Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2010

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 months ended March 31, 2010 and the audited financial statements and MD&A for the year ended December 31, 2009. The financial data presented herein is in accordance with Canadian generally accepted accounting principles ("GAAP"), except where noted, and all amounts presented are in Canadian dollars.

Date
This MD&A includes information up to May 26, 2010.

Quarterly Review
Neither the interim financial statements for the three months ended March 31, 2010 nor this MD&A have been reviewed by the Corporation's external auditors.

Reader's Advisories
Non-GAAP Terminology
This MD&A contains industry benchmarks and terms, such as net working capital and net cash flows, which are not recognized measures under GAAP. Management believes these measures are useful for reporting purposes, but cautions readers that these measures not be considered as alternatives in accordance with GAAP.

Forward-looking Statements
Information provided herein contains estimates and assumptions which management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Canadian Spirit Resources Inc. ("CSRI" or the "Corporation"), expected increase in royalty rates, and the timing of and impact of adoption of International Financial Reporting Standards ("IFRS") and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with natural gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources.

Although management believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "forecast", "may", "intend", "likely", "will", "project", "plan", "should", "possible", "probable", "schedule", "position", "goal", "objective", and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

- Fluctuations in natural gas production levels
- CSRI's ability to raise funds in the available equity markets
- Volatility in market prices for natural gas
- Changes in foreign currency exchange and interest rates

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2010

The Corporation will endeavor to update all forward-looking statements for any material changes to the circumstances or information and estimates presented herein as feasible or as required by applicable securities laws.

Corporate Overview
Canadian Spirit Resources Inc. is a natural resources company listed on the TSX Venture Exchange (the "Exchange") focusing on the identification and development of opportunities in the unconventional gas sector of the energy industry. Together with two well capitalized joint venture partners, the Corporation is currently developing the Montney and Gething Formations on its material land base in northeastern British Columbia.

Since early 2002, the Corporation's focus has been to evaluate the resource potential of certain unconventional natural gas exploration properties and is considered to be emerging from its development stage of operations. In 2003, CSRI drilled its first resource evaluation well and acquired a small land position in the Farrell Creek area of northeastern British Columbia. In the years following, the Corporation significantly increased its land position in this same area, drilled eight additional wells and by year-end 2007 was evaluating the productive capability of the Gething Formation with a five well Pilot Project. In 2008, the Corporation entered into joint venture agreements with Shell Canada Energy ("Shell" or the "Operator") and Canbriam Energy BC Partnership ("Canbriam") to explore and further advance the development of its major resource property at Farrell Creek. The joint venture with Canbriam will result in the exploration and evaluation of petroleum and natural gas rights (primarily in the Montney Formation) below the base of the Cadomin/Nikanassin Formation ("Deep Rights") and the joint venture with Shell will advance the development of rights (initially the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation ("Shallow Rights").

As of the date of this report, CSRI has a strong net working capital position of approximately $12.1 million ($0.22 per share) composed primarily of cash, as well as receivables from its joint venture partners. The Corporation has the potential to increase its working capital by $1.7 million through the exercise of 1.2 million warrants with an exercise price of $1.40 which are due to expire on July 9, 2010.

CSRI's Board of Directors approved a total forecasted capital expenditure for 2010 of up to $18.0 million (net), which may be reduced if Canbriam elects to increase its working interest in the Deep Rights (see ***Farrell Creek: Montney*** below). The 2010 capital budget is mainly focused on the development of the Corporation's Montney joint venture with Canbriam, but also includes $3.5 million (net) for other activities that the Corporation has identified.

