Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2010

This management discussion and analysis ("MD&A") of the financial conditions and results of operations should be read in conjunction with the unaudited interim financial statements for the three and nine month periods ended September 30, 2010 and the audited financial statements and MD&A for the year ended December 31, 2009. The financial data presented herein is in accordance with Canadian generally accepted accounting principles ("GAAP"), except where noted, and all amounts presented are in Canadian dollars.

Date
This MD&A includes information up to November 25, 2010.

Reader's Advisories
Non-GAAP Terminology
This MD&A contains industry benchmarks and terms, such as net working capital and net cash flows, which are not recognized measures under 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.

Forward-looking Statements
Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Canadian Spirit Resources Inc. ("CSRI" or the "Corporation"), expected increase in royalty rates, and the timing of and impact of adoption of International Financial Reporting Standards ("IFRS") 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:

- Delays in oil and gas regulatory approvals
- CSRI's ability to raise funds in the available equity markets
- Volatility in market prices for natural gas

The Corporation 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 (the “Exchange”) focusing on the identification and development of opportunities in the unconventional gas sector of the energy industry. Together with a well capitalized joint venture partner, the Corporation’s principal activity is evaluating the productive capability of its Montney play in Farrell Creek, British Columbia.

Since early 2002, the Corporation’s focus has been to evaluate the resource potential of certain unconventional natural gas exploration properties and is considered to be emerging from its development stage of operations. In 2003, CSRI acquired a small land position and drilled its first resource evaluation well in the Farrell Creek area of northeastern British Columbia. In the years following, the Corporation 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 Corporation entered into joint venture agreements with Shell Canada Energy (“Shell” or the “Operator”) and Canbriam Energy BC Partnership (“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”) while the joint venture with Shell was intended to advance the development of rights (initially the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation (“Shallow Rights”). Subsequently, in June 2010, Shell elected not to continue to the development stage of the Gething joint venture.

As of the date of this report, the Corporation has a strong net working capital position of approximately $8.6 million ($0.16 per share) composed primarily of cash and receivables from joint venture partners, offset by payables and accruals related to the Montney joint venture.

CSRI’s Board of Directors approved a total forecasted capital expenditure budget for 2010 of up to $20.0 million (net), with a main focus on the development of the Corporation’s Montney joint venture with Canbriam, but also includes $3.5 million (net) for other exploration activities the Corporation identifies.

Results of Operations
Farrell Creek: Montney
On March 19, 2008, the Corporation announced a joint venture and farmout agreement for the Deep Rights with Canbriam, to evaluate certain of the Corporation’s lands for Montney and other deep formation plays covering approximately 28,400 gross acres. Through the joint venture, Canbriam committed to an initial expenditure of up to $28.6 million for exploration of the Deep Rights including the drilling of at least two wells into the Montney Formation in exchange for a 65% working interest. Canbriam also had the option to increase its working interest in the Deep Rights from 65% to 70% in return for increasing its gross capital commitment to $50.0 million. Canbriam has now fulfilled their $28.6 million initial funding commitment and in October 2010, advised that they would not exercise the option to increase their working interest. CSRI is now responsible for funding its 35% working interest of the Montney program.

Since conducting evaluation tests on two vertical Montney wells on the eastern block 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. Following a successful vertical well test into the lower portion of the Montney Formation at the b-17-I location, the joint venture drilled a horizontal well into the lower Montney at the c-A48-I location. This was the first known horizontal well targeting the lower Montney in the Farrell Creek area and the results significantly exceeded CSRI’s expectations.

The c-A48-I well was stimulated in 8 stages of the lower portion of the Montney Formation. The initial production flow-tested at a rate of approximately 1 mmcf/d per stage. The positive results of this well are significant as it may be an indicator that the lower Montney Formation has the potential to increase ultimate resource estimates and to increase the total productivity of the play.

The joint venture has drilled and cased two upper Montney horizontal wells on the western block of the Montney lands at c-18-I/94-B-1 and c-A18-I/94-B-1 and re-entered the b-17-I/94-B-1 well to drill a short horizontal leg in the lower Montney.

At the end of October, Canbriam carried out a production test on the c-18-I well with initial flow rates of up to 4.7 mmcf/d. The well was stimulated in 8 stages and is currently shut-in to allow for analysis of a pressure build-up test. The operator has indicated that once they have evaluated all relevant technical data, they plan to re-enter the c-18-I well before year-end in an attempt to further optimize productivity.

