

Canadian Spirit Resources Inc.

For the three and six month periods ended June 30, 2007

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 interim unaudited financial statements for the three and six month periods ended June 30, 2007 and the audited financial statements and MD&A for the year ended December 31, 2006.

Date

This MD&A includes information up to July 24, 2007.

Quarterly Review

Neither the interim financial statements for the three and six month periods ended June 30, 2007 and 2006 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 assembly of unconventional natural gas opportunities in western Canada.

The Company holds a 100% undivided interest, subject to a 10% net profit interest, in ten mineral claims covering 1,425 hectares of land in the Iskut River area of the Liard Mining Division, British Columbia (the “Isk Wollastonite Mineral Properties”). The Company determined that this Wollastonite 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 the impairment of the Isk Wollastonite Mineral Properties to \$1.

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 Wollastonite Mineral Properties to an evaluation of unconventional natural gas prospects occurred at this time. 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 during 2002 and early 2003 and the energy development experience of its management, employees and directors.

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations

Farrell Creek, British Columbia:

The focus of the Company's activities is currently on the execution of a pilot production project in the Farrell Creek area of northeastern British Columbia, located approximately 70 kilometres west of Fort St. John. Preliminary engineering and cost analysis on the tie-in, facilities and pipeline to the Duke Energy sales pipeline have been completed and landowner approvals obtained.

The four test wells completed in the Gething Formation during 2005 and 2006 flowed natural gas and formation water. The Company believes these results are encouraging given the early stage of evaluating this new unconventional basin. Activity to-date in 2007 has concentrated on achieving consistent production of natural gas and water from these four test wells with improved reliability of equipment and the reduction of operating costs, as well as the fracture stimulation/workover of two additional wells drilled in 2005.

On January 31, 2007, the Company's "Experimental Scheme Application" covering a six section block which incorporates the Company's pilot production project at Farrell Creek was approved by the British Columbia Oil & Gas Commission. The scheme will facilitate the orderly development of the pilot project and enable the Company to continue to keep pertinent engineering data confidential for three years.

In the first half of 2007, the Company made equipment changes and applied new production techniques which have resulted in a more stable production rate of natural gas. Production testing designed to evaluate the completion and fracture stimulation techniques applied in each of the four test wells is continuing for the purpose of optimizing the production from and the spacing of future wells. The Company continues to be encouraged by the results of the ongoing pilot program and expects to make further modification to its completion and production techniques with the objective of achieving consistent commercial production rates.

The Company has an active program planned for the third quarter of 2007 with a capital budget of \$1.6 million. Field operations to complete the first phase of the Gething Formation pilot program at Farrell Creek began in late June. Planned operations included workovers and further production testing of three of the four wells currently comprising the pilot project. An additional operation to fracture stimulate the upper portion of the Gething Formation in the b-003 well has been completed and the well is currently being tested. As a result, the planned completion and fracture stimulation of the d-093 well has been rescheduled for mid-August and will proceed subject to Board approval.

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. The Company has had no activity in the Bittern Lake area in 2007. Due to the inability to acquire a sizable land base for development on reasonable terms, the Company plans to farm out or dispose of these lands.

Isk Wollastonite, British Columbia:

No field work has been conducted at the Isk Wollastonite mine site during 2007 to date. The Company will continue to pursue farming out the remaining claims to third parties.

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenues represent interest on surplus cash deposits as well as management fees from a joint venture agreement. Revenues earned from management fees during the first six months of 2007 were \$Nil (2006: \$45,000). The Company does not have any producing properties at this time.

General and Administration Expenses

	Three months ended June 30			Six months ended June 30		
	2007	2006	2005	2007	2006	2005
Consulting fees	\$ 89,051	\$ 76,498	\$ 61,606	\$ 153,105	\$ 118,060	\$ 144,446
Salaries and benefits	190,236	236,333	196,085	413,856	488,551	352,756
Other general administration	107,316	177,978	127,155	250,863	345,267	250,588
	<u>386,603</u>	<u>490,809</u>	<u>384,846</u>	<u>817,824</u>	<u>951,878</u>	<u>747,790</u>
Less: Capitalized costs	(152,919)	(154,433)	(140,851)	(277,007)	(321,616)	(283,631)
	<u>233,684</u>	<u>336,376</u>	<u>243,995</u>	<u>540,817</u>	<u>630,262</u>	<u>464,159</u>
Stock-based compensation	(85,155)	(309,133)	566,309	(105,188)	449,913	1,486,345
	<u>\$ 148,529</u>	<u>\$ 27,243</u>	<u>\$ 810,304</u>	<u>\$ 435,629</u>	<u>\$ 1,080,175</u>	<u>\$ 1,950,504</u>

