Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2010

This management discussion and analysis ("MD&A") of the financial conditions and results of operations should be read in conjunction with the audited financial statements for the year ended December 31, 2010. The financial data presented herein is in accordance with Canadian generally accepted accounting principles ("GAAP"), except where noted, and all amounts presented are in Canadian dollars.

Date

This MD&A includes information up to April 21, 2011.

Reader's Advisories

Non-GAAP Terminology

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

Forward-looking Statements

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

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

- Delays in oil and gas regulatory approvals
- CSRI's ability to raise funds in the available equity markets
- 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.

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2010

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 the productive capability of its Montney natural gas play in Farrell Creek, British Columbia.

Since early 2002, the Corporation's focus has been to evaluate the resource potential of certain unconventional natural gas exploration properties and is considered to be emerging from its development stage of operations. In 2003, CSRI 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 will result in the exploration and evaluation of petroleum and natural gas rights (primarily in the Montney Formation) below the base of the Cadomin/Nikanassin Formation ("Deep Rights").

As of the date of this report, the Corporation has a strong net working capital position of approximately $18.6 million ($0.25 per share) composed primarily of cash and receivables from joint venture partners, offset by payables and accruals related to the Montney joint venture.

CSRI's Board of Directors has approved a revised total forecasted capital expenditure budget for 2011 of up to $16.2 million (net), with a main focus on the development of the Corporation's Montney joint venture with Canbriam, but also includes $3.4 million (net) for other potential exploration activities.

Results of Operations
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 has now fulfilled their $28.6 million initial funding commitment and in October 2010, advised that they would not exercise the option to increase their working interest. CSRI is now 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 location, the joint venture drilled a horizontal well into the lower Montney at the c-A48-I location. This was the first known horizontal well targeting the lower Montney in the Farrell Creek area and the results significantly exceeded CSRI's expectations.

The c-A48-I well was stimulated in 8 stages of the lower portion of the Montney Formation. The initial production flow-tested at a rate of approximately 1 mmcf/d per stage. The positive 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 drilled and cased three upper 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/94-B-1 well to drill a short horizontal leg in the lower Montney.

At the end of October, 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 with initial production in excess of 3.5 mmcf/d.

The joint venture recently drilled and cased a horizontal well in the upper Montney at the c-B18-I/94-B-1 location. This is the fourth horizontal well in the upper Montney Formation and the sixth well in the west block of lands.

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 gas sales commencing on January 28th. The wells currently tied-in to the facility are the c-A48-I and b-17-I lower Montney horizontal wells and the c-18-I upper Montney horizontal well. Initial gas sales from these three wells were in excess of 10 mmcf/d gross (3.5 mmcf/d net). Subsequently, over the last three months, gas sales have declined to 5 mmcf/d gross (1.75 mmcf/d net) and appear to have stabilized. Subject to the availability of fracture crews and equipment, it is anticipated that the c-A18-I, c-B18-I, and c-45-I wells will be fracture stimulated and tied-in to the facility during the third quarter of 2011.

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 and expects to be producing 100-120 mmcf/d on average in 2011. Talisman also announced that the capacity of their Farrell Creek Gas Plant will be increased from 120 mmcf/d to 180 mmcf/d during 2011. Talisman recently announced 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 Sasol was $2.1 billion (combined, via two separate deals) 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 future expenditures. The partnership will also be examining alternative marketing options including the economic feasibility of constructing a gas-to-liquids ("GTL") project in western Canada using Sasol's GTL technology.

Sproule Unconventional Limited ("Sproule") 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 December 31, 2010 in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("Sproule 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. Further, the Sproule resource assessment did not include approximately 5 adjacent sections of Montney rights acquired by CSRI after December 31, 2010. CSRI currently holds 34.4 net sections (22,000 acres) of Montney rights in the Farrell Creek area.

The following table summarizes certain information contained in the 2009 and 2010 Sproule Reports.

SUMMARY OF ANNUAL CHANGES GROSS AND COMPANY GROSS NATURAL GAS INITIALLY-IN-PLACE				
Resource Classification	Gross GIIP Bcf (Raw)		Company Gross GIIP Bcf (Sales)	
	2009	2010	2009	2010
DISCOVERED GIIP (1)	1,378	2,654	478	1,028
UNDISCOVERED GIIP (2)	2,243	2,370	648	1,294

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.

