Canadian Spirit Resources Inc.

For the three months ended March 31, 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 month periods ended March 31, 2005 and the audited financial statements and MD&A for the year ended December 31, 2004.

Date

This MD&A includes information up to April 19, 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 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. Effective June 15, 2004, the Company changed its name to Canadian Spirit Resources Inc. from Spirit Energy Corp.

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 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 five mineral claims covering 2,750 hectares of land in the Iskut River area of the Land 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 during May 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. The Company plans to complete one of the wells drilled in West Farrell during the first half of 2005 in preparation for its NGC pilot production project. 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 one year or greater and may require additional drilling, recompletions and evaluations. The second cased well in West Farrell is expected to be completed in the first half of 2005 to evaluate a conventional gas play that was encountered while drilling for NGC on both West Farrell test wells. Also, the Company's geological team has reviewed recently published research on shale gas potential in northeast British Columbia and has correlated this research with data acquired from its three test wells. As a result, the Company has received a license to drill a shale test, which will twin its third test well, under the British Columbia test hole regime. A major natural gas transmission line crosses the West Farrell prospect area that will require a tie-in and additional infrastructure before natural gas from this area can be sold economically. The Company will investigate opportunities to sell or utilize any natural gas produced during the pilot phase however initial plans assume this production will be flared.

Unusually warm conditions in northeastern British Columbia resulted in the early implementation of road bans (weight restrictions) throughout the area and delayed the Company's planned activities for the first quarter of 2005. The Company intends to execute its drilling and completion programs in the Farrell Creek area immediately after the road bans are lifted in northeastern British Columbia and as weather permits. This delay is not expected to have an impact on the Company's overall capital program for 2005 and may result in improved equipment availability, lower costs and eligibility for provincial government incentives.

During 2005, to the date hereof, the Company has acquired a 33.33% interest in seven sections of land and has committed to acquire 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 holds in 13,629 hectares 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.

During 2004 the Company acted as agent in acquiring two sections of land in Alberta under a proposed joint venture with an independent third party. Under the terms of the joint venture, the third party 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 has 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 second quarter of 2005. The Company expects to execute this agreement in April 2005.

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

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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 with the remaining claims to expire in August or December 2005. The Company obtained an annual extension on the two mineral claims in February 2005 and intends to extend the remaining claims prior to their expiry dates in August or December. Annual extensions are available to the Company for the next ten years.

General and Administration Expenses

(for the three month periods ended March 31)

	2005	2004
Consulting fees	$ 82,840	$ 47,086
Salaries and benefits	156,672	77,504
Stock-based compensation	920,035	139,448
Other administration costs	123,433	47,285
	1,282,980	311,323
Costs capitalized	(142,780)	(35,700)
	$ 1,140,200	$ 275,623

Consultant's fees increased 76% during 2005 over the prior period due to the addition of a land consultant effective January 1, 2005 and additional activities requiring engineering and computer consultants during 2005 compared to 2004. During the first three months of 2005, the Company capitalized $34,451 (2004: $Nil) of consulting fees relating to geological, engineering and land related exploration activity. In addition, the Company charged $9,173 to share issue costs representing the proportion of consulting work performed by the financial advisor on private placements during the period.

Stock based compensation increased significantly during the first three months of 2005 compared to 2004. The compensation cost charged against earnings for stock options granted in 2004 and 2005 for the three month period ended March 31, 2005 was $761,535 (2004: $142,261). 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 month period ended March 31, 2005 was $158,500 (2004: -$2,813) based on a closing price $5.70 per share (in excess of $3.65 per share) on the TSX Venture Exchange on March 31, 2005. The Company has accrued a long term liability of $1,003,833 at March 31, 2005 relating to share appreciation rights.

Salary and benefits rose 102% during the first three months of 2005 compared to 2004. The change is attributed to salary increases to four employees effective January 1, 2005 and the retention of an additional full time geologist, engineer and financial officer effective January 1, 2005. The Company capitalizes salaries and benefits associated with staff directly related to exploration activities. In the first three months of 2005, the Company capitalized $87,866 of salary and benefits compared to $35,700 during the same period in 2004. The increase in capitalized costs is due to the addition of a staff geologist and an engineer, salary increases and the related benefits of the employees.

Other general and administrative costs increased 161% during the first three months of 2005 compared to 2004 as indicated in the following table:

Other Administration Costs

(for the three month periods ended March 31)

	2005	2004
Professional fees	$ 23,735	$ 13,699
Investor relations, filing and transfer agent fees	29,153	10,649
Office premises and insurance	32,805	10,825
Office supply	23,777	6,659
Staffing costs	9,513	5,098
Other	4,450	355
	123,433	47,285
Costs capitalized	(11,290)	-
	$ 112,143	$ 47,285

Professional fees for financing, audit, accounting and legal fees increased due to the higher corporate activity in 2005 compared to 2004. Investor relations and filing fees increased in 2005 over the comparable period in 2004 due to an investor relations trip in February 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 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 January 2005. Office supply costs for 2005 increased due the licensing costs for a new computer mapping program and related exploration mapping costs of which $11,290 were capitalized to natural gas properties. The remaining increase is due to the administrative costs associated with the increased staffing levels in 2005 compared to 2004. During the first three months of 2005, professional fees including legal, audit and accounting and investor relations expenditures including listing and transfer agent fees represent 47% (2004: 51%) while rent, office supplies, equipment leases and insurance represent 40% (2004: 37%) while staffing costs and other costs representing advertising and promotion, and bank charges and interest represent the remaining 13% (2004: 12%) of the net other administrative costs.

