CANADIAN SPIRIT RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012

The following interim management discussion and analysis ("MD&A") of the financial conditions and results of operations of Canadian Spirit Resources Inc. ("CSRI" or the "Corporation") should be read in conjunction with the unaudited interim condensed financial statements for the three months ended March 31, 2012 and the annual audited financial statements for the year ended December 31, 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial data presented herein is in accordance with IFRS and all amounts are presented in Canadian dollars, unless otherwise indicated. This MD&A has been prepared by management and includes information up to May 24, 2012, the date of review and approval by the Corporation's Board of Directors.

Reader's Advisories

Non-GAAP/IFRS Terminology

This MD&A contains important, comparable industry benchmarks such as net working capital and operating netbacks which are not recognized measures under IFRS, hereafter referred to as Generally Accepted Accounting Principles ("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.

Net working capital is defined as total current assets less total current liabilities. Operating netbacks are calculated by taking petroleum and natural gas sales, net of royalties (after adding back royalty credits applied to Property, Plant and Equipment in the financial statements) less operating costs from the statement of loss and comprehensive loss and dividing by natural gas sales volumes for the period.

Frequently-used Industry Terminology

The Corporation uses the following frequently recurring industry terms in this MD&A: "boe" refers to barrels of oil equivalent, "Mboe" refers to thousand barrels of oil equivalent, "GJ" refers to gigajoules, "Mcf" refers to thousand cubic feet, "MMcf" refers to million cubic feet, "Bcf" refers to billion cubic feet, "MMbtu" refers to million British thermal units, and "/d" refers to per day. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. The Corporation uses a boe conversion ratio of 6 Mcf of natural gas to 1 barrel of crude oil equivalent. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. The Corporation also uses a natural gas heating content conversion ratio of 1 Mcf to 1.05 GJ. These conversion ratios are based on energy equivalency conversion methods primarily applicable at the burner tip and do not necessarily represent a value equivalency at the sales point.

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 CSRI, expected increase in royalty rates, and the timing of and impact of adoption of new accounting policies under GAAP 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:

- Delays in oil and gas regulatory approvals;
- CSRI's ability to raise funds in the available equity markets;
- Fluctuations in natural gas production levels; or
- Volatility in market prices for natural gas.

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.

Going Concern

The unaudited interim condensed financial statements for the three months ended March 31, 2012 have been prepared using IFRS as they apply to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they come due. For the three months ended March 31, 2012 the Corporation reported a net loss and comprehensive loss of $0.9 million and an accumulated deficit of $40.3 million as at that date. In addition to its on-going working capital requirements, the Corporation must secure sufficient funding for its exploration and development programs. Also, the current natural gas market is experiencing low commodity prices due to excess supply. These circumstances cause material uncertainties that may cast significant doubt upon the Corporation's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, the Corporation has secured a revolving demand bank credit facility in the amount of $2.4 million. This undertaking, while significant, is not sufficient in and of itself to enable the Corporation to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Corporation's exploration and development programs so it can continue as a going concern. Management plans to secure the necessary financing through either the exercise of existing warrants for the purchase of common shares, the issue of new equity or debt instruments, or entering into new joint venture arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

The Corporation's ability to continue as a going concern is dependent upon its ability to fund its exploration and development programs as well as generate positive cash flows from operating activities. The unaudited interim condensed financial statements do not reflect the adjustments to the carrying values and classifications of assets and liabilities, or to the reported revenues and expenses that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012

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 a well-capitalized joint venture partner, the Corporation's principal activity is evaluating and developing the productive capability of its Montney natural gas play in Farrell Creek, British Columbia.

The Corporation's focus has been to evaluate the resource potential of certain unconventional natural gas exploration properties and is currently emerging from its development stage of operations. In 2003, CSRI acquired a small land position and drilled its first resource evaluation well 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") 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 Shell was intended to advance the development of rights (initially the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation ("Shallow Rights"). In June 2010, Shell elected not to continue to the development stage of the Gething joint venture. The joint venture with Canbriam is exploring and evaluating the petroleum and natural gas rights (primarily in the Montney Formation) below the base of the Cadomin/Nikanassin Formation ("Deep Rights"). On January 28, 2011, the Corporation commenced its first commercial production out of the Montney Formation.

CSRI's Board of Directors has approved a total forecasted capital expenditure budget for 2012 of $2.0 million (net), of which $0.2 million (net) is budgeted for the second quarter 2012, with a main focus on the development of the Corporation's Montney joint venture with Canbriam.

