Canadian Spirit Resources Inc.

For the year ended December 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 audited financial statements for the year ended December 31, 2005.

Date

This MD&A includes information up to April 06, 2006.

Reader's Advisory

The corporate information contained in these pages contains forward-looking 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 future 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 future period will be the same in whole or in part as those estimated.

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 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 2001 and 2002 the Company impaired the carrying value of the mineral property to $1 from $4,788,596. 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.

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 2005, the Company had 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 Creek area ("West Farrell") during 2004.

Activities from January 1, 2005 to April 06, 2006 include:

1. CSRI began stimulation and production testing of the third test well (c-83-H) drilled in West Farrell during 2004 in preparation for its NGC pilot production project. During 2005, the Company perforated fourteen different coal and coal rock seam intervals within the Gething formation in this wellbore. The Company received natural gas and formation water to surface from six of the different Gething intervals that had been perforated and then production tested these intervals in order to establish natural gas and water production rates prior to stimulation. In December, the Company fracture stimulated selected Gething intervals. The well was allowed to flow until wellbore pressures declined sufficiently to allow a service rig to enter the cased wellbore to clean out sand from the stimulation and install a bottom-hole pump. 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 average production rate of natural gas has increased from 5 thousand standard cubic feet ("mcf") per day to over 35 mcf per day and the water production rates have declined. 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 rock package resources acquired to date. Based upon the positive preliminary test results from the Gething formation and the availability of drilling equipment, the Company licensed an additional five wells in West Farrell and drilled two of the wells before the drilling rig became unavailable. Four of these locations are planned to be drilled in close proximity to the c-83-H test well. The two wells that were drilled are b-92-H and d-93-H and were drilled within 800 meters of the c-83-H test well.

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 two zones 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 first zone of the fracture included the lower Gething intervals and the second phase included an upper section of coal, sand, and shale sequences in the Gething formation. A retrievable bridge plug was placed into the casing to separate the fracture stimulations. The well was allowed to flow from the upper Gething zone until February 27, 2006 when it was shut-in to allow for pressure build-up. Once casing pressure was stabilized the b-92-H well was again allowed to flow at which time stabilized production rates of 250 to 300 mcf per day were achieved from the upper Gething formations.

3. The Farrell Creek d-93-H well was spud on December 18, 2005 and has been cased. After casing this well the drilling rig was released to perform work commitments for other companies.

4. The second cased well in West Farrell (c-48-I) was completed and fracture stimulated to evaluate the Bluesky formation that was encountered while drilling for NGC on both West Farrell test wells. This well was production tested for both thirty and ninety day periods. Results of the production test showed formation water and non-commercial flow rates of natural gas.

5. 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 preliminary desorption results from the shale sequence in this fourth test well have been evaluated and indicate the presence of natural gas. Additional evaluation work was performed and forwarded to the Company's external reservoir engineering consultants for final evaluation. This well is a 50 meter offset to the c-83-H well and was further drilled through the Gething formation. The Company also completed and production tested the Bluesky formation in this well and used this wellbore as an observation well during the fracture stimulation of the c-83-H well in December. Production testing results from the Bluesky formation in this well indicated non-commercial rates of crude oil and formation water.

6. During 2005, 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. In August 2005, the Company acquired an additional 100% interest in 1,667 hectares (six sections) of land in the Farrell Creek area for approximately $2.1 million. At December 31, 2005, 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.

Bittern Lake, Alberta:

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 an additional section of land in the AMI during the first quarter of 2005. The Company executed this agreement in April 2005 and Lynden Ventures obtained regulatory approvals in August 2005 to commence operations.

In late September and early October 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 2005. A development option held by a third party expired on December 31, 2005. 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 ten years. The Company will continue to pursue farming these claims out to third parties.

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Reserves

The Company has no proved or probable natural gas reserves at December 31, 2005.

Selected Annual Information

For the years ended or as at December 31	**2005**	2004	2003
Total revenues	**$ 499,089**	$ 74,117	$ 13,304
Net loss	**$ (3,806,416)**	$ (1,741,820)	$ (394,063)
Net loss per share (basic & diluted)	**$ (0.16)**	$ (0.10)	$ (0.06)
Total current assets	**$ 11,764,255**	$ 6,814,513	$ 2,681,280
Total assets	**$ 34,011,298**	$ 20,884,673	$ 4,242,668
Total current liabilities	**$ 3,722,768**	$ 1,223,229	$ 168,124
Total long term liabilities	**$ 1,260,395**	$ 871,569	$ 86,761

Significant items affecting results over the past three years

During the fourth quarter of 2003, the Company adopted a new accounting policy for stock-based compensation related to common share options. Stock options granted on or after January 1, 2003 have been accounted for based on the fair value method. The fair value is measured at the grant date and charged to earnings on a pro-rata basis over the vesting period with a corresponding increase in contributed surplus. Consideration paid to the Company on exercise of all options is credited to share capital. Non-cash compensation expenses related to stock options represent a significant portion of total expenses during the current year. This is due to the volatility of the Company's share price, which is a factor used in the computation of stock-based compensation expense, the price of the Company's shares at the date of grant, and to additional stock options granted. The compensation cost charged against earnings in 2005 for stock options granted was $1,845,184 (2004: $770,592; 2003: $99,696).

