Canadian Spirit Resources Inc.

For the three and six month periods ended June 30, 2005

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, 2005 and the audited financial statements and MD&A for the year ended December 31, 2004.

Date
This MD&A includes information up to August 17, 2005.

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.

Corporate Overview
Canadian Spirit Resources Inc. ("CSRI" or the "Company") is a natural resources company focusing on the exploration and development of opportunities in the unconventional gas sector of the energy industry (including natural gas from coal "NGC", also referred to as coalbed methane or "CBM", shale gas and tight gas sands).

The Company's strategic advantages are the extensive knowledge and experience of its technical team in coal and NGC exploration and development, the proprietary database of potential NGC resources in western Canada developed during 2002 and early 2003 and the energy development experience of its management and directors. The original evaluation of potential NGC resources in western Canada was conducted in conjunction with a major industry joint venture partner, however, a change in the capital allocation priorities of the joint venture partner in May 2003 resulted in CSRI proceeding to identify targets, assemble a land base, and commence exploration of its prospects on its own.

The Company also holds a 100% undivided interest, subject to a 10% net profit interest, in thirteen mineral claims covering 2,925 hectares of land in the Iskut River area of the Liard Mining Division, British Columbia (the "Isk Wollastonite Mineral Properties").

Prior to May 2002, the Company's primary activity was to evaluate its Isk Wollastonite Mineral Properties. The Company determined that this mineral property contains significant reserves, but are uneconomic to produce at current prices due to lack of access and infrastructure. During the exploration and evaluation phase of operations from 1992 through April 2002, the Company incurred approximately $8.0 million of losses, including an impairment charge of $4.8 million for this mineral property.

Since May 2002, the Company's focus has been to evaluate the resource potential of NGC exploration properties and is considered to be in its development stage of operations. Although some preliminary evaluation work was performed on NGC potential prior to May 2002, the decision to change the strategic direction of the Company from evaluation of the Isk Wollasonite Mineral Properties to an evaluation of NGC occurred early in 2002.

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Results of Operations

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. To date, the Company has drilled three test wells on its lands to evaluate NGC potential. The first test well was drilled, cored, evaluated and suspended in the eastern portion of its land holdings during 2003. The next two test wells were drilled, cored, evaluated and cased to evaluate a contiguous block of thirty sections in the west side of the Farrell area ("West Farrell") during 2004.

Activities from January 1 to August 17, 2005 include:

1. The Company began stimulation and production testing of the third test well (c-83-H) drilled in West Farrell in preparation for its NGC pilot production project. The Company has perforated the two lowest coal seams in this well and has performed injectivity tests to assist in determining the coal's permeability. The pilot project has been 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 six months to one year or greater and may require additional drilling, recompletions and evaluations.

2. The second cased well in West Farrell (c-48-I) was completed to evaluate a tight sand gas play that was encountered while drilling for NGC on both West Farrell test wells. This well was allowed to flow for a short period of time and was shut-in with bottom hole pressure gauges to assist in determining productive capability from this zone. Any production results from this horizon will supplement the economic value of the Farrell Creek properties, which has a primary producing objective of the Gething coal package.

3. On August 8, 2005, the Company spud a well at c-A83-H, under the British Columbia test hole regime, to evaluate shale gas potential in the West Farrell area. Logs, cores, and other data from this fourth test well will be evaluated over the next three to six months before any decision is taken regarding this potential resource.

4. The Company acquired a 66.67% interest in five sections, a 33.33% interest in two sections, and a 50% interest on another section of land in the Farrell Creek area. The Company is pursuing the remaining interests in these lands from the other working interest partners at this time. These lands will supplement the 100 percent working interest the Company held in 13,629 hectares of land in the Farrell Creek area at December 31, 2004. 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.

During 2004 the Company acted as agent in acquiring two sections of land in Alberta under a joint venture with Lynden Ventures Ltd., an independent third party. Under the terms of the joint venture, Lynden Ventures will pay 100% of the initial land acquisition and drilling costs up to $2.5 million to earn a 50% working interest in the joint venture lands. The area of mutual interest ("AMI") in the proposed joint venture lands covers four townships in central Alberta. The Company acquired additional lands in the AMI during the first quarter of 2005 and has plans to drill up to five NGC wells on these lands commencing in the third quarter of 2005. The Company executed this agreement in April 2005 and Lynden Ventures obtained regulatory approvals in August 2005 to commence operations.

