

June 9, 2010

Rating: SPECULATIVE BUY
Target Price: \$3.00

All figures in C\$, unless otherwise noted

| | |
|------------------|---|
| Recent Price: | \$1.24 |
| 52 Week Range | \$0.57 – \$2.00 |
| Shares O/S | basic: 54.0 million f.d. 58.0 million |
| Market Cap | basic: \$66.9 million (f.d.): \$71.9 million |
| Fiscal Year End: | Dec. 31 |
| Cash (Jun 8/10): | \$12 million |

| Commodities | 2009A | 2010E |
|------------------|--------|--------|
| WTI (US) | \$62 | \$70 |
| Natural Gas (US) | \$3.70 | \$6.00 |

Company Description: *Canadian Spirit Resources is a Canadian-based resource company focused on exploration and development in the unconventional natural gas sector in NE British Columbia. Its main focus of operations is in the shallow Gething play and the deeper Montney play at Farrell Creek, B.C.*

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Canadian Spirit Resources Inc. (SPI-TSXV)

Spring Road Bans Lifted – Drilling Begins

- ▶ **Drilling and Development Program to Continue:** Canadian Spirit announced that the spring road bans that have been in effect since March 6, 2010 in the Peace River Project area have been lifted. CSRI and Canbriam, the operator of the Farrell Creek joint venture, can now resume operations in the area.
- ▶ **Fracture of Well c-A48-I:** CSRI had completed this well in Q1 2010 and was preparing to frac the well when the road bans were imposed. The well will be fracture stimulated and tested this month to determine the potential of the lower portion of the Montney Formation.
- ▶ **Drilling of Well c-18-I:** Drilling is expected to begin by the end of June on the c-18-I horizontal well location, targeting the upper portion of the Montney Formation. Following completion, it is anticipated that the well will be fraced and tested in August.
- ▶ **Additional Drilling:** CSRI's program for the balance of 2010 includes the drilling, fracturing and testing of two additional horizontal wells in the upper portion of the Montney Formation, one each at the c-A48-I and c-18-I locations.
- ▶ **Gas Production Facility:** Canbriam is expected to begin the construction of a sweet gas processing facility near the Spectra Pipeline capable of processing 10 to 20 million cubic feet of natural gas per day. The wells at both locations will be tied into this facility.
- ▶ **Capital Program:** Canadian Spirit is currently being carried for the 2010 capital program by Canbriam. Should Canbriam exercise its option to increase its working interest to 70% from 65%, Canadian Spirit will be carried for an additional \$21 million.
- ▶ **Comment:** Now that the road bans have been lifted, we expect activity in NE B.C. to ramp up considerably. The next few months will be an active period of drilling and development for Canadian Spirit with the company achieving its first production and cash flow by the end of the year.
- ▶ **Recommendation: We reiterate our BUY recommendation and \$3.00 price target.**

Please see end of this report for important disclosures

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| | |
|-----------------|---|
| STRONG BUY | The security represents extremely compelling value and is expected to appreciate significantly from the current price over the next 12-18 month time horizon. |
| BUY | The security represents attractive value and is expected to appreciate significantly from the current price over the next 12-18 month time horizon. |
| SPECULATIVE BUY | The security is considered a BUY but in the analyst's opinion possesses certain operational and/or financial risks that may be higher than average. |
| HOLD | The security represents fair value and no material appreciation is expected over the next 12-18 month time horizon. |
| SELL | The security represents poor value and is expected to depreciate over the next 12-18 month time horizon. |

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