The second upper Montney well, the c-A18-I, is expected to be fracture stimulated once further evaluation of the c-18-I well has been completed.

Currently the b-17-I re-entry horizontal well is being fracture stimulated in the lower Montney with results expected by early December.

The joint venture has recently drilled and cased a horizontal well in the upper Montney at the c-45-I/94-B-1 location. This is the third horizontal well in the upper Montney Formation and the fifth well in the west block of lands. Subject to the availability of fracture crews and equipment, the c-45-I well may be fracture stimulated and tested before year-end 2010.

Construction of the joint venture's gas processing facility (initial capacity 10 mmcf/d) and connection to the Spectra Energy sales pipeline has begun, with completion expected at the end of this year. Commissioning of the facility is expected to occur in early 2011 now that approvals for the gathering pipelines are in hand and construction has begun. The first wells planned to be connected to the facility are the c-A48-I and b-17-I lower Montney horizontal wells and the c-18-I and c-A18-I upper Montney horizontal wells.

During the past year, other operators' drilling and development activity has significantly de-risked the Montney Formation adjacent to the western portion of the Corporation's Farrell Creek lands. Talisman Energy Inc. ("Talisman") moved its adjacent Montney shale play into commercial production and expects to be producing 40-60 mmcf/d by year end with a capital investment of $350 million in the Farrell Creek area in 2010. Talisman has also announced that the capacity of their Farrell Creek Gas Plant has been increased to 120 mmcf/d during the third quarter 2010. Talisman recently announced that they are seeking a strategic joint venture partner to accelerate the projected multi-billion development of their Farrell Creek play.

In April 2010, Sproule Unconventional Limited ("Sproule") estimated the Corporation's total gross discovered and undiscovered resources to range from 3.6 trillion cubic feet to 8.4 trillion cubic feet of natural gas (over 47 sections) in the Montney Formation joint venture. This estimate was based on well data provided by CSRI and using limestone porosity cutoffs at 6% and 3% respectively. On average, this provided estimated resource figures from 77 bcf (using a 6% cutoff) to 178 bcf (using a 3% cutoff) per section in the Montney Formation.

Since the Sproule resource report, CSRI has purchased approximately 13 sections of 100% working interest lands and the joint venture has increased its Montney rights from 47 sections to 52 sections (gross). The Corporation currently has a total of 29 net sections (18,400 acres) of Montney rights in the Farrell Creek area.

Sproule will provide an update of the Montney resource report that includes our additional lands and a NI51-101 compliant reserve report for the year ended December 31, 2010. This resource and reserve report should be completed in late March 2011.

Canbriam approved plans for a capital investment of up to $49.0 million (gross) in the Farrell Creek Montney program for 2010. CSRI's share of capital expenditures on the Montney joint venture in 2010 is budgeted to be $14.5 million, of which $4.8 million was expended to September 30, 2010. The Montney joint venture is expected to achieve its first production, revenue and reserves by early 2011.

Farrell Creek: Gething

On July 17, 2008 the Corporation 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 facility is scalable and currently has a capacity of up to 1.1 mmcf/d. Seven Gething wells were tied into the pilot facility and the facility produced its first gas in June 2009.

Sproule, in their 2009 year-end report dated April 2010, estimated the Corporation's total gross discovered and undiscovered petroleum initially-in-place (resources) in the Gething, Moosebar and Gates Formations to be 1.8 trillion cubic feet of natural gas. Based on well data provided by the Corporation, Sproule estimated a range of 21 to 34 bcf per section in the Gething Formation and a range of 6 to 8 bcf per section in the Moosebar and Gates Formations. Since the Sproule resource report, the Corporation has increased its net Shallow Rights land position to 58 sections (37,120 acres).

