$ 3,436	\$ 16,642
Investor relations & filing fees	14,287	7,776	71,131	64,192
Directors' fees	15,500	-	46,500	-
Office premises & insurance	78,400	84,687	249,729	249,990
Office supplies	27,562	29,231	82,559	59,931
Staffing costs	13,893	7,747	32,908	26,771
Other	6,326	3,530	9,060	10,503
	<u>155,968</u>	<u>134,244</u>	<u>495,323</u>	<u>428,029</u>
Less: Capitalized costs	<u>(15,780)</u>	<u>(16,373)</u>	<u>(47,265)</u>	<u>(24,008)</u>
	<u>\$ 140,188</u>	<u>\$ 117,871</u>	<u>\$ 448,058</u>	<u>\$ 404,021</u>

Professional fees declined by 79% in the first three quarters of 2009 compared to the first three quarters of 2008 due to a decrease in legal fees, related to the number of corporate matters requiring advice or assistance from the Company's legal counsel.

The 11% increase in investor relations and filing fees from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 is attributable to increased investor relations travel and presentations, as well as increased website updates and shareholder communications in the third quarter of 2009.

The payment of cash fees to the Company's five independent directors commenced in the fourth quarter of 2008.

Office related expenses are anticipated to continue at current levels pursuant to the terms of the Company's existing sub-lease agreement.

The increase in office supplies expense of 38% for the nine months ended September 30, 2009 compared to 2008 is due primarily to higher land and economic model software rental costs. These rental costs are subsequently capitalized as part of those general and administrative expenses directly related to exploration and development activities, and thus are included as a portion of the property, plant and equipment costs recorded by the Company.

Staffing costs represent employee memberships and professional dues, as well as employee training and convention costs.

Other expense is comprised of advertising and promotion costs, charitable contributions and bank charges.

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Summary of Quarterly Results

Net quarterly results before income taxes from the beginning of 2007 were:

<u>Loss by quarter</u>	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Per Share (basic & diluted)</u>	<u>Amount</u>	<u>Per Share (basic & diluted)</u>	<u>Amount</u>	<u>Per Share (basic & diluted)</u>
First Quarter	\$ (362,906)	\$ (0.01)	\$ (498,821)	\$ (0.01)	\$ (279,955)	\$ (0.01)
Second Quarter	(498,413)	(0.01)	(824,651)	(0.02)	(150,227)	-
Third Quarter	(384,284)	(0.01)	(35,726)	-	(42,936)	-
Fourth Quarter	-	-	(513,575)	(0.01)	(402,446)	(0.02)
Loss before income taxes	<u>\$ (1,245,603)</u>	<u>\$ (0.03)</u>	<u>\$ (1,872,773)</u>	<u>\$ (0.04)</u>	<u>\$ (875,564)</u>	<u>\$ (0.03)</u>

For each quarter up to and including September 30, 2009, the existence of stock options and warrants affected the calculation of diluted shares outstanding. As the effect of this dilution is to reduce the reported loss per share, separate diluted loss per share information has not been shown.

The Company has financed a portion of its development activities through the issue of flow-through shares. Under the terms of these share issues, the related resource expenditure deductions for income tax purposes are renounced to investors in the year of issue. When the expenditures are renounced, share capital is reduced and future tax recoveries are calculated at the estimated value of the renounced tax deductions. The flow-through share issues that occurred in late 2007 resulted in a calculated potential recovery of future taxes of \$172,925, however this recovery was not reflected within the valuation allowance of the Company until the first quarter of 2008 when the actual renouncement documents were filed with the government authorities.

The closing price of \$0.80 per share on the TSX Venture Exchange on September 30, 2009 represents a 29% increase from the closing price of \$0.62 per share at December 31, 2008.

