

# **Canadian Spirit Resources Inc.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 2008**

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, 2008 and the audited financial statements and MD&A for the year ended December 31, 2007.

### **Date**

This MD&A includes information up to August 21, 2008.

### **Quarterly Review**

Neither the interim financial statements for the three and six month periods ended June 30, 2008 nor this MD&A have been reviewed by the Company’s external auditors.

### **Reader’s Advisory**

The corporate information contained in these pages may contain 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.

### **Corporate Overview**

Canadian Spirit Resources Inc. (“CSRI” or the “Company”) is a natural resources exploration company currently focusing on the identification and development of unconventional natural gas opportunities in western Canada.

Since May 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. Although some preliminary evaluation work was performed on coalbed methane prospects prior to May 2002, the decision to change the strategic direction of the Company from the evaluation of the Isk Wollasonite Mineral Property to an evaluation of unconventional natural gas prospects occurred at this time. In 2008, the Company entered into two joint venture agreements to explore and further advance the development of its major resource property at Farrell Creek, British Columbia. One joint venture will result in the exploration and evaluation of petroleum and natural gas rights (primarily the Montney Formation) below the base of the Cadomin/Nikanassin Formation (“Deep Rights”) and a second joint venture will advance the development of rights (primarily the Gething Formation) above the base of the Cadomin/Nikanassin Formation (“Shallow Rights”).

The Company’s strategic advantages are the extensive knowledge and experience of its technical team in coal, shale and unconventional natural gas exploration and development, the proprietary data base of potential unconventional natural gas resources in western Canada developed since 2002 and early 2003 and the energy development experience of its management, employees and directors.

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2008

### 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 northeast British Columbia, located approximately 70 kilometres west of Fort St. John. In September of 2006, Sproule Associates issued an in-depth report, subsequently confirmed in updated reports dated April 2007 and April 2008, with an evaluation of 1.8 trillion cubic feet of discovered natural gas resource in the Gething, Moosebar and Gates Formations on the Company's lands at Farrell Creek. Two exploration wells targeting the Montney Formation are currently being drilled to establish the resource potential of the Company's Deep Rights. In addition, up to five wells targeting the Gething Formation and one deep, water disposal well are planned to be drilled during the remainder of 2008. See **Business Risks** on Page 7 of this MD&A.

After the fracture stimulation of the d-093 well that occurred in the fourth quarter of 2007, the well was placed under de-watering and production testing through the first half of 2008 but since has been shut-in awaiting tie-in. The previous four wells in the pilot program reached their regulatory flaring limit during 2007 and were shut in. Further production testing will require facilities, including gas processing and compression, and a pipeline connection to the Spectra Energy sales pipeline. Therefore, in March and April of 2008, the Company commenced with the initial stages of its pilot program tie-in to the Spectra Energy pipeline. In the first quarter of 2008, the Company drilled and cased the b-091 well location. This sixth well in the pilot program will be completed in the fall of 2008 in conjunction with the tie-in of the Farrell Creek pilot project. The planned gas production facility and gas gathering system for the pilot project is expected to be completed by the end of the third quarter 2008, at which time the Company plans to resume production testing with the further objective of maximizing production capability and deliverability.

On March 19, 2008, the Company announced the conclusion of a joint venture and farmout agreement with Canbriam Energy Inc., a private energy company based in Calgary, Alberta, that will evaluate certain of the Company's lands for Montney and other deep formation plays ("Deep Rights Joint Venture"). Exploration activity comprised of two wells targeting the Montney Formation commenced immediately following regulatory approval. The unconventional Montney gas play is a large regional trend from west central Alberta into northeast British Columbia. Recent drilling success has occurred mostly in British Columbia and has been enhanced with the application of new horizontal completion technology. Land acquisition, land transactions and the drilling of Montney prospects has been moving in a northwesterly direction. One Montney well and two deeper prospects have been drilled in the immediate area of the Company's Farrell Creek lands and all three have been cased for evaluation. Additional deep test wells in the area are expected to be licensed.

On July 17, 2008, the Company announced that it had entered into a joint venture with Shell Canada Energy to advance the development of the Gething Formation on approximately 145 sections or 92,800 acres in the Company's principal target area of Farrell Creek in northeast British Columbia ("Shallow Rights Joint Venture"). The purpose of the joint venture is to create a large contiguous land base for the development of the identified unconventional gas resource at this project location and to further advance the productivity of the Gething Formation.

