MANAGEMENT DISCUSSION AND ANALYSIS

For the three and twelve month periods ended December 31, 2014

The following management discussion and analysis ("MD&A") of the financial conditions and results of operations of Canadian Spirit Resources Inc. ("CSRI" or the "Corporation") for the three and twelve months ended December 31, 2014 should be read in conjunction with the audited financial statements for the years ended December 31, 2014 and 2013 prepared under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, and the MD&A for the three and twelve months ended December 31, 2013.

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 April 21, 2015, the date of review and approval by the Corporation's Board of Directors.

Corporate Overview

Canadian Spirit Resources Inc. is a natural resources company listed under the trading symbol 'SPI' on the TSX Venture Exchange (the "Exchange") focusing on the identification and development of opportunities in the unconventional sector of the energy industry. Operating on its own 100% working interest lands, and together with its joint venture partner, Canbriam Energy Inc. ("Canbriam"), the Corporation's principal activity is evaluating and developing the productive capability of its Montney unconventional natural gas and natural gas liquids play in Farrell Creek, British Columbia. The Corporation commenced its first commercial production out of the Montney Formation in early 2011.

Selected Quarterly Information

The following is a summary of the results of the Corporation for the eight most recently completed quarters *(000's, unless otherwise indicated)*:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average sales volumes								
- natural gas (MMcf/d)	**0.81**	0.91	0.95	1.05	1.12	1.20	1.29	1.40
Sales price (per Mcf)	**$ 3.17**	$ 3.70	$ 4.40	$ 5.18	$ 3.37	$ 2.64	$ 3.43	$ 3.00
Total sales volumes								
- natural gas (MMcf)	**75.0**	83.2	86.7	94.7	102.9	109.9	117.3	126.0
Natural gas sales	**$ 236**	$ 308	$ 381	$ 485	$ 346	$ 291	$ 402	$ 378
Operating netbacks	**$ 155**	$ 154	$ 200	$ 387	$ 257	$ 133	$ 205	$ 198
Cash flow from operating activities	**$ 94**	$ (382)	$ 155	$ (221)	$ (15)	$ (90)	$ 378	$ (674)
Net loss	**$ (442)**	$ (464)	$ (402)	$ (2,156)	$ (513)	$ (410)	$ (472)	$ (517)
Net loss (per share)	**$ (0.00)**	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)
Net working capital	**$ 4,256**	$ 4,693	$ 8,310	$ 2,413	$ 3,587	$ 1,481	$ 1,623	$ 1,928
Total assets	**$ 73,539**	$ 73,768	$ 75,000	$ 70,659	$ 66,866	$ 61,030	$ 61,442	$ 62,169
Shareholders' capital	**$ 71,044**	$ 71,343	$ 71,508	$ 64,569	$ 61,191	$ 59,180	$ 59,581	$ 60,020
Common shares outstanding	**128,867**	128,851	128,051	110,125	100,125	90,549	90,549	90,549
Gross capital expenditures	**$ 419**	$ 3,692	$ 1,355	$ 4,593	$ 244	$ (23)	$ 287	$ 837

Note:

1. Quarterly amounts may not total nor calculate to year-to-date amounts due to rounding.

Natural Gas Properties

Farrell Creek: Operational Highlights

For CSRI, 2014 was a pivotal year as it transitioned into a Montney operator with the drilling of two 100% working interest horizontal wells.

In March 2014, CSRI drilled the first horizontal well at its 1-1-83-25W6 location. This well was drilled for land retention purposes and allowed the Corporation to retain 9 sections of 100% working interest land for an additional term of five years.

CSRI successfully drilled and cased its second 100% working interest horizontal well at c-81-H/94-B-1. The well commenced drilling on June 23, 2014 and was cased and rig released on July 31, 2014. Subject to financing, the well will be hydraulically fractured in the second half of 2015 and will be tied-in for production. In addition to the potential to add new production and reserves, the drilling of this well converted six drilling licences into leases, thus extending their expiration date a minimum of five years.

As a result of the drilling of the 1-1-83-25W6 well in the first quarter 2014 and the c-81-H/94-B-1 well as noted above, the Corporation has extended the tenure on 9,961 gross acres (4,031 gross hectares) of land and increased CSRI's 100% working interest to 16,248 acres or 25.4 sections. CSRI's net Montney acreage position at Farrell Creek is now 26,044 acres or 40.7 net sections.

