



ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2010

APRIL 21, 2011

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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 6th 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") 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"). The joint venture with Shell was intended to advance the development of rights (initially the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation ("Shallow Rights"). In June 2010, Shell elected not to continue to the development stage of the Gething joint venture. 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 equity financings during the past two fiscal years and up to the date of this report:

On June 29, 2010 the Corporation issued 3,000,000 Flow-Through Shares at a price of \$1.40 per share. The Flow-Through Shares entitle the holder to certain income tax benefits in the form of Canadian Development Expense. The full proceeds of the Flow-Through Shares placement, or \$4,200,000, has been allocated to Common Shares and was fully expended on eligible development costs by the end of fiscal 2010. Incurred in relation to this issuance were \$224,716 of share issue costs, \$56,179 of which were recorded as an offset against the future tax recovery of the Flow-Through Shares.

On December 14, 2010 the Corporation closed a public offering of Common Shares of the Corporation by way of a short form prospectus. The offering included 16,670,000 Common Shares issued on a bought deal basis at \$1.50 per share for gross proceeds of \$25,005,000. The underwriters of the offering also exercised their over-allotment option to purchase an additional 780,500 Common Shares of the Corporation for gross proceeds of \$1,170,750, thereby bringing the aggregate total to 17,450,500 Common Shares for total gross proceeds of \$26,175,750. The Corporation paid a fee equal to 6% of the total gross proceeds, or \$1,570,545, to the underwriters of the offering resulting in total net proceeds to the Corporation of \$24,605,205. The Corporation also incurred additional share issue costs of \$232,907 in relation to this public offering.

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, 2010, 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. In 2003, CSRI acquired a small land position and drilled its first resource evaluation well in the Farrell Creek area of northeastern British Columbia. In the years following, the Corporation significantly increased its land position in this same area, drilled eight additional wells and by year-end 2007 was evaluating the productive capability of the Gething Formation with a five well Pilot Project. In 2008, the Corporation entered into joint venture agreements with Shell and Canbriam to explore and further advance the development of its major resource property at Farrell Creek. The joint venture with Shell was intended to advance the development of rights (initially the Gething Formation) from surface to the base of the Cadomin/Nikanassin Formation ("Shallow Rights"). In June 2010, Shell elected not to continue to the development stage of the Gething joint venture. 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"). 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: Montney

On March 19, 2008, the Corporation announced a joint venture and farmout agreement for the Deep Rights with Canbriam, to evaluate certain of the Corporation's lands for Montney and other deep formation plays covering approximately 34,000 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 vertical wells into the Montney Formation in exchange for a 65% working interest. Canbriam also had the option to increase its working interest in the Deep Rights from 65% to 70% in return for increasing its gross capital commitment to \$50.0 million. Canbriam has now fulfilled their \$28.6 million initial funding commitment and in October 2010, advised that they would not exercise the option to increase their working interest. CSRI is now responsible for funding its 35% working interest of the Montney program.

Since conducting evaluation tests on two vertical Montney wells on the eastern block of Farrell Creek in late 2008, Canbriam focused its operations on the western portion of the Farrell Creek lands in close proximity to the Spectra Energy pipeline. Following a successful vertical well test into the lower portion of the Montney Formation at the b-17-I location, the joint venture drilled a horizontal well into the lower Montney at the c-A48-I location. This was the first known horizontal well targeting the lower Montney in the Farrell Creek area and the results significantly exceeded CSRI's expectations.

The c-A48-I well was stimulated in 8 stages of the lower portion of the Montney Formation. The initial production flow-tested at a rate of approximately 1 mmcf/d per stage. The positive results of this well are significant as it may be an indicator that the lower Montney Formation has the potential to increase ultimate resource estimates and to increase the total productivity of the play.

The joint venture drilled and cased three upper Montney horizontal wells on the western block of the Montney lands at c-18-I/94-B-1, c-A18-I/94-B-1, c-45-I/94-B-1 and re-entered the b-17-I/94-B-1 well to drill a short horizontal leg in the lower Montney.