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

**For the three and six months ended June 30, 2008**

By entering into two such joint ventures with substantial parties, the Company has initiated a major capital program on its Farrell Creek lands, funded by the joint venture partners in return for a working interest in this project. These programs are expected to evaluate and advance the value of the Farrell Creek property while enabling the Company to direct its financial resources toward new opportunities. Success in the Farrell Creek programs will require the Company to bear its working interest share of capital expenditures and operating costs in due course, once the joint venture partners have satisfied their capital commitments.

### ***Bittern Lake, Alberta:***

In 2005 and 2006 the Company drilled four and completed two Horseshoe Canyon wells on these 50% joint venture lands. After initial positive indications formation water production increased and the wells were shut in. Effective May 1, 2008 the Company sold its interests in these four wells, including associated environmental liabilities, for consideration of \$45,000 (gross).

### ***Isk Wollastonite Mineral Property, British Columbia:***

No field work has been conducted at the Isk Wollastonite mine site during 2007 or the first half of 2008. This asset is available for farm-out or sale.

## **Revenue**

Revenues in the first half of 2008 of \$43,857 (2007: \$39,492) represent interest on cash deposits. The Company anticipates natural gas revenues commencing in the fourth quarter of 2008.

## **General and Administration Expenses**

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Consulting fees	\$ 95,030	\$ 89,051	\$ 154,256	\$ 153,105
Salaries and benefits	222,821	190,236	450,212	413,856
Other general administration	157,622	107,316	293,785	250,863
	<u>475,473</u>	<u>386,603</u>	<u>898,253</u>	<u>817,824</u>
Less: Capitalized costs	<u>(132,253)</u>	<u>(152,919)</u>	<u>(289,161)</u>	<u>(277,007)</u>
	<u>343,220</u>	<u>233,684</u>	<u>609,092</u>	<u>540,817</u>
Stock-based compensation	<u>493,622</u>	<u>(85,155)</u>	<u>740,246</u>	<u>(105,188)</u>
	<u>\$ 836,842</u>	<u>\$ 148,529</u>	<u>\$ 1,349,338</u>	<u>\$ 435,629</u>

In 2008, the Company continued consulting agreements with a director and senior officer of the Company, a financial advisor, a land consultant, and a computer network maintenance company.

Salaries and benefits, after capitalization, have remained relatively constant in the three and six months ended June 30, 2008 compared with 2007 (\$217,495 and \$213,827 for the six months ended June 30, 2008 and 2007 respectively). The Company capitalizes salaries and benefits associated with staff directly related to exploration and development activities.

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

### For the three and six months ended June 30, 2008

During the three and six months ending June 30, 2008, the Company capitalized a total of \$127,875 and \$280,821 respectively (2007: \$152,919 and \$272,621 respectively) of general and administration expenses directly related to exploration and development activities, which are therefore included as part of the property, plant and equipment costs recorded by the Company. The other costs in the three and six months ended June 30, 2008 of \$4,378 and \$8,340 respectively (2007: \$Nil and \$4,378 respectively) relate to consulting fees incurred in relation to equity instruments issue costs, and are therefore recorded by the Company as a reduction of shareholders' equity.

Due to an increase in the market price of the Company's shares, stock-based compensation resulted in a net expense in the first six months of 2008 compared with a net recovery in the same period for 2007. See **Summary of Quarterly Results** on Page 5 for further analysis of the effect on stock-based compensation on the overall results of the Company. The closing price of \$1.45 per share on the TSX Venture Exchange on June 30, 2008 represents a 184% increase from the closing price of \$0.51 per share at December 31, 2007.

### Other General and Administration Costs

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Professional fees	\$ 7,665	\$ 3,306	\$ 15,369	\$ 20,545
Investor relations & filing fees	30,691	28,473	56,416	61,520
Office premises & insurance	84,921	53,033	165,303	106,221
Office supplies	14,841	15,558	30,699	31,614
Staffing costs	14,263	5,341	19,024	28,830
Other	5,240	1,605	6,973	2,133
	<u>157,621</u>	<u>107,316</u>	<u>293,784</u>	<u>250,863</u>
Less: Capitalized costs	<u>(3,817)</u>	<u>(30)</u>	<u>(7,634)</u>	<u>(7,104)</u>
	<u>\$ 153,804</u>	<u>\$ 107,286</u>	<u>\$ 286,150</u>	<u>\$ 243,759</u>

Professional fees have declined by 25% in the first half of 2008 compared to 2007 due to a decrease in legal fees, related purely to the number of corporate matters requiring advice or assistance from the Company's legal counsel.

