

**CANADIAN SPIRIT RESOURCES INC.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**APRIL 22, 2010**

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## 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 and other accounting policies may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with natural gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources.

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

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

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

Canadian Spirit Resources Inc. ("CSRI" or the "Corporation") was incorporated under the *Company Act* (British Columbia) on January 22, 1987 as Super Twin Resources Ltd. (amended on February 18, 1987 to Super Twins Resources Ltd.) and subsequently amended its articles on February 13, 1997 to change its name to Whitegold Resource Corp.; on June 30, 1995 to increase its authorized capital; on April 9, 2001 to change its name to Whitegold Natural Resource Corp., consolidate the outstanding share capital and increase the authorized capital; and on May 24, 2002 to change its name to Spirit Energy Corp. On March 29, 2004, the British Columbia legislature enacted the *Business Corporations Act* (British Columbia) (the "BC BCA") and repealed the *Company Act* (British Columbia) (the "former Act"). The Corporation filed its Notice of Articles on April 19, 2004 to transition under the BC BCA and on May 27, 2004 the shareholders of the Corporation approved the following amendments to its charter documents: changing its name from Spirit Energy Corp. to Canadian Spirit Resources Inc.; removing the pre-existing company provisions that were imposed by the BC BCA; increasing the maximum number of common shares that the Corporation is authorized to issue to an unlimited number of common shares without par value (the "Common Shares"); and adopting new articles. On June 15, 2004, a certificate of change of name was issued and the Notice of Articles was filed. CSRI was registered as an extra-provincial corporation in Alberta, Canada on June 15, 2004.

The Corporation's registered office is Suite 2300, Bentall 5, 550 Burrard Street, Vancouver, British Columbia, Canada V6C 2B5. The Corporation's principal office is located at Suite 1950, Ford Tower, 633 6<sup>th</sup> Avenue S.W., Calgary, Alberta, Canada T2P 2Y5.

The Corporation does not have any subsidiary companies and does not own any shares in other corporations.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

Since May 2002, the Corporation's focus has been to evaluate the resource potential of certain unconventional natural gas exploration properties and is considered to be in its development stage of operations. Although some preliminary evaluation work was performed on coalbed methane prospects prior to May 2002, the decision to change the strategic direction of the Corporation from the evaluation of the Isk Wollasonite Mineral Property to an evaluation of unconventional natural gas prospects occurred at this time. In the fall of 2003, CSRI drilled its first well and acquired a small land position in the Farrell Creek area of British Columbia. In the years following, the Corporation acquired a significant land position in this same area, drilled eight additional wells and was evaluating the productive capability of the Gething Formation through year-end 2007. In 2008, the Corporation entered into joint venture agreements with Shell Canada Energy ("Shell" or the "Operator") and Canbriam Energy BC Partnership ("Canbriam") to explore and further advance the development of its major resource property at Farrell Creek, British Columbia. The joint venture with Canbriam will result in the exploration and evaluation of petroleum and natural gas rights (primarily in the Montney Formation) below the base of the Cadomin/Nikanassin Formation ("Deep Rights") and the second joint venture with Shell will advance the development of rights (primarily the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation ("Shallow Rights"). For a description on how the Corporation's business has developed over the last two completed financial years, please see "Description of the Business" below.

To finance the Corporation's general and administrative costs, acquisitions of undeveloped land and the drilling and completion activities undertaken to date, CSRI has closed the following private placements during the past two fiscal years and up to the date of this report:

On July 9, 2008, the Corporation issued 2,493,319 Units at \$1.05 per Unit and 400,000 Flow-Through Shares at \$1.20 per share. Each Unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one share for eighteen months (extended to two years effective December 23, 2009) at an exercise price of \$1.40. The fair value of the warrants was estimated at the date of closing, using the Black-Scholes pricing model, under which the Corporation assigned a value of \$0.49 per whole warrant or \$697,169 of the Unit proceeds to warrants, with the remaining \$1,920,816 of the Unit proceeds assigned to common shares. The Flow-Through Shares entitled the holder to certain income tax benefits in the form of Canadian Development Expense. The full proceeds of the Flow-Through Shares placement, or \$480,000, was assigned to common shares and was fully expended on eligible development costs by the end of 2008. As such, the Corporation calculated a potential recovery of future income taxes of \$120,000 in 2008 due to the issuance of the Flow-Through Shares.

On February 19, 2008 the Corporation issued 11,220,000 Units at \$0.50 per Unit. Each Unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder to purchase one share for two years at an exercise price of \$0.80 per share. Prior to expiry, if the common shares of the Corporation closed at a price of \$1.20 per share or greater for twenty consecutive trading days, then the Corporation had the option upon thirty days written notice to require exercise of the warrants. Prior to the February 19, 2010 expiry, all 5,610,000 warrants were duly exercised by holders. The fair value of the warrants was estimated at the date of closing using the Black-Scholes pricing model, under which the Corporation assigned a value of \$0.18 per whole warrant or \$1,311,618 of the Unit proceeds to warrants, with the remaining \$4,298,382 of the Unit proceeds assigned to common shares.

## DESCRIPTION OF THE BUSINESS

CSRI is a natural resources exploration company currently focusing on the identification, assembly and development of unconventional natural gas opportunities in western Canada. All information in this section relates to assets owned or held by CSRI as at December 31, 2009, unless indicated otherwise.

### **Farrell Creek, Northeastern British Columbia**

The focus of the Corporation's activities is currently on the evaluation and development of its principal resource property in the Farrell Creek area of northeastern British Columbia, located approximately 70 kilometers west of Fort St. John. Through joint ventures with Canbriam and Shell, the Corporation is continuing to evaluate and develop the Deep Rights and the Shallow Rights on its Farrell Creek properties. With our joint venture partners currently bearing the exploration and development costs on these lands, the Corporation is able to look at new opportunities without immediate need to access the equity markets. Please refer to the Corporation's Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information filing (see Schedule "A" attached hereto) for more information.

### ***Farrell Creek: Gething***

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

The primary purpose of the Pilot Project is to optimize the completion and production techniques that would be used at the Farrell Creek Gething project in a commercial production situation. The pilot facility enables Shell to continuously test Gething wells without the need to flare gases into the atmosphere.

Seven Gething wells are now tied into the pilot facility. Sales volumes of natural gas for the period ended December 31, 2009 totaled approximately 12 mmcf generating gross revenues of approximately \$33,000. Under the terms of the Joint Venture Agreement, the revenues are used by the Operator to offset operating expenses. Prior to the construction of the pilot facility, the Corporation produced a total of 86 mmcf of natural gas from eight Gething wells but had been required to shut-in these wells due to provincial government flaring limitations.