Pursuant to the joint venture agreement, Shell could elect to move to the development stage of the Gething joint venture which would include the pooling of the Shell and CSRI lands and an additional capital investment by Shell. On June 18, 2010, Shell elected not to continue to the development stage and as a result shut-in the gas facility in early July 2010. As per the joint venture agreement, the Corporation is now the operator of the Gething project and will retain 100% working interest in its 58 sections of Shallow Rights, the gas facility, the additional wells and the related infrastructure at no additional cost. The pilot facility has been properly suspended and winterized. Over the course of the joint venture, Shell invested approximately $32.0 million in development and infrastructure. As a result, CSRI was able to increase its understanding of the Gething Formation and expects to benefit from the future use of the facilities and infrastructure at no cost to the Corporation. The gas facility is expandable and may be used for other purposes in the immediate area. CSRI holds a right-of-first-refusal on Shell's surrounding 95 sections of Gething lands. The Corporation is currently minimizing its expenditures on the Gething project and is considering several options that include seeking a new joint venture partner to further develop the Gething Rights.

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British Columbia Stimulus Package:
British Columbia continues to be a competitive jurisdiction for gas exploration and production. 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 15% 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.

Selected Financial Data

For the nine month periods ended or as at September 30		**2010**		**2009**
Total revenue	$	45,383	$	34,773
Net loss and comprehensive loss (after income taxes)	$	(1,551,159)	$	(1,245,603)
Net loss and comprehensive loss per share (basic & diluted)	$	(0.03)	$	(0.03)
Total current assets	$	13,055,137	$	10,226,438
Total assets	$	57,560,669	$	45,211,319
Total current liabilities	$	4,243,709	$	90,012
Total long term liabilities	$	426,049	$	250,279
Net working capital	$	8,811,428	$	10,136,426
Net capital expenditures	$	8,986,728	$	293,289

Revenue/Royalties/Operating Costs
The joint venture Gething project produced nominal volumes of sales gas from June 2009 until July 2010. Under the terms of the joint venture agreement, operating and transportation costs less 100% of net sales revenue were the responsibility of the Operator and were therefore applied against the financial amount committed by the joint venture partner. As of September 30, 2010 no royalties were accrued since the production levels were minimal and revenue was less than credits earned under the applicable British Columbia royalty regime.

Revenues during the first three quarters of 2010 of $45,383 (2009: $34,773) represent interest on cash deposits and other miscellaneous income.

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General and Administration Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
Consulting fees	$ **28,306**	$ 58,305	$ **90,125**	$ 155,699
Salaries and benefits	**260,955**	250,338	**832,715**	704,734
Other general administration	**195,269**	155,968	**535,770**	495,323
	484,530	464,611	**1,458,610**	1,355,756
Capitalized and other costs	**(122,447)**	(122,529)	**(354,113)**	(330,981)
	362,083	342,082	**1,104,497**	1,024,775
Stock-based compensation	**109,682**	41,312	**620,947**	223,697
Capitalized portion of stock-based compensation	**(31,488)**	-	**(178,736)**	-
	78,194	41,312	**442,211**	223,697
	$ **440,277**	$ 383,394	$ **1,546,708**	$ 1,248,472

In 2010 the Corporation continued the consulting contracts with an investment advisor, a land consultant, and a computer network maintenance company. During the first quarter of 2010, the Corporation also entered into a consulting arrangement with an external IFRS consulting firm. Consulting fees, after capitalization, have decreased by 49% for the nine months ended September 30, 2010 ($57,175) compared with 2009 ($111,254) due to additional financial advisory and land consulting fees procured in 2009.

Salaries and benefits, after capitalization, of $531,757 for the nine months ended September 30, 2010 increased by 14% compared with 2009 ($465,463) due partially to general increases in staff salaries and benefits. Additionally, relative to 2010, the 2009 amount was offset by the recovery of salary and benefit costs associated with the secondment of an employee of the Corporation to a joint venture partner. The secondment arrangement was terminated as of the end of the second quarter 2009.

The Corporation capitalizes certain salary and benefit costs associated with staff directly involved in exploration and development activities. During the nine months ended September 30, 2010, the Corporation capitalized a total of $352,313 (2009: $329,181) of general and administration expenses, including salaries and benefits, directly related to exploration and development activities, and are included as part of the Property, Plant and Equipment costs recorded by the Corporation. Other costs capitalized in the nine months ended September 30, 2010 of $1,800 (2009: $1,800) include consulting fees incurred in relation to equity instruments issue costs, and are recorded by the Corporation as a reduction of shareholders' equity. During the nine months ended September 30, 2010 the Corporation also capitalized $178,736 (2009: $Nil) of stock-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

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Due to the levels of stock options granted as well as an increase in the market price of the Corporation's shares, stock-based compensation, after capitalization, for the nine months ended September 30, 2010 increased by 98% to $442,211 from $223,697 during the nine months ended September 30, 2009. See **Summary of Quarterly Results** on Page 8 for further analysis of the effect of stock-based compensation on the overall results of the Corporation. The closing price of $2.25 per share on the Exchange on September 30, 2010 represents a 181% increase from the closing price of $0.80 per share on September 30, 2009.