Office premises costs were 56% higher in the first two quarters of 2008 compared to 2007 due to higher net rents as well as increases in insurance and office operating costs. Office related expenses are anticipated to continue at increased levels over the next three years due to the tight office market rental conditions in Calgary and the terms of the Company's existing sublease agreement.

Staffing costs in the first half of 2008 were 34% lower compared to the same period in 2007. In the 2008 six month period, staffing costs were comprised primarily of training expenses and membership dues while the 2007 six month period included severance related costs associated with a former employee.

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2008

### Summary of Quarterly Results

Net results prior to income taxes from the beginning of 2006 were:

Earnings (loss) by quarter	2008		2007		2006	
	Amount	Per Share (basic & diluted)	Amount	Per Share (basic & diluted)	Amount	Per Share (basic & diluted)
First Quarter	\$ (498,821)	\$ (0.01)	\$ (279,955)	\$ (0.01)	\$ (975,817)	\$ (0.04)
Second Quarter	(824,651)	(0.02)	(150,227)	-	31,536	-
Third Quarter	-	-	(42,936)	-	174,092	0.01
Fourth Quarter	-	-	(402,446)	(0.02)	(305,026)	(0.01)
Loss before income taxes	<u>\$ (1,323,472)</u>	<u>\$ (0.03)</u>	<u>\$ (875,564)</u>	<u>\$ (0.03)</u>	<u>\$ (1,075,215)</u>	<u>\$ (0.04)</u>

For each period up to and including June 30, 2008, 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, diluted loss per share information has not been shown.

In 2007 and 2008, the Company 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 income tax recoveries are increased by the estimated value of the renounced tax deductions. The Flow-Through Share issue that occurred in 2007 resulted in a recovery of future income taxes of \$172,925. This recovery was booked in the first quarter of 2008 as that is when the actual renouncement documents were filed with the government authorities. See **Share Capital** on Page 11 for a description of the Flow-Through Share issue concluded in 2008.

As discussed previously, stock-based compensation expense for stock option grants and SARs contributed significantly to the variability of the Company's income and losses since the beginning of 2006. The SARs issued to two officers and a senior employee in August 2003 are now fully vested and changes in the value of the Company's shares have an immediate impact on the quarterly provision for this conditional liability. 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

	2008	2007	2006
First Quarter	\$ (252,197)	\$ (299,988)	\$ (216,771)
Second Quarter	(331,029)	(235,382)	(277,597)
Third Quarter	-	(236,982)	(257,468)
Fourth Quarter	-	(300,502)	(318,597)
Loss before income taxes	<u>\$ (583,226)</u>	<u>\$ (1,072,854)</u>	<u>\$ (1,070,433)</u>

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2008

### Liquidity and Capital Resources

The Company's capital program for the first six months of each of the last two years is detailed in the following table:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Lease acquisitions and retentions	\$ 27,908	\$ 34,470	\$ 38,979	\$ 52,160
Geological and geophysical	846	944	48,418	9,245
Drilling and completion	400,820	521,965	1,590,548	1,230,372
Capitalized overhead	127,876	152,919	280,821	272,629
Total petroleum and natural gas	557,450	710,298	1,958,766	1,564,406
Office equipment and furnishings	475	3,251	10,173	3,251
Total capital expenditures	\$ 557,925	\$ 713,549	\$ 1,968,939	\$ 1,567,657

For the first three quarters of 2008, the Company has a base case capital budget of \$4.3 million including a portion of the \$4.0 million AFE for the tie-in of the Company's pilot program to the Spectra Energy sales pipeline, and an estimated \$420,000 for capitalized overhead. The Company's budget is reviewed and approved by the Board of Directors on a quarterly basis. The budget for field testing activities for the first three quarters of 2008 is \$0.8 million.

