

Spirit Energy Corp.

For the Three Months ended March 31, 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 months ended March 31, 2004 and the audited financial statements and MD&A for the year ended December 31, 2003.

Corporate Overview

Spirit Energy Corp. 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. 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 budgeting priorities of the partner in May 2003 resulted in Spirit proceeding on its own to identify targets, assemble a land base and proceed with exploration.

Results of Operations

The Company’s activities are currently focused entirely on the assembly of land positions in its principal areas of interest through crown land sales, farm-ins and potential joint ventures and the identification of opportunities where it’s technical and management expertise can be leveraged. The Company’s principal land assembly activities are currently in two areas in northeastern British Columbia where combined, the Company holds a 100 percent working interest in twenty three sections with mineral rights varying from surface to the base of the Nikanassin and in some cases to basement. Total land acquisition costs to date are \$4.2 million. These lands expire in 2008 and 2009 with the potential for extensions if necessary. Two test holes have been drilled to-date to gather proprietary data in support of Spirit’s land assembly activities and to provide a base data set for the planning of future pilot production programs. The time required to assemble information from each test hole is approximately four to six months. The Company has not stimulated or attempted to put these wells on production. Other areas of interest in Alberta and British Columbia are also being considered.

One area of interest has existing pipelines and infrastructure related to conventional oil and gas activity and will require only normal tie-in capital to bring any future production to market. The second area has no existing infrastructure and will require that a larger land base be assembled in order to justify the additional capital cost of bringing any future production on-stream.

The principal risks facing the Company are the uncertainty of land acquisitions due to the intense competition for NGC opportunities and the productive capability of the coal resources acquired to-date which is not known at this time. Further land acquisitions, evaluation drilling and pilot production tests will be required to confirm the commercial viability of the Company’s prospects.

Selected Annual Information (for the years ended December 31)

| | 2003 | 2002 | 2001 |
|--------------|-------------|-------------|-------------|
| Net Loss | \$ 394,063 | \$1,600,438 | \$3,917,973 |
| Total Assets | \$4,242,668 | \$ 343,991 | \$1,032,372 |

During 2002 and 2001, the Company wrote down the book value of its Isk Wollastonite Project in northern British Columbia as it was determined to be uneconomic to conduct further development

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operations including infrastructure under the current price and cost conditions. The Company continues to hold valid mineral leases on this property but has not conducted any operations at the site since 1998.

Summary of Quarterly Results

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

| | <u>2003</u> | <u>2002</u> |
|----------------|-------------|-------------|
| First Quarter | \$147,537 | \$ 27,398 |
| Second Quarter | 153,329 | 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 impacted the quarterly results. 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

| | <u>2003</u> | <u>2002</u> |
|----------------------------------|----------------|----------------|
| Consulting fees | \$ 98,088 | \$200,036 |
| Salaries and benefits | 128,875 | 90,714 |
| Management fees | 43,500 | 83,607 |
| Other general and administration | <u>302,216</u> | <u>210,682</u> |
| | \$572,679 | \$585,039 |
| Costs capitalized | \$ 80,740 | \$ - |

Consulting fees were higher during the second half of 2002 due to the number of consultants employed to perform an evaluation of NGC potential in western Canada. Salaries and benefits increased in 2003 due to the full year impact of compensation to key employees who joined the Company in May 2002. Other administrative costs rose in 2003 due, in order of magnitude to legal expenses related to regulatory matters, cash finders' fees paid in connection with a flow-through share issue and filing fees arising from four private placements completed during the year.

Liquidity and Capital Resources

The Company's capital budget for 2004 has been increased from a base level of \$2.9 million to \$12.0 million and administrative expenses for the year are expected to be \$750,000 before capitalization of exploration related overhead. Land acquisition and related expenditures are budgeted at approximately \$8.0 million, drilling and evaluation capital is set at \$3.0 million and the balance for work on a pilot project commencing late in 2004.

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Funding of the Company's capital and administrative costs in 2004 will come from existing cash resources, the expected exercise of warrants expiring during the year and from a \$6.1 million private placement announced on May 5, 2004. This proposed issue is fully subscribed and will close subject to TSX Venture Exchange approval. A further issue of \$1.0 million of flow-through shares is contemplated for late 2004 but is not expected to be required to complete the planned capital program for the year.

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.spiritenergy.ca.

Date

This MD&A includes information up to May 28, 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 Spirit Energy Corp. 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 Spirit Energy Corp. that actual results achieved during the forecast period will be the same in whole or in part as those forecast.