



**NOT RATED, High Risk\***  
12-month target price: N/R

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## **Energy Watch List Update: Hotbed of Montney News in Northeast B.C. Provides Further Support for Canadian Spirit's Story...**

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**Summary: Asset acquisitions and Talisman Montney update provides further support for the expansion of Montney activity in Northeast British Columbia**

The future for Canadian Spirit continues to burn bright and is further supported with the recent asset and land acquisition by Progress Energy (PRQ-T, BUY Rated) of 100,000 net acres of Montney prospective land and Talisman's (TLM-T, Not Rated) 2010 Montney guidance. These events speak to the excitement surrounding the expansion of the Montney fairway further to the west in British Columbia and more specifically in the vicinity to Canadian Spirit (CSRI). CSRI is currently drilling its first horizontal Montney well targeting the Lower Montney and expects to drill an additional two horizontal (multi-lateral) wells for the remainder of 2010 at Farrell Creek.

### **Details: Talisman Montney Guidance and Recent Asset Acquisitions**

- Talisman provided a Montney update concurrent with its 2009 operating and financial results. The company has stated they have drilled a total of 16 gross (15 net) wells in their Northeast B.C. Montney program (Farrell Creek and Cypress) in 2009. Thirteen of these wells have been completed to date, of which nine were on-stream at the end of the year. Of these nine wells, five of them were horizontal wells that were successfully tested and tied in during the fourth quarter. The company expects to exit 2010 with Montney production rates between 40 to 60 mmcf/d from the area.
- Progress Energy announced the acquisition of Suncor's northeast British Columbia's foothills assets that includes 100,000 acres of Montney lands. Progress has focused the majority of its Montney activity in the Town area of N.E. B.C. to date (Northwest of Farrell Creek). The company has planned an eighteen well horizontal Montney program for 2010 and is currently constructing a 25 mmcf/d compression facility in the Town area. Further to this, Progress continues to delineate their northeast B.C. land base with a nine well vertical delineation program planned. Three wells out of the nine well program have been tested to date and have illustrated encouraging results. It is worth noting that one of these wells was tested in the Kobes area, which is located immediately North of CSRI's Farrell Creek lands.
- Terra Energy (TT-T, BUY Rated) has acquired ~14 net sections of Montney rights in the Altares/ Farrell Creek area. Full details of the acquisition were not disclosed at this time.

### **Conclusion: Unearthing the Montney Resource Potential...**

As a result of the asset and land acquisitions along with the recently announced Montney production guidance from Talisman, it provides further support to the potential commerciality and the extension of the Montney play in northeast B.C. Canadian Spirit currently has access to 44 (15.4 net) sections of Montney prospective lands in the Farrell Creek area with drilling results from its first Montney horizontal well expected mid year 2010. We believe Canadian Spirit continues to provide investors with a great opportunity to gain access to an up and coming Montney player with plenty of potential production and reserve growth to look forward too.

See attached one-page company summary for more information.

# Canadian Spirit Resources Inc.

(SPI-V \$1.70)

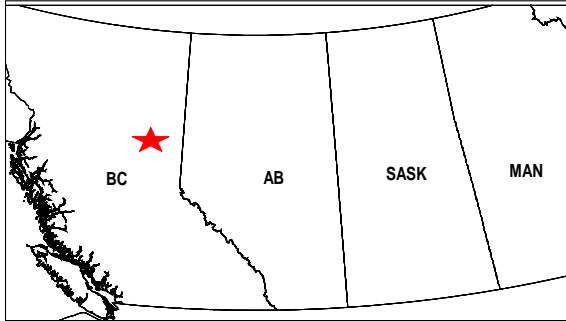
## Energy Watch List

February 10, 2010

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[steven.buytels@dundeesecurities.com](mailto:steven.buytels@dundeesecurities.com)**NOT RATED, High Risk\***

12-month target price: N/R



Source: GeoScout, DSC.

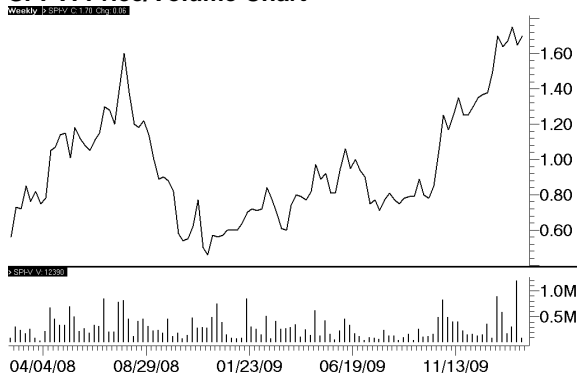
Operational Summary (Q3/09 figures)		
Production	(boe/d)	N/A
% Gas	%	N/A
P+P Reserves	(mmbbls)	N/A
Net Undev. Land	acres	34,560

