

**Canadian Spirit Resources Inc.**

(SPI-V: C\$1.70)

Update

February 1, 2011

BUY, Venture Risk*
12-month target price: N/AAaron Swanson, CFA / (403) 206-3928
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Energy Watch List - Milestone Reached, Production on Stream

Summary: Farrell Creek Montney Project Now on Stream

Canadian Spirit Resources (CSRI) announced the Joint Venture partnership has commissioned their facility and is now processing natural gas from their Montney project in N.E. B.C. While this news was anticipated, we still see it as a positive as now Canadian Spirit can work towards booking reserves and obtaining a lending facility in order to help facilitate future capital commitments. While the initial capacity of the facility is 10 mmcf/d, the facility is expandable to 50 mmcf/d suggesting there is plenty of room for future growth. With the project now in the production stage and a number of upcoming catalysts, we are maintaining our BUY recommendation and venture risk rating.

First Production is Project Milestone:

- Three previously drilled horizontal wells are now producing into the Joint Venture facility with current capacity of 10 mmcf/d. The facility is easily expandable to 50 mmcf/d with an estimated gross cost of \$3 million to add 10 mmcf/d of additional processing capacity. Through their Joint Venture agreement, Canadian Spirit has 35% ownership in the facility.
- Two Lower Montney and one Upper Montney wells are currently on production. The Lower Montney c-A48-I and b-17-I wells and the Upper Montney c-18-I wells are producing into the facility with an additional Upper Montney horizontal well expected to be tested and placed on production before the end of the first quarter.
- Given the wells producing into the facility are all new on production, we anticipate the facility is close to its current capacity. We don't see this as a long term issue as capacity restrictions are anticipated to be alleviated somewhat as the wells come off their initial flush production rates.

Upcoming Catalysts - Upper Montney Test Expected Shortly

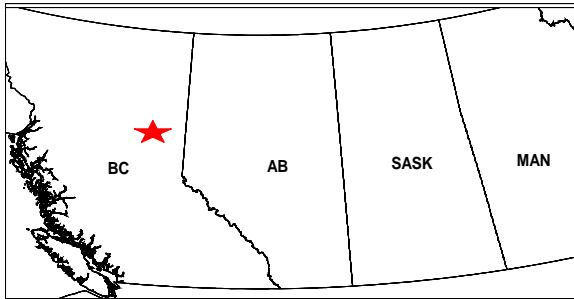
- 2 Upper Montney wells drilled in the fourth quarter are awaiting completion with one well expected to be completed and tied into the facility before the end of the first quarter. The second well is going to be completed after spring break up. We expect test results in the 6 - 8 mmcf/d range will be a positive catalyst for the shares.
- Planning to drill additional well into the Montney by the end of the first quarter. This well is going to be completed and tested after spring break up. In total, the partnership is planning to drill 3 horizontal Montney wells in 2011 with the majority of production being brought on stream during the second half of the year.
- Given the company now has production, Canadian Spirit is planning on receiving a third party reserve report that will ultimately result in the company obtaining a lending facility that will support further capital spending commitments. This is expected to be released by the end of Q1/11.
- Updated resource report is likely. As a reminder Sproule evaluated Canadian Spirit's land base in April 2010 and determined Canadian Spirit has between 2.6 - 6.1 TCF of discovered and undiscovered natural gas resource net to the company. Given Canadian Spirit has added additional land exposure; we are expecting to see an updated resource report estimate furthering their potential resource upside by the end of the first quarter.

See Attached One Page Summary for Additional Information

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Source: GeoScout, DSC.

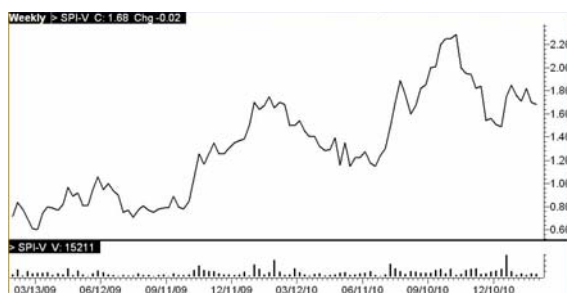
| Operational Summary | | |
|---------------------|----------|--------|
| Production | (boe/d) | N/A |
| % Gas | % | N/A |
| P+P Reserves | (mmbbls) | N/A |
| Net Undev. Land | acres | 59,840 |

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 |
| Management/Directors Ownership: 3.1% | |

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 begun to develop its 71 sections of Montney land where the company has a joint venture with Canbriam Energy whereby CSRI holds a 35% working interest. Further to this, CSRI holds 17.9 additional sections of Farrell Creek Montney lands at 100%.

Key Catalysts

- Production now on stream and are currently producing 3 wells through their Farrell Creek facility. Expected to drill an additional Montney well in the first quarter of 2011, bringing the total to 6 horizontal wells.
- Going to complete and test two horizontal Upper Montney wells that were drilled in the first quarter. The first of these is expected to be tested in Q1/11 with the second going to be tested after spring break up.
- Capable of further expanding gas processing capacity at Farrell Creek to 50 mmcf/d. Current capacity sits at 10 mmcf/d. Planning to drill an additional 3 Montney wells in 2011.
- Large joint venture agreement in the adjacent vicinity has illustrated significant Montney success to date and expects to average 2011 producing 110-120 mmcf/d of natural gas from the area.

Financials/Valuation

- Estimated net working capital position of over \$21 million with no debt
- Canadian Spirit has an estimated market capitalization of \$130 million with an estimated 74.5 million shares outstanding

Summary

Canadian Spirit is 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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*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.

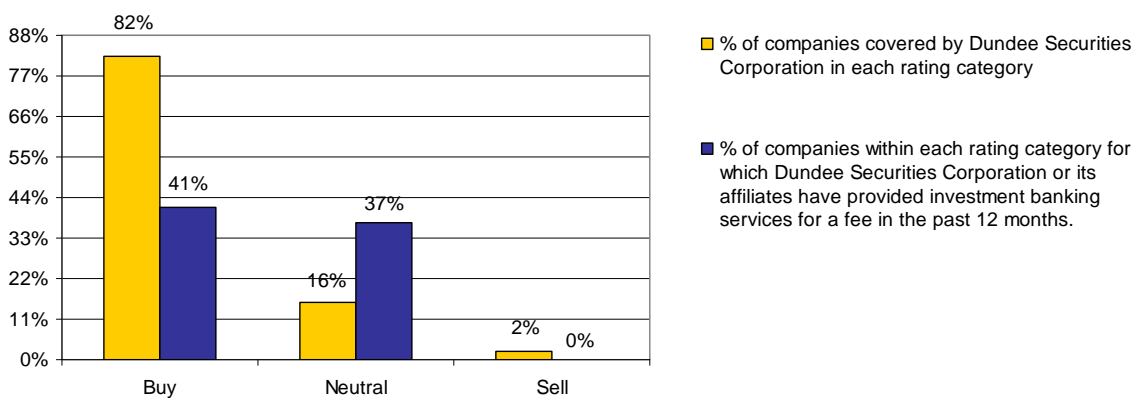
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Dundee Securities Equity Research Ratings



December 31, 2010

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