Competitor activity in the area continues to demonstrate the quality and value of CSRI's land and resource position at Farrell Creek/Altares.

In November 2014, a third party purchased 20,633 acres of Montney exploration rights for $123.6 million in the Bernadet area approximately 20 miles north of CSRI's core land position. At an average price of approximately $6,000 per acre for undeveloped acreage, this land value continues a trend set immediately adjacent to the Corporation's lands in November 2013 with the Petronas Energy Canada purchase of Talisman Energy Inc.'s lands for over $5,000 per acre.

A third party well, approximately 3.3 kilometers east of CSRI's 100% working interest lands was flow-tested up casing at an announced steady rate of 7.9 MMcf/d at a pressure of 1,250 psi. This well further highlights the Montney potential in our area.

TransCanada Pipelines Limited has submitted the re-routing plan for their proposed Prince Rupert Gas Transmission pipeline. The new route follows the current Spectra pipeline right-away going through CSRI lands.

On October 21, 2014, the government of British Columbia announced the terms of its liquefied natural gas ("LNG") tax. Response from industry has been positive especially from the companies most advanced in their final investment decision schedule. On February 19, 2015, the government of Canada announced accelerated capital cost allowance rules for LNG facilities thus further enhancing the attractiveness of LNG projects in Canada.

CSRI's Board of Directors had approved a total capital expenditure budget for 2014 of $18.2 million (net), which included $4.5 million for the drilling of the 1-1-83-25W6 horizontal well in the first quarter 2014 and $4.5 million to drill and case the c-81-H/94-B-1 well in the third quarter 2014. Of this total, $8.5 million previously allocated to fracture stimulate and tie-in the c-81-H/94-B-1 horizontal well has been deferred to 2015 (subject to financing), resulting in a revised capital expenditure budget for 2014 of $9.7 million.

Montney Formation Reserves

An independent reserve evaluation covering the Montney Formation at Farrell Creek was prepared by GLJ as at December 31, 2014 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 four additional Montney wells over the next few years to further develop its Montney lands at Farrell Creek. Proceeding with full development will be contingent upon factors such as access to capital, economic price conditions, infrastructure, and environmental and regulatory matters. 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, 2014

	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	2,150	2,086	358	348	$1,566
Total Proved	2,150	2,086	430	416	$1,566
PROBABLE (8)	8,923	8,422	,1,487	1,404	$4,091
TOTAL PROVED PLUS PROBABLE (4)	**11,073**	**10,508**	**1,845**	**1,751**	**$5,657**

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.*

Fresh Water Sourcing

The Williston Reservoir Water Pipeline Project (25% owned by CSRI; operated by Canbriam) is able to deliver up to 10,000 m^3/d of fresh water from the Williston Reservoir to the Farrell Creek/Altares area in northeastern British Columbia on a year-round basis until December 31, 2031. The project materially reduces the cost of delivering a secure supply of fresh water used in the fracture stimulation of both vertical and horizontal wells and will lessen the impact on local communities and infrastructure by reducing the need to transport fresh water overland by truck to drilling sites.

With access to fresh water, CSRI is capable of ramping up a Montney Formation drilling program quickly should natural gas prices improve.

Montney Formation Resource Assessment

GLJ Petroleum Consultants ("GLJ") was also 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. The engagement was used to assess the future development and resource potential of the Montney Formation but 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. For more information, refer to the second quarter 2012 Management Discussion and Analysis which has been filed on SEDAR at www.sedar.com and on the Corporation's website at www.csri.ca.

Results from Operations

Natural Gas Production and Revenues

	Three months ended December 31,		Twelve months ended December 31,	
	2014	**2013**	**2014**	**2013**
Total sales volumes of natural gas (Mcf)	**74,953**	102,948	**339,647**	456,168
Average sales volumes of natural gas				
Mcf/d	**814**	1,119	**931**	1,251
boe/d	**136**	187	**155**	208
Total natural gas sales ($)	**$ 235,660**	$ 346,394	**$ 1,410,060**	$ 1,417,310
Average sales price of natural gas				
$/Mcf	**$ 3.17**	$ 3.37	**$ 4.11**	$ 3.11
$/boe	**$ 19.00**	$ 20.22	**$ 24.68**	$ 18.66

Reductions in daily and total sales volumes for the three and twelve month periods ended December 31, 2014 compared to the three and twelve month periods ended December 31, 2013 are due to the typical production decline exhibited by each of the five Montney wells. Despite the decreases in daily and total sales volumes, overall natural gas revenues from the year ended December 31, 2013 to the year ended December 31, 2014 have remained relatively flat due to increases in the spot price experienced at BC Spectra Station 2 in the first half of 2014.