Other General and Administration Costs

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
Professional fees	$ **41,540**	$ -	$ **53,462**	$ 3,436
Investor relations and filing fees	**24,241**	14,287	**85,869**	71,131
Directors' fees	**15,500**	15,500	**46,500**	46,500
Office premises and insurance	**83,418**	78,400	**250,351**	249,729
Office supplies	**22,554**	27,562	**65,768**	82,559
Staffing costs	**6,125**	13,893	**25,579**	32,908
Other	**1,891**	6,326	**8,241**	9,060
	195,269	155,968	**535,770**	495,323
Capitalized costs	**(7,557)**	(15,780)	**(20,205)**	(47,265)
	$ **187,712**	$ 140,188	$ **515,565**	$ 448,058

Professional fees include legal counsel fees for joint venture and general corporate matters, as well as audit related fees for quarterly interim financial statement reviews.

The 21% increase in investor relations and filing fees for the nine months ended September 30, 2010 ($85,869) compared to the nine months ended September 30, 2009 ($71,131) is attributable to increased investor relations travel and presentations due to a concerted effort by the Corporation to increase awareness of the Corporation's prospects with the investment community.

Office premises expenses are anticipated to continue at current levels until May 2011 pursuant to the terms of the Corporation's existing sub-lease agreement.

Office supplies expenses, after capitalization, have increased by 29% for the nine months ended September 30, 2010 ($45,563) compared to 2009 ($35,294) due to additional accounting and IFRS software licensing costs.

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

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Summary of Quarterly Results

The Corporation's net losses by quarter from the beginning of 2008 are detailed in the following table:

	2010		2009		2008	
Net loss by quarter	**Amount**	**Per Share (basic & diluted)**	Amount	Per Share (basic & diluted)	Amount	Per Share (basic & diluted)
First Quarter	**$ (623,357)**	**$ (0.01)**	$ (362,906)	$ (0.01)	$ (325,896)	$ (0.01)
Second Quarter	**(495,230)**	**(0.01)**	(498,413)	(0.01)	(824,651)	(0.02)
Third Quarter	**(432,572)**	**(0.01)**	(384,284)	(0.01)	84,274	-
Fourth Quarter	-	-	(769,895)	(0.01)	(631,959)	(0.01)
Net loss	**$ (1,551,159)**	**$ (0.03)**	$ (2,015,498)	$ (0.04)	$ (1,698,232)	$ (0.04)

For each quarterly period up to and including September 30, 2010, the existence of stock options and warrants affected the calculation of loss per share on a diluted basis. As the effect of this dilution is to reduce the reported loss per share, diluted and basic loss per share information are the same.

The Corporation finances a portion of its development activities through the issue of Flow-Through Shares. Under the terms of these share issuances, 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 income tax recoveries are calculated at the estimated value of the renounced tax deductions.

Stock-based compensation expense for stock option grants has also contributed significantly to the variability of the Corporation's income and losses since the beginning of 2008. Excluding the effects of future income tax recoveries and stock-based compensation, the Corporation's pre-tax losses by quarter would have been:

Loss by quarter prior to stock-based compensation expense and income taxes	**2010**	**2009**	**2008**
First Quarter	**$ (363,105)**	$ (276,443)	$ (252,197)
Second Quarter	**(391,465)**	(402,491)	(331,029)
Third Quarter	**(354,378)**	(342,972)	(313,547)
Fourth Quarter	**-**	(621,432)	(618,405)
Loss before income taxes	**$ (1,108,948)**	$ (1,643,338)	$ (1,515,178)

The larger 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 Corporation. The larger loss prior to stock-based compensation expense in the fourth quarter 2009 is due to an accrual for employee bonuses of $220,000.