Source: Company Reports, DSC

Management Team & Directors	
Don Gardner	CEO & Secretary
Phillip Geiger	President & COO, Director
Dean Hill	VP Finance & CFO
George Watson	Director, Chairman
Rudolf Cech	Director
J.R. Richard Couillard	Director
Phillip Grubbe	Director
Robert Winnitoy	Director
<b>Management/Directors Ownership: 3.1%</b>	

Source: Company Reports, DSC

### SPI-V: Price/Volume Chart



Source: Thomson ONE

### Corporate Summary

- Canadian Spirit Resources is an emerging junior oil and gas exploration company focused on unconventional gas in northeast British Columbia, primarily targeting the Montney and Gething formations in the Farrell Creek area.
- The company has joint ventures with Canbriam on its 44 sections of Montney rights (35% working interest) and Shell on its 54 sections of shallow rights targeting the Gething (25% working interest).

### Key Catalysts

- Canadian Spirit with its partner Canbriam is currently drilling the C-A48-I horizontal well targeting the lower Montney formation. Results are expected to be released mid year 2010.
- Plan to drill two horizontal multi-lateral wells targeting both the upper and lower Montney immediately following the completion of the C-A48-I well.
- Currently constructing a 20 mmcf/d centralized gathering and processing facility to be in place by late Q3/Q4 2010.
- Large competitor in the area has illustrated significant Montney success to date on adjacent lands with vertical test rates as high as 5 mmcf/d and horizontal wells currently on production.

### Financials/Valuation

- Estimated working capital position of \$10.1 million, with an additional \$5.7 million of cash that will be realized with the exercise of in-the-money warrants due throughout the first half of 2010.
- Current market capitalization of ~\$82 million with 48.3 million (55 million fully diluted) shares outstanding.

### Summary

Canadian Spirit offers investors access to an emerging Montney player focused in northeast British Columbia in the Farrell Creek area. The significant success by a large competitor on adjacent lands provides comfort as to the overall resource that may be at stake.

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Note 1: All historical data including financial and operating data on the issuer(s) mentioned in this report come from publicly available documents including statutory filings of these issuer(s). Data may also be sourced from Bloomberg, Baseline, Thomson ONE.

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Valuation methodologies used in determining the 12-month target price(s) for the issuer(s) mentioned in this report are contained in current and/or prior research. Target Price N/A: a target price is not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

BUY: total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: total returns expected to be in line with the overall market. SELL: total returns expected to be materially lower than the overall market. TENDER: the analyst recommends tendering shares to a formal tender offer.

\*Risk Ratings: risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business or financial risk is high and is difficult to value. Venture: an early stage company where the business or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

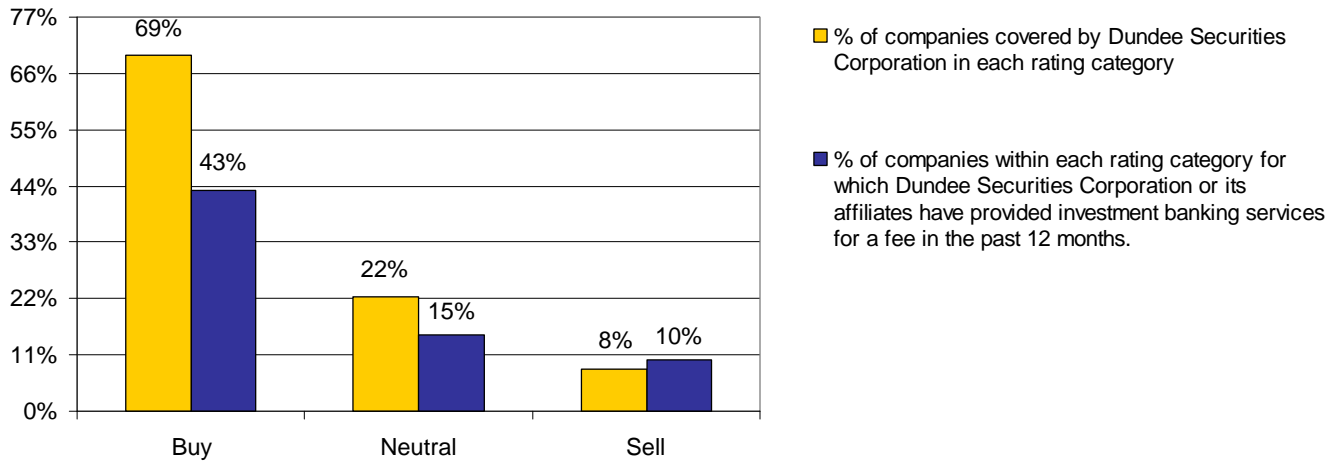
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SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

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**Dundee Securities Equity Research Ratings**



As at December 31, 2009

Source: Dundee Securities Corp.