Results of Operations
Farrell Creek: Gething
On July 17, 2008 the Corporation announced that it had entered into a joint venture with Shell to advance the development of the identified unconventional natural gas resource in the Gething Formation on a combined total of approximately 150 contiguous sections or 96,000 acres located in the Farrell Creek area. Shell's $50.0 million initial capital commitment included the acquisition of additional land, the drilling of five vertical wells and the construction of facilities to tie-in the Pilot Project. The pilot facility is scaleable and currently has a capacity of up to 1.1 mmcf/d. Seven Gething wells are currently tied into the pilot facility.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2010

Sproule Unconventional Limited ("Sproule"), in their 2009 year-end report, estimated the Corporation's total gross discovered and undiscovered petroleum initially-in-place (resources) in the Gething, Moosebar and Gates Formations to be 1.8 trillion cubic feet of natural gas. Based on well data provided by the Corporation, Sproule estimated a range of 21 to 34 bcf per section in the Gething Formation and a range of 6 to 8 bcf per section in the Moosebar and Gates Formations.

Shell is currently evaluating the results of the Pilot Project and has until mid year to elect whether or not to proceed with the Gething Joint Venture. Should Shell make a decision to proceed with the pooling of Shell (75%) and CSRI (25%) lands, this would create a combined project of approximately 150 sections (96,000 acres) of Shallow Rights (37 sections net to CSRI) and a commitment by Shell to carry CSRI through an additional capital investment. Shell will earn a 75% working interest in CSRI's approximately 55 sections and in exchange, CSRI will receive a 25% working interest in Shell's approximately 95 sections.

If Shell does not elect to proceed with the Gething Joint Venture, CSRI will retain a 100% working interest in its existing 55 sections of Gething lands and would also assume 100% ownership of the pilot facility, wells and infrastructure at no additional cost. CSRI also holds a right-of-first-refusal on Shell's 95 sections of Gething lands.

Farrell Creek: Montney

On March 19, 2008, the Corporation announced a joint venture and farmout agreement for the Deep Rights with Canbriam, that will evaluate certain of the Corporation's lands for Montney and other deep formation plays covering approximately 28,400 gross acres. Through the joint venture, Canbriam committed to an initial expenditure of up to $28.6 million for exploration of the Deep Rights including the drilling of at least two wells into the Montney Formation in exchange for a 65% working interest. Prior to June 30, 2010, Canbriam has an option to increase its working interest in the Deep Rights from 65% to 70% by increasing its gross capital commitment to $50.0 million. CSRI would be carried through this amount of gross capital expenditures for its remaining 30% working interest.

Since conducting evaluation tests on two vertical Montney wells on the eastern block of Farrell Creek in late 2008, Canbriam has focused its operations on the western portion of the Farrell Creek lands in close proximity to the Spectra Energy pipeline. During the past year, other operators' drilling and development activity has significantly de-risked the Montney Formation adjacent to the western portion of the Corporation's Farrell Creek lands. Talisman Energy Inc. ("Talisman") recently moved its adjacent Montney shale play into commercial production and expects to be producing 40-60 mmcf/d by year end with a capital investment of $450 million planned for their Montney shale program in 2010. Talisman has also advised that the capacity of their Farrell Gas Plant will be increased to 120 mmcf/d by the third quarter 2010.

Sproule also estimated the Corporation's total gross discovered and undiscovered resources to range from 3.6 trillion cubic feet to 8.4 trillion cubic feet of natural gas in the Montney Formation. This estimate was based on well data provided by CSRI and using limestone porosity cutoffs of 6% and 3% respectively. On average, this provided resource values from 77 bcf (using a 6% cutoff) to 178 bcf (using a 3% cutoff) per section in the Montney Formation.

The capital program for the balance of 2010 will include stimulating the existing horizontal well drilled into the lower portion of the Montney Formation at c-A48-I/94-B-1, three horizontal wells targeting the upper portion of the Montney Formation at Farrell Creek, and the construction of a sweet gas facility. Two of the three horizontal wells will be drilled and completed at the c-18-I/94-B-1 location and an additional horizontal leg will be drilled and completed from the c-A48-I well. The gas facility is expected to be tied into the Spectra Energy pipeline and commissioned during the fourth quarter of 2010. The facility, located near the b-17-I wellsite, will be expandable with an initial capacity of 10 to 20 mmcf/d. Three wells are expected to be flowing natural gas through this facility by year-end. This program will commence in June following the removal of spring weight restrictions on the roads in the Farrell Creek area.