Due to the low natural gas price environment and the focus of its joint venture partner on their own lands to the north, the Corporation has not added any new production over the last three years, and therefore is subject to the inherent declines associated with each producing natural gas well. Although initial annual production declines in the Corporation's wells were in the range of 20-30%, the current corporate decline rate is 14.1%. Future production additions would alleviate this decline. Natural gas sales prices continue to fluctuate significantly due to extreme weather conditions and significant changes in North American supply and demand.

Royalties

The Montney Formation provided the Corporation with its first commercial natural gas production 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 is 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 $2.81 million (gross) in royalty credits for each well and the royalty credits will be drawn down over time as the wells produce natural gas. Commencing with the second quarter 2013, the British Columbia Government introduced a minimum 3% royalty which will be applicable to the Deep Royalty Credit Program. Royalty credits that were generated from the Summer Drilling Credit Program can be used to offset this minimum royalty. Between these two royalty credit programs, and 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 four years. Royalty credits applied are accounted for as an offset against the capital costs accumulated within Property, Plant and Equipment ("P,P&E").

Depletion

Depletion of Developed and Producing P,P&E is calculated using the unit of production method based on proved plus probable reserves. The depletion expense for the three and twelve month periods ended December 31, 2014 of $104,667 and $485,914 respectively (2013: $147,702 and $680,006 respectively) equates to $1.40 and $1.43 per Mcf respectively (2013: $1.44 and $1.49 per Mcf respectively).

Operating Netbacks

During the three months ended December 31, 2014, the Corporation applied $39,059 (2013: $26,796) of royalty credits against crown royalties that would otherwise have been payable.

For the three months ended December 31, 2014	**$**	**%**	**$/Mcf**	**$/boe**
Natural gas sales	**$ 235,660**		**$ 3.17**	**$ 19.00**
Royalties expense	**(39,059)**	***16.6%***	**(0.52)**	**(3.13)**
Net revenue	**196,601**		**2.65**	**15.87**
Royalty credits applied	**39,059**		**0.52**	**3.13**
Operating costs	**(80,633)**		**(1.08)**	**(6.45)**
Operating netbacks	**$ 155,027**		**$ 2.09**	**$ 12.55**

For the three months ended December 31, 2013	**$**	**%**	**$/Mcf**	**$/boe**
Natural gas sales	$ 346,394		$ 3.37	$ 20.22
Royalties expense	(26,796)	*7.7%*	(0.26)	(1.56)
Net revenue	319,598		3.11	18.66
Royalty credits applied	26,796		0.26	1.56
Operating costs	(89,190)		(0.87)	(5.22)
Operating netbacks	$ 257,204		$ 2.50	$ 15.00

During the twelve months ended December 31, 2014, the Corporation applied $235,817 (2013: $166,288) of royalty credits against crown royalties that would otherwise have been payable.

For the twelve months ended December 31, 2014	**$**	**%**	**$/Mcf**	**$/boe**
Natural gas sales	**$ 1,410,060**		**$ 4.11**	**$ 24.68**
Royalties expense	**(235,817)**	***16.7%***	**(0.69)**	**(4.17)**
Net revenue	**1,174,243**		**3.42**	**20.51**
Royalty credits applied	**235,817**		**0.69**	**4.17**
Operating costs	**(513,732)**		**(1.51)**	**(9.08)**
Operating netbacks	**$ 896,328**		**$ 2.60**	**$ 15.60**

For the twelve months ended December 31, 2013	**$**	**%**	**$/Mcf**	**$/boe**
Natural gas sales	$ 1,417,310		$ 3.11	$ 18.66
Royalties expense	(166,288)	*11.7%*	(0.36)	(2.16)
Net revenue	1,251,022		2.75	16.50
Royalty credits applied	166,288		0.36	2.16
Operating costs	(623,532)		(1.37)	(8.22)
Operating netbacks	$ 793,778		$ 1.74	$ 10.44

Operating Costs

Operating costs, which have fixed and variable rate components, 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 also include transportation costs to transfer the natural gas from the pipeline system at Farrell Creek to the sales point at BC Spectra Station 2 and the Province of British Columbia carbon taxes. As the tables for ***Operating Netbacks*** on Page 5 show, total operating costs have decreased on a gross basis for both the three and twelve month periods, but have increased on a per Mcf basis over the same periods ending December 31, 2014 when compared to the three and twelve month periods ended December 31, 2013.