Consulting fees for the first half of 2007 increased by 30% from 2006 due to engineering work performed relating to the Gething formation at Farrell Creek, as well as for tight gas and technical consulting services retained relating to the evaluation of the coal and shale formations. In 2007, the Company continued consulting agreements with its Chief Financial Officer, a financial advisor, and a computer network maintenance company.

Salary and benefits declined by 15% during the first six months of 2007 compared to 2006, with the decrease being attributable to reductions during 2006 in land and exploration staff, as well as reductions in drilling and production staff in the first half of 2007, offset by salary increases effective January 1, 2007. The Company capitalizes salaries and benefits associated with staff directly related to exploration activities.

During the first six months of 2007, the Company capitalized \$272,629 (2006: \$321,616) of general and administration expenses directly related to exploration activities.

Stock based compensation resulted in a net recovery in the first six months of 2007 compared with large net expense charges in the same six month periods for both 2006 and 2005. See Summary of Quarterly Results below for further analysis of the effect on stock based compensation on the overall results of the Company. The compensation cost charged against earnings for stock options granted for the six month period ended June 30, 2007 was \$152,812 (2006: \$502,913). The decrease is due to lower fair value calculations for the options granted in the first three months of 2007 (no options were granted in the second quarter of 2007) compared to the first six months of 2006 as well as an increase in the number of vested stock options. Total compensation recovery for share appreciation rights for the six month period ended June 30, 2007 was \$258,000 (2006: recovery of \$54,000) based on a closing price of \$0.94 per share on the TSX Venture Exchange on June 29, 2007, representing a decrease in the closing share price from \$1.37 per share at December 29, 2006. The Company has accrued a long term liability of \$276,000 at June 30, 2007 (2006: \$1,122,000) relating to share appreciation rights.

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Other General and Administration Costs

Other general and administrative costs decreased by 25% during the first six months of 2007 compared to 2006 as indicated in the following table:

	Three months ended June 30			Six months ended June 30		
	2007	2006	2005	2007	2006	2005
Professional fees	\$ 3,306	\$ 35,611	\$ 18,020	\$ 20,545	\$ 61,132	\$ 41,755
Investor relations & filing fees	28,473	51,276	35,398	61,520	88,528	65,055
Office premises & insurance	53,033	59,844	34,776	106,221	109,258	67,581
Office supplies	15,558	22,190	21,264	31,614	46,409	44,970
Staffing costs	5,341	6,843	8,750	28,830	12,557	14,445
Other	1,605	2,214	8,947	2,133	27,383	16,782
	<u>107,316</u>	<u>177,978</u>	<u>127,155</u>	<u>250,863</u>	<u>345,267</u>	<u>250,588</u>
Less: Capitalized costs	(30)	(11,123)	(7,515)	(7,104)	(21,925)	(18,805)
	<u>\$ 107,286</u>	<u>\$ 166,855</u>	<u>\$ 119,640</u>	<u>\$ 243,759</u>	<u>\$ 323,342</u>	<u>\$ 231,783</u>

Professional fees have declined by 66% in the first six months of 2007 compared to the first six months of 2006 due to a decrease in legal and reservoir engineer fees. The decrease in legal fees is related purely to a decline in the number of corporate matters requiring advice or assistance from the Company's legal counsel. The decrease in reservoir engineer fees is due to the update of the Company's reserve report in 2007 rather than a full new report as was the case in 2006. Investor relations and filing fees have decreased by 31% in the first half of 2007 compared to the first half of 2006 as a result of lower negotiated investor relations fees. Staffing costs have increased from \$12,557 in the first half of 2006 to \$28,830 in the first half of 2007 due to severance-related costs paid on behalf of a former employee and to moving costs reimbursed to an officer of the Company. Other expenses for the period ending June 30, 2007 are negligible. Other costs for the first six months of 2006 included interest of \$15,971 on Part X11.6 tax related to the timing of exploration expenditures required under flow-through share look-back rules.