In order to accomplish the above program, Canbriam has approved plans for a capital investment of up to $49.0 million (gross) in the Farrell Creek Montney program for 2010. CSRI's share of capital expenditures on the Montney joint venture in 2010 range from $6.0 million to $14.5 million conditional upon whether Canbriam exercises their option to increase their working interest from 65% to 70% in 2010. If Canbriam exercises this option, the Corporation will retain a 30% working interest in the Montney joint venture and will be carried through an additional $21.0 million capital investment. The Montney joint venture development plans are expected to achieve a meaningful level of production, revenue and reserves by the end of 2010. As a next step, CSRI intends to use the production and reserve data of the Montney play to apply for a listing on the Toronto Stock Exchange in early to mid 2011.

British Columbia Stimulus Package:
British Columbia continues to be a competitive jurisdiction for gas exploration and production. On August 6, 2009, the Government of British Columbia announced an oil and gas stimulus package that became effective September 1, 2009. The Stimulus Package is expected to benefit CSRI and encourage drilling activity through:

(a) Royalty incentives including a one year, 2% royalty rate for all wells drilled within a ten month window;
(b) An increase of 15% in existing royalty deductions for deep natural gas wells drilled;
(c) The extension of the Deep Royalty Credit Program to horizontal wells drilled between 1900 and 2300 meters;
(d) Increased funding to the Infrastructure Royalty Credit Program; and
(e) Certain regulatory initiatives.

Selected Financial Data

For the three month periods ended or as at March 31		**2010**		**2009**
Total revenues	$	10,925	$	14,070
Net loss and comprehensive loss (after income taxes)	$	(623,357)	$	(362,906)
Loss and comprehensive loss per share (basic & diluted)	$	(0.01)	$	(0.01)
Total current assets	$	12,947,621	$	11,690,250
Total assets	$	49,171,344	$	46,480,036
Total current liabilities	$	303,193	$	377,756
Total long term liabilities	$	293,136	$	217,293
Net working capital	$	12,644,428	$	11,312,494
Net capital expenditures	$	978,190	$	109,937

Revenue/Royalties/Operating Costs

The joint venture Gething pilot project has produced nominal volumes of sales gas since June 2009. Under the terms of the joint venture agreement, operating and transportation costs less 100% of sales revenue are the responsibility of the Operator and are applied against the financial amount committed by the Operator. As of March 31, 2010 no royalties are accrued since the pilot production levels are minimal and sales revenue is less than credits earned under the applicable British Columbia royalty regime.

Revenues during the first quarter of 2010 of $10,925 (2009: $14,070) represent interest on cash deposits and other miscellaneous income.

General and Administration Expenses

For the three month periods ended March 31		2010		2009
Consulting fees	**$**	**18,064**	$	29,141
Salaries and benefits		**300,262**		219,499
Other general and administrative		**162,440**		175,389
		480,766		424,029
Less: capitalized and other costs		**(118,192)**		(144,177)
		362,574		279,852
Stock-based compensation		**365,489**		86,463
Less: capitalized expense		**(105,237)**		-
		260,252		86,463
	$	**622,826**	$	366,315

In 2010 the Corporation continued the consulting contracts with a financial advisor, a land consultant, and a computer network maintenance company. During the first quarter of 2010, the Corporation also entered into a consulting arrangement with an external IFRS consulting firm. Consulting fees, after capitalization, have increased by 41% for the three months ended March 31, 2010 compared with 2009 ($11,644 and $8,273 respectively) due to IFRS conversion and implementation consulting fees through the external IFRS consulting firm.

Salaries and benefits, after capitalization, of $194,814 for the quarter ended March 31, 2010 have increased by 74% compared with 2009 ($111,932) due partially to general increases in staff salaries and benefits. Additionally, relative to the first quarter 2010, the first quarter 2009 amount was offset by the recovery of salary and benefit costs associated with the secondment of an employee of the Corporation to a joint venture partner. The secondment arrangement was terminated in the second quarter 2009.