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No field work was conducted at the Isk Wollastonite mine site during the first three months of 2005. A development option held by a third party was amended and extended during 2004 and currently expires on December 31, 2005. The option agreement grants the Optionee the sole and exclusive right and option to acquire a 50% undivided interest, subject to a 3% Net Smelter Return, in the Isk Wollastonite Mineral Properties. In order to earn this interest, the Optionee must incur $3.5 million in exploration expenditures prior to December 31, 2007. Two mineral claims were due to expire in March 2005, seven mineral claims were due to expire in August 2005, with the remaining claims to expire in December 2005. The Company obtained an annual extension on the two mineral claims in February 2005, the seven mineral claims in August 2005, and intends to extend the remaining claims prior to their expiry dates in December. Annual extensions are available to the Company for the next ten years.

General and Administration Expenses

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Consulting fees	$ 61,606	$ 44,174	$ 144,446	$ 91,260
Salaries and benefits	196,084	79,575	352,756	157,078
Other general administration	127,155	127,293	250,588	174,578
	384,845	251,042	747,790	422,916
Less: Capitalized costs	(140,851)	(35,700)	(283,631)	(71,400)
	243,994	215,342	464,159	351,516
Stock-based compensation	566,310	179,052	1,486,345	318,501
	$ 810,304	$ 394,394	$ 1,950,504	$ 670,017

During the three and six month periods ended June 30, 2005, consultant's fees increased by 39% and 58% respectively over the corresponding prior periods due to the addition of a land consultant effective January 1, 2005 to April 30, 2005 and additional activities requiring engineering and computer consultants during 2005 compared to 2004. During the three and six month periods of 2005, the Company capitalized $14,091 and $48,542 respectively (2004: $Nil and $Nil) of consulting fees relating to geological, engineering and land related exploration activity. In addition, the Company charged $11,520 during the three month period and $20,693 during the six month period ended June 30, 2005 to share issue costs representing the proportion of consulting work performed by a financial advisor on private placements during these periods.

Salary and benefits rose 146% during the three month period and 125% during the six month period ended June 30, 2005 compared to corresponding periods of 2004. The change is attributed to salary increases to four employees effective January 1, 2005, the retention of an additional full time geologist, engineer and financial officer during January 2005, and the retention of a land manager and a junior geologist during May 2005. The Company capitalizes salaries and benefits associated with staff directly related to exploration activities. During the three and six month periods ended June 30, 2005, the Company capitalized $107,725 and $195,591 respectively of salary and benefits compared to $35,700 and $71,400 during the same periods in 2004. The increase in capitalized costs is due to the addition of staff geologists, an engineer, a land manager, and salary increases and the related benefits of the employees.

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Other Administration Costs

Other general and administration costs increased by 33% during the six month period of 2005 compared to 2004 as indicated in the following table:

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Professional fees	$ 18,020	$ 38,804	$ 41,755	$ 52,503
Investor relations & filing fees	35,902	57,097	65,055	67,746
Office premises & insurance	34,776	9,280	67,581	20,105
Office supplies	21,193	10,148	44,970	16,807
Staffing costs	4,932	1,080	14,445	6,178
Other	12,332	10,884	16,782	11,239
	127,155	127,293	250,588	174,578
Less: Capitalized costs	(7,515)	-	(18,805)	-
	$ 119,640	$ 127,293	$ 231,783	$ 174,578

Professional fees for financing, audit, accounting and legal fees decreased in both the three month period and the six month period ended June 30, 2005 due to less legal activity in 2005 compared to 2004. Investor relations and filing fees increased in 2005 over the comparable period in 2004 due to investor relations trips and due to increased filing and transfer agent fees associated with the higher issued common shares of the Company. The comparative numbers for 2004 includes $43,163 of costs relating to a June 2004 private placement financing. These costs were subsequently reclassified to share issue cost in the fourth quarter of 2004. Office premises and insurance costs increased due to the higher rental rate for the Company's new offices effective January 1, 2005. The higher staffing costs are due to the increase in staffing levels that occurred in during 2005. Office supply costs for 2005 increased due the licensing costs for a new computer mapping program and related exploration mapping costs of which $7,515 were capitalized to natural gas properties in the three month period ended and $18,805 were capitalized to natural gas properties in the six month period ended June 30, 2005. The remaining increase is due to the administrative costs associated with the increased staffing levels in 2005 compared to 2004.

