Canadian Spirit Resources Inc.

For the nine months ended September 30, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2004 and the audited financial statements and MD&A for the year ended December 31, 2003.

Corporate Overview

Canadian Spirit Resources Inc. ("CSRI" or the "Company") is a natural resources exploration company currently focusing on the identification and assembly of natural gas from coal ("NGC", also referred to as coalbed methane or "CBM") opportunities in western Canada. Effective June 15, 2004, the Company changed its name to Canadian Spirit Resources Inc. from Spirit Energy Corp. The Company's strategic advantages are the extensive knowledge and experience of its technical team in coal and NGC exploration and development, the proprietary data base of potential NGC resources in western Canada developed during 2002 and 2003 in conjunction with a major industry joint venture partner, and the energy development experience of its management and directors. A change in the capital allocation priorities of the Joint Venture partner in May 2003 resulted in CSRI proceeding on its own to identify targets, assemble a land base and commence exploration of its prospects.

The Company holds a 100% undivided interest, subject to a 10% net profit interest, in five mineral claims in the Iskut River area of the Land Mining Division, British Columbia (the "Isk Wollastonite Project").

Results of Operations

As a result of the recent acquisition of additional petroleum and natural gas mineral rights, the focus of the Company's activities is now on the planning and execution of a pilot production project in the Farrell area of northeastern British Columbia. The Company holds a 100 percent working interest in forty five sections of land in this area with mineral rights varying from surface to the base of the Nikanassin and in most cases to basement. Planning of a three to five well pilot production project on a contiguous block of thirty sections in the west side of the Farrell area ("West Farrell") has commenced. Subject to regulatory approval and stakeholder input, work in the field is expected to begin before the end of 2004. The pilot project is being designed to evaluate various well completion and production techniques and to determine the productive capability of the coal resources acquired to date. Confirming the commercial viability of this prospect may require a period of one year or greater and may require additional drilling, recompletions and evaluation. A major natural gas transmission line crosses the West Farrell prospect area that will require a tie-in and additional infrastructure before natural gas from this area can be sold economically. The Company will investigate opportunities to sell or utilize any natural gas produced during the pilot phase however initial plans assume this production will be flared.

The Company also holds one section of land in a second area in British Columbia where there is the potential for farm-in and joint venture opportunities. The land position of the Company totals forty six sections at a cumulative cost of $10.9 million. These lands expire in 2008 and 2009 with the potential for extensions if necessary.

The principal risks facing the Company are the productive capabilities of the coal resources acquired to date; the uncertainty of further land acquisitions due to the intense competition for NGC opportunities; the availability of drilling and service equipment during the busy winter season; and the continued availability of equity capital on reasonable terms.

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No field work was conducted at the Isk Wollastonite mine site during the current quarter. A further development option held by a third party expired on September 1, 2004. The Company is considering alternate means of realizing some value from the Isk mineral claims which unless extended will expire in 2005.

Summary of Quarterly Results

The Company has had no operating revenue in its history. **Net losses** before taxes for the prior eight quarters were:

	2004	2003	2002
First Quarter	$ 264,063	$ 176,197	$ 27,398
Second Quarter	383,367	184,099	134,790
Third Quarter	**561,720**	127,625	227,434
Fourth Quarter		311,772	1,210,160

From 1999 through the first quarter of 2002, the Company was relatively inactive although management had been investigating the potential for NGC exploitation in western Canada since early 2000. The increase in administration costs in the second quarter of 2002 coincides with the hiring of a technical team and other consultants to begin the active investigation of NGC resources in Canada. In the fourth quarter of 2002, the Company wrote down the book value of its Wollastonite property by $999,999 due to a lack of immediate development plans. In the fourth quarter of 2003, the Company adopted new accounting policies regarding Asset Retirement Obligations and Stock-based Compensation which have had a significant impact on the quarterly results. The increased market price of the Company's shares during the second and third quarters of 2004 resulted in a higher non-cash provision for the potential liability associated with stock appreciation rights issued in August 2003. Compensation expense attributable to stock options granted in the first and second quarter of 2004 also contributed to the increased losses for the last two quarters. Except for comparative quarters in 2003, prior quarters have not been restated for the above disclosure. An issue of flow-through shares in the fourth quarter of 2003 resulted in a recovery of future income taxes which reduced the reported net loss in 2003 by $346,200.