The following table summarizes certain information contained in the resource assessment prepared by Sproule. The Sproule 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 RESOURCES WITHIN THE MONTNEY FORMATION IN THE FARRELL CREEK AREA OF BRITISH COLUMBIA					
Classification & Category	Company Gross***** Natural Gas Initially-In-Place Bcf (Raw)	Company Gross***** **Contingent** Gas Resources Bcf (Sales) (1)	Classification & Category	Company Gross***** Natural Gas Initially-In-Place Bcf (Raw)	Company Gross***** **Prospective** Gas Resources Bcf (Sales)
DISCOVERED			UNDISCOVERED		
Low Estimate	253	48	Low Estimate	1,294	202
Best Estimate	505	134	Best Estimate	1,294	274
High Estimate	1,028	577	High Estimate	1,294	675
*** Company working interest (operating or non-operating) share before deduction of royalties.**					

NOTE:
(1) As at December 31, 2010, the contingency that prevents the classification of Contingent Gas Resources as reserves is that reported volumes do not meet the economic requirement of reserves.

The Sproule resource assessment used an industry standard 6% limestone porosity cut-off. Based on the Corporation's and other operators' well evaluation work in lower average porosity portions of the Montney Formation, CSRI requested that Sproule calculate the Total Gross Natural Gas Initially-In-Place using a 3% limestone porosity cut-off. Using this cut-off, the Total Gross Natural Gas Initially-In-Place was calculated by Sproule to be 10,904 Bcf of natural gas on the Corporation's lands at Farrell Creek compared to the 5,024 Bcf using a 6% cut-off. On average, this provided a range of 75 Bcf (using a 6% cut-off) to 163 Bcf (using a 3% cut-off) per section in the Montney Formation.

The use of a 3% limestone porosity cut-off is not an industry standard and is not currently endorsed by Sproule. Although CSRI believes that it has achieved production from the Montney Formation at average porosities of less than 6% (limestone), readers should be cautioned that resource sensitivities using porosity cut-off levels below the 6% industry standard should be considered Undiscovered and Unrecoverable at this time.

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 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. **Prospective Resources** are defined as those quantities of natural gas 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.
6. **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.
7. **Best estimate (P50)** is a classification of estimate 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.
8. **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.

Farrell Creek: Gething

On July 17, 2008 the Corporation announced that it had entered into a joint venture with Shell to advance the development of the identified unconventional natural gas resource in the Gething Formation on a combined total of approximately 150 contiguous sections or 96,000 acres located in the Farrell Creek area. Shell's $50.0 million initial capital commitment included the acquisition of additional land, the drilling of five vertical wells and the construction of facilities to tie-in the Pilot Project. The pilot facility is scalable and currently has a capacity of up to 1.1 mmcf/d. Seven Gething wells were tied into the pilot facility and the facility produced its first gas in June 2009.

Pursuant to the joint venture agreement, Shell could elect to move to the development stage of the Gething joint venture which would include the pooling of the Shell and CSRI lands and an additional capital investment by Shell. On June 18, 2010, Shell elected not to continue to the development stage and as a result shut-in the gas facility in early July 2010. As per the joint venture agreement, the Corporation is now the operator of the Gething project and will retain 100% working interest in its 59 sections (37,760 acres) of Shallow Rights, the gas facility, the additional wells and the related infrastructure at no additional cost. The pilot facility has been properly suspended and winterized. Over the course of the joint venture, Shell invested approximately $32.0 million in development and infrastructure. As a result, CSRI was able to increase its understanding of the Gething Formation and expects to benefit from the future use of the facilities and infrastructure at no cost to the Corporation. The gas facility is expandable and may be used for other purposes in the immediate area. CSRI holds a right-of-first-refusal on Shell's surrounding 95 sections of Gething lands. The Corporation is currently minimizing its expenditures on the Gething project and is considering several options that include seeking a new joint venture partner to further develop the Gething Rights.

Reserves:

The Corporation has no reserves attributable to its natural gas interests at December 31, 2010. The Corporation's Statement of Reserves Data and Other Oil and Gas Information is incorporated in the Corporation's Annual Information Form dated April 21, 2011.