Natural Gas Properties

Montney Formation Resource Assessment

GLJ Petroleum Consultants ("GLJ") was engaged to prepare an independent resource assessment of the Montney Formation on the Corporation's Farrell Creek lands in northeastern British Columbia as at February 29, 2012 in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("GLJ Report"). The engagement was to assess the future development and resource potential of the Montney Formation and did not include the Doig and Doig phosphate intervals (fracture stimulated and tested by other Farrell Creek operators) or the adsorbed gas component associated with any formation.

The results of this assessment include a significant volume of natural gas liquids being identified on the Corporation's eastern lands (17.3 net sections) at Farrell Creek. GLJ's best estimate of natural gas liquids content is 20 barrels per million cubic feet, with high and low estimates of 40 and 5 respectively. Approximately 1,100 horizontal wells (gross) are estimate to be required for full area development.

Canadian Spirit Resources Inc.

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For the three months ended March 31, 2012

The following table summarizes certain information contained in the December 31, 2009, December 31, 2010 and February 29, 2012 resource reports.

SUMMARY OF ANNUAL CHANGES GROSS AND COMPANY GROSS NATURAL GAS INITIALLY-IN-PLACE						
Resource Classification	Gross GIIP Bcf			Company Gross GIIP Bcf		
	Dec.31, 2009	Dec.31, 2010	Feb.29, 2012 (3)	Dec.31, 2009	Dec.31, 2010	Feb.29, 2012 (3)
DISCOVERED GIIP (1)	1,378	2,654	5,035	478	1,028	1,928
UNDISCOVERED GIIP (2)	2,243	2,370	5,754	648	1,294	3,662

NOTES:
(1) There is no certainty that it will be commercially viable to produce any portion of this resource.
(2) There is no certainty that any portion of this resource will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resource.
(3) 3% porosity cutoff used.

The following table summarizes certain information contained in the resource assessment prepared by GLJ. The GLJ Report was prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook").

SUMMARY OF NATURAL GAS AND LIQUIDS WITHIN THE MONTNEY FORMATION IN THE FARRELL CREEK AREA OF BRITISH COLUMBIA AS AT FEBRUARY 29, 2012					
	Company Gross* **Economic Contingent**(1) Total Recoverable Natural Gas Liquids (Mbbls)	Company Gross* **Economic Contingent**(1) Gas Resources (Bcf) (Sales)		Company Gross* **Prospective** Total Recoverable Natural Gas Liquids (Mbbls)	Company Gross* **Prospective** Gas Resources (Bcf) (Sales)
Low Estimate	nil	nil	Low Estimate	1,256	316
Best Estimate	766	35	Best Estimate	15,908	1,103
High Estimate	6,711	710	High Estimate	57,949	2,146
*** Company working interest (operating or non-operating) share before deduction of royalties.**					

NOTE:
(1) The contingencies that prevent the Economic Contingent Resources from being classified as reserves are associated with the early evaluation stage of these development opportunities. Additional drilling, completion and testing data is generally required before the Corporation can commit to development of the contingent resources.

Definitions (as defined in the COGE Handbook):
1. **Total Petroleum (Gas) Initially-In-Place** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.
2. **Discovered Petroleum (Gas) Initially-In-Place** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered Petroleum (Gas) Initially-In-Place includes production, reserves, and contingent resources; the remainder is unrecoverable.
3. **Undiscovered Petroleum (Gas) Initially-In-Place** is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered Petroleum (Gas) Initially-In Place is referred to as prospective resources; the remainder is unrecoverable.
4. **Contingent Resources** are defined as those quantities of natural gas and natural gas liquids estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as Contingent Resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

5. **Economic Contingent Resources** are defined as those contingent resources that are currently economically recoverable.
6. **Prospective Resources** are defined as those quantities of natural gas and natural gas liquids estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.
7. **Low estimate (P90)** is a classification of estimated resources as being considered to be a conservative estimate of the quantity that will be actually recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the low estimate.
8. **Best estimate (P50)** is a classification of estimated resources as being considered to be the best estimate of the quantity that will be actually recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate.
9. **High estimate (P10)** is a classification of estimated resources as being considered to be an optimistic estimate of the quantity that will be actually recovered. If probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the high estimate.