The overall decrease in operating costs on a gross basis is mainly due to i) a reduction in contract operator costs as a result of decreasing the size of the crew, ii) less produced water trucking and disposal costs as a result of typical production declines, and iii) reduced transportation costs since the Corporation began taking its natural gas production in kind and marketing the natural gas on its own effective November 2013.

The increase in operating costs on a per Mcf basis in 2014 is attributed to the decline in production and an increase in well servicing and plant maintenance costs. As production continues to decline, the fixed component of field operations remain relatively constant and the per unit cost increases. In addition, lower gas volume throughout requires more operational attention at the joint venture gas plant.

Liquidity and Capital Resources

The Corporation's capital expenditures for the three and twelve month periods ended December 31, 2014 and 2013 are detailed in the following table:

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	**2014**	2013
Lease acquisitions and retentions	**$ 1,500**	$ 32,976	**$ 153,969**	$ 135,790
Geological and geophysical	**-**	1,500	**13,364**	1,500
Net expenditure on drilling, completion and facilities costs	**318,539**	60,799	**9,544,497**	804,331
Capitalized overhead	**96,536**	148,398	**343,122**	403,042
Total natural gas expenditures	**416,575**	243,673	**10,054,952**	1,344,663
Computer and office equipment, furniture and fixtures	**2,617**	-	**5,018**	-
Total capital expenditures	**$ 419,192**	$ 243,673	**$ 10,059,970**	$ 1,344,663

For the three and twelve month periods ended December 31, 2014, net capital expenditures (before royalty credits earned) totaled $0.4 million and $10.1 million respectively (2013: $0.2 million and $1.3 million respectively), compared to a revised budgeted capital expenditure (before royalty credits earned) of $0.4 million and $9.7 million respectively (2013: $0.2 million and $1.4 million respectively). During the twelve months ended December 31, 2014, the main components of the drilling, completion and facilities total of $9.5 million were the costs related to the drilling of the 1-1-83-25 W6 horizontal well in the first quarter 2014 and the costs related to the drilling of the c-81-H/94-B-1 horizontal well in the third quarter 2014.

As at December 31, 2014, the Corporation had a net working capital balance of $4.3 million consisting of cash in the amount of $4.1 million, accounts receivable and prepaids of $0.2 million and the current portion of unapplied royalty credits of $0.2 million, but offset by accounts payable and other accrued liabilities of $0.2 million.

The Corporation's capital budget is approved on an annual basis, and subsequently reviewed quarterly, by the Board of Directors. The Board of Directors has approved a capital expenditure budget for 2015 of up to $13.4 million (net), subject to financing (see **Going Concern** on Page 12), primarily towards the fracture stimulation and tie-in of the c-81-H/94-B-1 horizontal well planned for the third quarter 2015 and the drilling of an exploration well on the western lands, and includes an estimated $0.3 million for capitalized overhead.

CSRI has budgeted for cash administration expenses (general and administrative expenses excluding share-based compensation) for 2015 to total $1.3 million (a reduction of $0.3 million, or 17.5%, from 2014 actual expenses due primarily to a reduction in staffing levels and consulting services) before capitalization of exploration and development related overhead, and has budgeted for operating netbacks from the Farrell Creek Montney operations for 2015 of $1.5 million (2014: revised budget of $0.9 million).

Reclamation and Abandonment Management
For operations in British Columbia, the Corporation is required to provide deposits 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 an original Liability Management Rating ("LMR") review performed by the British Columbia Oil and Gas Commission ("BCOGC") in 2011, the Corporation was assessed an initial LMR amount of $1,235,829. Up to December 31, 2014, CSRI has been assessed by the BCOGC additional LMR amounts totaling $432,391, for a total LMR amount of $1,668,220.

Line of Credit
Partially to cover the letters of credit required from the BCOGC to support the LMR assessment amounts, the Corporation has established a demand bank credit facility for $1.7 million. The credit facility is fully revolving with no set date of maturity, bears interest at prime rate plus 1.5% per annum and is secured by a General Security Agreement conveying a first floating charge over all the Corporation's real property and fixed assets, a first fixed charge on all the Corporation's property interests, and is subject to a financial covenant of a working capital ratio of not less than 1:1. The credit facility is subject to standard quarterly and annual reporting requirements as well as usual and customary non-financial covenants. As at December 31, 2014, the Corporation was in compliance with all non-financial and financial covenants, including maintaining a working capital ratio of 17.91:1.

