

Canadian Spirit Resources Inc.

For the six months ended June 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 six month periods ended June 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 partner in May 2003 resulted in CSRI proceeding on its own to identify targets, assemble a land base and commence exploration of its prospects.

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 more and may require additional drilling, recompletions and evaluation. A major natural gas transmission line crosses the West Farrell prospect area but 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 it is pursuing farm-in and joint venture opportunities.

During the second quarter, the Company acquired eighteen sections of land and in July added a further fourteen sections bringing the land position of the Company to 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 and cost 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 until September 1, 2004 was granted to Big Cat Mining Corporation on the same earning terms as the previous option.

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		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. 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

	Three months ended June 30	
	2004	2003
Consulting fees	\$ 43,792	\$ 45,774
Salaries and benefits	43,875	40,599
Management fees	-	16,027
Other general and administration	127,124	48,988
	214,791	151,388
Costs capitalized	35,700	10,200
Stock-based compensation	\$ 179,052	\$ 30,770

Salary and benefit costs rose 8 percent over the comparative 2003 period. An increase in salaries due to staff additions at the beginning of 2004 were offset by a change in capitalization policy. The Company capitalizes salary and benefits directly related to exploration activities. Management fees were incurred in connection with the operation of the Vancouver office until October 2003.

Other general and administration expenses increased 160 percent due to financing and regulatory matters which resulted in legal, filing and transfer agent expenses of \$89,757 or 71 percent of Other general and administration costs during the second quarter of 2004 compared to 34 percent in the second quarter of 2003.

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Non-cash 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 and stock appreciation rights granted during the last twelve month period.

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 project 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 \$800,000 before capitalization of exploration related overhead and net of interest income; a \$50,000 increase due to additional costs incurred during the first half of 2004. Net cash administration costs for the six months ended June 30, 2004 were \$396,328.

In June 2004, the Company completed a \$6.1 million private placement.

Funding of the capital and administration costs for the balance of 2004 will come from existing cash resources, the expected exercise of warrants expiring in October 2004 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. Alternatives are currently being considered.

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 August 23, 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.