

Canadian Spirit Resources Inc.

(SPI-V: C\$1.30)* *Intraday*

Energy Watch List Update

June 29, 2011

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BUY, Venture Risk*

12-month target price: N/A

First Quarter was Full of Milestones

Q1/11 Highlighted by Completion of Farrell Creek Gas Plant and First Commercial Volumes

Canadian Spirit Resources first quarter activity continued the progression of their Farrell Creek assets in N.E. B.C. where the company completed their 10 mmcf/d joint venture gas processing facility and recorded first commercial production. Average production was 1.92 mmcf/d over a 63 period from three horizontal wells. The company has indicated plans to fracture stimulate an additional 2 (0.7 net) previously drilled horizontal well in the third quarter to fill remaining capacity at their processing facility. During the quarter, SPI increased their land holdings to 40.8 net sections (from 30.6 net) to further position itself for future development of the Montney plays at Farrell Creek. The company is now looking to shift a portion of its capital towards the eastern flank of Farrell Creek where it intends to spud its first vertical well in the third quarter; offsetting operators have reported the presence of natural gas liquids.

Canadian Spirit exited the first quarter with a working capital surplus of approximately \$18.2 million. This cash balance combined with associated cash flows now arising from production positions the company to finance its 2011 capital program. With production now on, we look to the establishment of a lending facility as imminent and anticipate something in the short-to-medium term. As noted in our May 17 note, the company booked first Montney reserve estimates during the quarter and provided estimates of contingent Montney resources, both of which we view as positives to the story. We are maintaining our BUY rating as we see the significant resource in place and offsetting competitor activity as key drivers for the stock in the near term.

First Quarter Financial & Operational Highlights:

- Commenced first production from its joint venture Montney program at Farrell Creek, B.C. in late January with three horizontal wells processing volumes through the JV's gas facility (35% WI). Average production volumes were 1.92 mmcf/d (319 boe/d) over a 63 day period.
- Plan to fracture stimulate two of three horizontal wells drilled during 2010 (c-45-I and c-B18-I), in Q3 2011 with subsequent tie-in to the processing facility, it is anticipated this will result in full utilization of the 10 mmcf/d capacity. Fracture stimulation of the third well will be delayed until such time as spare capacity at the plant can be realized.
- As reported in our May 17 note, SPI commissioned an independent resource evaluation that assessed gross natural gas initially-in-place at 2.6 Tcf of Discovered GIIP and 2.4 Tcf of Undiscovered GIIP of which SPI estimates commercial extraction of 1.0 Tcf of Discovered and 1.3 Tcf of Undiscovered GIIP resource, respectively, with 900 gross wells needed to develop the resource.
- Increased Montney lands to approximately 26,000 net acres (40.8 net sections).
- Approved 2011 capital program of \$16.2 million, of which \$2.8 was spent in the first quarter. SPI plans to drill 18 (6.3 net) Montney wells over the next several years in an attempt to prove up its Montney lands at Farrell Creek. Plans for a first vertical well at east Farrell Creek are slated for the third quarter.
- Booked 20 bcf of P+P (3.3 mmboe) reserves and 13 bcf (2.19 mmboe) of total proved reserves. This was utilizing a 6% porosity cut-off.
- Booked reserves P+P PV(10) of \$13.5 million indicates reserves are worth \$0.68/mcf in the ground
- Exited the first quarter with a working capital surplus of \$18.2 million. We continue to anticipate that SPI will establish a lending facility to help finance the capital program into 2012.

See Attached One Page Summary for Additional Information

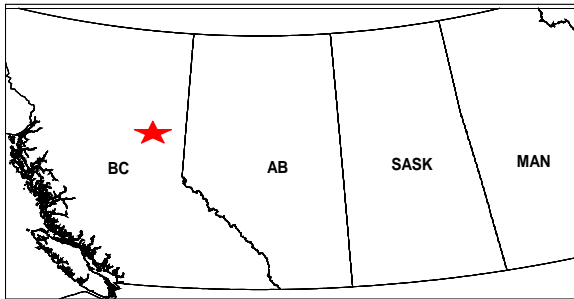
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Source: GeoScout, DSC.

Operational Summary		
Production (Q1/11)	(boe/d)	319
% Gas	%	100%
P+P Reserves	(mmboe)	3,328
Net Undev. Land	acres	63,230

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: 3.9%

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 roughly 80 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 over 23 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. Recently completed drilling an additional Montney well in the first quarter of 2011, bringing the total to 6 horizontal wells.
- Going to complete and test three horizontal Upper Montney wells that were recently drilled. Two of these wells are expected to be completed and tested in the third quarter 2011 with the fourth to follow once additional plant capacity is available.
- 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, spending a total of \$16.2 million for the year.
- Large joint venture agreement in the adjacent vicinity has illustrated significant Montney success to date and expects to average 2011 producing 100-120 mmcf/d of natural gas from the area.

Financials/Valuation

- Exited the first quarter of 2011 with net working capital position of over \$18 million with no debt.
- Canadian Spirit has a current market capitalization of \$95 million with a 77.5 million fully diluted shares outstanding. Based on current production, currently trades at roughly \$24.00 EV/P+P reserves.

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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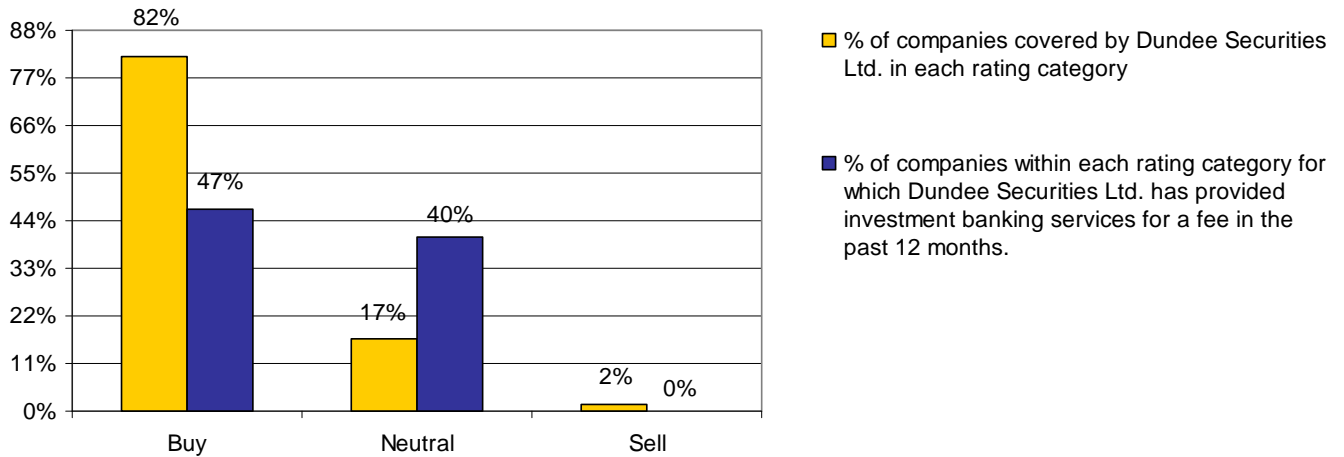
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