Should Shell make a decision in the mid year to move beyond the development stage following evaluation of the Pilot Project, the resulting pooling of Shell and CSRI lands would create a combined project of approximately 150 sections (96,000 acres) of Gething rights (37 sections net to CSRI) and a commitment by Shell to carry CSRI through an additional \$50.0 million capital investment. To date, Shell has fulfilled its initial \$50.0 million commitment and continues as Operator of the pilot project.

If Shell does not elect to proceed beyond the development stage, CSRI will retain a 100% working interest in its existing 55 sections of Gething lands; but would also assume 100% ownership of the pilot facility, wells and infrastructure at no additional cost. CSRI holds a right-of-first-refusal on Shell's 95 sections of Gething lands. With the current strong working capital position, the Corporation is adequately capitalized to continue operation of the Pilot Project.

***Farrell Creek: Montney***

On March 19, 2008, the Corporation announced a joint venture and farmout agreement for the Deep Rights with Canbriam, a private energy Corporation based in Calgary, Alberta, that will evaluate certain of the Corporation's lands for Montney and other deep formation plays covering approximately 28,400 gross acres. Through the joint venture, Canbriam committed to an initial expenditure of up to \$28.6 million for exploration of the Deep Rights including the drilling of at least two wells to the Montney Formation in exchange for a 65% working interest.

Since conducting evaluation tests on two vertical Montney wells on the eastern block of Farrell Creek in late 2008, Canbriam has focused its operations on the western portion of the Farrell Creek lands in close proximity to the Spectra Energy pipeline. During the past year, other operators' drilling and development has significantly de-risked the Montney Formation near the western portion of the Corporation's Farrell Creek lands. Talisman Energy Inc. ("Talisman") recently moved its adjacent Montney shale play into commercial production and expects to produce 40-60 mmcf/d by year end with a declared capital investment of \$550 million in 2010. However, these Talisman wells were focused on the higher porosity mid to upper portion of the approximately 300 metre thick Montney Formation. To augment the above results, Canbriam drilled a vertical well (b-17-I/94-B-1) and a horizontal well (c-A48-I/94-B-1) into the lower portion of the Montney Formation during the last six months in order to determine any further contribution to the total productivity of the Montney play.

Preliminary data from the b-17-I well was favorable and the c-A48-I well has been drilled and cased and will be completed after the removal of spring road bans (see News Release dated March 4, 2010). These two wells will be followed by the drilling and completion of two multi-lateral horizontal wells into the Montney Formation. Drilling and completion of the first multi-lateral well, c-18-I, is expected to begin in June. An expandable, sweet gas facility with 20 mmcf/day capacity is to be constructed commencing April 2010 and is planned to be operating by the fall of 2010.

Canbriam has approved plans for capital investment of up to \$49.0 million (gross) in the Farrell Creek Montney program for 2010. CSRI's share of capital expenditures on the Montney joint venture in 2010 range from \$6.0 million to \$14.5 million conditional upon whether Canbriam exercises their option to increase their working interest from 65% to 70%. If Canbriam exercises this option, the Corporation will retain a 30% working interest in the Montney joint venture and will be carried through an additional \$21.0 million capital investment. The Montney joint venture development plans are expected to achieve a meaningful level of production, revenue and reserves by the end of 2010. Subject to meeting the necessary listing requirements, the Corporation plans to graduate to a full listing on the Toronto Stock Exchange as soon as possible in 2011.

***Bittern Lake, Alberta:***

Effective May 1, 2008 the Corporation sold its net interests in four Horseshoe Canyon joint venture wells, including the associated abandonment and reclamation liabilities for cash and a 5% overriding royalty.

***Isk Wollastonite Mineral Property, British Columbia:***

No field work has been conducted at the Isk Wollastonite mine site since 2002. This asset is available for farm-out or sale.

## NATURAL GAS LAND HOLDINGS

The following table sets forth the Corporation's land holdings, in acres, as at December 31, 2009:

Property	Undeveloped Acreage <sup>(1)</sup>		Developed Acreage <sup>(2)</sup>		Total Acreage	
	Gross <sup>(3)</sup>	Net <sup>(4)</sup>	Gross <sup>(3)</sup>	Net <sup>(4)</sup>	Gross <sup>(3)</sup>	Net <sup>(4)</sup>
British Columbia:						
Gething Formation	34,313	33,991	Nil	Nil	34,313	33,991
Montney Formation	29,786	9,046	Nil	Nil	29,786	9,046
Total	64,099	43,037	Nil	Nil	64,099	43,037

### Notes:

- (1) Undeveloped acreage refers to exploration lands on which wells have not been drilled or if drilled, not completed to a point that would permit production or if producing not have proved or probable reserves assigned to it.
- (2) Developed acreage refers to lands from which production is being obtained with proved or probable reserves.
- (3) Gross acres refers to the total number of acres in which an interest is held. The Corporation uses a conversion factor of 2.471 to convert hectares to acres for British Columbia lands.
- (4) Net acreage equals gross acres multiplied by the percentage working interest of the Corporation therein.

## OTHER OIL AND GAS INFORMATION

The Corporation had nominal production volumes and no reserves as at December 31, 2009. The Corporation's Statement of Reserves Data and Other Oil and Gas Information in Form 51-101F1 and the Report of Management and Directors on the Oil and Gas Disclosure in Form 51-101F3 are attached as Schedule "A" to this Annual Information Form.

## CAPITALIZED COSTS RELATED TO NATURAL GAS ACTIVITIES

As at December 31	2009	2008
Lease acquisitions and retentions	\$ 13,595,581	\$ 13,506,600
Geological and geophysical	384,462	255,725
Drilling and completions	18,869,097	18,992,399
Capitalized overhead	3,309,344	2,873,456
Asset retirement obligation	228,735	176,139
Total unproved properties	36,387,219	35,804,319
Total proved properties	-	-
	36,387,219	35,804,319
Accumulated impairment	(1,172,908)	(1,172,908)
Net capitalized costs	\$ 35,214,311	\$ 34,631,411

## COSTS INCURRED IN NATURAL GAS ACTIVITIES

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

For the years ended December 31	2009	2008
Lease acquisitions and retentions	\$ 88,981	\$ 68,133
Geological and geophysical	128,737	50,418
Net recovery of drilling and completion costs	(123,301)	(3,693,002)
Capitalized overhead	435,887	676,753
Total net petroleum and natural gas	530,304	(2,897,698)
Computer and office equipment, furniture	9,244	60,634
Total net capital expenditures (recoveries)	\$ 539,548	\$ (2,837,064)

For the fiscal year 2009, the Corporation approved a base case capital budget of \$1.2 million including the Corporation's portion of the joint venture tie-in of the Farrell Creek pilot program to the Spectra Energy sales pipeline, and including an estimated \$0.5 million for capitalized overhead. In addition, the Corporation provided an allocation for drilling and field testing activities of \$0.6 million in 2009. The Corporation's budget is reviewed and approved by the Board of Directors on a quarterly basis.