On August 28, 2003, three senior employees were granted share appreciation rights ("SARs") entitling them to cash payments equal to the excess of the then current price of the common shares (to a maximum of $3.65, as amended) over the exercise price of the right. The provision for the potential liability associated with SARs is calculated quarterly over the three year vesting period of these rights based on the closing price of the Company shares. The compensation cost is charged to stock-based compensation expense on a straight-line basis over the vesting period with a corresponding increase in accrued liabilities. The holder's right to exercise vested SARs is conditional upon the Company achieving certain production or profit thresholds. Total compensation expense for SARs for 2005 was $330,667 (2004: $767,333; 2003: $78,000) based on the closing price (to a maximum of $3.65 per share) on the TSX Venture Exchange on December 31. The Company has accrued a total long term liability of $1,176,000 at December 31, 2005 relating to SARs.

During the fourth quarter of 2005, the Company expended $1,121,164 completing and production testing two test wells at West Farrell for conventional gas in the Bluesky formation. Although these wells continue to be prospective for both shale gas in the Gates and Moosebar formations and natural gas from coal in the Gething formation, it was determined that the Bluesky formation does not contain commercially recoverable quantities of hydrocarbons. As a result, the Company has made an impairment provision of $1,121,164 for 2005 (2004: $Nil) relating to the Bluesky completion costs.

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Revenue

Revenues represent interest on surplus cash deposits, management fees from a joint venture agreement, and fees received from amending the mineral option agreement. Revenues earned from management fees during 2005 were $180,000 (2004: $Nil). The Company does not have any producing properties at this time.

General and Administration Expenses

For the years ended December 31	2005	2004	2003
Consulting fees	**$ 245,452**	$ 274,103	$ 170,038
Salaries and benefits	**861,460**	338,261	155,615
Management fees	-	-	43,500
Other general and administrative	**508,151**	249,817	302,216
	1,615,063	862,181	671,369
Less: capitalized costs	**(648,911)**	(260,070)	(98,690)
	966,152	602,111	572,679
Stock-based compensation	**2,175,851**	1,537,925	177,696
	$ 3,142,003	$ 2,140,036	$ 750,375

Consultant's fees decreased 10% during 2005 from the prior year due to less consulting work of geologists and engineering. During 2005, the Company entered consulting agreements with its Chief Financial Officer, a financial advisor, a land consultant for the first four months of the year, and a computer maintenance specialist. During 2005, the Company capitalized $66,918 (2004: $58,435; 2003: $71,950) of consulting fees relating to geological, engineering and land related exploration activity. In addition, the Company charged $20,693 (2004: $39,122; 2003: $Nil) to share issue costs representing the proportion of consulting work performed by the financial advisor on private placements during the year.

The increase in salary and benefit costs during 2005 compared to 2004 can be attributed to salary increases to four employees effective January 1, 2005, the retention of an additional full time geologist, an engineer and a financial officer during January 2005, the retention of a land manager and a junior geologist during May 2005, and salary increases to staff on July 1, 2005. The Company capitalizes salaries and benefits associated with staff directly related to exploration activities. In 2005, the Company capitalized $521,919 of salary and benefits compared to $162,513 in 2004 and $26,740 during 2003. 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 these employees.

Management fees were incurred in connection with the operation of the former Vancouver office until October 2003.

Other General and Administration Costs

Other general and administration costs increased by 88% during 2005 compared to 2004 as indicated in the following table:

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For the years ended December 31	2005	2004	2003
Professional fees	**$ 127,966**	$ 96,749	$ 151,466
Investor relations & filing fees	**74,866**	54,523	41,096
Office premises & insurance	**166,297**	39,364	39,568
Office supplies	**87,472**	22,053	27,747
Staffing costs	**30,754**	18,393	36,344
Other	**20,796**	18,735	5,995
	508,151	249,817	302,216
Less: capitalized costs	**(39,381)**	-	-
	$ 468,770	$ 249,817	$ 302,216

Professional fees for audit, accounting, taxation, engineering and legal fees increased by 32% in 2005 compared to 2004. Of this increase $25,000 or 26% relates to anticipated costs of the Company's annual reserve report. Investor relations and filing fees increased 37% in 2005 compared to 2004 due to transfer costs associated with warrants being exercised, increased investor relations activities, and increased listing fees associated with an increase in the number of shares outstanding during 2005. 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 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 $39,381 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.