Liquidity and Capital Resources

The Corporation's capital program for the first three quarters of each of the past two years is detailed in the following table:

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Lease acquisitions and retentions	**$ 249,411**	$ 28,650	**$ 4,031,648**	$ 81,954
Geological and geophysical	**3,361**	71,345	**6,527**	126,730
Net (recovery of) drilling and completion costs	**3,736,671**	(195,505)	**4,588,754**	(253,239)
Capitalized overhead	**121,847**	121,929	**352,313**	329,181
Total net natural gas expenditures	**4,111,290**	26,419	**8,979,242**	284,626
Computer and office equipment, furniture and fixtures	**-**	7,009	**7,486**	8,663
Total net capital expenditures	**$ 4,111,290**	$ 33,428	**$ 8,986,728**	$ 293,289

The Corporation's capital budget is reviewed and approved by the Board of Directors on a quarterly basis. The Corporation's Board of Directors approved a total forecasted capital expenditure for 2010 of up to $20.0 million including an estimated $0.6 for capitalized overhead. The capital budget for the first three quarters of 2010 was $9.3 million, and has been approved for a further $10.4 million for the fourth quarter 2010.

For the nine months ended September 30, 2010, gross capital expenditures including land acquisitions totaled $9.0 million (2009: $0.3 million). Offsetting the Corporation's capital expenditures in 2009 were reimbursements of previously expended drilling and completion costs from a joint venture partner in relation to the Gething operations at Farrell Creek. The recovery of these expenditures was recorded as a reduction of capitalized drilling and completion costs.

Cash administration expenses (general and administration expenses excluding stock-based compensation) for 2010 are expected to total approximately $2.1 million (2009: $1.8 million), before capitalization of exploration and development related overhead. Revenue from interest on cash balances is budgeted at $0.1 million for the 2010 year. The Corporation has not budgeted for any net cash flows from the Farrell Creek operations during 2010 due to nominal production at the Gething Pilot Project and as the Corporation awaits the tie-in of the Montney Project.

The Gething Project operating costs during the nine months ended September 30, 2010 were borne by the project Operator and the Corporation's share of any sales revenue was offset against deferred development costs within Property, Plant and Equipment. On June 18, 2010, the Gething Project joint venture partner provided written notice to the Corporation that pursuant to the terms of the joint venture agreement, it elected not to continue with the project. The Corporation is therefore currently in the process of assuming operatorship of the Gething Project.

At September 30, 2010, the Corporation had a net working capital balance of $8.8 million, consisting of cash in the amount of $12.8 million, accounts receivable and prepaids of $0.2 million, and net of accounts payable and accrued trade liabilities of $4.2 million. The accounts payable and accrued trade liabilities balance at September 30, 2010 relates primarily to horizontal drilling and completion activity in the Montney Project at Farrell Creek in conjunction with the Corporation's joint venture partner, Canbriam. The Corporation has no bank indebtedness and has no credit agreements to borrow money in place at this time.

The Corporation's net working capital as of the date of this report of $8.6 million is considered by management to be sufficient to cover its administrative costs and its forecasted capital expenditures through the fourth quarter 2010. Any additional capital required to complete the Corporation's share of the Montney joint venture program for 2011, including horizontal drilling and completion activity together with related facilities construction and well tie-ins, will either be raised via equity issues in the capital markets or generated internally from possible funds from operations and borrowings against reserves, if any.

Business Risks

Productivity

A material risk facing the Corporation is the productive capability of the discovered and undiscovered coal and shale resources on the Corporation's existing land base at Farrell Creek and the Corporation's ability to extract the potential natural gas resources economically. The Corporation will continue to utilize the knowledge, experience and technology available in the service sector to improve the productivity of the resources in this emerging gas basin in northeastern British Columbia.

Exploration and Development

The Corporation, through a joint venture partner, is exploring the resource potential of the geological formations below the base of the Cadomin/Nikanassin zone with a focus on the Montney Formation. A number of successful vertical and horizontal wells have been drilled into the Montney Formation in the vicinity of the Corporation's lands and public information is now available on a number of these wells. This has significantly reduced the exploration risk associated with the Montney Formation in the area. 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 Corporation has entered into a joint venture which will result in the 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 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, favourable 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 in the equity markets and does not utilize debt in these early stages of development. Included in such estimated capital commitments is a minimum level of administrative and operating costs to see the Corporation through the current equity market and commodity price downward cycles. With $8.8 million of working capital as at September 30, 2010, the Corporation is in a strong position to continue with its business plan during the current volatility in equity and commodity markets.