For the year ended December 31, 2009, gross capital expenditures before recoveries totaled \$0.7 million (2008: \$2.2 million). Offsetting the Corporation's capital expenditures during the year ended December 31, 2009 are additional reimbursements of \$0.2 million (2008: \$5.0 million) of previously expended drilling and completion costs from joint venture partners in relation to the Farrell Creek operations. The recovery of these expenditures has been recorded as a reduction of capitalized drilling and completion costs for the years ended December 31, 2009 and 2008 respectively. Gross capital expenditures before billings to joint venture partners for the year ended December 31, 2009 totaled \$1.8 million (2008: \$5.8 million).

The Corporation has approved a 2010 base case capital budget of up to \$18.0 million, (of which \$1.4 million has been approved for the first quarter of 2010) and includes an estimated \$0.4 million for capitalized overhead. The annual and first quarter 2010 budgets were approved by the Corporation's Board of Directors. Before recoveries from joint venture partners, the Corporation's gross capital expenditures for the first quarter 2010 are projected to be approximately \$1.3 million.

### **COMPETITIVE CONDITIONS**

The oil and gas industry, including the exploration for and the development of both conventional and unconventional natural gas, is highly competitive in all aspects of the business. The competition includes bidding for petroleum and natural gas rights and sales of the various products, in each case price being the main determinant. In searching for shale and coal unconventional natural gas prospects, the Corporation competes with other major integrated oil and gas companies, numerous other independent oil and gas companies, individual producers and operators, many of which have significantly greater resources than CSRI. In addition, natural gas producers compete against others engaged in supplying alternative forms of energy to consumers.

The oil and gas industry in Canada is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation and amendments may be enacted.

### **ENVIRONMENTAL CONSIDERATIONS**

Federal, provincial and local governments have enacted laws concerning the discharge of materials into the environment and otherwise relating to environmental protection. The Corporation believes that all of its operations comply, in all material respects, with all applicable regulations.

The Corporation makes provisions in its accounts for future asset retirement costs. The Corporation records the present value of legal obligations associated with the retirement of long-lived tangible assets, such as producing and non-producing well sites and natural gas processing plants, in the period in which they are incurred with a corresponding increase in the carrying amount of the related long-lived asset. The liability accretes until the Corporation settles the retirement obligation. The carrying amounts of the long-lived assets are depleted using the unit of production method. Actual costs to retire tangible assets are deducted from the accumulated liability as incurred. At December 31, 2009, the Corporation has accrued a long term liability of \$288,095 for asset retirement obligations. Other than normal abandonment and restoration costs, the Corporation is not aware of any material expenditures that will be required in 2010 to meet applicable federal, provincial and local government regulations.

## **SOCIAL RESPONSIBILITIES**

CSRI has a formal code of business conduct and ethics ("Ethics Policy") that each employee and consulting contractor must review and acknowledge as a condition of employment and/or appointment. The Ethics Policy affirms and expands upon the policies of the Corporation and is a guideline to: assure compliance with laws and regulations that govern the Corporation's business activities; maintain a corporate climate in which the integrity and dignity of each individual is valued; foster a standard of conduct that reflects positively on the Corporation; and protect the Corporation from unnecessary exposure to financial loss.

The Chairman of the Audit Committee is to receive, track and resolve all complaints or violations that deal with accounting, financial reporting and auditing matters and is to prepare periodic reports for the Audit Committee. All other complaints or violations are to be received, tracked and resolved by the Chief Executive Officer, who is to prepare periodic reports to the Board of Directors.

## **RISK FACTORS**

### **Development Stage Corporation**

An investment in the Common Shares of the Corporation should be considered speculative due the nature of the Corporation's business and operations, including in particular its involvement in the acquisition of undeveloped land, exploration testing, and the present stage of development. The Corporation's ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its joint venture partners and shareholders, obtaining additional financing and generating revenues sufficient to cover operating costs. There are no assurances that additional financing will be available or, if available, will be available at acceptable terms.

Subject to the approval of the TSX Venture Exchange (the "Exchange"), CSRI may issue an unlimited number of additional Common Shares in the future to finance its activities without the approval of shareholders. The Board of Directors of CSRI has the discretion to set the price and terms of the issuance of any such additional Common Shares. Any issuance of additional Common Shares may have a dilutive effect on the existing holders of Common Shares.

The Corporation's future success also depends largely on its ability to find, develop or acquire natural gas resources that are economically recoverable. Exploration and development drilling may not result in contingent or commercially recoverable resources nor reserves. In addition, natural gas prices are influenced by a variety of market forces and are subject to fluctuation which can impact economics of drilling and development of its properties.

The Corporation follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of natural gas reserves are capitalized. Natural gas assets are evaluated in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. As the Corporation had no net production or discovered contingent or recoverable resources nor reserves at December 31, 2009, there was no depletion charge for the 2009 fiscal year. Other than the impairment of the Bluesky completion costs incurred in prior years, there has been no impairment of undeveloped properties and all remaining costs attributed to natural gas properties are considered to be on unproven properties.

### **Reliance on Key Personnel**

Investors in Common Shares of the Corporation must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. The success of the Corporation is dependent upon the performance of key personnel. The unexpected loss of any of its key executive officers, employees or consultants could be detrimental to the future operations of the Corporation. The success of the Corporation's business will depend, in part, upon the ability to attract and retain qualified personnel as they are needed. There can be no assurance that the Corporation will be able to engage the services of such personnel or retain its current personnel. The Corporation does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any key personnel could have a material adverse effect on the Corporation.

### **Operating Risks**

The Corporation's operations are subject to risks normally incidental to the operation and development of natural gas properties and the drilling of natural gas wells, including encountering unexpected formations or pressures, blow-outs and fires, all of which could result in personal injuries, loss of life and damage to property of the Corporation or others. Although the Corporation maintains liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse affect on the Corporation's financial condition.