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	
	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			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	1,094,574	(0.05)	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	$ 1,094,574	(0.05)	$ 1,741,820	$(0.10)	$ 394,063	$(0.06)

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For the each period up to and including March 31, 2005, 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.

In the fourth quarter of 2003, the Company adopted new accounting policies regarding and 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 four quarters. Excluding the affects of stock based compensation the Company's pre-tax losses by quarter would have been: First quarter 2005 - $174,539 (2004: $124,615; 2003: $147,537); Second quarter 2004 - $204,315 (2003: $153,329); Third quarter 2004: $178,968 (2003: $127,625); Fourth quarter 2004 - $32,197 (2003: $134,076).

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).

Comparison of First Quarter 2005 with Fourth Quarter 2004 Results

During the first quarter of 2005 the Company earned $53,534 in interest revenue from surplus cash deposits compared to $28,844 earned in the fourth quarter of 2004.

General and administrative expenses prior to stock based compensation increased from $169,014 in the fourth quarter of 2004 to $362,945 in the first quarter of 2005. This is principally due to the increase in staffing levels and corporate activity that occurred commencing in January 2005. In the fourth quarter of 2004, the Company capitalized $113,848 of costs to natural gas properties for salaried staff and consulting fees compared to $133,607 in the first quarter of 2005. In addition the Company capitalized $9,173 (fourth quarter 2004: $39,122) to share issue costs during the first quarter representing the proportion of consulting work performed by a financial advisor on private placements during the period.

Stock based compensation increased during the first quarter of 2005 due to the volatility of the Company's share price, which is a factor used in the computation of stock-based compensation expense and to additional stock options granted during the quarter. Stock based compensation increased from $836,672 in the fourth quarter 2004 to $920,035 in the first quarter of 2005.

The net loss for the fourth quarter of 2004 was $532,670 ($868,870 before the future tax benefit recorded on the issue of flow through shares of $336,200) compared to the net loss in the first quarter of 2005 of $1,094,574.

The Company closed a non-brokered private placement on March 11, 2005 for the issue of 1,341,696 Units at $6.75 per Unit. Each Unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one share for one year at an exercise price of $8.00 per share. After share issue costs, this private placement generated approximately $8.8 million of funds for the Company. In addition, during the first three months of 2005, the Company received $202,196 from the exercise of options and warrants. During this period the Company expended $75,719 on exploration and land acquisition and retention related activities, $133,607 on capitalized overhead and $26,909 on computers and office equipment.

During the fourth quarter of 2004, the Company received $1.2 million of proceeds from the issue of flow through shares and the exercise of warrants and expended $1.4 million on drilling and land activity at Farrell Creek.

Liquidity and Capital Resources

The Company has developed a base case capital budget for 2005 of $14.9 million which includes an estimated $300,000 for capitalized overhead and $50,000 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 of exploration activity 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 quarter 2005 completion program 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 $1.3 million before capitalization of exploration related overhead; a $458,000 increase from 2004. The net increase can be attributed to: an anticipated increase in salary, benefits and staffing costs of $370,000 due to the hiring of four additional staff in first quarter 2005 and salary increases for existing staff; a reduction of consulting fees of $125,000 due to the hiring of full time staff; an increase of approximately $100,000 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 $63,000 due to costs associated with increased staffing and activity. The Company expects that interest and other income will increase to approximately $200,000 and is anticipating recovery of approximately $180,000 from joint venture participants during 2005. This will reduce the cash administration expense requirements from $1.3 million to $940,000. The Company has not budgeted for any cash flow from operations during 2005.

The Company is in strong financial condition at March 31, 2005 with working capital of $14.2 million, consisting of cash in the amount of $13.4 million, accounts receivable and prepaid expenses of $986,876, net of accounts payable and accrued trade liabilities of $167,716. The accounts payable and accrued trade liabilities relate primarily to general operating activities that occurred during the first quarter. 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.

The Company has raised a total of $25.1 million, after share issue costs, through several non-brokered private placements and the exercise of warrants and options since January 1, 2004. At March 31, 2005 there were 2,486,500 in-the-money warrants outstanding that will expire during 2005. If exercised these warrants would generate approximately $6.1 million of additional cash resources to the Company during 2005.

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The positive working capital of $14.2 million and the potential exercise of in-the-money warrants of $6.1 million would result in funds available to the Company during the remainder of 2005 of $20.3 million. These funds would be sufficient to cover administrative costs and the base case capital budget for 2005 totaling $15.5 million and have funding available carry over to 2006 or fund a more aggressive 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 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.

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	$ 21,500	$ 21,000
Salaries and benefits	$ 22,500	$ 21,000
Administration and accounting fees	$ -	$ 1,760

Consulting fees in the three month period ended March 31, 2005 included $21,500 (2004: $21,000) paid or payable to a director and senior officer of the Company. Accounts payable includes $12,382 (2004: $42,236) due to a director for consulting fees earned during the period.

Salaries and benefits of $22,500 (2004: $21,000) was the compensation paid to a director and senior officer of the Company during three month period ended March 31, 2005.

Accounting fees of $Nil (2004: $1,760) were paid to a company controlled by the spouse of a director and senior officer for accounting services during three month period ended March 31, 2005.

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: Nil) for shares or units in private placement offerings of the Company under the same terms as to other investors.

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Since March 31, 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 March 31, 2005 to the date of this report, the Company has issued 2,000 common shares for the exercise of warrants. 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 April 19, 2005 consists of 23,858,582 common shares. In addition the Company has 3,155,348 warrants outstanding and 2,260,000 stock options outstanding as at April 19, 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.