Cash administration expenses (G&A excluding stock based compensation) for 2008 are expected to be approximately \$1.8 million before capitalization of exploration and development related overhead, approximately the same as 2007. Revenue from interest on cash balances is budgeted at \$121,000 for the year. The Company has not budgeted for any cash flow from operations during the first three quarters of 2008.

At June 30, 2008, the Company had working capital of \$3.1 million, consisting of cash in the amount of \$3.7 million, accounts receivable and prepaid expenses of \$0.3 million, net of accounts payable and accrued trade and stock appreciation rights liabilities of \$0.9 million. The accounts payable and accrued trade liabilities relate to field work at Farrell Creek, British Columbia that occurred during the latter part of the second quarter of 2008. The Company has no bank indebtedness and has no credit agreements to borrow money in place at this time.

The Company's working capital of \$3.1 million at June 30, 2008 is considered to be sufficient to cover its administrative costs and its base case capital budget remaining through the end of the third quarter of 2008. The additional equity capital required to complete the tie-in of the Company's Farrell Creek pilot program to the Spectra Energy gas pipeline and to complete any further planned capital programs, such as additional drilling activity and the resultant tie-ins are now covered under the terms of the July 17, 2008 joint venture (see **Results of Operations** on Page 2). The Company does not anticipate any significant capital requirements related to this project through the end of 2008.

# **Canadian Spirit Resources Inc.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 2008**

Subsequent to the end of the second quarter, the Company increased its cash position by \$9.7 million through a) an equity issue which closed on July 16, 2008 in the amount of \$3.1 million; b) through the exercise of warrants expiring July 18, 2008 in the amount of \$1.6 million; and c) through the reimbursement of prior capital expenditures and operating costs in the amount of \$5.0 million from a joint venture partner.

### **Business Risks**

#### ***Productivity***

A material risk facing the Company is the productive capability of the discovered coal and shale resource in the Gething Formation on the Company's existing land base and the Company's ability to extract this discovered natural gas resource economically. The Company has made significant progress in developing an economic well completion and production system and 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 northeast 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.

#### ***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. Only a small number of wells have been drilled into these deeper formations in the vicinity of the Company's lands and public information is available on just a small number of these wells. Exploration risk includes both determining the existence of commercial qualities of hydrocarbons and the ability to recover any discovered resource economically. Recognizing the technical expertise, operating capability and financial resources needed to explore these deeper formations, the Company has entered into the Deep Rights Joint Venture which will result in the initial exploration of its deep rights at Farrell Creek, British Columbia 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 continued support of its shareholders, 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.

To minimize financial risk, the Company pre-funds all capital commitments in the equity markets and does not utilize debt at this early stage of development. Included in commitments is the minimum administrative and operating cost to see the Company through anticipated equity market or commodity price cycles.

# **Canadian Spirit Resources Inc.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 2008**

### ***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 the Deep Rights and Shallow Rights Joint Ventures pursuant to which substantial parties with the necessary experience and skills will assume operatorship.

### ***Land Acquisition and Tenure***

Rights to explore for and extract hydrocarbons, are generally acquired from the Crown or private parties and requires 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 2008 and 2009 in order to retain a substantial portion of these mineral rights. To reduce the risk of losing its current mineral rights, the Company has entered into the 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 during production operations that would impact the environment are relatively small amounts of saline water and carbon dioxide. The saline water is currently re-injected into deep geologic formations at a commercial facility and in future, will be re-injected using 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.

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2008

### **Disclosure Controls and Procedures and Internal Controls**

#### *Disclosure Control Risk*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Operating Officer have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2008, that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company subject to the reportable weakness identified below regarding segregation of duties. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

#### *Internal Control Risks*

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers Annual and Interim Filings". Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principals (GAAP). ICFR includes those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP;
- receipts and expenditures only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, the effectiveness of ICFR is subject to the risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate. Management, including the Chief Executive Officer and Chief Operating Officer, carried out the design of the Company's internal controls over financial reporting and concluded, subject to the inherent limitations noted above, the Company has sufficient controls to meet the requirements as stated above and that one reportable weakness existed, at June 30, 2008, as detailed below.