The Corporation capitalizes salaries and benefits associated with staff directly related to exploration and development activities. During the three months ended March 31, 2010, the Corporation capitalized a total of $117,592 (2009: $143,577) of general and administration expenses directly related to exploration and development activities, which are therefore included as part of the Property, Plant and Equipment costs recorded by the Corporation. The other costs capitalized in the three months ended March 31, 2010 of $600 (2009: $600) are consulting fees incurred in relation to equity instruments issue costs, and are therefore recorded by the Corporation as a reduction of shareholders' equity. During the first quarter 2010 the Corporation also capitalized $105,237 (2009: $Nil) of stock-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2010

Due to the levels of stock options granted as well as an increase in the market price of the Corporation's shares stock-based compensation, after capitalization, for the three months ended March 31, 2010 increased by 201% to $260,252 from $86,463 during the three months ended March 31, 2009. See **Summary of Quarterly Results** on Page 7 for further analysis of the effect of stock-based compensation on the overall results of the Corporation. The closing price of $1.45 per share on the Exchange on March 31, 2010 represents an 86% increase from the closing price of $0.78 per share on March 31, 2009.

Other General and Administration Costs

For the three month periods ended March 31	**2010**	2009
Professional fees	**$ -**	$ 2,491
Investor relations and filing fees	**32,271**	29,746
Directors' fees	**15,500**	15,500
Office premises and insurance	**83,583**	91,532
Office supplies	**21,181**	26,658
Staffing costs	**8,836**	8,697
Other	**1,069**	765
	162,440	175,389
Less: capitalized costs	**(6,324)**	(15,742)
	$ 156,116	$ 159,647

The 8% increase in investor relations and filing fees from the three months ended March 31, 2009 to the three months ended March 31, 2010 is attributable to increased investor relations travel and presentations due to a concerted effort by the Corporation to increase awareness of the Corporation's prospects in the investment community.

Office premises expenses are anticipated to continue at current levels pursuant to the terms of the Corporation's existing sub-lease agreement. Insurance costs have decreased by 39% from the first quarter of 2009 to the first quarter of 2010 due to lower Directors and Officers liability insurance premiums as negotiated in the second half of 2009.

Office supplies expenses, after capitalization, have increased by 36% for the three months ended March 31, 2010 ($14,857) compared to 2009 ($10,916) due to an increase in software license costs related to the purchase of an IFRS planning tool.

Other expense is comprised of advertising and promotion costs, charitable contributions and bank charges.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2010

Summary of Quarterly Results

Net losses prior to income taxes by quarter from the beginning of 2008 were:

	2010		2009		2008	
Loss by quarter	**Amount**	**Per Share (basic & diluted)**	Amount	Per Share (basic & diluted)	Amount	Per Share (basic & diluted)
First Quarter	**$ (623,357)**	**$ (0.01)**	$ (362,906)	$ (0.01)	$ (498,821)	$ (0.01)
Second Quarter	-	-	(498,413)	(0.01)	(824,651)	(0.02)
Third Quarter	-	-	(384,284)	(0.01)	(35,726)	-
Fourth Quarter	-	-	(769,895)	(0.01)	(513,575)	(0.01)
Loss before income taxes	**$ (623,357)**	**$ (0.01)**	$ (2,015,498)	$ (0.04)	$ (1,872,773)	$ (0.04)

For each quarterly period up to and including March 31, 2010, the existence of stock options and warrants affected the calculation of diluted shares outstanding. As the effect of this dilution is to reduce the reported loss per share, diluted loss per share information has not been shown.

The Corporation has financed a portion of its 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 in the year of issue. When the expenditures are renounced, share capital is reduced and future income tax recoveries are calculated at the estimated value of the renounced tax deductions. The last issue of Flow-Through Shares occurred in 2007.