Montney Formation Reserves

An independent reserve evaluation covering the Montney Formation at Farrell Creek was prepared by GLJ as at December 31, 2011 (the "Reserve Report") in accordance with National Instrument 51-101: Standards of Disclosure for Oil and Gas Activities. The evaluation is based on CSRI's corporate plan to drill and complete 5 Montney wells over the next few years to prove-up its Montney lands at Farrell Creek. Proceeding with full development will be contingent upon factors such as access to capital, economic and price conditions, infrastructure, and environmental and regulatory matters. The following table is a summary of the Corporation's reserves as at December 31, 2011. For more information, the Corporation's Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information and related documents have been filed on SEDAR at www.sedar.com and on the Corporation's website at www.csri.ca.

	SUMMARY OF RESERVES AND NET PRESENT VALUE ("NPV") AS AT DECEMBER 31, 2011				
	Natural Gas (1)		Barrels of Oil Equivalent (5)		NPV Discounted At 10% (6)
	Gross (2) (MMcf)	Net (3) (MMcf)	Gross (2) (Mboe)	Net (3) (Mboe)	(Thousands)
PROVED (7)					
Developed Producing	2,471	2,435	412	406	$4,024
Total Proved	2,471	2,435	412	406	$4,024
PROBABLE (8)	8,149	7,605	1,358	1,267	$2,072
TOTAL PROVED PLUS PROBABLE (4)	**10,620**	**10,040**	**1,770**	**1,673**	**$6,096**

NOTES:

(1) Estimates of Reserves of natural gas include associated and non-associated gas.
(2) "Gross Reserves" are CSRI's working interest share of the remaining reserves, before deduction of royalties.
(3) "Net Reserves" are CSRI's working interest share of remaining reserves less all Crown royalties.
(4) May not add due to rounding.
(5) Boe's have been calculated using a conversion ratio of 6 Mcf of natural gas per barrel of oil energy equivalent.
(6) Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.
(7) Proved Resources are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
(8) Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Farrell Creek: Montney

On March 19, 2008, the Corporation announced a joint venture and farmout agreement for the Deep Rights with Canbriam, to evaluate certain of the Corporation's lands for Montney and other deep formation plays covering approximately 34,000 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 vertical wells into the Montney Formation in exchange for a 65% working interest. Canbriam also had the option to increase its working interest in the Deep Rights from 65% to 70% in return for increasing its gross capital commitment to $50.0 million. Canbriam fulfilled their $28.6 million initial funding commitment in July 2010 and in October 2010, advised that they would not exercise the option to increase their working interest. Since July 2010, CSRI has been responsible for funding its 35% working interest of the Montney program.

Since conducting evaluation tests on two vertical Montney wells on the eastern block of Farrell Creek in late 2008, Canbriam focused its operations on the western portion of the Farrell Creek lands in close proximity to the Spectra Energy pipeline. Following a successful vertical well test into the lower portion of the Montney Formation at the b-17-I/94-B-1 location, the joint venture re-entered this well and drilled a horizontal lateral into the lower Montney. This was the first known horizontal well targeting the lower Montney in the Farrell Creek area and the results met CSRI's expectations. The results of this well are significant as it may be an indicator that the lower Montney Formation has the potential to increase ultimate resource estimates and to increase the total productivity of the play. The joint venture then proceeded to drill a horizontal well at c-A48-I/94-B-1. The c-A48-I well was subsequently stimulated in 8 stages of the lower portion of the Montney Formation with initial production flow-tested at a rate of approximately 1 MMcf/d per stage.

During 2010, the joint venture drilled and cased three middle Montney horizontal wells on the western block of the Montney lands at c-18-I/94-B-1, c-A18-I/94-B-1, c-45-I/94-B-1 and re-entered the b-17-I well to drill a short horizontal leg in the lower Montney. At the end of October 2010, Canbriam carried out a production test on the c-18-I well with initial flow rates of up to 4.7 MMcf/d with 8 stages being stimulated. The b-17-I re-entry horizontal well was fracture stimulated in 5 stages in the lower Montney in December 2010 with initial production in excess of 3.5 MMcf/d.