### **Government Regulation**

The oil and natural gas industry is subject to regulation and intervention by governments in such matters as the awarding of petroleum and natural gas rights, the imposition of specific drilling obligations, environmental protection controls, controls over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to prices, taxes, royalties and the exportation of natural gas. Such regulation may change from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase our costs and could have an adverse impact on the Corporation.

### **Environmental Risks**

All phases of the oil and natural gas industry present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and Canadian federal, provincial and municipal laws and regulations. Environmental legislation provides for, but is not limited to, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with the Corporation's current and future operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

### **Productivity**

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

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

### **Joint Venture Election**

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

In this event, the Corporation would become operator of the Gething pilot project and be responsible for all future capital, operating and reclamation costs. Title to all facilities and wells on the Corporation's lands would transfer to the Corporation at no cost and the Corporation would hold a right-of-first-refusal to acquire the joint venture partner's approximately 95 sections of Shallow Rights.

### **Exploration**

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

### **Financial Resources and Liquidity**

The Corporation's ability to continue its operations is highly dependent upon capital markets. Its ability to develop its assets and realize their carrying values is dependent upon the continued support of its shareholders, favourable capital market conditions and obtaining additional equity financing on reasonable terms. Without the support of any one of these factors, or a number of them together, the Corporation's ability to continue its operations could be compromised.

To minimize financial risk, the Corporation pre-funds all capital commitments in the equity markets and does not utilize debt in these early stages of development. Included in such capital commitments is a minimum level of administrative and operating costs to see the Corporation through the current equity market and commodity price downward cycles. With \$12.4 million of working capital as at the date of this report and minimal immediate capital commitments, the Corporation is in a strong position to continue with its business plan during the current volatility in equity and commodity markets.

### **Commodity Prices**

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

### **Operating Capability**

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

### **Land Acquisition and Tenure**

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

### **Environment and Public Policy**

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

### **EMPLOYEES**

As at January 1, 2010 the Corporation employed 9 full time employees.

### **DESCRIPTION OF CAPITAL STRUCTURE**

The Corporation's authorized share capital consists of an unlimited number of common shares (the "Common Shares") without nominal or par value. Holders of Common Shares are entitled to receive notice of and to attend all annual and special meetings of shareholders. Each Common Share carries with it the right to one vote, to receive dividends should the Corporation declare dividends, and to receive the remaining property and assets of the Corporation upon dissolution or winding up of the Corporation.

### **MARKET FOR THE SECURITIES OF THE CORPORATION**

The Common Shares of CSRI are listed on the Exchange under the trading symbol "SPI".

## TRADING PRICES AND VOLUME

The following table sets forth the high and low trading prices and the volume of Common Shares as reported by the Exchange for the periods indicated.

Year	Month	Price Range \$/share		Volume
		High	Low	
2009	January	0.77	0.60	1,514,593
	February	0.91	0.65	1,170,038
	March	0.85	0.57	1,241,200
	April	1.06	0.72	1,171,368
	May	0.95	0.80	924,920
	June	1.14	0.86	1,127,412
	July	0.90	0.65	532,237
	August	0.84	0.75	482,145
	September	0.90	0.75	628,136
	October	1.45	0.77	2,034,687
	November	1.39	1.05	1,241,646
	December	1.51	1.20	869,913
2010	January	2.00	1.50	1,965,221
	February	1.80	1.42	1,838,606
	March	1.55	1.20	1,248,145
	April (1-22)	1.40	1.20	509,536

## PRIOR SALES

For details on the warrants issued, if any, in the most recently completed financial year, refer to "General Development of the Business" above. At December 31, 2009 there were warrants outstanding to purchase 6,566,660 Common Shares. During January and February 2010, 5,335,000 of these warrants were duly exercised by holders.

## DIVIDENDS

CSRI has not paid dividends on its outstanding Common Shares. The Board of Directors of CSRI will determine the actual timing, payment and amount of dividends, if any, that may be paid by the Corporation. The payment of dividends will be based upon, among other things, the cash flow, results of operations and financial condition of CSRI, the need for funds to finance ongoing operations and other business considerations as the Board of Directors considers relevant. The Corporation does not anticipate declaring and paying out dividends on Common Shares in the foreseeable future.

## DIRECTORS AND EXECUTIVE OFFICERS

The following information is provided with respect to each of the current directors and executive officers of the Corporation. Unless re-elected, the term of office of each of the directors expires at the end of the next annual meeting of shareholders unless such office is vacated earlier or a successor appointed in accordance with the Corporation's Notice of Articles and Articles of Incorporation.

## DIRECTORS AND EXECUTIVE OFFICERS

Name and Municipality of Residence	Director or Executive Officer Since	Principal Occupation During the Last Five Years
RUDOLF CECH <sup>(1)</sup> Alberta, Canada Director	November 2007	President of Adur Energy Ltd., a private consulting company, since July 2006. Senior Vice President of Sproule Associates Limited, International Division from 1992 until June 2006.
J.R. RICHARD COUILLARD <sup>(1)</sup> Alberta, Canada Director	May 2003	President and Chief Executive Officer of Rock Well Petroleum Inc. since March 2009. Consultant from June 2008 until February 2009. Chief Executive Officer of Escavar Energy Inc. from September 2003 to June 2008.
DONALD R. GARDNER Alberta, Canada Executive Officer and Director	January 2003	Chief Executive Officer of the Corporation since February 2008. Chief Financial Officer of the Corporation from January 2003 to December 2008.
PHILLIP D.C. GEIGER Alberta, Canada Executive Officer and Director	January 2003	President of the Corporation since January 2003. Chief Operating Officer of the Corporation since May 2002.
PHILIP H. GRUBBE <sup>(1)</sup> Alberta, Canada Director and Chairman of the Audit Committee	May 2004	Consultant since May 2008. Vice President, Finance and Chief Financial Officer of AltaCanada Energy Corp. from April 2006 to April 2008. Chairman of the Audit Committee of High Plains Energy Inc. from April 2003 to March 2005. Executive Vice President of High Plains Energy Inc. from May 2004 to March 2005.
DEAN. G. HILL Alberta, Canada Executive Officer	December 2006	Chief Financial Officer of the Corporation since December 2008. Vice President, Finance of the Corporation since December 2006. Vice President, Finance of Joe Johnson Equipment Inc. from April 2003 to November 2006.
GEORGE W. WATSON Alberta, Canada Director and Chairman of the Board	July 2002	Executive Chairman of CriticalControl Solutions Corp. since November 2007. Chief Executive Officer of CriticalControl Solutions Corp. from July 2002 to November 2007.
ROBERT P. WINNITTOY <sup>(1)</sup> Alberta, Canada Director	August 2004	Consultant since January 2003.