Selected Annual Information

For the years ended or as at December 31		**2010**		**2009**
Total revenues	**$**	**92,509**	$	45,809
Net loss and comprehensive loss (after income taxes)	**$**	**(1,203,226)**	$	(2,015,498)
Net loss and comprehensive loss per share (basic & diluted)	**$**	**(0.02)**	$	(0.04)
Total current assets	**$**	**34,285,708**	$	9,903,175
Total assets	**$**	**89,364,529**	$	45,155,123
Total current liabilities	**$**	**13,284,179**	$	418,095
Total long term liabilities	**$**	**445,066**	$	288,095
Net working capital	**$**	**21,001,529**	$	9,485,080
Net capital expenditures	**$**	**19,524,409**	$	539,548

Revenue/Royalties/Operating Costs

The joint venture Gething project produced nominal volumes of sales gas from June 2009 until July 2010. Under the terms of the joint venture agreement, operating and transportation costs less 100% of net sales revenue were the responsibility of Shell and were therefore applied against the financial amount committed by the joint venture partner. As of December 31, 2010 no royalties were accrued since the production levels were minimal and revenue was less than credits earned under the applicable British Columbia royalty regime.

Revenues during the year ended December 31, 2010 of $92,509 (2009: $45,809) represent interest on cash deposits and other miscellaneous income.

General and Administration Expenses

For the years ended December 31	2010	2009
Consulting fees	$ 125,326	$ 166,751
Salaries and benefits	1,180,732	1,174,465
Other general and administrative	836,150	737,306
	2,142,208	2,078,522
Less: capitalized and other costs	(471,398)	(438,287)
	1,670,810	1,640,235
Stock-based compensation	554,015	372,160
	$ 2,224,825	$ 2,012,395

In 2010 the Corporation continued the consulting contracts with an investment advisor, a land consultant, and a computer network maintenance company. During the first quarter of 2010, the Corporation also entered into a consulting arrangement with an external IFRS consulting firm. Consulting fees, after capitalization, have decreased by 31.5% for the year ended December 31, 2010 ($82,850) compared with 2009 ($120,917) due to additional financial advisory and land consulting fees procured in 2009.

Salaries and benefits, after capitalization, of $782,621 for the year ended December 31, 2010 decreased by 7.4% compared with 2009 ($845,056) due to decreases in short term incentive plan accruals, but offset by general increases in staff salaries and benefits.

The Corporation capitalizes certain salary and benefit costs associated with staff directly involved in exploration and development activities. During the year ended December 31, 2010, the Corporation capitalized a total of $468,998 (2009: $435,887) of general and administration expenses, including salaries and benefits, directly related to exploration and development activities, and are included as part of the Property, Plant and Equipment costs recorded by the Corporation. Other costs capitalized during the year ended December 31, 2010 of $2,400 (2009: $2,400) include consulting fees incurred in relation to equity instruments issue costs, and are recorded by the Corporation as a reduction of shareholders' equity. For the twelve months ended December 31, 2010 the Corporation also capitalized $210,224 (2009: $Nil) of stock-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

Due to the levels of stock options granted as well as an increase in the market price of the Corporation's shares, stock-based compensation, after capitalization, increased by 48.9% to $554,015 for the twelve months ended December 31, 2010, from $372,160 for the comparative prior year. See **Summary of Quarterly Results** on Page 9 for further analysis of the effect of stock-based compensation on the overall results of the Corporation. The closing price of $1.85 per share on the Exchange on December 31, 2010 represents a 23.3% increase from the closing price of $1.50 per share on December 31, 2009.

Other General and Administration Costs

For the years ended December 31	2010	2009
Professional fees	**$ 176,949**	$ 91,298
Investor relations and filing fees	**106,255**	89,874
Directors' fees	**62,000**	62,000
Office premises and insurance	**350,530**	329,547
Office supplies	**89,637**	112,320
Staffing costs	**41,271**	42,527
Other	**9,508**	9,740
	836,150	737,306
Less: capitalized costs	**(30,811)**	(63,044)
	$ 805,339	$ 674,262

Professional fees increased by 93.8% from 2009 ($91,298) to 2010 ($176,949) due to legal counsel fees for joint venture matters, audit related fees for quarterly interim financial statement reviews, and fees for the IFRS opening balance sheet audit.