Summary of Quarterly Results

The Company has had no operating revenue in its history. Net results prior to income taxes for the prior ten quarters were:

Net income (loss) by quarter	2007		2006		2005	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
First Quarter	\$ (279,955)	\$ (0.01)	\$ (975,817)	\$ (0.04)	\$ (1,094,574)	\$ (0.05)
Second Quarter	(150,227)	-	31,536	-	(745,055)	(0.03)
Third Quarter	-	-	174,092	0.01	(469,598)	(0.02)
Fourth Quarter	-	-	(305,026)	(0.01)	(1,497,189)	(0.06)
Loss before income taxes	<u>\$ (430,182)</u>	<u>\$ (0.01)</u>	<u>\$ (1,075,215)</u>	<u>\$ (0.04)</u>	<u>\$ (3,806,416)</u>	<u>\$ (0.16)</u>

For each period up to and including June 30, 2007, the existence of stock options and warrants affects the calculation of loss per share on a diluted basis. As the effect of this dilution is to reduce the reported loss per share, diluted loss per share equals basic loss per share.

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Stock-based compensation expense for stock option grants and SARs contributed significantly to the Company's income or losses during the last ten quarters. Excluding the effects of stock-based compensation the Company's pre-tax losses by quarter would have been:

Net loss by quarter prior to

stock-based compensation expense

	2007	2006	2005
First Quarter	\$ (299,988)	\$ (216,771)	\$ (174,540)
Second Quarter	(235,382)	(277,597)	(178,745)
Third Quarter	-	(257,468)	(21,039)
Fourth Quarter	-	(318,597)	(1,256,241)
Loss before income taxes	<u>\$ (535,370)</u>	<u>\$ (1,070,433)</u>	<u>\$ (1,630,565)</u>

The fourth quarter results of 2005 include an impairment charge of \$1,121,164 relating to completion work on the Bluesky Formation at Farrell Creek that proved to be uneconomic.

Liquidity and Capital Resources

The Company's capital program for the three and six month periods ended June 30 in each of the last three years is detailed in the following table:

	Three months ended June 30			Six months ended June 30		
	2007	2006	2005	2007	2006	2005
Lease acquisitions and retentions	\$ 34,470	\$ 7,902	\$ 52,314	\$ 52,160	\$ 27,258	\$ 64,966
Geological and geophysical	944	-	26,242	9,245	3,344	32,421
Drilling and completion	521,965	463,445	202,784	1,230,372	4,133,192	259,672
Capitalized overhead	152,919	154,433	129,331	272,629	321,616	262,938
Total petroleum and natural gas	710,298	625,780	410,671	1,564,406	4,485,410	619,997
Office equipment and furnishings	3,251	1,113	34,986	3,251	4,655	61,895
Total capital expenditures	<u>\$ 713,549</u>	<u>\$ 626,893</u>	<u>\$ 445,657</u>	<u>\$ 1,567,657</u>	<u>\$ 4,490,065</u>	<u>\$ 681,892</u>

The Company's budget is reviewed and approved by the Board of Directors on a quarterly basis. Base case capital expenditures are expected to be approximately \$1.6 million for production testing, fracture stimulation and workover projects, and land retention during the third quarter of 2007.

Cash administration expenses (G&A excluding stock based compensation) for 2007 are expected to be approximately \$1.75 million - of which \$580,000 is planned to be capitalized as exploration related overhead and recoveries - a decrease of approximately \$100,000 from the 2006 actual results. The net decrease can be attributed to: an anticipated 15% decrease in salaries and benefits due a reduction in land and geological staffing levels during 2006 and a reduction of drilling and production staffing levels during the first half of 2007; offset by a 30% increase in consulting fees in 2007 due to additional engineering and land consulting projects; and by an increase of 28% in office premises and insurance costs as a result of higher net rent expense in 2007 due to receipt of a rent incentive in 2006.

