



## Management's Discussion and Analysis

FORM 51-102F1

February 23, 2006

The following discussion and analysis should be read in conjunction with the Company's Annual Financial Statements dated March 31, 2005, the Companies Annual Management's Discussion and Analysis ("MD&A") both filed July 29, 2005 and the interim financial statements for the 3-month period ended December 31, 2005. This MD&A includes information available to management through to February 23, 2006 and includes significant progress not included in the financials. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and in the near future at our website [www.SpitfireEnergy.com](http://www.SpitfireEnergy.com).

### Overall Performance

#### Financial Highlights

	<b>3 Months ended Dec 31, 2005</b>	3 Months ended Dec 31, 2004	<b>9 Months ended Dec 31, 2005</b>	9 Months ended Dec 31, 2004
Oil & Gas Revenue	<b>\$625,390</b>	\$218,730	<b>\$1,775,569</b>	\$499,169
Royalties	<b>111,174</b>	47,767	<b>364,200</b>	109,830
Operating Expenses	<b>90,312</b>	101,965	<b>382,776</b>	197,520
G & A	<b>143,673</b>	102,299	<b>559,431</b>	309,749
EBITDA	<b>280,231</b>	(33,301)	<b>469,162</b>	(117,930)
Depreciation, depletion, accretion	<b>99,254</b>	32,736	<b>275,895</b>	117,505
Income Taxes	<b>31,389</b>	(31,900)	<b>46,802</b>	(68,760)
Interest	<b>740</b>	(7,659)	<b>6,472</b>	(22,148)
Net Income	<b>\$148,848</b>	(\$26,478)	<b>\$139,993</b>	(\$144,527)
Working capital	<b>\$706,542</b>	\$1,405,844	<b>\$706,542</b>	\$1,405,844
Cash Flow from Operations				
(Revenue less royalties and operating expenses)	<b>\$423,904</b>	\$68,998	<b>\$1,028,593</b>	\$191,819
Basic common shares outstanding	<b>25,702,744</b>	20,055,813	<b>25,702,744</b>	20,055,813
Fully diluted common shares outstanding	<b>27,831,244</b>	30,217,021	<b>27,831,244</b>	30,217,021

## Operational Highlights

Quarter ended Dec 31, 2005    Quarter ended Dec 31, 2004

Average Production Rate ( boed at 6:1 )	132	66
Average oil price	\$42.70	\$35.88
Average gas price	\$11.26	\$6.46
Operating and Lifting Costs	\$8.47	\$16.77

The Company operates 18 (8.8 net) producing wells and owns an interest in an additional 11 (0.7 net wells.)

Our average production over the period (Q3) was 132 boed, while our current production is approximately 150 boed.

The Company began producing a key well in Saskatchewan June 2, 2005. The well averaged 120 boed in July, increasing the total Company's average daily production to 215. In subsequent months, higher than expected associated gas rates were experienced. The well averaged 55 boed (90%+ being gas) from August to November down from the initial rates of 120 boed in July. By the end of November, gas rates stabilized and the Company installed a progressive cavity high volume pump on this well. The key well averaged 80 boed for the month of December.

The Company completed a 100% working interest well in Southern Alberta in late December and during an 18-hour casing flow-back a stabilizing rate of 1.86 million cubic feet of gas per day ("mmcf") thru a 9.5 mm choke was recorded. In January 2006 the Company completed this well for production and performed an absolute open flow test which recorded bottom hole pressures, flow rates and pressure build ups sufficient to proceed with a 6 kilometer flow line. The company plans to drill another 100% location offsetting this well. Plans to tie-in the well are being executed with an anticipated on-stream date in mid-March 2006. The company estimates initial production of 80 boed.

The Company participated in a 28% working interest well in the Princess Area (Southern Alberta). The well was drilled in August 2005. The well was completed and was tested at an average of 1 mmcf per day during a 48-hour absolute open flow test. The Company initially expected the well to be tied-in to existing facilities and producing shortly following completion. Plans to tie-in the well are being executed with an anticipated on-stream date in mid March 2006. Production from this well is expected to add a net 25 boed.

The Company participated in the drilling of a 17% working interest well in Southern Alberta in October 2005. The well has now been completed and is anticipated to be tied-in and on stream in March 2006.

In November 2005 the Company drilled a 75% working interest well at Bittern Lake (Central Alberta). The zones of interest were abandoned and the well bore has been assigned to the owner of the shallow rights mitigating abandonment and restoration costs.

In Summary while the Company forecasted average production to be at higher at this time, delayed tie-ins of our successful drilling prospects and higher than expected associated gas in our key oil well in Saskatchewan have delayed results. These operational issues are being resolved and will result in bringing production performance consistent with previously announced expectations.

Consistent with our Q4 (January 2006 to March 2006) capital plan, Spitfire has secured a drilling rig to complete the Company's winter drilling program. The winter program consists of six (5.5 net) wells, four of which are stepout development locations to be drilled in Saskatchewan, one exploratory well in Saskatchewan and another stepout development well in Central Alberta, all of which will be financed with working capital and debt. The rig commenced drilling in Saskatchewan on February 18<sup>th</sup>.