The 18.2% increase in investor relations and filing fees for the year ended December 31, 2010 ($106,255) compared to the year ended December 31, 2009 ($89,874) is attributable to increased investor relations travel and presentations due to a concerted effort by the Corporation to increase awareness of the Corporation's prospects within the investment community.

Office premises expenses are anticipated to continue at current levels until May 2011 pursuant to the terms of the Corporation's existing sub-lease agreement. Commencing June 2011, the Corporation's rent expenses are expected to significantly decrease due to the signing of a subsequent two year lease at $12.00 per square foot compared to the current rate of $28.00 per square foot.

Gross office supplies expenses have decreased by 20.2% from 2009 to 2010 due to lower field mapping software costs, all of which are capitalized. However, after capitalization, office supplies expenses actually increased by 19.4% for the year ended December 31, 2010 ($58,826) compared to 2009 ($49,276) due to additional accounting and IFRS software licensing costs.

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

Canadian Spirit Resources Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2010

Summary of Quarterly Results
The Corporation's results by quarter from the beginning of 2008 are detailed in the following table:

Net income (loss) by quarter	2010 Amount	2010 Per Share (basic & diluted)	2009 Amount	2009 Per Share (basic & diluted)	2008 Amount	2008 Per Share (basic & diluted)
First Quarter	**$ (623,357)**	**$ (0.01)**	$ (362,906)	$ (0.01)	$ (325,896)	$ (0.01)
Second Quarter	**(495,230)**	**(0.01)**	(498,413)	(0.01)	(824,651)	(0.02)
Third Quarter	**(432,572)**	**(0.01)**	(384,284)	(0.01)	84,274	-
Fourth Quarter	**347,933**	**0.01**	(769,895)	(0.01)	(631,959)	(0.01)
Net loss	**$ (1,203,226)**	**$ (0.02)**	$ (2,015,498)	$ (0.04)	$ (1,698,232)	$ (0.04)

For each quarterly period up to and including December 31, 2010, the existence of stock options and warrants affected the calculation of income or loss per share on a diluted basis. As the effect of this dilution is to reduce the reported income or loss per share, diluted and basic income or loss per share information are the same. Stock-based compensation expense for stock option grants has contributed significantly to the variability of the Corporation's quarterly income or losses since the beginning of 2008.

Also, the Corporation finances a portion of its development activities through the issue of Flow-Through Shares. Under the terms of these share issuances, the related resource expenditure deductions for income tax purposes are renounced to investors in the year of issue. When the expenditures are renounced, share capital is reduced and future income tax recoveries are calculated at the estimated value of the renounced tax deductions, thus adding to the variability of the Corporation's quarterly income or losses.

Excluding the variable effects of future income tax recoveries and stock-based compensation, the Corporation's pre-tax losses by quarter would have been:

Loss by quarter prior to stock-based compensation expense and income taxes	2010	2009	2008
First Quarter	**$ (363,105)**	$ (276,443)	$ (252,197)
Second Quarter	**(391,465)**	(402,491)	(331,029)
Third Quarter	**(354,378)**	(342,972)	(313,547)
Fourth Quarter	**(534,084)**	(621,432)	(618,405)
Loss before income taxes	**$ (1,643,032)**	$ (1,643,338)	$ (1,515,178)

The larger loss before income taxes and prior to stock-based compensation expense in the fourth quarter 2008 is due to the payment of severance costs of $204,212 to a former executive officer of the Corporation. The larger loss before income taxes and prior to stock-based compensation expense in the fourth quarter 2009 is due to an accrual for employee bonuses of $220,000. Finally, the increased loss before income taxes and prior to stock-based compensation expense in the fourth quarter 2010 is due to year end professional fee accruals for reservoir engineering and audit fees, as well as IFRS audit fees from the Corporation's external auditors.

Fourth Quarter Results

Fourth quarter results for each of the past two years are as follows:

For the three months ended December 31	2010	2009
Revenue		
Interest and other income	**$ 47,126**	$ 11,036
Expenses		
Consulting fees	**25,675**	9,663
Salaries and benefits	**250,864**	379,593
Other general administration	**289,774**	226,204
Stock-based compensation	**111,804**	148,463
Accretion	**8,585**	9,850
Depreciation and amortization	**6,312**	7,158
	693,014	780,931
Loss before income taxes	**(645,888)**	(769,895)
Recovery of future taxes	**993,821**	-
Net income (loss) and comprehensive income (loss)	**$ 347,933**	$ (769,895)

During the fourth quarter of 2010 the Corporation earned $47,126 (2009: $11,036) in interest revenue from cash deposits.