Stock-based compensation expense for stock option grants and share appreciation rights has contributed significantly to the variability of the Company's net results since the beginning of 2007. Changes in the value of the Company's shares have had an immediate impact on the quarterly provision for stock-based compensation expense. Excluding the effects of stock-based compensation, the Company's pre-tax losses by quarter would have been:

Loss by quarter prior to stock-based compensation expense

	<u>2009</u>	<u>2008</u>	<u>2007</u>
First Quarter	\$ (276,443)	\$ (252,197)	\$ (299,988)
Second Quarter	(402,491)	(331,029)	(235,382)
Third Quarter	(342,972)	(313,547)	(236,982)
Fourth Quarter	-	(618,405)	(300,502)
Loss before income taxes	<u>\$ (1,021,906)</u>	<u>\$ (1,515,178)</u>	<u>\$ (1,072,854)</u>

The increased loss prior to stock-based compensation expense in the fourth quarter 2008 is due to the payment of severance costs of \$204,212 to a former executive officer of the Company.

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Liquidity and Capital Resources

The Company's net capital program for the three and nine month periods of 2008 and 2009 is detailed in the following table:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Lease acquisitions and retentions	\$ 28,650	\$ 37,589	\$ 81,954	\$ 76,568
Geological and geophysical	71,345	2,001	126,730	50,419
Net (recovery of) drilling and completion costs	(195,505)	(5,317,221)	(253,239)	(3,726,673)
Capitalized overhead	121,929	163,620	329,181	444,441
Total net petroleum and natural gas	26,419	(5,114,011)	284,626	(3,155,245)
Computer and office equipment, furniture	7,009	51,887	8,663	62,060
Total net capital expenditures (recovery)	<u>\$ 33,428</u>	<u>\$ (5,062,124)</u>	<u>\$ 293,289</u>	<u>\$ (3,093,185)</u>

Offsetting the Company's gross 2008 and 2009 capital expenditures is the reimbursement of drilling and completion costs from joint venture partners in relation to the Farrell Creek Pilot Project. The recovery of these expenditures has been recorded as a reduction of capitalized drilling and completion costs for the three and nine months ended September 30, 2008 and 2009.

Through the first three quarters of 2009, the Company had a (net) capital budget of \$0.5 million. The Company's capital budget is reviewed and approved by the Board of Directors on a quarterly basis. After recoveries from joint venture partners, the Company's (net) capital expenditure budget for the fourth quarter 2009 is currently set at \$0.7 million. This incremental expenditure is related to further testing and evaluation of previously drilled wells.

Total cash administration expenses (G&A excluding stock based compensation) for 2009 are expected to be approximately \$1.8 million before capitalization of exploration and development related overhead, down from \$2.3 million reported in 2008. Revenue from interest on cash balances was budgeted at \$144,000 for the 2009 year but is unlikely to be achieved due to lower than forecasted interest rates. The Company has budgeted for minimal cash flows from operations for the remainder of 2009 resulting from the tie-in of the Farrell Creek pilot program that occurred towards the end of the second quarter 2009. The Company expects to record natural gas revenues, royalties and operating expenses by the end of 2009.

At September 30, 2009, the Company had a working capital balance of \$10.1 million, consisting of cash in the amount of \$9.8 million and accounts receivable and prepaid expenses of \$0.4 million, net of accounts payable and accrued trade liabilities of \$0.1 million. The accounts payable and accrued trade liabilities relate to the on-going capitalized operating costs of the pilot program tie-in at Farrell Creek that was completed towards the end of the second quarter of 2009. The Company has no bank indebtedness and has no credit agreements in place to borrow money at this time.

The Company's working capital of \$10.1 million at September 30, 2009 is considered by management to be more than sufficient to cover its administrative costs and its base case capital budget through the end of 2009. The Company does not anticipate any significant capital requirements related to either joint venture through the end of 2009.

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Business Risks

Productivity

A material risk facing the Company is the productive capability of the discovered and undiscovered coal and shale resource in the Gething Formation on the Company's existing land base at Farrell Creek and the Company's ability to extract the potential natural gas resource economically. The Company has made significant progress in developing an economic well completion and production system. Together with its joint venture partner, the Company will continue to utilize the knowledge, experience and technology available in the service sector to improve the productivity of the Gething Formation in this emerging gas basin in northeastern British Columbia.

