Canadian Spirit Resources Inc.

For the three months ended March 31, 2006

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 month periods ended March 31, 2006 and the audited financial statements and MD&A for the year ended December 31, 2005.

Date

This MD&A includes information up to May 12, 2006.

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 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 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"). 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 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 during May 2002. 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 early 2003 and the energy development experience of its management, employees and directors.

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Results of Operations

Farrell Creek, British Columbia:

The focus of the Company's activities is now on the planning and execution of a pilot production project in the Farrell Creek area of northeastern British Columbia. Prior to 2006, the Company had drilled six test holes 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 five test wells were drilled, cored, evaluated and cased to evaluate a contiguous block of thirty sections in the west side of the Farrell Creek area ("West Farrell") during 2004 and 2005. Two of these wells were completed in the Gething Formation and are currently being production tested. At March 31, 2006, the Company held an average working interest of 94.23% in 15,988 hectares (39,506 acres) of land in the Farrell Creek area. 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.

Activities from January 1, 2006 to May 4, 2006 include:

1. During 2006, CSRI continued production testing of the third test well (c-83-H) drilled in West Farrell in preparation for its NGC pilot production project. In December 2005, the Company fracture stimulated selected Gething intervals. On January 16, 2006, the Company began to pump off the water in the well while keeping the casing valve closed and monitored the pressure build-up in the casing. Since opening the casing production valve on February 28, 2006, the production rate of natural gas has ranged from 5 thousand standard cubic feet ("mcf") per day to 110 mcf/day and the water production rates have declined. Current production is at 50 mcf/day with 60 bbls/day of water. The work program on this wellbore was designed to evaluate various well completion and production techniques, to support future well design and well spacing requirements, and to determine the productive capability of the Gething Formation resources acquired to date.

2. The Farrell Creek b-92-H well was spud on December 9, 2005 and was completed and fracture stimulated in the Gething Formation in February 2006. Based on information gathered during the evaluation and fracture stimulation of the c-83-H test well, the Company revised the stimulation program for the b-92-H test well to minimize water volumes injected into the formation. The b-92-H well has produced natural gas at rates ranging from 145 mcf/day to 315 mcf/day. Current production is at 250 mcf/day with 10 bbls/day of water.

3. Two test wells in West Farrell (c-48-I and c-A83-H) were completed and fracture stimulated to evaluate the Bluesky Formation that was encountered while drilling for NGC on both West Farrell test wells. These wells were production tested for up to 120 days. Results of the production test showed formation water and non-commercial flow rates of natural gas and crude oil.

4. In March 2006, the Company requested that Sproule review the Company's activities during 2005 and early 2006 with regard to reporting requirements under National Instrument 51-101 and to update and expand their assessment of the contingent gas-in-place resource of the Company's lands at Farrell Creek.

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The preliminary 2006 Sproule report, dated April 17, 2006, is based on an assessment of available geological, petrological and reservoir parameters gathered from the six test holes drilled on Company land and from available and non-confidential public data and sources. This technical information was used to assess the quality and other properties of the reservoirs. The 2006 Sproule report estimates the contingent resource of gas-in-place for the Gething coals in the range from 13.1 to 16.4 bcf per section. The 2006 Sproule report confirms the contingent resource estimate for the Gething coal made in November 2004, which was based on results from two test holes. The increase for the contingent resource estimate is a result of including additional rock types not evaluated in 2004 and from data obtained from the four additional test holes. The 2006 Sproule report also estimates the contingent resource of gas-in-place for the Gething shales and assigns a range from 10.9 to 17.6 bcf per section. The Company has evaluated the data from the two producing test holes at c-83-H and b-92-H and believes that a portion of current production from these test holes may be from the Gething shales.

In addition to the Gething coals and shales, the 2006 Sproule report assigns a contingent resource estimate of gas-in-place to the Gates and Moosebar Formation shales from 7.1 to 8.5 bcf per section, based on coring and desorption tests. While the shales in the Gates and Moosebar Formations are of long-term interest, the Company's current planning and activity is focused on the effective exploitation of the contingent resource in the Gething Formation.

Sproule has indicated that no estimate of recovery rates and no proved or probable reserves can be assigned to the Company's lands due to the early stage of development at Farrell Creek.

Bittern Lake, Alberta:
In late September and early October of 2005 the Company drilled and completed one Horseshoe Canyon well on the joint venture lands. Based upon completion results of this first well the Company drilled three additional wells on the same section of land. After initial positive indications from the first completed well, formation water production increased and the well was shut in. A second well was completed in February 2006 to further evaluate this play. Due to the inability to acquire a sizable land base for development on reasonable terms, the Company will be evaluating disposition or farmout opportunities of these lands.