Salaries and benefits decreased by 33.9% from the fourth quarter 2009 to the fourth quarter 2010 due to a reduction in approved awards accrued under the short term incentive plan for 2010.

Other general and administration expenses in the fourth quarter of 2010 were 28.1% higher than the comparative 2009 period due primarily to reservoir engineering and audit fees, as well as IFRS opening balance sheet audit costs.

Stock-based compensation is composed of expenses related to the amortization of the calculated fair value of stock options granted in current and prior periods. Volatility in stock-based compensation expense from period to period is related to the issuance of new options and the cancellation of previously issued options. In the fourth quarter 2010, the stock-based compensation expense decreased by 24.7% to $111,804 (2009: $148,463).

Related to the June 2010 Flow-Through Share issuance, the Corporation recorded in the fourth quarter 2010 a recovery of future taxes in the amount of $1,050,000 related to the renouncement of $4,200,000 of Canadian Development Expense expenditures. Offsetting this recovery is the future tax effect of $56,179 related to the corresponding share issue costs of $224,716 incurred with the issuance, therefore resulting in a net future tax recovery of $993,821.

Capital expenditures during the fourth quarter of 2010 were $10.5 million compared to $0.2 million in the same period of 2009. Field activities in the last quarter of 2010 were conducted by the Corporation's joint venture partner for drilling and completion activities as well as gas plant facilities construction.

Liquidity and Capital Resources

The Corporation's capital expenditures for the years ended December 31, 2010 and 2009 are detailed in the following table:

For the years ended December 31	2010	2009
Lease acquisitions and retentions	**$ 4,269,875**	$ 88,981
Geological and geophysical	**10,022**	128,737
Expenditure (recovery) of drilling and completion costs	**14,768,028**	(123,301)
Capitalized overhead	**468,998**	435,887
Total net petroleum and natural gas	**19,516,923**	530,304
Computer and office equipment, furniture	**7,486**	9,244
Total net capital expenditures	**$ 19,524,409**	$ 539,548

For the year ended December 31, 2010, gross capital expenditures including land acquisitions totaled $19.5 million (2009: $0.7 million), compared to a budgeted capital expenditure of $19.7 million (2009: $1.2 million). Offsetting the Corporation's capital expenditures in 2009 were $0.2 million of reimbursements of previously expended drilling and completion costs from a joint venture partner in relation to the Gething operations at Farrell Creek. The recovery of these expenditures was recorded as a reduction of capitalized drilling and completion costs.

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 revised total forecasted capital expenditure in 2011 of up to $16.2 million, including an estimated $0.5 million for capitalized overhead. The capital budget for the first half of 2011 has been approved for a total of up to $4.8 million, including $0.2 million for capitalized overhead.

Cash administration expenses (general and administration expenses excluding stock-based compensation) for 2011 are expected to total $2.6 million (2010: $2.1 million), before capitalization of exploration and development related overhead. Revenue from interest on cash balances is budgeted at $0.1 million for the 2011 year. The Corporation has budgeted for net cash flows from the Farrell Creek Montney operations of $2.2 million during 2011.

The Gething Project operating costs during the year ended December 31, 2010 were borne by Shell and the Corporation's share of any sales revenue was offset against deferred development costs within Property, Plant and Equipment. On June 18, 2010, the Gething Project joint venture partner provided written notice to the Corporation that pursuant to the terms of the joint venture agreement, it elected not to continue with the project. As at December 31, 2010, the Corporation has assumed operatorship of the Gething Project, and has shut-in the gas processing facility due to low natural gas prices.

At December 31, 2010, the Corporation had a net working capital balance of $21.0 million, consisting of cash in the amount of $33.9 million, accounts receivable and prepaids of $0.4 million, and net of accounts payable and accrued trade liabilities of $13.3 million. The accounts payable and accrued trade liabilities balance at December 31, 2010 relates primarily to horizontal drilling and completion activity in the Montney Project as well as facilities construction at Farrell Creek in conjunction with the Corporation's joint venture partner, Canbriam. The Corporation has no bank indebtedness and has no credit agreements to borrow money in place at this time.