The Shallow Rights joint venture is expected to accelerate the development of the optimal completion and production methods for the Gething Formation with the Company being carried on costs for a period of time. The joint venture is expected to record net production revenue from the Gething Pilot Project by the end of 2009.

Following an evaluation of the results of the Gething pilot project, the joint venture partner has the option to elect not to proceed with further development. A decision regarding this option is expected to be made during the first half of 2010.

Exploration

The Company has begun to explore the resource potential of the geological formations below the base of the Cadomin/Nikanassin zone with an initial focus on the Montney Formation. A rapidly growing number of wells have been drilled into these deeper formations in the vicinity of the Company's lands and public information is beginning to be available on a small number of these wells. Exploration risk includes both determining the existence of commercial quantities of hydrocarbons and the ability to recover any potential resource economically. Recognizing the technical expertise, operating capability and financial resources needed to explore these deeper formations, the Company has entered into a joint venture which will result in the initial exploration of its Deep Rights at Farrell Creek with the joint venture partner bearing the initial capital cost of this program.

Financial Resources and Liquidity

The Company'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 partners, favourable capital market conditions and commodity prices, obtaining additional equity financing, converting 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 Company's ability to continue its operations could be compromised.

To minimize financial risk, the Company pre-funds all capital commitments in the equity markets and does not utilize debt in these early stages of development. In addition, the Company holds cash balances to cover a minimum level of administrative and operating costs to see the Company through the current equity market and commodity price downward cycles. With \$10.1 million of working capital as at September 30, 2009 and minimal immediate capital commitments, the Company is in a strong position to continue with its business plan during the current volatility in equity and commodity markets.

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Commodity Prices

The Company's exploration and development efforts are targeted principally on natural gas. There exists an efficient and sophisticated market for natural gas in North America which is sensitive to factors affecting the supply of and demand for this commodity. Similar factors outside North America are having a greater influence on natural gas prices in North America through the growth of liquefied natural gas trade internationally. Currently, natural gas prices influence the Company's investment decisions and once natural gas production is established, it will impact the Company's revenue. The Company considers publically available price forecasts for natural gas in its evaluation of investment economics and returns.

Operating Capability

The Company is pursuing large unconventional natural gas projects that if successful will require operating staff and experience to fully develop. The Company has a technically strong team suitable for its current operations but does not currently possess the skills and staff needed to conduct an efficient large scale development operation. To mitigate the risk inherent in assembling the necessary operating team, the Company has entered into Deep Rights and Shallow Rights joint ventures pursuant to which substantial parties with the necessary experience and skills have assumed operatorship.

Land Acquisition and Tenure

Rights to explore for and extract hydrocarbons, are generally acquired from the Crown or private parties and require certain work to be performed within a specific time period to retain such mineral rights. Mineral rights acquired from the Crown are usually obtained through a closed bid process. In order to expand its exploration activity, the Company must have the financial resources needed to bid on Crown mineral rights and if successful, must have the additional funds to make the required exploration expenditures. The Company acquired its existing mineral rights primarily from the Province of British Columbia during the last five years and must make drilling expenditures on these lands during 2009 and 2010 in order to retain certain portions of these mineral rights. To reduce the risk of losing its current mineral rights, the Company has entered into Deep Rights and Shallow Rights joint ventures in return for drilling expenditures on its lands. This will allow the Company to allocate its financial resources to additional land acquisition rather than drilling and development.

Environment and Public Policy

The exploration, development and production activities of the Company are highly regulated and the trend of public policy is to provide additional incentives and regulations to reduce the impact of industry activity on the environment. The principal components expected to be produced by the Company during production operations that may impact the environment are relatively small amounts of formation water and carbon dioxide. To date, formation water has been re-injected into deep geologic formations at a commercial facility and in future, will be re-injected at Company owned facilities. Methods to capture and store or use carbon dioxide in commercial applications are being undertaken by the industry and the Company is monitoring these and regulatory developments in order to plan a mitigating strategy.