The c-45-I well was fracture stimulated in July 2011 and was brought online in mid-September 2011 at a rate of 1.5 MMcf/d. The joint venture also drilled and cased a horizontal well in the middle Montney at the c-B18-I/94-B-1 location. This is the fifth horizontal well in the middle Montney Formation and the sixth well drilled in the west block of lands. The c-B18-I well fracture stimulation was completed in September 2011 and the well was placed on production in early October 2011 at a rate of 5 MMcf/d. In addition, the joint venture has a well location at 12-7-83-24W6 on its eastern lands. This vertical well has now been drilled and cased, with stimulation being scheduled for the third quarter of 2012. The well is designed to evaluate the quantity of natural gas liquids within the eastern lands of Farrell Creek and will be fracture stimulated in several Montney intervals (upper, middle and lower).

Construction of the joint venture's gas processing facility with an initial capacity of 10 MMcf/d gross (3.5 MMcf/d net), and tie-in to the Spectra Energy sales pipeline, was completed in January 2011. Commissioning of the facility occurred in late January 2011 with the Corporation's first natural gas sales commencing on January 28th. The initial wells tied-in to the facility were b-17-I, c-A48-I and c-18-I. With the addition of the c-45-I and c-B18-I wells in the fall of 2011, the Farrell Creek gas facility was near its capacity. Since that time, the wells have experienced typical Montney production declines and are currently producing 5 MMcf/d gross (1.75 MMcf/d net).

Canadian Spirit Resources Inc.

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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") moved its adjacent Montney shale play into commercial production. Talisman has formed a strategic partnership with Sasol Limited ("Sasol") which is expected to accelerate the projected multi-billion dollar development of their Farrell Creek play. Total consideration from the two Sasol transactions was $2.1 billion for a 50% working interest in both of Talisman's Farrell Creek and Cypress A plays. These transactions are comprised of an initial 25% cash payment plus a 75% capital carry on Talisman's share of future expenditures. The partnership will also be examining alternative gas marketing options including the economic feasibility of constructing a gas-to-liquids ("GTL") project in western Canada using Sasol's GTL technology.

Williston Reservoir Water Pipeline Project

On August 31, 2011 the Corporation announced its participation in a water pipeline project that would result in significant cost reductions during the development of the Corporation's Farrell Creek Montney play. The water pipeline project is a joint venture between the Corporation and Canbriam with CSRI holding a 25% working interest and Canbriam retaining a 75% working interest.

The project, to be operated by Canbriam, has approval to deliver up to 10,000 cubic meters of water per day from the Williston Reservoir to the Farrell Creek/Altares area in northeastern British Columbia on a year-round basis for the next twenty years. Once in operation, the project will materially reduce the cost of delivering a secure supply of water used in the stimulation of horizontal wells and will lessen the impact on local communities and infrastructure by reducing the need to transport water overland to drilling sites. Construction of this project was recently completed with commissioning expected in early summer of 2012.

Selected Financial Data

For the three months ended, and as at, March 31		**2012**		**2011**
Average sales volumes of natural gas (Mcf/d)		**1,934**		1,917
Average sales price of natural gas ($/Mcf)	**$**	**2.11**	$	3.35
Natural gas sales, before royalties	**$**	**372,252**	$	407,013
Operating netbacks, after royalty credits applied	**$**	**87,174**	$	364,631
Cash flow from operating activities	**$**	**(271,242)**	$	(64,335)
Net loss and comprehensive loss	**$**	**(942,567)**	$	(702,752)
Loss per share, basic & diluted	**$**	**(0.01)**	$	(0.01)
Net working capital	**$**	**1,885,895**	$	18,176,642
Total assets	**$**	**62,118,639**	$	77,574,080
Shareholders' capital	**$**	**58,554,046**	$	74,900,078
Common shares outstanding		**76,238,661**		74,561,061
Total capital expenditures	**$**	**359,732**	$	2,761,743

Canadian Spirit Resources Inc.

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Results from Operations
Revenue and Royalties
The Montney Formation has provided the Corporation with its first commercial natural gas production. On January 28, 2011, the Farrell Creek Montney Gas Facility commenced operations and continues to produce gas into the Spectra Energy Pipeline System. The natural gas is sold on a spot basis at BC Spectra Station 2, and therefore subject to spot price movements and/or trends. The five wells tied into the Farrell Creek Montney Gas Facility are all deep horizontal wells and as such, each of these producing wells qualifies for the British Columbia Government's Deep Royalty Credit Program. This Program will generate up to $2.5 million (gross) in royalty credits for each well and the royalty credits will be drawn down over time as the wells produce natural gas. At current rates of production, the Corporation should not have to actually remit any crown royalties to the British Columbia Government for the next two to three years.