### **Note:**

(1) Messrs. Cech, Couillard, Grubbe and Winnitoy are currently members of the Audit Committee. The Corporation does not have an executive committee or formal compensation committee.

## SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

As of April 22, 2010, the directors and executive officers of the Corporation and their associates, as a group, directly or indirectly, own or exercise control or direction over 1,518,904 Common Shares of the Corporation, representing 2.8% of the currently issued and outstanding Common Shares of the Corporation. See ADDITIONAL INFORMATION on Page 13 of this Annual Information Form.

## ORDERS

To the knowledge of management of the Corporation, no director or executive officer as at the date hereof is, or within 10 years of the date hereof was, a director, chief executive officer or chief financial officer of any company (including the Corporation), that (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes hereof, "order" means (a) a cease trade order, (b) an order similar to a cease trade order, or (c) an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

## **BANKRUPTCIES**

To the knowledge of management of the Corporation, no director or executive officer of the Corporation, or shareholder holding a sufficient number of securities of the Corporation to materially affect the control thereof, (a) as at the date hereof is, or within 10 years of the date hereof was, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) within 10 years of the date hereof has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder, except for the following:

J.R. Richard Couillard, director of the Corporation since May 2003, reported that in December 2008 Rock Well Petroleum Inc. (“Rock Well”) filed for protection under the Canada Companies’ Creditors Arrangement Act (“CCAA”) and similar legislation in the United States. In March 2009, new directors and executive officers were appointed to manage Rock Well including Mr. Couillard who, in addition to being appointed to the Board of Directors, was also appointed as President and Chief Executive Officer. Under the guidance of the new management team, Rock Well successfully reached a compromise with its creditors and exited the CCAA proceedings in September 2009.

George W. Watson, director and Chairman of the Board of the Corporation since July 2002, reported that to the best of his knowledge that RepeatSeat Ltd., a company for which Mr. Watson was a director of until June 2009, became insolvent during 2009 but did not become legally bankrupt, did not make a proposal under any legislation relating to bankruptcy or insolvency proceedings, nor was subject to any arrangements or compromises with its creditors.

## **PENALTIES AND SANCTIONS**

To the knowledge of management of the Corporation, no director or executive officer or shareholder holding a sufficient number of Common Shares to materially affect the control of the Corporation, has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## **CONFLICTS OF INTEREST**

The directors of CSRI may be engaged and may continue to be engaged in the search for oil and natural gas interests on their own behalf and on behalf of other companies. Situations may arise where the directors themselves or the companies in which the directors are involved may participate in ventures in which CSRI may participate and, in such cases, the directors of CSRI may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of CSRI's directors, a director who has such a conflict will abstain from voting for or against the approval of such a participation or such terms. In accordance with the laws of the province of British Columbia, the directors of CSRI are required to act honestly, in good faith and in CSRI's best interests.

The directors and executive officers of CSRI are aware of the existence of laws governing the accountability of directors and executive officers and requiring disclosures by the directors of conflicts of interest. CSRI will rely upon such laws in respect of any directors' and executive officers' conflicts of interest or in respect of any breaches of duty by any of its directors and executive officers. All such conflicts will be disclosed by such directors or executive officers, and directors and executive officers shall govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law. The directors and executive officers of CSRI are not aware, either currently or in the past, of any such conflicts of interests.

The Corporation's Ethics Policy also requires that no director, executive officer, employee or consultant should enter into any transaction or engage in any practice directly or indirectly which would tend to influence him or her to act in any manner other than in the best interests of the Corporation. It is improper for a director, executive officer or employee to take any action or make any decision on behalf of CSRI if he or she, or any member of his or her immediate family, has any direct or indirect interest which is or may be in actual, potential or apparent conflict with the interests of the Corporation.

#### **AUDIT COMMITTEE INFORMATION**

Information concerning the Audit Committee of the Corporation, as required under National Instrument 52-110 *Audit Committees*, is provided in Schedule B to this Annual Information Form.

#### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Corporation is not aware of any legal proceedings to which it is or was a party to or that any of its property is or was the subject of during the most recently completed financial year or which are contemplated and it is not pursuing any legal claims against third parties. No penalties or sanctions have been imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority, no penalties or sanctions have been imposed by any other court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision and no settlement agreements have been entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority during the most recently completed financial year.

#### **INTEREST OF MANAGEMENT & OTHERS IN MATERIAL TRANSACTIONS**

No director, executive officer, person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares or any known associate or affiliate of such persons, has a material interest, direct or indirect, in any transaction within the two most recently completed financial years or during the current financial year that has materially affected or will materially affect CSRI save and except for transactions referred to under the headings of "Executive Compensation" and "Matters to be Acted Upon at the Meeting – Election of Directors" in its Information Circular.

#### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc., 9<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1.

#### **MATERIAL CONTRACTS**

There are no material contracts, other than contracts in the ordinary course of business, that are material to CSRI that were entered into within the most recently completed financial year, or before the most recently completed financial year that are still in effect.

#### **INTERESTS OF EXPERTS**

Sproule Unconventional Limited ("Sproule") has prepared an independent report to assess the Corporation's gas-in-place resources. As at the date hereof, neither Sproule nor any of its partners and associates own any securities or other property of the Corporation.

#### **ADDITIONAL INFORMATION**

Additional information, including directors and executive officers remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans if applicable, is contained in the Information Circular of the Corporation dated April 22, 2010. Additional financial information is provided in the audited financial statements of the Corporation for the year ended December 31, 2009 and related management discussion and analysis. Such documents are available through the Internet on the Canadian *System for Electronic Document Analysis and Retrieval* (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "A" TO THE ANNUAL INFORMATION FORM  
FORMS REQUIRED PURSUANT TO NATIONAL INSTRUMENT 51-101**