Isk Wollastonite, British Columbia:
No field work was conducted at the Isk Wollastonite mine site during the first three months of 2006. Two mineral claims were due to expire in March 2006; seven mineral claims are due to expire in August 2006, and the remaining claims to expire in December 2006. Due to expressions of interest to evaluate these claims for other mineral deposits, the Company obtained an annual extension on the two mineral claims in March 2006, and intends to extend the remaining claims prior to their expiry dates in August and December. Annual extensions are available to the Company for the next nine years. The Company will continue to pursue farming these claims out to third parties.

Revenue

Revenues represent interest on surplus cash deposits and management fees from a joint venture agreement. Revenues earned from management fees during 2006 were $45,000 (2005: $Nil). The Company does not have any producing properties at this time.

General and Administration Expenses

For the three month periods ended March 31	2006	2005
Consulting fees	**$ 41,562**	$ 82,841
Salaries and benefits	**252,218**	160,056
Other general and administrative	**167,289**	120,048
	461,069	362,945
Less: capitalized costs	**(167,183)**	(142,780)
	293,886	220,165
Stock-based compensation	**759,046**	920,035
	$ 1,052,932	$ 1,140,200

Consultant's fees decreased 50% during 2006 from the prior period due to the retention of a land manager as a salaried employee and less consulting work of geologists and engineering. During 2006 and 2005, the Company entered consulting agreements with its Chief Financial Officer, a financial advisor, and a computer maintenance specialist. During the first three months of 2006, the Company capitalized $Nil (2005: $34,451) of consulting fees relating to geological, engineering and land related exploration activity. In addition, the Company charged $Nil (2005: $9,173) to share issue costs representing the proportion of consulting work performed by the financial advisor on private placements during the period.

Salary and benefits rose 58% during the first three months of 2006 compared to 2005. The change is attributed to the retention of an additional full time geologist, land manager and receptionist compared to the prior period and salary increases to its employees effective January 1, 2006. The Company capitalizes salaries and benefits associated with staff directly related to exploration activities. In the first three months of 2006, the Company capitalized $156,381 of salary and benefits compared to $87,866 during the same period in 2005. The increase in capitalized costs in the period is due to the addition of some technical staff, salary increases and the related benefits.

Stock based compensation decreased 18% during the first three months of 2006 compared to 2005. The compensation cost charged against earnings for stock options granted for the three month period ended March 31, 2006 was $297,213 (2005: $761,535). The decrease is due to the decline in unvested stock options and the decrease in number of options granted in the current period compared to the prior period. Total compensation expense for share appreciation rights for the three month period ended March 31, 2006 was $461,833 (2005: $158,500) based on a closing price $3.90 per share (in excess of $3.65 per share) on the TSX Venture Exchange on March 31, 2006. The increase of $303,333 in 2006 is due to the increase in the closing share price from December 31, 2005 of $3.00 per share on the amortized portion of the share appreciation rights. The Company has accrued a long term liability of $1,637,833 at March 31, 2006 relating to share appreciation rights.

Other General and Administration Costs

Other general and administrative costs increased 44% during the first three months of 2006 compared to 2005 as indicated in the following table:

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For the three month periods ended March 31		**2006**		2005
Professional fees	**$**	**25,521**	$	23,735
Investor relations & filing fees		**37,252**		29,657
Office premises & insurance		**49,414**		32,805
Office supplies		**24,219**		23,706
Staffing costs		**5,714**		5,695
Other		**25,169**		4,450
		167,289		120,048
Less: capitalized costs		**(10,802)**		(11,290)
	$	**156,487**	$	108,758

Investor relations and filing fees increased in 2006 over the comparable period in 2005 due to the retention of an investor relations firm in early March 2006 and due to increased filing and transfer agent fees associated with the higher issued common shares of the Company. Office premises and insurance costs increased due to the higher rental costs for the Company's new offices compared to the prior period. Office supply costs for 2006 and 2005 include the licensing costs for a computer mapping program and related exploration mapping costs of which $10,802 (2005: $11,290) were capitalized to natural gas properties. Other costs for 2006 includes interest of $15,971 on Part X11.6 tax due to the Company not incurring exploration expenditures in the time periods required under flow-through share look-back rules.

Summary of Quarterly Results

The Company has had no operating revenue in its history. Net losses prior to income taxes, including the income tax benefit recorded for flow-through shares issued during December 2004, for the prior nine quarters were:

	2006		2005		2004	
Net loss by quarter	Amount	Per Share	Amount	Per Share	Amount	Per Share
First Quarter	$ (975,817)	$ (0.04)	$ (1,094,574)	$ (0.05)	$ (264,063)	$ (0.02)
Second Quarter	-	-	(745,055)	(0.03)	(383,367)	(0.02)
Third Quarter	-	-	(469,598)	(0.02)	(561,720)	(0.03)
Fourth Quarter	-	-	(1,497,189)	(0.06)	(868,870)	(0.05)
Loss before income taxes	(975,817)	(0.04)	(3,806,416)	(0.16)	(2,078,020)	(0.12)
Future income tax recovery	-	-	-	-	336,200	0.02
Net loss after tax	$ (975,817)	$ (0.04)	$ (3,806,416)	$ (0.16)	$ (1,741,820)	$ (0.10)

For the each period up to and including March 31, 2006, 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 information has not been shown.

