



CANADIAN SPIRIT RESOURCES INC.

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## **CANADIAN SPIRIT RESOURCES INC. ANNOUNCES SECOND QUARTER 2005 FINANCIAL RESULTS**

Calgary, AB August 18, 2005 - Canadian Spirit Resources Inc. (“CSRI” or the “Company”) (“SPI” TSX Venture) announces the release of its financial results and Management Discussion and Analysis for the three and six month periods ended June 30, 2005.

CSRI 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 is in the pre-development stage and for the remainder of 2005 will be concentrating its efforts on evaluating the productive capabilities of the Gething and Bluesky formations in the Farrell Creek area of northeastern British Columbia.

Operational highlights since the first quarter report are:

- The Company has commenced its summer work program at Farrell Creek which includes:
  - (a) the stimulation and production testing of a tight gas sand (the “Tight Gas Test”);
  - (b) a staged stimulation and production testing of the Gething formation coals and interbedded sands (the “Gething Evaluation”); and
  - (c) the drilling of a fourth test hole to gathering data on shale gas potential in the Farrell Creek area of northeastern British Columbia (the “Shale Test Well”).

The Tight Gas Test began on June 23<sup>rd</sup> with the re-entry of the Company’s second test hole (c-48-I) and the stimulation of the Bluesky formation. The formation has been completed and fracture stimulated and the Company is evaluating the results. The well is currently shut-in with bottom hole pressure gauges to obtain supplemental data for the Company’s technical staff.

The Gething Evaluation began on July 12th at the third test well site (c-83-H) with work on the lowest of up to five intervals within the Gething coal formation. Evaluation of the first test interval is continuing and work on the second test interval has begun. Each test within the Gething formation may require up to thirty days to fully evaluate.

The Company spud a Shale Test Well (which is immediately adjacent to the third test well site) on August 8th. 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.

- The acquisition of a 33.34% interest in five sections and a 50% interest on another section of land in the Farrell Creek area; and
- Executed a joint venture agreement with Lynden Ventures Ltd. (“Lynden”). The initial objective of this joint venture will be NGC potential in central Alberta with CSRI acting as operator. Under the terms of the joint venture, Lynden will pay 100% of the first \$2.5 million of land acquisition and drilling costs to earn a 50% working interest in the joint lands. To-date, three sections of land has been acquired by the Company in the proposed area of mutual interest. Lynden obtained regulatory approvals to commence operations in August and the Company plans on commencing a four well drilling program in September.

### **Selected Financial Data (\$ CDN)**

(for the six month periods ended on or as at June 30)

	<u>2005</u>	<u>2004</u>
Total revenue	\$ 128,583	\$ 26,038
Net Loss	(1,839,629)	(647,813)
Net loss per share (basic & diluted)	(0.08)	(0.05)
Working capital	16,773,308	5,086,533
Total assets	31,749,353	12,988,718

(for the three month periods ended on June 30)

	<u>2005</u>	<u>2004</u>
Total revenue	\$ 75,049	\$ 12,529
Net Loss	(745,055)	(383,750)
Net loss per share (basic & diluted)	(0.03)	(0.03)

The Company had no operating revenue during the first half of 2005 or the comparative period and recorded losses of \$0.7 million and \$1.8 million for the three and six month periods ended June 30, 2005 (2004: \$0.4 million and \$0.6 million). Stock-based compensation expense was a very significant factor during the three and six month periods ended June 30, 2005 representing \$566,310 and \$1,486,345 of the recorded losses in the respective periods (2004: \$179,052 and \$318,501). Increased interest revenue was due to higher average cash balances.

In anticipation of planned increased level of exploration, evaluation and land acquisition activity during 2005, the Company retained three additional staff in January and two more in May. Despite increased corporate activity and staffing, the Company has maintained a tight control on staff and administration expenses. Cash expenses for the three and six month periods of 2005, after the capitalization of costs directly related to exploration activity, were \$243,994 and \$464,159 respectively (2004: \$215,342 and \$351,516). Capitalized overhead was \$140,851 and \$283,631 in the same respective periods (2004: \$35,700 and \$71,400).

Non-cash expenses related to outstanding stock appreciation rights and stock options represented 81% of the reported before tax loss in the first six months of 2005 compared to 49% of the before tax loss in the same period of 2004. The volatility of the Company's share price and additional stock option grants to employees and directors in late 2004 and early 2005 both contributed to the increase in reported stock-based compensation expense in 2005 relative to 2004.

Capital expenditures in the first six months of 2005 were limited due to earlier than anticipated road bans and wet weather in northeastern British Columbia. The capital program during the period consisted of exploration activities in the amount of \$292,093; land acquisition and retention related activities of \$64,966; capitalized overhead of \$262,938; and \$61,895 on computers and office equipment. During the comparable period in 2004, the Company expended \$983,199 for exploration activities; \$5,025,319 for the acquisition and retention of undeveloped land; \$71,400 on capitalized overhead; and \$3,276 on computers and office equipment.

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. The Company has sufficient funds to cover net administration costs and the base case capital budget for 2005 totaling \$15.7 million with funds available to carry over into 2006 or to pursue a more aggressive 2005 capital budget.

The Company has long term financial liabilities of \$1,189,598 at June 30, 2005 were principally the accrued contingent liability for cash payments to key employees pursuant to stock appreciation rights granted in 2003. Payments under these SARs agreements are conditional upon the achievement of specified production targets or profit thresholds. The balance of this figure represents the provision for asset retirement obligations of the Company.

### **Additional Information**

Financial statements and management's discussion and analysis of operations and financial conditions can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

On behalf of the Board of Directors,  
**CANADIAN SPIRIT RESOURCES INC.**

*"Phil Geiger"*

Phillip D.C. Geiger, President & COO

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