Letters of Credit
In order to meet the deposit requirements of the LMR program, the Corporation renewed a Standby Letter of Credit on February 28, 2014 for the initial LMR amount of $1,235,829 with the BCOGC as beneficiary. This primary Standby Letter of Credit is irrevocable, bears commission at a rate of 1.5% per annum, and was due to expire on February 28, 2015. The primary Standby Letter of Credit is secured under the Corporation's line of credit.

As a result of additional LMR assessments, the Corporation issued a secondary Standby Letter of Credit for $355,991 on February 28, 2014 (subsequently revised to $394,191 on June 5, 2014) with the BCOGC as beneficiary. This secondary Standby Letter of Credit is irrevocable, bears commission at a rate of 1.5% per annum, and was due to expire on February 28, 2015. The secondary Standby Letter of Credit is secured by the assignment of a matching term deposit.

Restricted Term Deposits
On February 28, 2014 (subsequently revised on June 4, 2014) the Corporation entered into a term deposit agreement for the additional LMR assessment amount of $394,191, being the amount required to offset the secondary Standby Letter of Credit. The term deposit was due to mature on February 28, 2015 and earns interest at 1.05% per annum. Given that the secondary Standby Letter of Credit is set to renew on an annual basis, the matching term deposit is as such restricted in its use to CSRI, and is therefore classified as a non-current asset.

On July 7, 2014, the Corporation issued an additional cash deposit to the BCOGC to cover a further LMR assessment in the amount of $38,200, therefore bringing the total balance of restricted deposits as at December 31, 2014 to $432,391.

Arrangements Subsequent to the Year-End
In January 2015, the demand bank credit facility was terminated and the letters of credit formerly placed with the BCOGC were replaced with cash deposits. As a result of the line of credit and letters of credit no longer being required, the associated security over the Corporation's assets has been discharged and the total restricted deposits placed with the BCOGC now equal the full LMR amount of $1,668,220.

General and Administrative Expenses

	Three months ended December 31,		Twelve months ended December 31,	
	2014	**2013**	**2014**	**2013**
Consulting fees	**$ 5,938**	$ 75,388	**$ (30,409)**	$ 197,289
Salaries and benefits	**205,916**	224,577	**1,130,461**	884,308
Other general and administrative	**130,267**	120,969	**526,507**	513,797
	342,121	420,934	**1,626,559**	1,595,394
Capitalized portion and other costs	**(66,533)**	(60,975)	**(263,782)**	(315,241)
	275,588	359,959	**1,362,777**	1,280,153
Share-based compensation	**137,886**	184,467	**372,562**	268,156
Capitalized portion of share-based compensation	**(30,004)**	(26,985)	**(79,341)**	(50,830)
	107,882	157,482	**293,221**	217,326
	$ 383,470	$ 517,441	**$ 1,655,998**	$ 1,497,479

In 2014, the Corporation continued the existing consulting contracts with a computer network maintenance company and a software technical support firm, as well as entered into new consulting arrangements with a land administrator, an economic analysis provider, a geological services firm and an investor relations company. The consulting fees for twelve months ended December 31, 2013 were mainly comprised of investment advisory fees and independent joint venture audit firm fees. Consulting fees for the twelve months ended December 31, 2014 were in a credit position due primarily to the recovery of investment advisory fees received in the third quarter 2014 that related to 2013.

Salaries and benefits, before capitalization, for the twelve months ended December 31, 2014 have increased by $246,153 or 27.8% compared with the twelve months ended December 31, 2013 due to a severance payment to a former executive officer of the Corporation in the third quarter 2014.

The Corporation capitalizes within both Exploration and Evaluation ("E&E") assets and P,P&E certain salary and benefit costs associated with staff directly involved in exploration and development activities. For the three and twelve month periods ended December 31, 2014, the Corporation capitalized a total of $66,533 and $263,782 respectively (2013: $60,975 and $315,241 respectively) of general and administration expenses, including salaries and benefits, directly related to exploration and development activities.