Production

	Three months ended March 31,	
	2012	**2011**
Total sales volumes of natural gas (Mcf)	**176,058**	120,763
Average sales volumes of natural gas		
Mcf/d	**1,934**	1,917
boe/d	**322**	319
Average sales price of natural gas		
$/Mcf	**$ 2.11**	$ 3.35
$/boe	**$ 12.66**	$ 20.08
BC Spectra Station 2 Benchmark price (1)		
$/Mcf	**$ 2.11**	$ 3.44

Note:
(1) Source: NGX Natural Gas Exchange website (converted from $/GJ)

Given that first commercial production commenced on January 28, 2011, there were only 63 days of production in the first quarter 2011. Therefore, even though daily production rates approximate those of the first quarter 2012, the total sales volumes in the first quarter 2012 is higher due to a full 91 days of production.

Depletion
Depletion of Developed and Producing property, plant and equipment is calculated using the unit of production method based on proved plus probable reserves. The depletion expense for the three months ended March 31, 2012 of $352,278 (2011: $387,552) equates to $2.00 per Mcf (2011: $3.21 per Mcf). The decrease in the depletion expense per Mcf from the first quarter 2011 to the first quarter 2012 is due to the lower depletable base in 2012 subsequent to the developed and producing natural gas assets impairment of $14.5 million recorded as at December 31, 2011.

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Operating Netbacks

For the three months ended March 31, 2012	$	%	$/Mcf	$/boe
Natural gas sales	$ 372,252		$ 2.11	$ 12.66
Royalties	(69,375)	*18.6%*	(0.39)	(2.36)
Net revenue	302,877		1.72	10.30
Royalty credits applied	69,375		0.39	2.36
Operating costs	(285,078)		(1.62)	(9.72)
Operating netbacks	$ 87,174		$ 0.49	$ 2.94

For the three months ended March 31, 2011	$	%	$/Mcf	$/boe
Natural gas sales	$ 407,013		$ 3.35	$ 20.08
Royalties	(4,372)	*1.1%*	(0.03)	(0.18)
Net revenue	402,641		3.32	19.90
Royalty credits applied	-		-	-
Operating costs	(38,010)		(0.30)	(1.80)
Operating netbacks	$ 364,631		$ 3.02	$ 18.10

During the three months ended March 31, 2012, the Corporation applied $69,375 (2011: $Nil) of royalty credits against crown royalties that would otherwise have been payable.

Operating Costs

Operating costs relate to the Corporation's share of plant maintenance, supervision and other production expenses in conjunction with the five producing Montney Formation wells at Farrell Creek. Operating costs include transportation costs to transfer the natural gas injected into the pipeline system at Farrell Creek to the sales point at BC Spectra Station 2, including Province of British Columbia carbon taxes. The increase in operating costs for the first quarter 2012 is due to higher produced water at the c-45-I and c-B18-I wells and therefore increased related water transportation and disposal costs.

Impairment

The Corporation performs impairment tests when impairment indicators are present to assess the recoverable value of E&E assets within the Corporation's combined Farrell Creek Gething Formation project and Farrell Creek Montney Formation project E&E CGU's. The estimate of fair value less costs to sell was determined in part using prevailing land tender prices around that date. Based on the tender prices and other factors, the estimated recoverable amount of E&E assets was greater than the carrying value of the Corporation's combined Farrell Creek Gething Formation project and Farrell Creek Montney Formation project E&E CGU's, and as such there was no impairment.

However, as at December 31, 2011 CSRI recognized an impairment of $14.5 million relating to developed and producing natural gas assets in the Corporation's Farrell Creek Montney Formation project CGU within property, plant and equipment. The impairment resulted primarily from the decline in forecasted natural gas prices.

General and Administrative Expenses

For the three month periods ended March 31	2012	2011
Consulting fees	$ **8,117**	$ 84,118
Salaries and benefits	**294,623**	296,308
Other general and administrative	**184,949**	224,608
	487,689	605,034
Capitalized portion and other costs	**(122,199)**	(128,472)
	365,490	476,562
Share-based compensation	**291,103**	309,001
Capitalized portion of share-based compensation	**(58,067)**	(67,605)
	233,036	241,396
	$ **598,526**	$ 717,958

In 2012, the Corporation has continued its consulting contracts with a land consultant and a computer network maintenance company. In the first quarter 2011, the Corporation had engaged the consulting services of an external IFRS consulting firm, a staffing recruitment firm and an executive compensation firm thus resulting in the decrease of $76,001 or 90.4% in consulting fees, before capitalization, in the first three months of 2012 compared to the same period in 2011.