**FORM 51-101F1  
STATEMENT OF RESERVES DATA AND  
OTHER OIL AND GAS INFORMATION**

<b>PART 1</b>	<b>DATE OF STATEMENT</b>
Item 1.1.2.	The effective date of the information being provided is December 31, 2009.
Item 1.1.3.	The preparation date of the information being provided is April 22, 2010.
<b>PART 2</b>	<b>DISCLOSURE OF RESERVES DATA</b>  Canadian Spirit Resources Inc. ("CSRI" or the "Corporation") has no proved or probable reserves.
<b>PART 3</b>	<b>PRICING ASSUMPTIONS</b>  The Corporation has made no estimates of future net revenues as it has no reserves.
<b>PART 4</b>	<b>RECONCILIATIONS OF CHANGES IN RESERVES AND FUTURE NET REVENUE</b>  The Corporation has no proved or probable reserves and no change has occurred since the prior financial year.
<b>PART 5</b>	<b>ADDITIONAL INFORMATION RELATING TO RESERVES DATA</b>  The Corporation has no proved or probable undeveloped reserves.
<b>PART 6</b>	<b>OTHER OIL AND GAS INFORMATION</b>
Item 6.1.1	<p>The Corporation's unproved properties are located in northeastern British Columbia, Canada in an area referred to as Farrell Creek.</p> <p>Sproule Unconventional Limited ("Sproule"), in their 2009 year-end report, estimated total gross discovered and undiscovered petroleum initially-in-place (resources) associated with the principal geological targets of the Corporation's two joint ventures at Farrell Creek. In the Gething, Moosebar and Gates Formations on the Corporation's lands at Farrell Creek, Sproule estimates the total gross discovered and undiscovered petroleum initially-in-place to be 1.8 trillion cubic feet of natural gas. Based on well data provided by the Corporation, Sproule estimated a range of 21 to 34 bcf per section in the Gething Formation and a range of 6 to 8 bcf per section in the Moosebar and Gates Formations.</p> <p>In the Montney Formation, Sproule estimated total gross discovered and undiscovered resources to be 3.6 trillion cubic feet of natural gas on the Corporation's lands at Farrell Creek. This estimate was based on well data provided by the Corporation and using an industry standard 6% limestone porosity cutoff. Based on the Corporation's well evaluation work in the lower portion of the Montney Formation, and to investigate the sensitivity of calculated gas-in-place volumes to the porosity cutoff applied to the well logs, the Corporation requested that Sproule also calculate the in-place discovered and undiscovered resources using a 3% limestone porosity cutoff. Using this cutoff, total gross discovered and undiscovered resources were calculated to be 8.4 trillion cubic feet of natural gas on the Corporation's lands at Farrell Creek. On average, this provided a range of 77 (using a 6% cutoff) to 178 (using a 3% cutoff) bcf per section in the Montney Formation.</p> <p>The definitions used in this report are those of the Canadian Oil and Gas Evaluation Handbook ("COGEH"), which are specified in National Instrument 51-101 ("NI51-101"), as follows:</p>

	<p>Discovered petroleum initially-in-place (resources) is defined in COGEH as:  <i>“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 initially-in-place includes production, reserves, and contingent resources; the remainder is unrecoverable.”</i></p> <p>There is no certainty that it will be commercially viable to produce any portion of the discovered resources.</p> <p>One criterion for classification of a volume of hydrocarbons as discovered petroleum initially-in-place (resources) is that the volume must be in a known accumulation, which is defined in COGEH as:  <i>“an accumulation that has been penetrated by a well. In general, the well must have demonstrated the existence of hydrocarbons by flow testing in order for the accumulation to be classified as “known”. However, where log and/or core data exist, and there is a good analogy to a nearby and geologically comparable known accumulation, this may suffice.”</i></p> <p>Undiscovered petroleum initially-in-place (resources) is defined in COGEH as:  <i>“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 initially-in-place is referred to as prospective resources; the remainder as unrecoverable.”</i></p> <p>There is no certainty that any portion of the resources will be discovered and, if discovered, there is no certainty that it will be commercially viable to produce any portion of those resources.</p>
Item 6.1.2	<p>Under its Farrell Creek joint venture with Canbriam Energy BC Partnership (“Canbriam”), one well was drilled into the Montney Formation in 2009. Cumulatively, Canbriam has drilled three Montney wells for testing and land retention purposes. In 2010, further operations on the western portion of the Farrell Creek lands will include the completion of one existing well, drilling and completing up to two new wells, and the construction of a natural gas facility which is anticipated to be on-stream prior to the end of 2010.</p> <p>As part of the Farrell Creek joint venture with Shell Canada Energy (“Shell”), a natural gas processing facility was brought on-stream in June 2009. Currently, seven wells have been tied-in to this facility and are producing gas at uneconomic rates. These wells have been designed to test the productive capability of the Gething Formation.</p>
Item 6.2.1	<p>The Corporation's unproved properties are comprised of 25,940 gross (17,416 net) hectares of Gething and Montney Formation rights located in British Columbia, Canada, none of which have any work commitments.</p>
Item 6.2.2	<p>The Corporation has 3,619 hectares (3,619 net) of unproved properties in western Canada which primary term expires within one year. The Corporation intends to extend 3,619 hectares (3,619 net) of these properties, through a combination of drilling wells or making payment of an additional rental fee of \$500.00 plus \$7.00 or \$7.50 per hectare depending on the regulation requirements.</p>
Item 6.3	<p>The Corporation has no forward contracts, transportation agreements or other future obligations with respect to its unproved properties.</p>
Item 6.4	<p>At December 31, 2009, the Corporation had 17 cased (15 net) wells on its unproved properties for which the future abandonment and reclamation costs are estimated to be \$1,411,083 and the present value using a discount rate of nine percent is \$288,095. The estimate was made by the Corporation's staff based on their experience in similar circumstances. None of these costs are expected to be incurred during the next three financial years. The Corporation has no proved or probable reserves, and therefore, no estimate of future net revenue incorporating the above abandonment and reclamation costs has been made.</p>