The increase in the average price of the Corporation's shares on the Exchange from the twelve months ended December 31, 2013 of $0.24 per share to the twelve months ended December 31, 2014 of $0.43 per share, as well as grants of stock options issued in the third and fourth quarters 2014, have caused share-based compensation before capitalization to increase by $104,406 or 38.9% over those periods. For the three and twelve month periods ended December 31, 2014 the Corporation capitalized $30,004 and $79,341 respectively (2013: $26,985 and $50,830 respectively) of share-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

Other General and Administrative Expenses

	Three months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2014	Twelve months ended December 31, 2013
Professional fees	$ **33,102**	$ 28,606	$ **119,123**	$ 111,813
Investor relations and filing fees	**14,717**	9,920	**71,784**	55,839
Directors' fees	**9,000**	9,000	**34,000**	36,000
Office premises and insurance	**43,740**	42,913	**172,530**	199,992
Office supplies and software licences	**13,840**	12,780	**54,426**	55,697
Staffing costs	**6,795**	4,304	**21,390**	20,141
Interest and other expenses	**9,073**	13,446	**53,254**	34,315
	130,267	120,969	**526,507**	513,797
Capitalized software licences	**(6,599)**	(6,662)	**(26,397)**	(26,649)
	$ **123,668**	$ 114,307	$ **500,110**	$ 487,148

Professional fees for the twelve months ended December 31, 2014 are comprised of legal counsel fees for corporate and joint venture matters as well as annual audit and reservoir engineer fee accruals for 2014. Professional services and fees for 2014 have been held at constant levels compared to 2013.

The increase in investor relations and filing fees for the twelve months ended December 31, 2014 compared to the twelve months ended December 31, 2013 of $15,945 or 28.6% is attributable to higher document filing costs in 2014 compared to 2013, in addition to an effort by the Corporation to enhance investor relations, thus increased travel costs to meet with current shareholders and potential investors.

Office premises and insurance expenses decreased by $27,462 or 13.7% from the twelve months ended December 31, 2013 to the twelve months ended December 31, 2014 due to the signing of the Corporation's new office sub-lease agreement that commenced effective June 2013. The Corporation's current office lease comprises 3,420 square feet versus 7,187 square feet, thereby reducing the overall office rent and operating costs.

Interest and other expenses are comprised of advertising and promotional costs, charitable contributions, and bank charges and interest, including line of credit and letter of credit fees. Included in interest expense for the twelve months ended December 31, 2014 was the interest paid of $27,534 in the first quarter 2014 related to the term of a previously outstanding convertible debenture.

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, 2014. 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 E&E 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 E&E assets, the fair value of assets and liabilities, share-based compensation, and deferred income taxes.

Fair Value of Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable and accounts payable and other accrued liabilities. Non-derivative financial instruments are recognized initially at fair value including, for instruments not at fair value through comprehensive loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents are comprised of cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts and amounts owed under lines of credit that are repayable on demand form part of the Corporation's cash management whereby management has the ability and intent to net bank overdrafts against cash, and are included as a component of cash and cash equivalents, for the purpose of the statement of cash flows.

Other non-derivative financial instruments include accounts receivable and accounts payable and other accrued liabilities. Accounts receivable are measured using the effective interest rate method, less any impairment losses. Accounts payable and other accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payable to fair value.

Derivative Financial Instruments

The Corporation may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, shares prices, interest rates or foreign exchange rates. These instruments are not used for trading or speculative purposes. Debt instruments such as a convertible debenture may contain an embedded derivative. Any embedded derivatives are valued at fair value at each reporting period. Transaction costs are recognized in the statement of operations when incurred.

New Accounting Policies

Reference should be made to the changes in accounting policies and practices under IFRS contained in note 3 to the Corporation's audited financial statements for the year ended December 31, 2014. In addition, as of January 1, 2014, the Corporation adopted those IFRS standards disclosed therein that became effective for annual periods beginning on or after January 1, 2014. The adoption of those standards or amendments to previous standards had no impact on the amounts recorded in the financial statements for the year ended December 31, 2014 or on the comparative prior period. Other upcoming changes in IFRS may have a significant impact on the financial performance and financial position of the Corporation.

Share Capital

Common Shares

The Corporation has authorized share capital of an unlimited number of common shares with no par value. As at December 31, 2014, and as at the date of this report, there were 128,867,192 common shares outstanding.