During the three and six month periods of 2005, professional fees including legal, audit and accounting and investor relations expenditures including listing and transfer agent fees represent 45% and 46% respectively (2004: 75% and 69%) while rent, office supplies, equipment leases and insurance represent 41% and 41% respectively (2004: 15% and 21%) while staffing costs and other costs representing advertising and promotion, and bank charges and interest represent the remaining 14% and 13% respectively (2004: 10% and 10%) of the net other administration costs.

Stock-based compensation increased significantly during the three and six month periods of 2005 compared to 2004. The compensation cost charged against earnings for stock options granted in 2004 and 2005 for the three and six month periods ended June 30, 2005 was $407,810 and $1,169,345 respectively (2004: $120,086 and $260,347). This increase is due to the volatility of the Company's share price, which is a factor used in the computation of stock-based compensation expense; to the increase in the Company's share price; and to additional stock options granted during the past year. Total compensation expense for share appreciation rights for the three and six month periods ended June 30, 2005 was

$158,500 and $317,000 respectively (2004: $58,966 and $56,153) based on a closing price being in excess of $3.65 per share on the TSX Venture Exchange on June 30, 2005. The Company has accrued a long term liability of $1,162,333 at June 30, 2005 relating to share appreciation rights.

Summary of Quarterly Results

The Company has had no operating revenue in its history. Net losses prior to income taxes and the income tax benefit recorded during December 2003 and December 2004 and for the prior eight quarters were:

	2005		2004		2003	
Net loss by quarter	Amount	Per Share	Amount	Per Share	Amount	Per Share
First Quarter	$ (1,094,574)	$ (0.05)	$ (264,063)	$ (0.02)	$ (147,537)	$ (0.02)
Second Quarter	(745,055)	(0.03)	(383,367)	(0.02)	(153,329)	(0.02)
Third Quarter			(561,720)	(0.03)	(127,625)	(0.02)
Fourth Quarter			(868,870)	(0.05)	(311,772)	(0.05)
Loss before income taxes	(1,839,629)	(0.08)	(2,078,020)	(0.12)	(740,263)	(0.11)
Future income tax benefit	-	-	336,200	0.02	346,200	0.05
Net loss after tax	$ (1,839,629)	$ (0.08)	$ (1,741,820)	$ (0.10)	$ (394,063)	$ (0.06)

For the each period up to and including June 30, 2005, the existence of stock options and warrants affected the calculation of loss per share on a diluted basis. As the affect of this dilution is to reduce the reported loss per share, diluted loss per share information has not been shown.

The Company has financed a portion of its exploration and 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. The affect of renouncing income tax pools to investors is to reduce tax deductions that are available to offset future taxable income of the Company. Accordingly, when the expenditures are renounced, share capital is reduced and future income tax liabilities are increased by the estimated value of the renounced tax deductions. An issue of flow-through shares in December 2004 and 2003 resulted in a recovery of future income taxes which reduced the reported net loss in these periods by $336,200 during 2004 (2003: $346,200).

In the fourth quarter of 2003, the Company adopted new accounting policies regarding stock-based compensation which have had a significant impact on the quarterly results. The increased market price of the Company's shares during this past year resulted in a higher provision for the potential liability associated with share appreciation rights issued in August 2003. Compensation expense attributable to stock options granted during 2004 and 2005 also contributed to the increased losses for the last seven quarters. Excluding the affects of stock-based compensation the Company's pre-tax losses by quarter would have been:

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Net loss by quarter prior to stock-based compensation expense	2005	2004	2003
First Quarter	$ (174,539)	$ (124,615)	$ (147,537)
Second Quarter	(178,745)	(204,315)	(153,329)
Third Quarter		(178,968)	(127,625)
Fourth Quarter		(32,197)	(134,076)
Loss before income taxes	$ (353,284)	$ (540,095)	$ (562,567)

Liquidity and Capital Resources

The Company has developed a base case capital budget for 2005 of $14.5 million with an additional $75,000 for administrative capital equipment. The Company's budget is reviewed and approved by the Board of Directors on a quarterly basis. The $14.5 million exploration budget includes $5.8 million for land acquisition, $1.0 million for geological and geophysical, $6.4 million for drilling and completion and $1.3 million for field facilities and tie in costs. The Company anticipates having four wells on production during the fourth quarter of 2005. The Company may adjust the base case capital budget after results of the second and third quarter 2005 completion programs are known and as industry activity (such as land postings, rig availability, facility equipment) dictates.