Item 6.5	The Corporation has no reserves and no net reported revenue and therefore it is not possible to estimate at this time when it may be taxable.
Item 6.6	During 2009, the Corporation incurred \$88,981 of acquisition costs for unproved properties and \$441,323 (net) of exploration and development costs in western Canada.
Item 6.7.1	During 2009, Canbriam, as part of its joint venture with the Corporation, drilled and cased one well into the Montney Formation.
Item 6.7.2	<p>For the fiscal year 2009, the Corporation approved a base case capital budget of \$1.2 million including the Corporation's portion of the joint venture tie-in of the Farrell Creek pilot program to the Spectra Energy sales pipeline, and including an estimated \$0.5 million for capitalized overhead. In addition, the Corporation provided an allocation for drilling and field testing activities of \$0.6 million in 2009. The Corporation's budget is reviewed and approved by the Board of Directors on a quarterly basis.</p> <p>For the year ended December 31, 2009, gross capital expenditures before recoveries totaled \$0.7 million (2008: \$2.2 million). Offsetting the Corporation's capital expenditures during the year ended December 31, 2009 are additional reimbursements of \$0.2 million (2008: \$5.0 million) of previously expended drilling and completion costs from joint venture partners in relation to the Farrell Creek operations. The recovery of these expenditures has been recorded as a reduction of capitalized drilling and completion costs for the years ended December 31, 2009 and 2008 respectively. Gross capital expenditures before billings to joint venture partners for the year ended December 31, 2009 totaled \$1.8 million (2008: \$5.8 million).</p> <p>The Corporation has approved a 2010 base case capital budget of up to \$18.0 million, (of which \$1.4 million has been approved for the first quarter of 2010) and includes an estimated \$0.4 million for capitalized overhead. The annual and first quarter 2010 budgets were approved by the Corporation's Board of Directors. Before recoveries from joint venture partners, the Corporation's gross capital expenditures for the first quarter 2010 are projected to be approximately \$1.3 million.</p> <p>Cash administration expenses (G&amp;A excluding stock based compensation) for 2010 are expected to total approximately \$2.1 million) before capitalization of exploration and development related overhead (2009 actual: \$2.1 million). Revenue from interest on cash balances is budgeted at \$0.1 million for the 2010 year. The Corporation has not budgeted for cash flows from operations during 2010 resulting from continued production at the Farrell Creek pilot as the operating costs are borne by the project Operator (Shell) and the Corporation's share of sales revenue is to be offset against deferred development costs within Property, Plant and Equipment.</p>
Item 6.8	The Corporation has no proved or probable reserves and therefore has made no production estimates for 2010.
Item 6.9	The Corporation has no production history.

**FORM 51-101F3**  
**REPORT OF MANAGEMENT AND DIRECTORS**  
**ON OIL AND GAS DISCLOSURE**

Management of Canadian Spirit Resources Inc. (the "Corporation") are responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. At December 31, 2009, the Corporation had no proved or probable reserves. The Corporation did not engage the services of an independent reserves evaluator or auditor to evaluate reserves data because it has no reserves. Therefore a Form 51-101F2 - Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor will not be filed.

The Board of Directors of the Corporation has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management.

The Board of Directors has approved the content and filing of this report.

*(signed) "Donald R. Gardner"*

Donald R. Gardner,  
Chief Executive Officer

*(signed) "Phillip D.C. Geiger"*

Phillip D.C. Geiger,  
President & Chief Operating Officer

*(signed) "George W. Watson"*

George W. Watson,  
Chairman of the Board

*(signed) "J.R. Richard Couillard"*

J.R. Richard Couillard,  
Director

Dated April 22, 2010

## **SCHEDULE "B" TO THE ANNUAL INFORMATION FORM**

### **AUDIT COMMITTEE INFORMATION**

#### **The Audit Committee Charter**

The Charter of the Audit Committee commences on Page 2 of this Schedule B.

#### **Composition of the Audit Committee**

The Audit Committee consists of Rudolf Cech, J. R. Richard Couillard, Philip H. Grubbe (Chairman), and Robert P. Winnitoy. The Board of Directors has determined that all members of the Audit Committee are "independent" and "financially literate" as defined in National Instrument 52-110.

#### **Relevant Education and Experience**

The members of the CSRI's Audit Committee have education and experience relevant to the performance of their responsibilities as Audit Committee members, which includes the following:

Rudolf Cech has been President of Adur Energy Ltd., a private consulting company, since July 2006. Mr. Cech was the Senior Vice President of Sproule Associates Limited, International Division from 1992 until June 2006, a role in which he was required to make numerous presentations to audit committees and thereby obtained significant experience regarding financial operations and oversight. Mr. Cech earned a Masters of Science degree in Mining Engineering from the University of Ostrava and is a Professional Engineer.

J.R. Richard Couillard is currently the President and Chief Executive Officer of Rock Well Petroleum Inc. Mr. Couillard also consults to various companies regarding financial stewardship issues. Previously, Mr. Couillard was the Chief Executive Officer of Escavar Energy, Inc., a Canadian private junior exploration and production company. Prior to founding Escavar Energy Inc., Mr. Couillard served in senior positions for both private and public companies where he was directly responsible for operational and financial performance and reporting. In these capacities Mr. Couillard was directly responsible for the financial oversight of the companies. Mr. Couillard currently sits on the Audit Committee of Badger Income Fund, and formerly served as Chairman of the Audit Committee of Kensington Energy Ltd. Mr. Couillard obtained a Bachelor of Science (Honours) degree from Carleton University and is a Professional Geologist.

Philip H. Grubbe, Chairman of the Audit Committee, has over thirty years experience as a financial executive with various public companies in the oil and gas industry. Mr. Grubbe is currently a consultant but previously was Vice President, Finance and Chief Financial Officer of AltaCanada Energy Corp. Mr. Grubbe also served as the Chairman of the Audit Committee of High Plains Energy Inc. from April 2003 until March 2005. Mr. Grubbe was Vice President, Finance and Chief Financial Officer with Upton Resources Inc. from 1997 to 2004. Mr. Grubbe has a Bachelor of Commerce degree from Queen's University and is a Chartered Accountant.

Robert P. Winnitoy has over thirty years experience in the oil and gas industry. Mr. Winnitoy served as the President and Chief Executive Officer of a natural gas gathering and processing company which also had oil and natural gas production. Mr. Winnitoy also was a senior executive for a large public corporation with responsibility for Western Canadian business and facilities development. As part of his roles at these companies, Mr. Winnitoy was required to have extensive knowledge of financial operations. Mr. Winnitoy also has experience with reserves reporting, income tax issues, project economics and project financing. Mr. Winnitoy obtained a Bachelor of Applied Science degree from the University of Toronto and is a Professional Engineer.

#### **Audit Committee Oversight**

All recommendations of the audit committee to nominate or compensate an external auditor for the most recently completed financial year were adopted by the Board of Directors.

## **Pre-Approval Policies and Procedures**

In accordance with the Audit Committee Charter, the Audit Committee reviews, in advance, any engagement for significant non-audit services to be provided by the external auditors' firm or its affiliates, together with estimated fees, and considers the potential impact of such services on the independence of the external auditors. The Audit Committee has concluded that the provision of audit-related and tax services is compatible with maintaining PricewaterhouseCoopers LLP's independence.

## **External Auditor Service Fees (By Category)**

The following table presents fees for the audits of the Corporation's annual consolidated financial statements for 2009 and 2008 and for other services provided by PricewaterhouseCoopers LLP:

	<b>2009</b>	<b>2008</b>
Audit fees	\$39,000	\$37,000
Tax fees	\$Nil	\$Nil
All other fees	\$2,600	\$Nil

Tax fees (if any) are for tax compliance services.