Summary of Quarterly Results

Net losses prior to income taxes and the income tax benefit recorded during December 2003 and December 2004 and for the prior twelve 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	(469,598)	(0.02)	(561,720)	(0.03)	(127,625)	(0.02)
Fourth Quarter	(1,497,189)	(0.06)	(868,870)	(0.05)	(311,772)	(0.05)
Loss before income taxes	(3,806,416)	(0.16)	(2,078,020)	(0.12)	(740,263)	(0.11)
Future income tax recovery	-	-	336,200	0.02	346,200	0.05
Net loss after tax	$ (3,806,416)	$ (0.16)	$ (1,741,820)	$ (0.10)	$ (394,063)	$ (0.06)

For each period up to and including December 31, 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 were renounced to investors. At December 31, 2005, the Company had estimated tax assets of $2,800,864 (2004: $2,590,825; 2003: $2,554,087) against which a valuation allowance has been applied and therefore no tax recovery has been recognized. The tax assets are based upon income tax pools at December 31, 2005 of $29,314,160 (2004: $20,901,100; 2003: $8,205,190).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).

As discussed previously, stock-based compensation expense for stock option grants and SARs contributed significantly to the Company's losses during the last nine quarters. Excluding the affects 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	2005	2004	2003
First Quarter	$ (174,539)	$ (124,615)	$ (147,537)
Second Quarter	(178,745)	(204,315)	(153,329)
Third Quarter	(21,039)	(178,968)	(127,625)
Fourth Quarter	(1,256,242)	(32,197)	(134,076)
Loss before income taxes	$ (1,630,565)	$ (540,095)	$ (562,567)

Also, as discussed previously, the fourth quarter of 2005 includes an impairment charge of $1,121,164 relating to completion work on the Bluesky formation at Farrell Creek that proved to be uneconomic.

Fourth Quarter Results

During the fourth quarter of 2005 the Company earned $152,554 (2004: $28,844) in interest revenue from surplus cash deposits and management fees from a joint venture. Revenues earned from management fees during the fourth quarter of 2005 were $45,000 (2004: $Nil).

General and administrative expenses for the three month period ended December 31 are as follows:

Three months ended December 31	**2005**	2004
Consulting fees	**$ 58,224**	$ 106,218
Salaries and benefits	**295,991**	102,596
Other general administration	**142,238**	(845)
	496,453	207,969
Less: Capitalized costs	**(221,370)**	(152,970)
	275,083	54,999
Stock-based compensation	**240,947**	836,671
	$ 516,030	$ 891,670

The fourth quarter 2005 administration expenditures of $275,083, prior to stock based compensation, compares to third quarter 2005 expenditures of $226,910. Fourth quarter administration expenditures are generally higher due to year end accruals for audit and engineering. Fourth quarter 2005 general and administrative expenditures are higher than 2004 primarily due to the retention of six additional staff during the year and the costs of the new office space. Capitalized costs to natural gas properties for the fourth quarter of 2005 were $221,370 compared to $143,910 in the third quarter of 2005. Fourth quarter 2004 administration expenditures are lower than expected due to the fourth quarter review of capitalized costs and share issue costs for the year 2004. 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 $35,700 in the first three quarters of 2004. In addition the Company capitalized $39,122 to share issue costs during the fourth quarter of 2004 representing the proportion of consulting work performed by the financial advisor on private placements during the year and reclassified $43,163 of professional fees relating to private placements to share issue costs.

Stock based compensation decreased significantly during the fourth quarter of 2005 due to the decrease in the price of the Company's shares. Stock based compensation for the issue of stock options was $323,280 (2004: $412,355) during the fourth quarter compared to $352,559 (2004: $99,500) in the third quarter of 2005. Stock based compensation for the outstanding share appreciation rights decreased by $82,333 in the fourth quarter of 2005 compared to an increase of $424,317 in the same period during 2004.

Including the impairment provision of the Bluesky completion costs, the net loss for the fourth quarter of 2005 was $1,497,189 compare to net loss of $532,670 in the fourth quarter of 2004, after the future tax benefit recorded on the issue of flow through shares in 2004.