Cash administration expenses (G&A excluding stock-based compensation) for 2005 are expected to be approximately $1.6 million before capitalization of exploration related overhead; a $717,000 increase from 2004. The net increase can be attributed to: an anticipated increase in salary, benefits and staffing costs of $440,000 due to the hiring of additional staff during 2005 and salary increases for existing staff; an increase of approximately $140,000 due to a new lease on the Company's offices effective January 1, 2005; an increase of $50,000 due to investor relations and filing fees associated with a larger capital base; and a general increase of $87,000 due to costs associated with increased staffing and activity. The Company expects that interest and other income will increase to approximately $250,000 and is anticipating recovery of approximately $180,000 from joint venture participants during 2005. This will reduce the cash administration expense requirements from $1.6 million to $1,150,000. The Company's base budget does not include any cash flow from operations during 2005.

The Company is in strong financial condition at June 30, 2005 with working capital of $16.8 million, consisting of cash in the amount of $16.0 million, accounts receivable and prepaid expenses of $1,063,825, net of accounts payable and accrued trade liabilities of $240,672. The accounts payable and accrued trade liabilities relate primarily to field activities that occurred during June. Accounts receivable includes $832,092 relating to the acquisition of joint venture lands in Alberta referred to above. The Company has no bank indebtedness and has no credit agreements to borrow money in place at this time.

In addition to the March 11, 2005 non-brokered private placement, which generated approximately $8.8 million of funds, the Company received $3.4 million from the exercise of options and warrants during the first six months of 2005. During this period, the Company expended $357,059 on exploration and land acquisition and retention related activities, $262,938 on capitalized overhead and $61,895 on computers and office equipment.

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The Company has raised a total of $28.3 million, after share issue costs, through several non-brokered private placements and the exercise of warrants and options since January 1, 2004.

The positive working capital of $16.8 million is sufficient to cover administration costs and the base case capital budget for 2005 totaling $15.7 million and have funding available to carry over to 2006 or fund a more aggressive 2005 capital budget.

Business Risks

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 in a timely manner; and the extraction of hydrocarbons from reservoirs at economic production rates.

Government incentives, regulations and taxation of the oil and gas industry in Canada have been significant factors affecting industry profitability. The regulatory environment has been relatively stable for several years. However CSRI is unable to predict or control the direction of future public policy. Regulations regarding safety and the environment are strictly adhered to and CSRI sets a high standard of operating practice in order to minimize risks to employees and the environment.

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.

Related Party Transactions

During 2004 and 2005, 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:

	2005	2004
Consulting fees	$43,600	$42,150
Salaries and benefits	$45,000	$42,000
Administration and accounting fees	$ -	$ 1,940

Consulting fees in the six month period ended June 30, 2005 included $43,600 (2004: $42,150) paid or payable to a director and senior officer of the Company. Accounts payable includes $3,716 (2004: $11,099) due to a director for consulting fees earned during the period.

Salaries and benefits of $45,000 (2004: $42,000) was the compensation paid to a director and senior officer of the Company during the six month period ended June 30, 2005.

Accounting fees of $Nil (2004: $1,940) were paid to a company controlled by the spouse of a director and senior officer for accounting services during the six month period ended June 30, 2005.

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Transactions with related parties are recorded at cost, which represent fair market value for services provided. In addition during 2005, certain directors, relatives of directors, or companies controlled by directors subscribed for 14,354 (2004: 15,000) shares or units in private placement offerings of the Company under the same terms as other investors.

Since June 30, 2005 to the date of this report, the Company has continued to employ a director as a salaried employee and has continued to contract with another director to provide services as a consultant.

Share Capital

The Company has authorized share capital of an unlimited number of common shares of no par value. Since June 30, 2005 to the date of this report, the Company has not issued any common shares for the exercise of warrants or options. The Company has granted 25,000 options to purchase common shares to a new employee since June 30, 2005. The issued share capital as at August 17, 2005 consists of 25,593,082 common shares. In addition the Company has 1,420,848 warrants outstanding and 2,475,000 stock options outstanding as at August 17, 2005.

Corporate Information

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