#### *Segregation of Duties*

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to limited resources, a complete segregation of duties within the Company's operating and accounting groups can not be fully achieved. The result is that the Company is highly reliant on the qualifications, experience and integrity of its staff and on the performance of mitigating procedures during its financial close processes in order to ensure the financial

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

**For the three and six months ended June 30, 2008**

statements are presented fairly in all material respects. No significant change in the current control process occurred in the first six months of 2008 nor is any change planned until the Company achieves production and cash flow from operations. Management will continue to review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

### **Critical Accounting Policies**

Reference should be made to the Company's significant accounting policies contained in note 2 to the Company's unaudited interim financial statements for the three and six month periods ended June 30, 2008 and the audited financial statements for the year ended December 31, 2007. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

### **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 at June 30, 2008.

Effective January 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting pronouncements: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863 *Financial Instruments – Presentation*. The adoption of these new standards results in no significant changes to the unaudited interim financial statements of the Company except for additional note disclosure. See note 2 to the audited financial statements for the year ended December 31, 2007 for a description of the significant accounting policies followed by the Company. See notes 8 and 9 to the unaudited interim financial statements for the three and six month periods ended June 30, 2008.

### **Future Changes in Accounting Policies**

The following is an overview of accounting standard changes that the Company will be required to adopt in the near future:

CICA Handbook: Section 3064, *Goodwill and 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 is effective for interim or annual fiscal periods beginning on or after October 31, 2008 and therefore the Company will evaluate the impact of adopting the new standard in conjunction with its next fiscal year beginning on January 1, 2009.

# Canadian Spirit Resources Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

**For the three and six months ended June 30, 2008**

### **Related Party Transactions**

During the first six months of 2008 and 2007, the Company had transactions with directors of the Company, persons related to them or companies controlled by them in the normal course of business as follows:

For the six month periods ended June 30	2008	2007
Consulting fees	\$ 68,100	\$ 54,600

Consulting fees during the three and six month periods ending June 30, 2008 included \$37,800 and \$68,000 respectively (2007: \$29,550 and \$54,600 respectively) paid or payable to a director and senior officer of the Company. Accounts payable at June 30, 2008 includes \$16,981 (2007: \$3,716) due to a director and senior officer for consulting fees earned and related costs.

Transactions with related parties are recorded at cost, which represent exchange amounts for services provided. Since June 30, 2008 to the date of this report, the Company has continued to contract with a director to provide management services as a consultant.

### **Share Capital**

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

Subsequent to the period end, the Company issued 2,493,319 Units at \$1.05 per Unit and 400,000 Flow-Through Shares at \$1.20 per share. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one share for eighteen months at an exercise price of \$1.40 per share. The fair value of the warrants was estimated at the date of closing, July 16, 2008, using the Black-Scholes pricing model, under which the Company assigned a value of \$0.49 per whole warrant or \$697,169 of the Unit proceeds to warrants, with the remaining \$1,920,816 of the Unit proceeds assigned to common shares. 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 \$480,000, has been assigned to common shares and is expected to be fully expended on eligible development costs by the end of 2008. The resultant recovery of future income taxes due to the issuance of the Flow-Through Shares will be booked in the accounting records of the Company in the third quarter of 2008.

On February 19, 2008 the Company issued 11,220,000 Units at \$0.50 per Unit. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one share for two years at an exercise price of \$0.80 per share. Prior to expiry, if the common shares of the Company close at a price of \$1.20 per share or greater for twenty consecutive trading days, then the Company shall have the option upon thirty days written notice to require the exercise of the warrants by the end of such period at which time any unexercised warrants shall expire. The fair value of the warrants was estimated at the date of closing using the Black-Scholes pricing model, under which the Company assigned a value of \$0.18 per whole warrant or \$1,311,618 of the Unit proceeds to warrants, with the remaining \$4,298,382 of the Unit proceeds assigned to common shares.

# **Canadian Spirit Resources Inc.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 2008**

Since December 31, 2007 to the date of this report, the Company has issued 465,000 common shares for the exercise of stock options. During this same period, the Company has granted 50,000 options to purchase common shares to a land consultant; 147,000 options to non-executive employees of the Company, 115,000 options to executive employees of the Company, 550,000 options to independent directors and officers who are also directors of the Company and 25,000 options to a contract consultant. The issued share capital as at August 21, 2008 consists of 48,675,401 common shares. In addition, the Company has 5,570,000 warrants and 2,857,000 stock options outstanding as at August 21, 2008.

### **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](http://www.sedar.com) or the Company's website at [www.csri.ca](http://www.csri.ca).