Salaries and benefits, before capitalization, for the three months ended March 31, 2012 have remained relatively constant compared with the three months ended March 31, 2011 due to general annual staff salary increases (executive management salaries were frozen for 2012) but offset by the reduction of one staff member effective February 2012.

The Corporation capitalizes, within both Exploration and Evaluation assets and Property, Plant and Equipment, certain salary and benefit costs associated with staff directly involved in exploration and development activities. For the three months ended March 31, 2012, the Corporation capitalized a total of $122,199 (2011: $127,872) of general and administration expenses, including salaries and benefits, directly related to exploration and development activities. Other costs capitalized during the three months ended March 31, 2012 of $Nil (2011: $600) relate to consulting fees incurred as equity instruments issue costs, and are recorded by the Corporation as a reduction of shareholders' capital.

Due to a decrease in the grant price of the Corporation's stock options and therefore the reduced valuation of the stock options granted during the first quarter 2012, as well as the timing and amount of stock options granted during the first quarter 2012, share-based compensation, before capitalization, decreased by $17,898 or 5.8% for the three months ended March 31, 2012, from the comparative prior period. For the three months ended March 31, 2012 the Corporation capitalized $58,067 (2011: $67,605) of share-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

Other General and Administrative Expenses

For the three month periods ended March 31	2012	2011
Professional fees	$ **44,844**	$ 65,022
Investor relations and filing fees	**33,998**	19,123
Directors' fees	**18,000**	15,500
Office premises and insurance	**57,801**	84,161
Office supplies and software licences	**21,792**	22,236
Staffing costs	**4,003**	11,040
Other	**4,511**	7,526
	184,949	224,608
Capitalized software licences	**(8,103)**	(7,060)
	$ **176,846**	$ 217,548

Professional fees for the three months ended March 31, 2012 are comprised of legal counsel fees for corporate and joint venture matters, audit related fees for the first quarter 2012 interim financial statement review, as well as annual audit and reserve report fee accruals for 2012. The decrease from the first quarter 2011 to the first quarter 2012 of $20,178 or 31.0% was due to the one-time independent reservoir engineering consulting fees related to the Corporation's initial Reserve Report as at March 31, 2011.

The increase in investor relations and filing fees for the three months ended March 31, 2012 compared to the three months ended March 31, 2011 of $14,875 or 77.8% is attributable to the timing of document filing costs in March 2012 versus in April 2011 in the prior year.

Directors' fees increased by $2,500 or 16.1% from the three months ended March 31, 2011 to the three months ended March 31, 2012 due to the overall addition of one external director commencing in January 2012.

Office premises expenses decreased by $26,360 or 31.3% from the three months ended March 31, 2011 to the three months ended March 31, 2012 due to the signing of a new lease agreement effective June 2011 for a two year main lease at $12.00 per square foot compared to the prior rate of $28.00 per square foot.

Staffing costs have decreased from the first quarter 2011 to the first quarter 2012 by $7,037 or 63.7% due to the effort by the Corporation to reduce ancillary benefits, courses and conference fees as part of overall general and administrative cost controls.

Other expenses are comprised of advertising and promotion costs, charitable contributions and bank charges.

Liquidity and Capital Resources

The Corporation's capital expenditures for the three months ended March 31, 2012 are detailed in the following table:

For the three month periods ended March 31		2012		2011
Lease acquisitions and retentions	**$**	**64,104**	$	721,644
Geological and geophysical		**968**		-
Net expenditure on drilling, completion and facilities costs		**114,394**		1,840,779
Capitalized overhead		**180,266**		195,477
Total natural gas expenditures		**359,732**		2,757,900
Computer and office equipment, furniture and fixtures		**-**		3,843
Net capital expenditures	**$**	**359,732**	$	2,761,743

For the three months ended March 31, 2012, gross capital expenditures totaled $0.4 million (2011: $2.8 million), compared to a budgeted capital expenditure of $0.2 million (2011: $2.7 million). The capital expenditures in excess of budget for the three months ended March 31, 2012 were mainly as a result of continued cost overruns from the Corporation's joint venture partner, Canbriam, relating to the completion and tie-in of the c-45-I and c-B18-I wells and the construction of the Williston Reservoir Water Pipeline Project.