The Corporation has closed the following share issuances since January 1, 2013:

On December 20, 2013, the Corporation closed a non-brokered private placement of 3,400,000 units at a price of $0.30 per unit for total proceeds of $1,020,000. Each unit consisted of one common share of the Corporation and one half of one share purchase warrant. Each whole share purchase warrant entitled the holder to purchase an additional common share of the Corporation for a period of one year at an exercise price of $0.30 per common share. The fair value of the share purchase warrants was estimated at the date of closing using the Black-Scholes pricing model under which the Corporation assigned a total value of

$255,000 of the unit proceeds to the warrants, with the remaining $765,000 of the unit proceeds assigned to common shares.

On December 20, 2013 the Corporation also issued via private placement 6,176,030 Flow-through shares at a price of $0.34 per share. The Flow-through shares entitled the holder to certain income tax benefits in the form of Canadian Exploration Expense. The $2,099,850 of proceeds from the Flow-through shares private placement was allocated between common shares of $1,482,247 (at the market price on the Exchange of $0.24 on the date of announcement of the private placement) and a Flow-through shares premium liability of $617,603, and was fully expended on eligible exploration costs in the first quarter 2014. Using the look-back rule, the related resource expenditure deductions were renounced to investors at the end of 2013 since the expenditures were incurred in the first quarter 2014. Therefore, the liability was reversed and offset by the recording of a $617,603 Flow-through share premium income amount in the first quarter 2014.

As a result of a shareholder vote held on February 19, 2014, the Corporation's convertible debenture (see **Related Party Transactions** on page 12) was converted on February 25, 2014 into 10,000,000 units, being 10,000,000 common shares of the Corporation and 5,000,000 share purchase warrants. The market price of the Corporation's common shares on the Exchange as at February 25, 2014 was $0.44 per common share resulting in a valuation of $4,400,000. The share purchase warrants were valued using the Black-Scholes pricing model, resulting in a valuation of $1,065,000. Therefore, the Corporation recognized the difference between the combined common share and warrant values and the carrying amount of the convertible debenture of $3,000,000 as a non-cash loss on conversion of $2,465,000 in the first quarter 2014.

The Corporation closed a non-brokered private placement of 5,110,000 units in two tranches, one on June 3, 2014 and the second on June 17, 2014, at a price of $0.50 per unit for total gross proceeds of $2,555,000. Each unit consists of one common share of the Corporation and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share of the Corporation for a period of one year at an exercise price of $0.50 per common share. The common shares were valued using the residual method calculated at the market price on the Exchange on the day prior to each tranche's closing of $0.45 per common share under which the Corporation assigned a total value of $2,299,500 of the unit proceeds to the common shares, with the remaining $255,500 of the unit proceeds assigned to the share purchase warrants.

On June 3, 2014, the Corporation also issued via private placement 7,040,000 Flow-through shares at a price of $0.50 per share. The Flow-through shares entitle the holder to certain income tax benefits in the form of Canadian Exploration Expense. The $3,520,000 of total gross proceeds from the Flow-through shares issuance was allocated between common shares of $3,379,200 (calculated at the closing market price of $0.48 on the Exchange on the trading day prior to the announcement of the private placement) and a Flow-through shares premium liability of $140,800, and was fully expended on eligible exploration costs in the third quarter 2014. Therefore, the liability was reversed and offset by the recording of a $140,800 Flow-through share premium income amount in the third quarter 2014. The related resource expenditure deductions were renounced to investors at the end of 2014.

During 2014, share issue costs of $417,688 (2013: $163,312) were incurred in relation to the above issuances of units and Flow-through shares, as well as the above exercises of share purchase warrants.

Share Purchase Warrants

In conjunction with the above and prior financings, the Corporation had issued 6,700,000 share purchase warrants with an expiry of December 2014 to acquire common shares at an exercise price of $0.30 and has issued 2,555,000 share purchase warrants with an expiry of June 2015 to acquire common shares at an exercise price of $0.50. As at December 31, 2014 and as at the date of this report, there were a total of

2,555,000 share purchase warrants outstanding at a weighted average exercise price of $0.50 per share purchase warrant.

Stock Options
During 2014, 800,000 stock options were exercised with total gross proceeds to the Corporation of $225,000.

As at December 31, 2014 the Corporation had outstanding 7,165,000 stock options (being 5.6% of the common shares outstanding) at a weighted average exercise price of $0.49 per common share. From December 31, 2014 to the date of this report, 360,000 stock options have expired. As a result, as at the date of this report, the Corporation has 6,805,000 stock options outstanding (being 5.3% of the common shares outstanding) at a weighted average exercise price of $0.43 per common share.