General and Administration

(for periods ended September 30)

	Three months		Nine months	
	2004	2003	2004	2003
Consulting fees	$ 77,008	$ 45,660	$ 167,885	$ 145,066
Salaries and benefits	42,887	38,676	128,565	119,055
Management fees	-	16,598	-	44,625
Other general and administration	76,084	26,004	250,662	117,476
	195,979	126,938	547,112	425,222
Costs capitalized	35,700	10,200	107,100	30,600
Stock-based compensation	$ 382,752	$ 20,133	$ 701,253	$ 79,563

Consultant's fees for the third quarter of 2004 increased 69% over the prior year quarter due to the addition of a financial consultant effective January 1, 2004 and the retention of a geological consultant in the second quarter. Professional fees related to a search assignment were also a factor during the current quarter. The Company will review its capitalization policy at year end which may result in the capitalization of some portion of the geological consultant's fees. The same factors apply to the nine month comparative figures.

Salary and benefits after capitalization increased 11% in the third quarter of 2004 and 8% in the nine month period when compared to the same periods in 2003. The increase is attributed to salary increases effective January 1, 2004 and to the introduction of a basic benefits package. Salaries and benefits associated with staff additions at the beginning of 2004 were largely capitalized since they are directly related to exploration activities. Management fees were incurred in connection with the operation of the former Vancouver office until October 2003.

Other general and administrative costs more than doubled respective 2003 figures due to increased financing activities, certain regulatory matters and a general increase in the level of corporate activity. Legal fees, filing fees, audit and accounting fees and transfer agent fees represent 61% of administrative costs for the months ended September 2004 while rent, office equipment, leases and insurance represent an additional 13% of total costs for the same period. The development of a new website during the third quarter was also a significant expenditure.

Capitalized costs during the respective periods are a portion of salaries and benefits which is considered directly related to exploration activities.

Non-cash compensation expenses related to stock options and stock appreciation rights represent a significant portion of total expenses during the three month period. This is due to the volatility of the Company's share price which is a factor used in the computation of stock-based compensation expense and to additional stock options granted during the first half of 2004.

The provision for the potential liability associated with stock appreciation rights is calculated quarterly over the three year vesting period of these rights based on the closing price of the Company shares. The holder's right to exercise vested stock appreciation rights is conditional upon the Company achieving certain production or profit thresholds.

Liquidity and Capital Resources

The Company's capital budget for 2004 is $12.0 million including estimated capitalized overhead of $150,000 for the year. An increase may be required in the 2004 capital budget contingent upon the commencement of work on the pilot production program currently scheduled for late in the fourth quarter of 2004.

Actual land costs to-date have exceeded the original budget for land. Cash administration expenses for the year are expected to be approximately $800,000 before capitalization of exploration related overhead and net of interest income; a $50,000 increase due to unbudgeted costs incurred in 2004. Net cash administration costs for the nine months ended September 30, 2004 were $547,112.

At September 30, 2004, accounts receivable included an amount of $336,521 paid for one section of mineral rights in Alberta. The Company acted as agent for an investor group in this acquisition and subject to completion of a joint venture agreement, will recover this receivable, acquire an interest in the land and act as operator of the joint venture. A second section was acquired under the same terms subsequent to September 30, 2004.

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Accrued liabilities at September 30, 2004 included an amount of $345,828 representing the potential amount payable to the holders of vested stock appreciation rights. The exercise of vested stock appreciation rights is subject to the Company achieving certain production or asset realization thresholds.

To September 30, 2004 the Company has raised a total of $15.3 million, before share issue costs, through several non-brokered private placements and the exercise of warrants and options.

The cash balance of $5.5 million at September 30, 2004 is sufficient to cover administrative costs and currently planned capital expenditures through the first half of 2005. The capital budget for 2005 will be focused principally on the West Farrell pilot program but will include contingencies for other opportunities.

Funding of the capital and administration costs for the balance of 2004 will come from existing cash resources and from a planned issue of $1.0 million of flow-through shares in the fourth quarter. Additional equity financing will be required for the balance of the pilot project in 2005.

The Company's ability to continue its operations, develop its assets and realize their carrying values is dependent upon continued support of its shareholders, favorable capital market conditions and commodity prices; obtaining additional equity financing and, ultimately, generating revenues sufficient to cover operating costs and capital requirements.

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

Date
This MD&A includes information up to November 16, 2004.

Reader's Advisory
The corporate information contained in these pages contains forward-looking forecast information. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by Canadian Spirit Resources Inc. at the time of preparation, may prove to be incorrect. The actual results achieved during the forecast period will vary from the information provided herein and the variations may be material. Consequently, there is no representation by Canadian Spirit Resources Inc. that actual results achieved during the forecast period will be the same in whole or in part as those forecast.