Stock-based compensation expense for stock option grants has contributed significantly to the variability of the Corporation's income and losses since the beginning of 2008. Excluding the effects of stock-based compensation, the Corporation's pre-tax losses by quarter would have been:

Loss by quarter prior to stock-based compensation expense	**2010**	**2009**	**2008**
First Quarter	**$ (363,105)**	$ (276,443)	$ (252,197)
Second Quarter	**-**	(402,491)	(331,029)
Third Quarter	**-**	(342,972)	(313,547)
Fourth Quarter	**-**	(621,432)	(618,405)
Loss before income taxes	**$ (363,105)**	$ (1,643,338)	$ (1,515,178)

The larger loss prior to stock-based compensation expense in the fourth quarter 2008 is due to the payment of severance costs of $204,212 to a former executive officer of the Corporation. The larger loss prior to stock-based compensation expense in the fourth quarter 2009 is due to an accrual for employee bonuses of $220,000.

Liquidity and Capital Resources

The Corporation's capital program for the first quarter of each of the past two years is detailed in the following table:

For the three month periods ended March 31		2010		2009
Lease acquisitions and retentions	**$**	**62,665**	$	25,229
Geological and geophysical		**1,378**		2,455
Net (recovery of) drilling and completion costs		**685,375**		(61,362)
Capitalized overhead		**222,829**		143,577
Total net natural gas expenditures		**972,247**		109,899
Computer and office equipment, furniture and fixtures		**5,943**		38
Total net capital expenditures	**$**	**978,190**	$	109,937

The Corporation's capital budget is reviewed and approved by the Board of Directors on a quarterly basis. The Corporation's Board of Directors approved a total forecasted capital expenditure for 2010 of up to $18.0 million including an estimated $0.4 for capitalized overhead. The capital budget for the first quarter 2010 was set at $1.4 million, and approved at $2.5 million for the second quarter 2010.

For the three months ended March 31, 2010, gross capital expenditures before recoveries totaled $1.0 million (2009: $0.8 million). Offsetting the Corporation's capital expenditures are additional reimbursements of previously expended drilling and completion costs from joint venture partners in relation to the Farrell Creek operations. The recovery of these expenditures is recorded as a reduction of capitalized drilling and completion costs.

Cash administration expenses (general and administration expenses excluding stock-based compensation) for 2010 are expected to total approximately $2.1 million before capitalization of exploration and development related overhead (2009: $1.8 million). Revenue from interest on cash balances is budgeted at $0.1 million for the 2010 year. The Corporation has not budgeted for net cash flows from the Gething joint venture operations during 2010 resulting from the continued nominal production at the Farrell Creek Pilot Project. The operating costs are currently borne by the project Operator and the Corporation's share of sales revenue is offset against deferred development costs within Property, Plant and Equipment.

At March 31, 2010, the Corporation had a net working capital balance of $12.6 million, consisting of cash in the amount of $12.7 million, accounts receivable of $0.2 million, and net of accounts payable and accrued trade liabilities of $0.3 million. The accounts payable and accrued trade liabilities balance at March 31, 2010 relates primarily to recompletion and perforation stimulation field work occurring at Farrell Creek during the first quarter 2010 and to 2009 year-end audit and independent resource evaluator fees. The Corporation has no bank indebtedness and has no credit agreements to borrow money in place at this time.

The Corporation's net working capital as of the date of this report of $12.1 million is considered by management to be sufficient to cover its administrative costs and its forecasted capital expenditures through the third quarter 2010. Any additional equity capital required to complete the Corporation's share of the joint venture planned capital programs for 2010, such as facilities construction and Montney Formation horizontal drilling activity and resultant tie-ins, will either be covered under the terms of the March 19, 2008 "Deep Rights" joint venture (see **Results of Operations** on Page 2) or raised via equity issues in the capital markets.

Business Risks

Productivity

A material risk facing the Corporation is the productive capability of the discovered and undiscovered coal and shale resource in the Gething Formation on the Corporation's existing land base at Farrell Creek and the Corporation's ability to extract the potential natural gas resource economically. The Corporation has made significant progress in identifying an economic well completion and production system however, at this time, the economics of the Gething Formation are unproven. Together with its joint venture partner, the Corporation will continue to utilize the knowledge, experience and technology available in the service sector to improve the productivity of the Gething Formation in this emerging gas basin in northeastern British Columbia.