At the end of October, Canbriam carried out a production test on the c-18-I well with initial flow rates of up to 4.7 mmcf/d with 8 stages being stimulated. The b-17-I re-entry horizontal well was fracture stimulated in 5 stages in the lower Montney in December with initial production in excess of 3.5 mmcf/d.

The joint venture recently drilled and cased a horizontal well in the upper Montney at the c-B18-I/94-B-1 location. This is the fourth horizontal well in the upper Montney Formation and the sixth well in the west block of lands.

Construction of the joint venture's gas processing facility with an initial capacity of 10 mmcf/d gross (3.5 mmcf/d net), and tie-in to the Spectra Energy sales pipeline, was completed in January 2011. Commissioning of the facility occurred in late January 2011 with gas sales commencing on January 28th. The wells currently tied-in to the facility are the c-A48-I and b-17-I lower Montney horizontal wells and the c-18-I upper Montney horizontal well. Initial gas sales from these three wells were in excess of 10 mmcf/d gross (3.5 mmcf/d net). Subsequently, over the last three months, gas sales have declined to 5 mmcf/d gross (1.75 mmcf/d net) and appear to have stabilized. Subject to the availability of fracture crews and equipment, it is anticipated that the c-A18-I, c-B18-I, and c-45-I wells will be fracture stimulated and tied-in to the facility during the third quarter of 2011.

During the past year, other operators' drilling and development activity has significantly de-risked the Montney Formation adjacent to the western portion of the Corporation's Farrell Creek lands. Talisman Energy Inc. ("Talisman") moved its adjacent Montney shale play into commercial production and expects to be producing 100-120 mmcf/d on average in 2011. Talisman also announced that the capacity of their Farrell Creek Gas Plant will be increased from 120 mmcf/d to 180 mmcf/d during 2011. Talisman recently announced a strategic partnership with Sasol Limited ("Sasol") which is expected to accelerate the projected multi-billion dollar development of their Farrell Creek play. Total consideration from Sasol was \$2.1 billion (combined, via two separate deals) for a 50% interest in both of Talisman's Farrell Creek and Cypress A plays. These transactions are comprised of an initial 25% cash payment plus a 75% capital carry on Talisman's future expenditures. The partnership will also be examining alternative marketing options including the economic feasibility of constructing a gas-to-liquids ("GTL") project in western Canada using Sasol's GTL technology.

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 scalable and currently has a capacity of up to 1.1 mmcf/d. Seven Gething wells were tied into the pilot facility and the facility produced its first gas in June 2009.

Pursuant to the joint venture agreement, Shell could elect to move to the development stage of the Gething joint venture which would include the pooling of the Shell and CSRI lands and an additional capital investment by Shell. On June 18, 2010, Shell elected not to continue to the development stage and as a result shut-in the gas facility in early July 2010. As per the joint venture agreement, the Corporation is now the operator of the Gething project and will retain 100% working interest in its 59 sections (37,760 acres) of Shallow Rights, the gas facility, the additional wells and the related infrastructure at no additional cost. The pilot facility has been properly suspended and winterized. Over the course of the joint venture, Shell invested approximately \$32.0 million in development and infrastructure. As a result, CSRI was able to increase its understanding of the Gething Formation and expects to benefit from the future use of the facilities and infrastructure at no cost to the Corporation. The gas facility is expandable and may be used for other purposes in the immediate area. CSRI holds a right-of-first-refusal on Shell's surrounding 95 sections of Gething lands. The Corporation is currently minimizing its expenditures on the Gething project and is considering several options that include seeking a new joint venture partner to further develop the Gething Rights.