Commodity Prices

The Corporation'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 Corporation's investment decisions and once commercial natural gas production is established, it will impact the Corporation's revenue. The Corporation considers publically available price forecasts for natural gas in its evaluation of investment economics and returns.

Operating Capability

The Corporation is pursuing large unconventional natural gas projects that if successful will require operating staff and experience to fully develop. The Corporation 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 Corporation has entered into a joint venture pursuant to which a substantial party with the necessary experience and skills has assumed operatorship of the Montney Formation project.

The Corporation is in the process of assuming operatorship of the Gething project. Minimal activity will be conducted on this project until the Corporation attracts a new joint venture partner or natural gas prices improve from current levels. The Corporation believes it has the technical and operating capability to manage the anticipated level of activity associated with the Gething project.

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 Corporation 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 Corporation acquired its existing mineral rights from the Province of British Columbia during the last seven years, and as a result of drilling expenditures on these lands through the third quarter of 2010 has retained a substantial portion of these mineral rights. To reduce the risk of losing any of its current mineral rights, the Corporation entered into joint ventures in return for drilling expenditures on its lands. This has allowed the Corporation 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 Corporation 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 component produced during production operations that would impact the environment are fracture fluids. The fracture fluids are recycled and ultimately re-injected into deep geologic formations at a commercial facility and in future, may be re-injected at Corporation-owned facilities.

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Critical Accounting Policies
Reference should be made to the Corporation's significant accounting policies contained in note 2 to the Corporation's audited financial statements for the year ended December 31, 2009. These accounting policies may have a significant impact on the financial performance and financial position of the Corporation.

The preparation of the Corporation's financial statements requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, and the amounts of expenses reported during the period. Such estimates and assumptions affect the calculation of depreciation and amortization, the estimated costs associated with the asset retirement obligation, the determination of the potential impairment of unproved properties, and the calculations of stock-based compensation and future income taxes. Management re-evaluates its estimates and assumptions on an on-going basis, but actual results may differ from those estimates. The most critical accounting policies used by the Corporation upon which estimates and assumptions are required are the impairment of unproved properties, the fair value of assets and liabilities, stock-based compensation, and future income taxes.

Off Balance Sheet Arrangements
The Corporation has not entered into any off balance sheet arrangements.

Fair Value of Financial Instruments
Financial instruments held-for-trading include cash and cash equivalents, loans and receivables include accounts receivable and other financial liabilities include accounts payable and accrued trade liabilities. The fair value of cash and cash equivalents and accounts receivable approximate their carrying values due to the short term nature of these instruments. The fair value of accounts payable and accrued trade liabilities is significantly less than the carrying value due to the credit risk of the Corporation.

International Financial Reporting Standards
In February 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As such, the Corporation will be required to report its results in accordance with IFRS beginning in 2011. In the time leading up to the conversion date, some existing Canadian standards will change in order to converge with IFRS. The Corporation's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with GAAP as it exists on each reporting date. Financial statements commencing with the first quarter ended March 31, 2011, including comparative information, will be prepared on an IFRS basis.

The Corporation commenced its IFRS conversion project during the latter half of 2009, and in early 2010 purchased a software tool designed to assist small and medium-sized enterprises through the planning and policy decision-making processes. In addition, an external consulting firm was engaged to assist the Corporation with its decision-making and conversion processes. As part of the 2010 year-end audit process, the Corporation's external auditors have reviewed the Corporation's IFRS transition date balance sheet as at January 1, 2010. The Corporation's Audit Committee continues to monitor the progress and critical decisions in the transition to IFRS.

The Corporation developed a changeover plan to complete the transition to IFRS by the end of the first quarter 2011, including the preparation of required comparative information and an assessment of the Corporation's information technology systems. The Corporation's IFRS conversion plan consists of three stages: Planning, Policy Decision-Making and Implementation.

The Corporation has completed the Planning stage which involved an assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on financial accounting and reporting processes, internal control requirements, information technology systems; business processes and required amendments to financial disclosures. The main differences noted during this stage relating to CSRI are in the components of a) share-based payments, b) exploration and evaluation costs, c) decommissioning liabilities and d) income taxes. Other differences include the presentation of exploration oil and gas assets as intangible assets rather than as property, plant and equipment.