The Shallow Rights joint venture has accelerated the development of more optimal completion and production methods for the Gething Formation with the Corporation being carried on costs for a period of time. Limited, and at this time uneconomic, production from the Gething pilot project commenced in June 2009.

Joint Venture Election

Following an evaluation of the results of the Gething pilot project in 2010, the joint venture partner may elect to proceed or not to proceed with further development of this project.

If the joint venture partner elects to proceed, the lands held separately by the Corporation and the joint venture partner would be pooled and the partner would be responsible for carrying the Corporation through an additional amount of capital expenditures. There is no assurance that the additional capital commitment would be expended within a time-frame suitable to the Corporation.

Should the joint venture partner elect not to proceed, the Corporation would become operator of the Gething pilot project and be responsible for all future capital, operating and reclamation costs. Title to all facilities and wells on the Corporation's lands would transfer to the Corporation at no cost and the Corporation would hold a right-of-first-refusal to acquire the joint venture partner's approximately 95 sections of Shallow Rights.

Exploration

The Corporation, through a joint venture partner, is exploring the resource potential of the geological formations below the base of the Cadomin/Nikanassin zone with a focus on the Montney Formation. A number of successful vertical and horizontal wells have been drilled into these deeper formations in the vicinity of the Corporation's lands and public information is now available on a number of these wells. This has significantly reduced the exploration risk associated with the Montney Formation in the area. Exploration risk includes both determining the existence of commercial quantities of hydrocarbons and the ability to recover any potential resource economically. Recognizing the technical expertise, operating capability and financial resources needed to explore these deeper formations, the Corporation has entered into a joint venture which will result in the exploration of its Deep Rights at Farrell Creek with the joint venture partner bearing the initial capital cost of this program.

Financial Resources and Liquidity

The Corporation's ability to continue its operations is highly dependent upon capital markets. Its ability to develop its assets and realize their carrying values is dependent upon the continued support of its shareholders and joint venture partners, favourable capital market conditions and commodity prices, obtaining additional equity financing, converting undiscovered and discovered resources into economically recoverable reserves, and ultimately, generating revenues sufficient to cover operating costs and capital requirements. Without the support of any one of these factors, or a number of them together, the Corporation's ability to continue its operations could be compromised.

To minimize financial risk, the Corporation pre-funds all capital commitments in the equity markets and does not utilize debt in these early stages of development. Included in such capital commitments is a minimum level of administrative and operating costs to see the Corporation through the current equity market and commodity price downward cycles. With $12.6 million of working capital as at March 31, 2010 and minimal immediate capital commitments, the Corporation is in a strong position to continue with its business plan during the current volatility in equity and commodity markets.

Commodity Prices
The Corporation's exploration and development efforts are targeted principally on natural gas. There exists an efficient and sophisticated market for natural gas in North America which is sensitive to factors affecting the supply of and demand for this commodity. Similar factors outside North America are having a greater influence on natural gas prices in North America through the growth of liquefied natural gas trade internationally. Currently, natural gas prices influence the Corporation's investment decisions and once commercial natural gas production is established, it will impact the Corporation's revenue. The Corporation considers publically available price forecasts for natural gas in its evaluation of investment economics and returns.

Operating Capability
The Corporation is pursuing large unconventional natural gas projects that if successful will require operating staff and experience to fully develop. The Corporation has a technically strong team suitable for its current operations but does not currently possess the skills and staff needed to conduct an efficient large scale development operation. To mitigate the risk inherent in assembling the necessary operating team, the Corporation has entered into Deep Rights and Shallow Rights joint ventures pursuant to which substantial parties with the necessary experience and skills have assumed operatorship.