## Capital

Capital expenditures for the period ending December 31, 2005 and 2004 were as follows:

	3 months ending Dec 31, 2005	3 months ending Dec 31, 2004	9 months ending Dec 31, 2005	9 months ending Dec 31, 2004
Land and lease	\$32,928	\$54,085	\$68,884	\$666,804
Geological and geophysical	104,439	55,723	217,414	446,882
Drilling	456,084	634,644	745,461	789,712
Facilities and equipment	12,405	40,481	820,568	166,912
Total	\$605,856	\$784,933	\$1,852,237	\$2,070,310

## Liquidity

The Company completed a Flow-Through common shares private placement in November. The Private Placement consisted of 1,500,000 Flow-Through common shares at a price of \$0.70 per share, for a total gross proceeds of \$1,050,000.

As at December 31, 2005, the company's working capital position is \$706,542. The current forecast for Quarter 4 of fiscal 2006 (January 2006 to March 2006) is that cash flows from operations will exceed general and administrative expenses by \$350,000. The company's current working capital position, combined with projected cash flow, provides for additional capital investment.

The Company expanded the revolving operating demand loan from \$1,500,000 to \$3,000,000 on January 17, 2006. The new facility bears interest at prime plus 0.5%. The additional existing development/acquisition line of credit of \$500,000 was also renewed, bearing interest prime plus 1.00%. As at December 31, 2005 the amount drawn was nil.

The company's current working capital position, combined with projected cash flow and expanded debt facility, provides for additional capital investment. The Company believes it has sufficient funds to complete the capital programs planned for the remainder of Fiscal 2006, the remaining capital to spend (January 2006 to March 2006) is estimated at \$2,698,000.

Spitfire may require additional capital to evaluate all the opportunities in its portfolio beyond Fiscal 2006. The Company will seek additional equity or debt to finance opportunities as deemed appropriate by management.

## Shares Outstanding

As at December 31, 2005 Spitfire had 25,702,744 common shares outstanding. In addition, it has issued 2,128,500 options to employees and consultants at a weighted average exercise price of \$0.23 per share. On a fully diluted basis there are 27,831,244 common shares outstanding of which 2,814,000 are held in escrow.

## General and Administrative Expenses

As at December 31, 2005, Spitfire incurred administrative expenses as follows:

	Quarter ending Dec 31, 2005	Quarter ending Dec 31, 2004
Salaries and benefits	\$ 74,856	\$ 5,357
Professional fees	55,239	72,982
Rent and office costs	30,707	33,015
Public company associated costs	28,210	8,422
Information systems	25,852	18,896
Insurance	2,600	6,474
General and administrative recoveries	(19,940)	(11,683)
Capitalized (2005 - 36%)	(71,942)	(32,844)
Total	\$125,582	\$100,619

## Stock Based Compensation Expenses

For share options granted to December 31, 2005, the total stock based compensation was \$22,262. In total, \$18,091 was expensed and \$4,171 was capitalized to property and equipment that was associated with technical staff.

## Interest Income and Expense

Interest accrued on flow through funds raised but unspent was \$1,224 for the three months ending December 31, 2005. Interest was earned on cash held in deposits amounting to \$484 in interest income.

## Depletion, Depreciation and Accretion

Depletion, depreciation, and accretion amounted to \$99,254 for the three months ending December 31, 2005.

## Net Income and Future Profitability

The future profitability of the Company has been significantly enhanced with our latest successes. Positive net earnings are forecasted for the 2006 fiscal year but they depend, as always, on product prices and operating costs, most of which are beyond the control of the Company and its management.

## Related Party Transactions

There were no related party transactions for the three months ending December 31, 2005.

## **Outlook**

Prospects for continued per share growth in reserves, production and cash flow at Spitfire are excellent.

Spitfire has positioned itself with a solid base of operated, long-life medium oil reserves and production. Since its inception, Spitfire has spent approximately \$7.4 million of capital to grow as an exciting junior oil and natural gas company that has the following key characteristics:

- High-quality assets, strategically focused in three areas – Spitfire operates 94% of its current net production
- 990,000 barrels of oil equivalent (“boe”) of proved plus probable oil and natural gas reserves, independently evaluated effective March 31, 2005 in accordance with National Instrument 51-101;
- A proved plus probable reserve life index of 11 years;
- Highly motivated team of 8 professionals with solid reputations and successful track records, representing all technical and operational disciplines, with an average experience in excess of 25 years
- December 2005 average production of 150 boed ;
- 26,331 gross acres of leasehold, 11,922 net for an average working interest of 45% ;
- A current internal inventory of more than 12 drilling locations, providing the potential of significant reserve additions.

## **Contractual Obligations and Commitments**

Spitfire has executed a sublease agreement for use of office space that expires March 31, 2006 at a rate of \$5,519 per month (\$49,671 total). The company is in the process of renewal and expects to have a new agreement executed by March 1, 2006. Spitfire has no other contractual obligations (other than operational contracts regarding leasehold) in excess of 30 days including, hedging, production purchase and transportation agreements.