The Company expects that interest and other income will decrease to approximately \$78,000 in 2007 from \$224,000 in 2006 due to lower cash balances. This will reduce the cash administration expense requirements from \$1.75 million to \$1.67 million. The Company expects to have no recovery of additional amounts from joint venture participants during 2007 (2006: \$45,000).

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

At June 30, 2007 the Company has a working capital position of \$0.5 million, consisting of cash in the amount of \$0.8 million, accounts receivable and prepaid expenses of \$0.1 million, net of accounts payable and accrued trade liabilities of \$0.4 million. The accounts payable and accrued trade liabilities relate to work at the Company's Farrell Creek operations during June 2007. As a result of a recent \$3.5 million equity financing, the Company has sufficient cash resources to complete the base case capital program for the remainder of 2007. The Company has no bank indebtedness and has no credit agreements to borrow money in place at this time.

Share Capital

On July 18, 2007, the Company issued 3,053,000 Units at \$1.00 per Unit and 447,000 Flow-Through Shares at \$1.10 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 one year at an exercise price of \$1.10 per share. The fair value of the warrants was estimated at the date of closing using the Black-Scholes pricing model, under which the Company has assigned a value of \$0.21 per whole warrant or \$320,565 of the proceeds to warrants, with the remaining \$2,732,435 of the Unit proceeds assigned to common shares.

The Flow-Through Shares will 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 \$491,700, has been assigned to common shares.

Since March 31, 2007, the Company has not granted options to purchase common shares to new or existing employees, or to contractors. Following the July 18, 2007 equity issue, the issued share capital of the Company as at July 24, 2007 consists of 32,333,082 common shares. In addition, the Company has 6,253,000 warrants and 2,471,000 stock options outstanding as at July 24, 2007. Effective July 18, 2007, the expiry date of 3,200,000 of these warrants was extended from August 11, 2007 to December 14, 2007.

Business Risks

The principal risks facing the Company are the productive capabilities of the coal and shale resources acquired to date; the uncertainty of further land acquisitions due to the intense competition for both conventional and unconventional opportunities; the availability of drilling and service equipment in a timely manner; and the extraction of hydrocarbons from reservoirs economically.

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, converting discovered resources into economically recoverable reserves, and ultimately, generating revenues sufficient to cover operating costs and capital requirements.

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

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 Operating Officer (acting in the capacity of Chief Executive Officer) and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as of July 24, 2007, 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.

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 statements are presented fairly in all material respects. No significant change in the current control process is 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.

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, accounts receivable, accounts payable and accrued expenses. It is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from its financial instruments and that their fair values approximate their carrying values due to their short term nature, unless otherwise noted.

Effective January 1, 2007, the Company adopted the following new Canadian Institute of Chartered Accountants accounting pronouncements: *Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 1530, Comprehensive Income; and Section 3251, Equity*. As required under the implementation of these new standards however, the interim unaudited financial statements of the Company have not been restated. The adoption of these new standards results in no significant changes to the interim unaudited financial statements of the Company.

Canadian Spirit Resources Inc.

For the three and six month periods ended March 31, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Related Party Transactions

During the first six months of 2007, 2006 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:

For the six month periods ended June 30	2007	2006	2005
Consulting fees	\$ 54,600	\$ 45,100	\$ 43,600
Salaries and benefits	\$ 59,749	\$ 58,611	\$ 45,000

Consulting fees in the six month period ended June 30, 2007 included \$54,600 (2006: \$45,100) paid or payable to a director and senior officer of the Company. Accounts payable at June 30, 2007 includes \$Nil (2006: \$12,918) due to a director and senior officer of the Company for consulting fees earned during the respective periods.

Salaries and benefits of \$59,749 (2006: \$58,611) was the compensation paid to a director and senior officer of the Company during the six month period ended June 30, 2007.

Transactions with related parties are recorded at cost, which represents exchange amounts for services provided. In addition, during the first six months of 2007 there were subscriptions for Nil (2006: 14,354) shares or units by directors, relatives of directors, or companies controlled by directors in private placement offerings of the Company under the same terms as other investors.

Since June 30, 2007 until 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.

Corporate Information

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