Stock-based compensation expense for stock option grants and SARs contributed significantly to the Company's losses during the last nine 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	2006	2005	2004
First Quarter	$ (216,771)	$ (174,539)	$ (124,615)
Second Quarter	-	(178,745)	(204,315)
Third Quarter	-	(21,039)	(178,968)
Fourth Quarter	-	(1,256,242)	(32,197)
Loss before income taxes	$ (216,771)	$ (1,630,565)	$ (540,095)

The first quarter results of 2006 and the fourth quarter results of 2005 includes impairment charges of $21,783 and $1,121,164 respectively, 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 first quarter in each of the last two years is detailed in the following table:

For the three month periods ended March 31	**2006**	**2005**
Lease acquisitions and retentions	**$ 19,356**	$ 12,652
Geological and geophysical	**3,344**	6,179
Drilling and completion	**3,669,747**	56,888
Capitalized overhead	**167,183**	133,607
Total petroleum and natural gas	**3,859,630**	209,326
Office equipment and furnishings	**3,542**	26,909
Total capital expenditures	**$ 3,863,172**	$ 236,235

The Company's budget is reviewed and approved by the Board of Directors on a quarterly basis. The base budget for the first half of 2006 is $4.9 million including $0.1 million for land acquisition and retention, $4.5 million for drilling, completion and production activities and $0.3 million for capitalized overhead. The Company will add to the base budget for the second half of 2006 after results of the Gething completion and production testing programs are established and cost estimates for the pilot program are finalized.

Cash administration expenses (G&A excluding stock based compensation) for 2006 are expected to be approximately $1.72 million before capitalization of exploration related overhead and recoveries; a $105,000 increase from 2005. The net increase can be attributed to: an anticipated increase in salary, benefits and staffing costs of $67,000 due to salary increases for existing staff; a reduction of consulting fees of $121,000 due to the hiring of full time staff; an increase of approximately $34,000 due to a new lease on the Company's offices and insurance; an increase of $75,000 due to investor relations and filing fees associated with a larger capital base; and a general increase of $50,000 due to costs associated with increased staffing and activity. The Company expects that interest and other income will decrease to approximately $80,000 from $319,000 in 2005 due to lower cash balances and is anticipating recovery of additional amounts from joint venture participants during 2006. This will reduce the cash administration expense requirements from $1.7 million to $1.5 million. The Company has not budgeted for any cash flow from operations during 2006.

The Company is in strong financial condition at March 31, 2006 with working capital of $4.0 million, consisting of cash in the amount of $7.1 million, accounts receivable and prepaid expenses of $0.6 million, net of accounts payable and accrued trade liabilities of $3.7 million. The accounts payable and accrued trade liabilities relate to work at West Farrell that occurred during February and March 2006. The company has no bank indebtedness and has no credit agreements to borrow money in place at this time.

The Company has raised a total of $32.7 million, after share issue costs, through several non-brokered private placements and the exercise of warrants and options during the past three years. At March 31, 2006 there were 670,848 warrants outstanding with an exercise price of $8.00 per share that will expire, if not exercised, on July 11, 2006.

Business Risks

The principal operating 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 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 and, ultimately, generating revenues sufficient to cover operating costs and capital requirements.

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Related Party Transactions

During the first three months of 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 three month periods ended March 31		**2006**		**2005**
Consulting fees	$	20,300	$	21,500
Salaries and benefits	$	27,250	$	22,500

Consulting fees in the three month period ended March 31, 2006 included $20,300 (2005: $21,500) paid or payable to a director and senior officer of the Company. Accounts payable includes $11,847 (2005: $12,382) due to a director for consulting fees earned during the period.

Salaries and benefits of $27,250 (2005: $22,500) was the compensation paid to a director and senior officer of the Company during three month period ended March 31, 2006.

Transactions with related parties are recorded at cost, which represents exchange amounts for services provided. In addition during the first three months of 2005, certain directors, relatives of directors, or companies controlled by directors subscribed for 14,354 (2006: Nil) for shares or units in private placement offerings of the Company under the same terms as to other investors.

Since March 31, 2006 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 March 31, 2006 to the date of this report, the Company has not issued any common shares. In addition, during this period, the Company has not granted options to purchase common shares to new and existing employees. The issued share capital as at May 12, 2006 consists of 25,608,082 common shares. In addition the Company has 670,848 warrants outstanding and 2,485,000 stock options outstanding as at May 12, 2006.

Corporate Information

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