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, 2010:

| Property | Undeveloped Acreage ⁽¹⁾ | | Developed Acreage ⁽²⁾ | | Total Acreage | |
|-------------------|------------------------------------|--------------------|----------------------------------|--------------------|----------------------|--------------------|
| | Gross ⁽³⁾ | Net ⁽⁴⁾ | Gross ⁽³⁾ | Net ⁽⁴⁾ | Gross ⁽³⁾ | Net ⁽⁴⁾ |
| British Columbia: | | | | | | |
| Gething Formation | 38,131 | 37,808 | - | - | 38,131 | 37,808 |
| Montney Formation | 42,796 | 19,276 | - | - | 42,796 | 19,276 |
| Total | 80,927 | 57,084 | - | - | 80,927 | 57,084 |

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, 2010. 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 | 2010 | 2009 |
|-----------------------------------|---------------|---------------|
| Lease acquisitions and retentions | \$ 17,865,456 | \$ 13,595,581 |
| Geological and geophysical | 394,484 | 384,462 |
| Drilling and completions | 33,637,125 | 18,869,097 |
| Capitalized overhead | 3,988,566 | 3,309,344 |
| Asset retirement obligation | 346,241 | 228,735 |
| Total unproved properties | 56,231,872 | 36,387,219 |
| Total proved properties | - | - |
| | 56,231,872 | 36,387,219 |
| Accumulated impairment | (1,172,908) | (1,172,908) |
| Net capitalized costs | \$ 55,058,964 | \$ 35,214,311 |

COSTS INCURRED IN NATURAL GAS ACTIVITIES

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

| For the years ended December 31 | 2010 | 2009 |
|---|----------------------|-------------------|
| Lease acquisitions and retentions | \$ 4,269,875 | \$ 88,981 |
| Geological and geophysical | \$ 10,022 | \$ 128,737 |
| Expenditure (recovery) of drilling and completion costs | \$ 14,768,028 | \$ (123,301) |
| Capitalized overhead | \$ 468,998 | \$ 435,887 |
| Total net natural gas expenditures | <u>\$ 19,516,923</u> | <u>\$ 530,304</u> |

For the year ended December 31, 2010, gross capital expenditures including land acquisitions totaled \$19.5 million (2009: \$0.7 million), compared to a budgeted capital expenditure of \$19.7 million (2009: \$1.2 million). Offsetting the Corporation's capital expenditures in 2009 were \$0.2 million of reimbursements of previously expended drilling and completion costs from a joint venture partner in relation to the Gething operations at Farrell Creek. The recovery of these expenditures was recorded as a reduction of capitalized drilling and completion costs.

The Corporation's capital budget is reviewed and approved by the Board of Directors on a quarterly basis. The Corporation's Board of Directors has approved a revised total forecasted capital expenditure in 2011 of up to \$16.2 million, including an estimated \$0.5 million for capitalized overhead. The capital budget for the first half of 2011 has been approved for a total of up to \$4.8 million, including \$0.2 million for capitalized overhead.

Cash administration expenses (general and administration expenses excluding stock-based compensation) for 2011 are expected to total \$2.6 million (2010: \$2.1 million), before capitalization of exploration and development related overhead. Revenue from interest on cash balances is budgeted at \$0.1 million for the 2011 year. The Corporation has budgeted for net cash flows from the Farrell Creek Montney operations of \$2.2 million during 2011.

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, 2010, the Corporation has accrued a long term liability of \$445,066 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 2011 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, 2010, there was no depletion charge for the 2010 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

Pursuant to the joint venture agreement, Shell could elect to move to the development stage of the Gething joint venture which would include the pooling of the Shell and CSRI lands and an additional capital investment by Shell. On June 18, 2010, Shell elected not to continue to the development stage and as a result shut-in the gas facility in early July 2010. As per the joint venture agreement, the Corporation is now the operator of the Gething project and will retain 100% working interest in its 59 sections (37,760 acres) of Shallow Rights, the gas facility, the additional wells and the related infrastructure at no additional cost. The Corporation also holds a right-of-first-refusal to acquire Shell'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 \$18.6 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 2011 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, 2011 the Corporation employed 8 full time employees and 1 part time employee.