As at March 31, 2012, the Corporation had a net working capital balance of $1.9 million consisting of cash in the amount of $3.3 million, accounts receivable and prepaids of $0.2 million and the current portion of unapplied royalty credits of $0.4 million, offset by accounts payable and other accrued liabilities of $2.0 million. The accounts payable and other accrued liabilities balance as at March 31, 2012 relates primarily to joint venture drilling and completion activity in the Montney Project at Farrell Creek as well as the costs related to the Williston Reservoir Water Pipeline Project in conjunction with the Corporation's joint venture partner, Canbriam.

The Corporation's capital budget is reviewed and approved by the Board of Directors on a quarterly basis. The Corporation's Board of Directors has approved a total capital expenditure budget for 2012 of $2.0 million (net), including an estimated $0.5 million for capitalized overhead. CSRI has budgeted for $0.2 million (net) of capital expenditures for the second quarter 2012. Any additional capital required to complete CSRI's share of the Montney program for 2012 of $2.0 million (net) is expected to be raised either via the capital markets, generated internally by cash flow from operating activities, or sourced from borrowings against the Corporation's line of credit.

Cash administration expenses (general and administrative expenses excluding share-based compensation) for 2012 are expected to total $1.9 million (2011: $2.3 million), before capitalization of exploration and development related overhead. The Corporation has budgeted for operating netbacks from the Farrell Creek Montney operations of $0.7 million during 2012, which may not be fully achieved due to continued weak natural gas prices.

Line of Credit
During the first quarter 2012, the Corporation established a revolving demand bank credit facility that currently stands at $2.4 million. The credit facility is fully revolving with no set date of maturity, bears interest at prime rate plus an applicable margin, and is secured by a General Security Agreement conveying a first floating charge over all the Corporation's real property and fixed assets as well as a first fixed charge on all the Corporation's property interests. The credit facility is subject to standard quarterly and annual reporting requirements as well as usual and customary covenants. To date, no draws have been made from the credit facility.

Letter of Credit
For operations in British Columbia, the Corporation is required to provide a deposit towards future abandonment and reclamation costs based on the number of wells and facilities for which the Corporation is the primary permit holder. Based on a Liability Management Rating ("LMR") review performed by the British Columbia Oil and Gas Commission ("BCOGC"), the Corporation was assessed an LMR of $1,235,829. On February 28, 2012 the Corporation renewed a standby Letter of Credit for the LMR amount with the BCOGC as beneficiary. The standby Letter of Credit is irrevocable, bears commission at a rate of 1.5%, expires on February 28, 2013, and renews on an annual basis thereafter. The standby Letter of Credit is secured against the Corporation's line of credit.

Tax Pools
As at March 31, 2012, the Corporation had estimated tax pools available as deductions against future taxable income of $85.8 million (December 31, 2011: $85.2 million).

Business Risks
Productivity
A material risk facing the Corporation is the productive capability of the discovered and undiscovered coalbed methane and shale natural gas resources on the Corporation's existing land base at Farrell Creek and the Corporation's ability to extract the potential natural gas resources economically. The Corporation will continue to utilize the knowledge, experience and technology available in the service sector to improve the productivity of the resources in this emerging natural gas basin in northeastern British Columbia.

Exploration and Development
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 the Montney Formation 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 entered into a joint venture which has resulted in the exploration, development and production 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 partner, favorable 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 estimated capital commitments is a minimum level of administrative and operating costs to see the Corporation through any potential disruption in the equity market and any commodity price downward cycle.

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 now that commercial natural gas production has been 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 additional 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 a joint venture pursuant to which a substantial party with the necessary experience and skills has assumed operatorship of the Montney Formation project.

The Corporation has now assumed operatorship of the Gething project. Minimal activity will be conducted on this project until the Corporation attracts a new joint venture partner or natural gas prices improve from current levels. The Corporation believes it has the technical and operating capability to manage the anticipated level of activity associated with the Gething project.

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 nine years, and as a result of drilling expenditures on these lands has retained a substantial portion of these mineral rights. To reduce the risk of losing any of its current mineral rights, the Corporation entered into joint ventures in return for drilling expenditures on its lands. This has allowed the Corporation to allocate a portion of 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 component produced during production operations that would impact the environment are fracture fluids. The fracture fluids are recycled and ultimately re-injected into deep geologic formations at a commercial facility and in future, may be re-injected at Corporation-owned facilities.