The Policy Decision-Making stage is also completed and involved an analysis and evaluation of the financial impacts of various alternatives available under IFRS and the selection of appropriate accounting policies. This phase also included identification of effects on business processes, analysis of financial disclosure requirements, and a review of the optional exemptions and mandatory exceptions within IFRS 1 (First-Time Adoption of IFRS) for retrospective application upon transition to IFRS in 2011. Key accounting policy decisions made during this stage (and the resulting effect thereof as at the January 1, 2010 transition date) include: a) the retrospective recalculation of stock-based compensation expense using a historical forfeiture rate as well as separate fair value calculations for each tranche of stock option grants (increase in contributed surplus and decrease in retained earnings); b) the selection of the exemption for Canadian full cost oil and gas companies to use the carrying value of oil and gas assets under Canadian GAAP as the opening deemed cost of oil and gas properties under IFRS as at the transition date (no effect); c) the retrospective recalculation of the asset retirement obligation of the Corporation using a risk free nominal discount rate (increase in decommissioning liability and decrease in retained earnings); and d) the retrospective recognition of the premium on historical flow-through share issuances upon renouncement of the corresponding tax pools (decrease in share capital and increase in retained earnings).

The third, or Implementation stage, has begun including the compilation of financial information necessary to present IFRS financial statements and notes, with 2010 comparatives, and opening reconciliations to Canadian GAAP commencing with the first quarter of 2011. The Corporation has prepared an opening IFRS balance sheet as at January 1, 2010.

CSRI will update its IFRS changeover plan as necessary to reflect new or amended accounting standards issued by the International Accounting Standards Board. Enhanced notes disclosure is currently being drafted since this sement of the conversion to IFRS is expected to have the greatest impact on the Corporation's financial statements. However, as IFRS is expected to change prior to the end of 2011, the full impact of IFRS on the Corporation's financial statements is not fully determinable at this time.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2010

Share Capital
The Corporation has authorized an unlimited number of common shares with no par value. On June 29, 2010, the Corporation issued 3,000,000 Flow-Through Shares at a price of $1.40 per share. The Flow-Through Shares entitle the holder to certain income tax benefits in the form of Canadian Development Expense. The full proceeds of the Flow-Through Shares placement, or $4,200,000, has been allocated to common shares and will be fully expended on eligible development costs by the end of fiscal 2010.

During the third quarter 2010, all remaining 1,231,660 of the Corporation's outstanding $1.40 warrants were exercised by holders resulting in gross proceeds to the Corporation of $1,724,324.

The issued share capital of the Corporation as at November 25, 2010 consists of 57,653,761 common shares. In addition, the Corporation has 2,444,500 stock options outstanding as at November 25, 2010.

On November 22, 2010, the Corporation filed a preliminary short form prospectus with securities regulatory authorities in certain provinces in Canada in respect of a planned public offering. The public offering is subject to agent fees equal to 6% of the gross proceeds plus expenses, and is expected to close on or about December 9, 2010.

Normal Course Issuer Bids
On April 14, 2010, the Corporation received approval from the Exchange to commence a Normal Course Issuer Bid (the "2010-2011 NCIB") through the facilities of the Exchange beginning on April 16, 2010. Pursuant to the 2010-2011 NCIB, the Corporation may acquire up to 2.5 million common shares of the Corporation, representing 4.6% of the total number of common shares outstanding at the commencement of the 2010-2011 NCIB, until April 16, 2011. Purchases in the market will be conducted by CIBC World Markets in accordance with the Exchange rules and all common shares acquired under the 2010-2011 NCIB will be cancelled. Through November 25, 2010, the Corporation has purchased for cancellation a total of 763,800 common shares of the Corporation for total cash consideration of $1,034,648, at an average price of $1.35 per share.

Prior to the above, the Corporation had in effect a previous Normal Course Issuer Bid (the "2008-2009 NCIB") which commenced on December 8, 2008 and closed on November 30, 2009. For details regarding the 2008-2009 NCIB, please refer to the Corporation's interim financial statements for the three and nine months ended September 30, 2010.

Commitments
The Corporation has entered into an office sub-lease agreement which expires on May 30, 2011. Under the terms of the sub-lease agreement, the Corporation 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 Corporation is available on SEDAR at www.sedar.com or the Corporation's website at www.csri.ca.