Critical Accounting Policies

Reference should be made to the Company's significant accounting policies contained in note 2 to the Company's interim financial statements for the three and nine months ended September 30, 2009 and the audited financial statements for the year ended December 31, 2008. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

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Off Balance Sheet Arrangements

The Company has not entered into any off balance sheet arrangements.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. It is management's opinion that the Company is not exposed to significant credit, market or liquidity risk arising from its financial instruments and that, due to their short term nature, their fair values approximate their carrying values as at September 30, 2009.

Changes in Accounting Policies and Practices

The following is an overview of accounting standard changes that the Company has recently adopted:

Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 3064, *Intangible Assets*. This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the CICA definition of an asset. This new standard became effective for interim or annual fiscal periods beginning on or after October 31, 2008 and therefore the Company adopted the new standard beginning on January 1, 2009. The adoption of this standard has not had a material effect on the Company's financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian generally accepted accounting principles in 2011 for profit-oriented Canadian publicly accountable enterprises. As such, the Company will be required to report its results in accordance with IFRS beginning in 2011.

Effective July 23, 2009 the International Accounting Standards Board amended IFRS to allow enterprises using the full cost method of accounting to be exempt from retrospective application of IFRS for oil and gas assets. The Company plans to elect this exemption and thereby use the carrying value as at December 31, 2010 as the deemed cost of its oil and gas assets upon first-time adoption of IFRS on January 1, 2011.

In the time leading up to the conversion date, some existing Canadian standards will change to converge with IFRS. The Company's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian generally accepted accounting principles as it exists on each reporting date. Financial statements commencing with the quarter ended March 31, 2011, including comparative information, will be prepared on an IFRS basis. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The key elements of the Company's changeover plan include:

- (a) determining appropriate changes to accounting policies and required amendments to financial disclosures;
- (b) identifying and implementing changes in associated processes and information systems;
- (c) complying with internal control requirements;
- (d) communicating collateral impacts to appropriate internal personnel; and
- (e) educating and training internal and external stakeholders.

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The Company is currently analyzing accounting policy alternatives and identifying implementation options for the corresponding process changes. CSRI will update its IFRS changeover plan as necessary to reflect any new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the full impact of IFRS on the Company's financial statements is not reasonably determinable at this time.

Related Party Transactions

Transactions with related parties are recorded at exchange amounts for services provided. During the nine month periods ended September 30, 2009 and 2008, the only transactions the Company had with its directors, persons related to them or companies controlled by them in the normal course of business were as follows:

For the nine month periods ended September 30	2009	2008
Consulting fees	\$ -	\$ 96,150

The consulting contract with a director and executive officer of the Company was discontinued effective December 31, 2008, upon his full-time employment with the Company. There were no other transactions with directors, persons related to them or companies controlled by them in the normal course of business during the first nine months of 2009 or 2008.

Share Capital

(Also see note 5 to the interim financial statements for the three and nine months ended September 30, 2009)

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

Since September 30, 2009 to the date of this report, the Company has issued an additional 235,000 common shares upon the exercise of share purchase warrants. During this same period, the Company has not granted any options to purchase common shares of the Company. The issued share capital as at November 24, 2009 consists of 48,638,401 common shares. In addition, the Company has 6,581,660 warrants and 2,267,000 stock options outstanding as at November 24, 2009 with average exercise prices of \$0.91 per share and \$1.34 per share respectively.

Commitments

The Company has entered into an office sub-lease agreement which expires on May 30, 2011. Under the terms of the sub-lease agreement, the Company is obligated to pay base annual rent of \$28.00 per square foot on 6,793 square feet as well as its share of the operating costs.

Corporate Information

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