Critical Accounting Policies

Reference should be made to the Corporation's significant accounting policies contained in note 2 to the Corporation's annual audited financial statements for the year ended December 31, 2011. 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 depletion and depreciation, the estimated costs associated with the decommissioning liability, the determination of the potential impairment of petroleum and natural gas properties and exploration and evaluation assets, and the calculations of share-based compensation and deferred 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 petroleum and natural gas properties and exploration and evaluation assets, the fair value of assets and liabilities, share-based compensation, and deferred income taxes.

Future Changes in Accounting Policies and Practices

The Corporation continues to assess the impact of adopting the IASB pronouncements as disclosed in the annual audited financial statements for the year ended December 31, 2011.

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 other accrued liabilities. The fair value of cash and cash equivalents, accounts receivable, and accounts payable and other accrued liabilities approximate their carrying values due to the short term nature of these instruments.

Share Capital

The Corporation has authorized an unlimited number of common shares with no par value.

Between the dates of December 12, 2011 and December 23, 2011, the Corporation closed a non-brokered private placement of 2,455,300 units (the "Units") at a price of $0.75 per Unit. Each Unit consists of one common share of the Corporation and one half of one share purchase warrant (the "Warrants"). Each whole Warrant entitles the holder to purchase an additional common share of the Corporation for a period of two years at an exercise price of $1.10 per common share. The fair value of the Warrants was estimated at the dates of closing using the Black-Scholes pricing model under which the Corporation assigned a total value of $262,546 of the Unit proceeds to the Warrants, with the remaining $1,578,929 of the Unit proceeds assigned to common shares. Share issue costs of $59,826 were incurred in relation to the issuance of the Units.

Since March 31, 2012 to the date of this report, the Corporation has had no exercises of stock options. As at May 24, 2012 the Corporation has 76,238,661 common shares, 1,227,650 share purchase warrants and 4,105,500 stock options outstanding.

Normal Course Issuer Bids

On April 14, 2010, the Corporation received approval from the Exchange to commence a Normal Course Issuer Bid (the "2010-2011 NCIB") through the facilities of the Exchange beginning on April 16, 2010. Pursuant to the 2010-2011 NCIB, the Corporation had the ability to 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 2010-2011 NCIB, until April 16, 2011. From January 1, 2011 to April 16, 2011 the Corporation purchased for cancellation a total of 37,800 common shares of the Corporation for total cash consideration of $54,740 at an average price of $1.45 per common share, representing 0.07% of the total number of common shares outstanding at the commencement of the 2010-2011 NCIB. Since the average carrying value of common shares outstanding at the time of repurchase was lower than the actual repurchase price per common share, the calculated difference per common share for the period from January 1, 2011 to April 16, 2011 of $8,694 was recorded as a decrease to contributed surplus.

On April 18, 2011, the Corporation received approval from the Exchange to commence a further Normal Course Issuer Bid (the "2011-2012 NCB") through the facilities of the Exchange beginning on April 19, 2011. Pursuant to the 2011-2012 NCIB, the Corporation may acquire up to 3.7 million common shares of the Corporation until April 18, 2012. From April 19, 2011 to December 31, 2011 the Corporation purchased for cancellation a total of 777,700 common shares of the Corporation for total cash consideration of $937,078 at an average price of $1.20 per common share, representing 1.04% of the total number of common shares outstanding at the commencement of the 2011-2012 NCIB. Since the average carrying value of common shares outstanding at the time of repurchase was higher than the actual repurchase price per common share, the calculated difference per common share for the period from April 19, 2011 to December 31, 2011 of $12,576 was recorded as an increase to contributed surplus. The Corporation did not acquire any further common shares from January 1, 2012 until the expiry of the 2011-2012 NCIB on April 18, 2012.

For each of the Corporation's Normal Course Issuer Bids, all common shares of the Corporation purchased during any given month are returned to treasury and cancelled in the month subsequent to acquisition.

Commitments

In January 2011, the Corporation entered into an office lease agreement which expires on May 31, 2013. Under the terms of the lease agreement, the Corporation is obligated to pay base annual rent of $12.00 per square foot plus operating costs on 7,187 square feet.

The Corporation also leased a small field office location on a month-to-month basis. The field office lease was terminated as of January 31, 2012.

Corporate Information

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