The Company expended approximately $4.0 million on exploration activities during the fourth quarter of 2005 compared to $1.3 million in the fourth quarter of 2004. Field activities in the fourth quarter of 2005 included the drilling of Farrell b-92-H and Farrell d-93-H, the Gething completion of Farrell c-83-H, and the Bluesky completion and production testing at Farrell c-48-I and Farrell c-A83-H. Field activities in the fourth quarter of 2004 were primarily the drilling and evaluation of Farrell c-83-H and Gething completion work at c-48-I.

Liquidity and Capital Resources

The Company's capital program for each of the last three years is detailed in the following table:

For the years ended December 31	2005	2004	2003
Lease acquisitions and retentions	**$ 2,209,791**	$ 10,109,017	$ 990,578
Geological and geophysical	**106,809**	56,338	240
Drilling and completion	**6,269,030**	2,058,850	444,994
Capitalized overhead	**628,218**	220,948	98,690
Total petroleum and natural gas	**9,213,848**	12,445,153	1,534,502
Office equipment and furnishings	**68,378**	58,245	12,899
Total capital expenditures	**$ 9,282,226**	$ 12,503,398	$ 1,547,401

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CSRI's total capital budget for 2005 was $14.9 million which included an estimated $300,000 for capitalized overhead and $50,000 for administrative capital equipment. The original base case exploration capital budget for 2005 was $14.5 million including $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 well tie in costs. The Company did not commit as much funding on land acquisition expenditures due to higher than anticipated bid costs per hectare and delays in achieving productive capability results from its Gething wells. Geological and geophysical expenditures were contingent upon positive results of the Bluesky production tests. Drilling and completion costs were on target with budget and capitalized overhead was higher due to the increases in exploration staffing.

For 2006, the Company has developed a contingent base case capital budget for the year of $3.4 million which includes an estimated $550,000 for capitalized overhead and $25,000 for administrative capital equipment. The Company's budget is reviewed and approved by the Board of Directors on a quarterly basis. The $2.8 million budget for exploration activity is to cover field activities for the first half of 2006 including $0.1 million for land acquisition and retention and $2.7 million for drilling and completion activities. The Company will develop additions to the base case exploration budget for the second half of 2006 after results of the Gething completion and production testing programs are known.

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; 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 approximately $180,000 from joint venture participants during 2006. This will reduce the cash administration expense requirements from $1.72 million to $1.46 million. The Company has not budgeted for any cash flow from operations during 2006.

The Company is in strong financial condition at December 31, 2005 with working capital of $8.0 million, consisting of cash in the amount of $10.6 million, accounts receivable and prepaid expenses of $1.1 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 December 2005. 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 December 31, 2005 there were 1,420,848 warrants outstanding that will expire during 2006. On January 15, 2006, 750,000 warrants expired with the balance of 670,848 warrants expiring on July 11, 2006.

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 consists 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. In February 2006, the Company extended the expiry date of these warrants to July 11, 2006.

The positive working capital of $8.0 million will be sufficient to cover net administrative costs of $1.5 million and the first half base case capital budget for 2006 totaling $3.4 million.

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.

Disclosure Controls and Procedures
In January 2006, the Board of Directors approved the Company's disclosure policy "Disclosure Policy" and a copy was provided to all employees and full time consultants of the Company. The purpose of the Disclosure Policy is to ensure that communications with and to the public, the investment community, and other interested parties in CSRI are:

- Timely, factual and accurate; and
- Effectively disseminated in accordance with all applicable legal and regulatory requirements.

In addition, the Company has established disclosure controls and procedures to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by the Canadian securities regulations and that information required to be disclosed is communicated to management on a timely manner. An evaluation was carried out by the of the officers of the Company, including the President and Chief Operating Officer (acting in the capacity of the Chief Executive Officer) and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures and concluded that they are adequate and effective as at the end of the period covered by this report, in all material respects.

Related Party Transactions
During 2005 and 2004, 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	$ 79,450	$ 79,800
Salaries and benefits	$ 104,572	$ 97,901

Consulting fees in 2005 included $79,450 (2004: $79,800) paid or payable to a director and senior officer of the Company. Accounts payable includes $11,848 (2004: $6,765) due to a director for consulting fees earned during 2005.

Salaries and benefits of $104,572 (2004: $97,901) was the compensation paid or payable to a director and senior officer of the Company during 2005.

Transactions with related parties are recorded at cost, which represents exchange amounts 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 December 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 December 31, 2005 to the date of this report, the Company has issued 15,000 common shares for the exercise of stock options. In addition, during this period, the Company has granted 25,000 options to purchase common shares to a consulting investor relations firm and had 750,000 warrants expire on January 15, 2006. The issued share capital as at April 06, 2006 consists of 25,608,082 common shares. In addition the Company has 670,848 warrants outstanding and 2,500,000 stock options outstanding as at April 06, 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.