Off-Balance Sheet Transactions
Other than the ***Letters of Credit*** (see page 7), the Corporation had no off-balance sheet transactions during the years ended December 31, 2014 and 2013.

Related Party Transactions
Transactions with related parties are recorded at exchange amounts for services provided. During the years ended December 31, 2014 and 2013, the only transaction the Corporation had with its directors, related persons or controlled entities in the normal course of business is as follows:

In December 2013 the Corporation issued a convertible debenture to an associate shareholder of the Corporation in the amount of $3,000,000. The convertible debenture was secured by way of a fixed and floating charge to and in favour of the holder of all the Corporation's real property, fixed assets and property interests, but was subordinated to the Corporation's bank line of credit. The convertible debenture had a maturity date of February 28, 2014 and bore interest at 5.0% per annum. At a meeting of the shareholders of the Corporation held on February 19, 2014, approval was received from a majority of the shareholders allowing the associate shareholder to hold greater than 20% of the outstanding common shares of the Corporation, thereby defining the associate shareholder as holding significant influence over the Corporation. As a result of the shareholder vote, the debenture was converted into 10,000,000 units of the Corporation on February 25, 2014. Total interest paid over the term of the convertible debenture was $27,534.

Commitments
The Corporation's current office sub-lease agreement commenced on June 1, 2013 for a term of three years. The sub-lease requires the Corporation to pay base annual rent of $19.00 per square foot plus operating costs on 3,420 square feet. The sub-lease can be terminated by either party with three months notice at any point after one year.

Going Concern
The audited financial statements for the year ended December 31, 2014 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 year ended December 31, 2014 the Corporation has reported a net loss and comprehensive loss of $3.5 million (which includes a $2.5 million non-cash item for loss on conversion of debenture and an accumulated deficit of $48.2 million as at that date. In addition to covering on-going working capital requirements and recurring negative cash flows from operating activities, the Corporation will need to secure additional funding for its exploration and development programs. In conjunction with recent price fluctuations, the current natural gas market continues to experience low commodity prices due to excess supply and lack of additional international markets to sell into. 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 secured a revolving demand bank credit facility (see ***Line of Credit*** on page 7) in the amount of $1.7 million (see ***Letters of Credit*** on page 7 for the letter of credit that is secured against the line of credit) and raised equity via a convertible debenture, two concurrent non-brokered private placements, and an exercise of share purchase warrants for a total of $10.8 million. However, subsequent to the year-end, the demand bank credit facility and the letter of credit that was secured by it were terminated and replaced with cash deposits.

The Corporation has also undertaken steps to reduce operating costs and general administrative expenses, including but not limited to, field equipment efficiencies and a reduction of staffing levels.

These undertakings, while significant, are not sufficient in and of themselves to enable the Corporation to fund all aspects of its forecasted operations and its exploration and development program (including the planned fracture stimulation of a horizontal well in the third quarter 2015); accordingly, management will need to pursue other financing alternatives to fund the Corporation so that it may continue as a going concern. The necessary financing may be secured 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 such initiatives would 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. These financial statements do not reflect any 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.

Business Risks

Productivity

A material risk facing the Corporation is the productive capability of the discovered and undiscovered shale and coalbed methane natural gas resources on the Corporation's existing land base at Farrell Creek and the Corporation's ability to extract the potential natural gas and natural gas liquids 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 and natural gas liquids basin in northeastern British Columbia.

Exploration and Development

The Corporation, along with its 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. 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 and natural gas liquids. There exists an efficient and sophisticated market for natural gas and natural gas liquids in North America which is sensitive to factors affecting the supply of and demand for these commodities. Natural gas prices influence the Corporation's investment decisions, and the timing of its commercial natural gas production which will impact the Corporation's revenue and cash flow. The Corporation considers publically available price forecasts for natural gas and natural gas liquids in its evaluation of investment economics and returns.

Operating Capability

The Corporation is pursuing large unconventional natural gas and natural gas liquids 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 with an operator with the necessary experience and skills.

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. Over the last number of years, the Corporation has acquired its existing mineral rights from the Province of British Columbia and, as a result of drilling expenditures on its lands through to the date of this report, has retained these mineral rights for terms of up to five years. The Corporation continues to use joint ventures as well as targeted drilling and development activity to reduce the risk of losing any of its mineral rights.

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.

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, 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 production 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 wellhead.

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.

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