The Corporation's net working capital as of the date of this report of $18.6 million is considered by management to be sufficient to cover its administrative costs and its forecasted capital expenditures through to the second quarter 2012. The capital required to complete the Corporation's share of the Montney joint venture program for the remainder of 2011 plus the first half of 2012, including horizontal drilling and completion activity together with related facilities enhancements and well tie-ins, will either be drawn from existing cash resources or generated internally from funds from operations and possible borrowings against reserves.

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 has entered into a joint venture which will result in the exploration of its Deep Rights at Farrell Creek with the joint venture partner bearing the initial capital cost of this program.

Financial Resources and Liquidity

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

To minimize financial risk, the Corporation pre-funds all capital commitments in the equity markets and does not utilize debt in these early stages of development. Included in such estimated capital commitments is a minimum level of administrative and operating costs to see the Corporation through any potential distruption in the equity market and any commodity price downward cycle. With $21.0 million of working capital as at December 31, 2010, the Corporation is in a strong position to continue with its business plan during the current volatility in commodity markets.

Commodity Prices

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

Operating Capability

The Corporation is pursuing large unconventional natural gas projects that if successful will require operating staff and experience to fully develop. The Corporation has a technically strong team suitable for its current operations but does not currently possess the skills and staff needed to conduct an efficient large scale development operation. To mitigate the risk inherent in assembling the necessary operating team, the Corporation has entered into 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 eight years, and as a result of drilling expenditures on these lands through the year ended December 31, 2010 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 audited financial statements for the year ended December 31, 2010. These accounting policies may have a significant impact on the financial performance and financial position of the Corporation.

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

Off Balance Sheet Arrangements

The Corporation has not entered into any off balance sheet arrangements.

Fair Value of Financial Instruments

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

Changes in Accounting Policies and Practices

The following new accounting pronouncements have been adopted with effect from January 1, 2010:

CICA Handbook: Section 1582, *Business Combinations*

Section 1582, which replaces the previous business combinations standard, requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations, comprehensive loss and deficit. The adoption of this standard has had no material impact on the Corporation's December 31, 2010 annual financial statements.

CICA Handbook: Section 1601, *Consolidated Financial Statements and*
Section 1602, *Non-controlling Interests*

Sections 1601 and 1602, which together replace the previous consolidated financial statements standard, establish the requirements for the preparation of consolidated financial statements and the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 requires that a non-controlling interest in a subsidiary be classified as a separate component of equity, and that net income or loss as well as components of other comprehensive income are attributed to both the parent and the non-controlling interest. The adoption of this standard has had no material impact on the Corporation's December 31, 2010 annual financial statements.

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

The Corporation commenced its IFRS conversion project during the latter half of 2009, and in early 2010 purchased a software tool designed to assist small and medium-sized enterprises through the planning and policy decision-making processes. In addition, an external consulting firm was engaged to assist the Corporation with its decision-making and conversion processes. As part of the 2010 year-end audit process, the Corporation's external auditors have reviewed the Corporation's IFRS transition date balance sheet as at January 1, 2010. The Corporation's Audit Committee continues to monitor the progress and critical decisions in the transition to IFRS.

The Corporation developed a changeover plan to complete the transition to IFRS by the end of the first quarter 2011, including the preparation of required comparative information and an assessment of the Corporation's information technology systems. The Corporation's IFRS conversion plan consists of three stages: Planning, Policy Decision-Making and Implementation.

The Corporation has completed the Planning stage which involved an assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on financial accounting and reporting processes, internal control requirements, information technology systems; business processes and required amendments to financial disclosures. The main differences noted during this stage relating to CSRI are in the components of a) share-based payments, b) exploration and evaluation costs, c) decommissioning liabilities and d) income taxes. Other differences include the presentation of exploration oil and gas assets as intangible assets rather than as property, plant and equipment.