Land Acquisition and Tenure
Rights to explore for and extract hydrocarbons, are generally acquired from the Crown or private parties and require certain work to be performed within a specific time period to retain such mineral rights. Mineral rights acquired from the Crown are usually obtained through a closed bid process. In order to expand its exploration activity, the Corporation must have the financial resources needed to bid on Crown mineral rights and if successful, must have the additional funds to make the required exploration expenditures. The Corporation acquired its existing mineral rights from the Province of British Columbia during the last six years, and through drilling expenditures on these lands through the first quarter 2010 has retained a substantial portion of these mineral rights. To reduce the risk of losing any of its current mineral rights, the Corporation has entered into Deep Rights and Shallow Rights joint ventures in return for drilling expenditures on its lands. This will allow the Corporation to allocate its financial resources to additional land acquisition rather than drilling and development.

Environment and Public Policy
The exploration, development and production activities of the Corporation are highly regulated and the trend of public policy is to provide additional incentives and regulations to reduce the impact of industry activity on the environment. The principal components expected to be produced during production operations that would impact the environment are relatively small amounts of formation water and carbon dioxide. The formation water is currently re-injected into deep geologic formations at a commercial facility and in future, may be re-injected at Corporation owned facilities. Methods to capture and store or

use carbon dioxide in commercial applications are being undertaken by the industry and the Corporation is monitoring these and regulatory developments in order to plan a mitigating strategy.

Critical Accounting Policies
Reference should be made to the Corporation's significant accounting policies contained in note 2 to the Corporation's audited financial statements for the year ended December 31, 2009. These accounting policies may have a significant impact on the financial performance and financial position of the Corporation.

The preparation of the Corporation's financial statements requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, and the amounts of expenses reported during the period. Such estimates and assumptions affect the calculation of depreciation and amortization, the estimated costs associated with the asset retirement obligation, the determination of the potential impairment of unproved properties, and the calculations of stock-based compensation and future income taxes. Management re-evaluates its estimates and assumptions on an on-going basis, but actual results may differ from those estimates. The most critical accounting policies used by the Corporation upon which estimates and assumptions are required are the impairment of unproved properties, the fair value of assets and liabilities, stock-based compensation, and future income taxes.

Off Balance Sheet Arrangements
The Corporation has not entered into any off balance sheet arrangements.

Fair Value of Financial Instruments
Financial instruments held-for-trading include cash and cash equivalents, loans and receivables include accounts receivable and other financial liabilities include accounts payable and accrued trade liabilities. The fair value of cash and cash equivalents and accounts receivable approximate their carrying values due to the short term nature of these instruments. The fair value of accounts payable and accrued trade liabilities is significantly less than the carrying value due to the credit risk of the Corporation.

Changes in Accounting Policies and Practices
The following accounting pronouncements have been adopted with effect from January 1, 2009:

Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 3064, *Goodwill and Intangible Assets*

Section 3064 revises the definition of an intangible asset by clarifying the criteria for the recognition of intangible assets and providing guidance to help distinguish intangible assets from expenses. This section provides guidance on the recognition and measurement of internally developed intangible assets.

This standard was effective for fiscal years beginning on or after October 1, 2008 and therefore the Corporation adopted it effective January 1, 2009, however the adoption of this standard has not had a material effect on its interim or annual financial statements.

CICA Handbook: Section 3862, *Financial Instruments – Disclosures*

The amended Section 3862 requires disclosures about the inputs to fair value measurements and became effective for fiscal years ending on or after September 30, 2009. This amended standard establishes a three-tier hierarchy as the framework for disclosing fair value based on inputs used to value the Corporation's investments.

The hierarchy of inputs is summarized as follows:

Level One - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level Two - Inputs other than quoted prices included in Level One that are observable for the asset or liability, either directly or indirectly; and
Level Three - Inputs for the asset or liability that are not based on observable market data.
The Corporation adopted the amended Section 3862 commencing with the year ended December 31, 2009, however the adoption of this standard has had no impact on the valuation methods or policies of the Corporation.

The Corporation's cash and cash equivalent are categorized within Level One.

International Financial Reporting Standards
In February 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As such, the Corporation will be required to report its results in accordance with IFRS beginning in 2011. In the time leading up to the conversion date, some existing Canadian standards will change in order to converge with IFRS. The Corporation's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with GAAP as it exists on each reporting date. Financial statements commencing with the quarter ended March 31, 2011, including comparative information, will be prepared on an IFRS basis.