## **Exemption**

Since the Corporation is listed on the TSX Venture Exchange, it is hereby relying upon the exemption in Section 6.1 of National Instrument 52-110 Audit Committees regarding the requirements of Part 5 – Reporting Obligations.

## **CHARTER OF THE AUDIT COMMITTEE**

### **POLICY STATEMENT**

It is the policy of Canadian Spirit Resources Inc. (the "Corporation") to establish and maintain an Audit Committee (the "Committee"), composed of independent directors, to assist the Board of Directors (the "Board") in carrying out their oversight responsibility for the Corporation's external audit, internal controls, disclosure, financial reporting and risk management.

The Committee's function is one of oversight only and shall not relieve management of its responsibilities.

### **COMPOSITION OF THE COMMITTEE**

1. The Committee shall consist of four (4) directors.
2. Each director appointed to the Committee by the Board shall be independent as such term is defined in Section 1.4 of National Instrument 52-110.
3. Each member of the Committee shall be financially literate as such term is defined in Section 1.6 of National Instrument 52-110 and at least one (1) member shall have accounting or related financial management expertise.
4. The Board shall appoint the members of the Committee and shall appoint one (1) member of the Committee to be the Chair of the Committee.
5. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation. A member shall cease to be a member of the Committee upon ceasing to be a director of the Corporation.
6. The Secretary of the Corporation shall be the Secretary of the Committee.

### **MEETINGS OF THE COMMITTEE**

1. The Committee shall convene a minimum of four (4) times each year at such time and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee, the external auditors, or a senior officer of the Corporation.

2. Notice of each meeting of the Committee shall be given to each member and to the external auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee or the Secretary of the Committee.
3. Notice of a meeting of the Committee shall:
  - a) Be in writing.
  - b) State the nature of the business to be transacted at the meeting in reasonable detail.
  - c) To the extent practicable, be accompanied by copies of documentation to be considered at the meeting.
  - d) Be given at least forty-eight (48) hours notice preceding the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
4. A quorum for the transaction of business at a meeting of the Committee shall consist of two (2) members of the Committee.
5. A member of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, provided it permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
6. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting and, in the absence of the Secretary of the Committee, the members shall choose one of the persons present to be the Secretary of the meeting.
7. The Committee may invite the Chairman of the Board, other directors, senior management of the Corporation and other parties to attend meetings of the Committee; however, the Committee may meet separately with the external auditors or with invited management.
8. At each regular meeting of the Committee, the agenda shall include an opportunity for the members of the Committee to meet in-camera.
9. Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the Secretary of the meeting.
10. Minutes of the meetings of the Committee shall be retained by the Secretary of the Corporation and shall be available on request to any member of the Board.

#### **DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

1. The Committee's primary duties and responsibilities are to:
  - a) Select and recommend the nomination and compensation of the external auditors.
  - b) Oversee the independence, work and performance of the Corporation's external auditors.
  - c) Review the principal risks that could impact the financial reporting of the Corporation and monitor how management is dealing with such risks.
  - d) Monitor the integrity of the Corporation's disclosure and financial reporting process and its system of internal controls regarding financial reporting and accounting compliance.
  - e) Provide an avenue of communication and dispute resolution among the external auditors, management, the internal auditing department, if any, and the Board of Directors.
2. The Committee shall annually select and recommend to the Board the nomination of an external auditor, recommend the replacement of the current external auditor when circumstances warrant and monitor the independence, work and performance of the external auditors. This may include:
  - a) Considering the views of management in respect of the nomination of the external auditors.
  - b) Reviewing and recommending for approval by the Board, the terms of the external auditors' engagement, including the reasonableness of the proposed audit fees.

- c) Reviewing in advance, any engagement for non-audit services to be provided by the external auditors' firm or its affiliates, together with estimated fees, and considering the potential impact of such services on the independence of the external auditors.
  - d) When there is to be a change of external auditors, reviewing all issues and providing documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation called for under National Instrument 51-102 as defined in Section 4.11 and the planned steps for an orderly transition.
  - e) Reviewing all reportable events, including disagreements, unresolved issues and consultations with external auditors, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.
3. In carrying out its primary duties and responsibilities, the Committee shall:
- a) Review the annual audit plan with the external auditors and with management.
  - b) Discuss with management and the external auditors any proposed changes in major accounting policies or principles, the potential impact of significant risks and uncertainties on future operations, and key estimates and judgments of management that may be material to financial reporting.
  - c) Review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues.
  - d) Review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management.
  - e) Review periodically with management the Corporation's disclosure controls and procedures as such term is defined in Multilateral Instrument 52-109 and monitor the certification process set out therein.
  - f) Review audited annual financial statements and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all significant variances between comparative reporting periods.
  - g) Consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses.
  - h) Review with management and the external auditors the quarterly unaudited financial statements before release to the public.
  - i) Before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information including any annual report, annual information form, management discussion and analysis of operations, prospectus (and all documents which may be incorporated by reference into such prospectus) and all other securities offering documents of the Corporation.
  - j) Review periodically with management the internal procedures implemented to review any other public disclosure of financial information extracted or derived from the Corporation's financial statements.
4. In addition, the Committee shall:
- a) Oversee the receipt, review and follow-up of questions, concerns or complaints pursuant to the Corporation's Code of Business Conduct and Ethics and the procedures set out in Appendix "A" thereto.
  - b) Review with management at least annually, the financing strategy and funding plans of the Corporation.

- c) Review the amount and terms of any insurance to be obtained or maintained by the Corporation with respect to risks inherent in its operations and potential liabilities incurred by the directors or officers in the discharge of their duties and responsibilities.
- d) Monitor financial and accounting personnel succession planning within the Corporation and review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.
- e) Inquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters.
- f) Periodically review with management the need for an internal audit function.
- g) Quarterly, review any legal matter that could have a significant impact on the Corporation's financial statements, and any enquiries received from regulators, or government agencies.
- h) Report to the Board at the earliest opportunity after each meeting, the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.
- i) Bi-annually assess the performance of the Committee.

### **RESOURCES AND AUTHORITY**

1. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If deemed necessary by the Committee, it will have the discretion to institute investigations of improprieties or suspected improprieties, including the standing authority to retain independent counsel or advisors and to set their compensation.
2. The Committee shall have the authority to:
  - a) Inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates.
  - b) Discuss with any officer of the Corporation, its subsidiaries and affiliates, the Chief Financial Officer and senior staff of the Corporation, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate.

### **CHARTER HISTORY**

Date approved by the Board of Directors:	January 19, 2006
Amendment approved by the Board of Directors:	May 26, 2009