The Policy Decision-Making stage is also completed and involved an analysis and evaluation of the financial impacts of various alternatives available under IFRS and the selection of appropriate accounting policies. This phase also included identification of effects on business processes, analysis of financial disclosure requirements, and a review of the optional exemptions and mandatory exceptions within IFRS 1 (First-Time Adoption of IFRS) for retrospective application upon transition to IFRS in 2011. Key accounting policy decisions made during this stage (and the resulting effect thereof as at the January 1, 2010 transition date) include: a) the retrospective recalculation of stock-based compensation expense using a historical forfeiture rate as well as separate fair value calculations for each tranche of stock option grants ($44,544 increase in contributed surplus and decrease in retained earnings); b) the selection of the exemption for Canadian full cost oil and gas companies to use the carrying value of oil and gas assets under Canadian GAAP as the opening deemed cost of oil and gas properties under IFRS as at the transition date (no effect); c) the retrospective recalculation of the asset retirement obligation of the Corporation using a risk free nominal discount rate ($275,257 increase in decommissioning liability and decrease in retained earnings); and d) the retrospective recognition of the premium on historical flow-through share issuances upon renouncement of the corresponding tax pools ($103,200 decrease in share capital and increase in retained earnings).

The third, or Implementation stage, is nearing completion including the compilation of financial information necessary to present IFRS financial statements and notes, with 2010 comparatives, and opening reconciliations to Canadian GAAP commencing with the first quarter of 2011. The Corporation has prepared an opening IFRS balance sheet as at January 1, 2010.

CSRI will update its IFRS changeover plan as necessary to reflect new or amended accounting standards issued by the International Accounting Standards Board. Enhanced notes disclosure is currently being drafted since this segment of the conversion to IFRS is expected to have the greatest impact on the Corporation’s financial statements. However, as IFRS is expected to change prior to the end of 2011, the full impact of IFRS on the Corporation's financial statements is not fully determinable at this time.

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

On June 29, 2010 the Corporation issued 3,000,000 Flow-Through Shares at a price of $1.40 per share. The Flow-Through Shares entitle the holder to certain income tax benefits in the form of Canadian Development Expense. The full proceeds of the Flow-Through Shares placement, or $4,200,000, has been allocated to common shares and was fully expended on eligible development costs by the end of fiscal 2010.

On December 14, 2010 the Corporation closed a public offering of common shares of the Corporation by way of a short form prospectus. The offering included 16,670,000 common shares issued on a bought deal basis at $1.50 per share for gross proceeds of $25,005,000. The underwriters of the offering also exercised their over-allotment option to purchase an additional 780,500 common shares of the Corporation for gross proceeds of $1,170,750, thereby bringing the aggregate total to 17,450,500 common shares for total gross proceeds of $26,175,750. The Corporation paid a fee equal to 6% of the total gross proceeds, or $1,570,545, to the underwriters of the offering resulting in total net proceeds to the Corporation of $24,605,205.

Since December 31, 2010 to the date of this report, the Corporation had no exercises of stock options nor warrants. During this same period, the Corporation has granted 115,000 options to purchase common shares to non-executive employees of the Corporation, 310,000 options to executive officers of the Corporation and 85,000 options to independent directors of the Corporation, for a total of 510,000 options. As at April 21, 2011 the Corporation has 74,561,061 common shares, Nil warrants and 2,934,500 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 NCIB") through the facilities of the Exchange beginning on April 16, 2010. Pursuant to the 2010 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 NCIB, until April 16, 2011. Purchases in the market were conducted by CIBC World Markets in accordance with the Exchange rules and all common shares acquired under the 2010 NCIB were cancelled. During the course of the 2010 NCIB, the Corporation purchased for cancellation a total of 1,307,000 common shares of the Corporation for total cash consideration of $1,920,038, at an average price of $1.47 per share.

On April 18, 2011, the Corporation received approval from the Exchange to commence a further Normal Course Issuer Bid (the "2011 NCIB") through the facilities of the Exchange beginning on April 19, 2011. Pursuant to the 2011 NCIB, the Corporation may acquire up to 3.7 million common shares of the Corporation until April 18, 2012. Purchases in the market will be conducted by CIBC World Markets in accordance with the Exchange rules and all common shares acquired under the 2011 NCIB will be cancelled.

Commitments

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

In January 2011, the Corporation signed an office lease agreement for the same premises as described above for a subsequent two year period, expiring May 31, 2013, at a base annual rent of $12.00 per square foot plus operating costs on 7,187 square feet.

Corporate Information

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