The Corporation commenced its IFRS conversion project during 2009 and early in 2010 by purchasing a software tool designed to assist small and medium-sized enterprises through the planning, policy decision-making and implementation processes. In addition, an external consulting firm has been engaged to assist the Corporation with its decision-making and conversion processes. The Corporation's external auditors, as part of the 2010 audit process, will review accounting policy decisions as they are made during the conversion project. The Corporation's Audit Committee will monitor the progress and critical decisions in the transition to IFRS.

The Corporation has developed a changeover plan to complete the transition to IFRS by the first quarter 2011, including the preparation of required comparative information and an assessment of the Corporation's information technology systems.

The Corporation's IFRS conversion plan consists of three stages: Planning, Policy Decision-Making and Implementation. The Corporation has completed the Planning stage which involved an assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on financial accounting and reporting processes, internal control requirements, information technology systems; business processes and required amendments to financial disclosures.

The Policy Decision-Making stage has also begun and involves an analysis and evaluation of the financial impacts of various alternatives available under IFRS and the selection of appropriate accounting policies. This phase also includes identification of effects on business processes, analysis of financial disclosure requirements, and a review of the optional exemptions and mandatory exceptions of IFRS 1 (First-Time Adoption of International Financial Reporting Standards) for retrospective application upon transition to IFRS in 2011. The Corporation is currently analyzing accounting policy alternatives and identifying implementation options for the corresponding business process changes.

The third, or Implementation stage, has not commenced yet but will involve the preparation of opening IFRS balances as at January 1, 2010 and the compilation of financial information necessary to present comparative IFRS financial statements and opening reconciliations to Canadian GAAP commencing with the first quarter of 2011 for approval by the Corporation's Audit Committee.

CSRI will update its IFRS changeover plan as necessary to reflect new and amended accounting standards issued by the International Accounting Standards Board. Other than format, classification and additional notes disclosure, the conversion to IFRS is not expected at this time to have a material impact on the Corporation's financial statements. However, as IFRS is expected to change prior to 2011, the full impact of IFRS on the Corporation's financial statements is not fully determinable at this time.

Related Party Transactions

Transactions with related parties are recorded at exchange amounts for services provided. During the three month periods ended March 31, 2010 and 2009 respectively, the Corporation had no transactions with its directors, persons related to them or companies controlled by them outside of the normal course of business.

Share Capital

The Corporation has authorized share capital of an unlimited number of common shares of no par value. The Corporation has not issued any private placements since the beginning of 2009. The issued share capital of the Corporation as at May 26, 2010 consists of 53,876,131 common shares. In addition, the Corporation has 1,231,660 warrants and 2,659,500 stock options outstanding as at May 26, 2010.

Normal Course Issuer Bids

On April 14, 2010, the Corporation received approval from the Exchange to commence a Normal Course Issuer Bid (the "2010 NCIB") through the facilities of the Exchange beginning on April 16, 2010. Pursuant to the 2010 NCIB, the Corporation may acquire up to 2.5 million common shares of the Corporation, representing 4.6% of the total number of common shares outstanding at the commencement of the 2010 NCIB, until April 16, 2011. Purchases in the market will be conducted by CIBC World Markets in accordance with the Exchange rules and all common shares acquired under the 2010 NCIB will be cancelled. Through May 26, 2010, the Corporation has purchased for cancellation a total of 259,770 common shares of the Corporation for total cash consideration of $327,064, at an average price of $1.26 per share.

Previously, the Corporation had in effect a prior Normal Course Issuer Bid (the "2008 NCIB") which commenced on December 8, 2008 and closed on November 30, 2009. For details regarding the 2008 NCIB, please refer to the Corporation's interim financial statements for the three months ended March 31, 2010.

Commitments

The Corporation has entered into an office sub-lease agreement which expires on May 30, 2011. Under the terms of the sub-lease agreement, the Corporation is obligated to pay base annual rent of $28.00 per square foot on 6,793 square feet as well as its share of the operating costs.

Corporate Information

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