DESCRIPTION OF CAPITAL STRUCTURE

The Corporation's authorized share capital consists of an unlimited number of 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 | |
| 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 | 1.40 | 1.20 | 708,986 |
| | May | 1.38 | 1.01 | 968,086 |
| | June | 1.34 | 1.06 | 973,953 |
| | July | 1.94 | 1.19 | 2,151,130 |
| | August | 1.90 | 1.55 | 1,320,405 |
| | September | 2.34 | 1.70 | 1,829,841 |
| | October | 2.29 | 1.73 | 1,362,765 |
| | November | 2.02 | 1.40 | 1,806,443 |
| | December | 1.91 | 1.39 | 3,175,982 |
| 2011 | January | 1.90 | 1.50 | 922,556 |
| | February | 1.74 | 1.55 | 1,062,997 |
| | March | 1.63 | 1.36 | 3,103,985 |
| | April (1-21) | 1.50 | 1.36 | 645,964 |

PRIOR SALES

Please refer to the share issuances as described in "General Development of the Business" on Page 2.

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 ^{(1) (2)} 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 ^{(1) (2)} 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 ⁽¹⁾ 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. |
| PAUL A. SMOLARCHUK Alberta, Canada Executive Officer | May 2010 | Vice President, Engineering & Operations of the Corporation since May 2010. Operations Manager of the Corporation from December 2007 to April 2010. President of Colt Ventures Ltd. from May 2007 to November 2007. Vice President, Business Development of Canyon Services Group Inc. from February 2006 to May 2007. |
| 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. WINNITOY ^{(1) (2)} Alberta, Canada Director | August 2004 | Consultant since January 2003. |

Notes:

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

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

As of April 21, 2011, the directors and executive officers of the Corporation and their associates, as a group, directly or indirectly, own or exercise control or direction over 1,678,332 Common Shares of the Corporation, representing 2.3% of the currently issued and outstanding Common Shares of the Corporation. See ADDITIONAL INFORMATION on Page 15 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.

George W. Watson is also a director of Fortress Energy Inc. ("Fortress"). On March 2, 2011, the Court of Queen's Bench of Alberta granted an order (the "Order") under the *Companies' Creditors Arrangement Act* (Canada) staying all claims and actions against Fortress and its assets and allowing Fortress to prepare a plan of arrangement for its creditors if necessary. Fortress took such a step in order to enable Fortress to challenge a reassessment issued by the Canada Revenue Agency ("CRA"), which reassessment is in the amount of approximately \$18 million. As a result of the reassessment, if Fortress took no action, it would be compelled to immediately remit \$9 million to the CRA and Fortress does not have the necessary funds to remit, although Fortress has \$18 million of assets in excess of its liabilities with sufficient liquid assets to pay all other liabilities and trade payables. Fortress believes that the CRA's position is not sustainable and intends to vigorously dispute the CRA's claim. On March 3, 2011 the TSX suspended trading in the securities of Fortress due to Fortress having been granted a stay under the *Companies' Creditors Arrangement Act* (Canada).

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., 9th 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 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 21, 2011. Additional financial information is provided in the audited financial statements of the Corporation for the year ended December 31, 2010 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.

**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**

| PART 1 | DATE OF STATEMENT | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|-----------------------------------|-------|--|--|-------------------------|-------------------------|--|-----------------------------------|--|------|------|------|------|--------------------------------|-------|-------|-----|-------|----------------------------------|-------|-------|-----|-------|
| Item 1.1.2. | The effective date of the information being provided is December 31, 2010. | | | | | | | | | | | | | | | | | | | | | | | | |
| Item 1.1.3. | The preparation date of the information being provided is April 21, 2011. | | | | | | | | | | | | | | | | | | | | | | | | |
| PART 2 | DISCLOSURE OF RESERVES DATA | | | | | | | | | | | | | | | | | | | | | | | | |
| | Canadian Spirit Resources Inc. ("CSRI" or the "Corporation") has no proved or probable reserves as at December 31, 2010. | | | | | | | | | | | | | | | | | | | | | | | | |
| PART 3 | PRICING ASSUMPTIONS | | | | | | | | | | | | | | | | | | | | | | | | |
| | The Corporation has made no estimates of future net revenues as it has no reserves as at December 31, 2010. | | | | | | | | | | | | | | | | | | | | | | | | |
| PART 4 | RECONCILIATIONS OF CHANGES IN RESERVES AND FUTURE NET REVENUE | | | | | | | | | | | | | | | | | | | | | | | | |
| | The Corporation has no proved or probable reserves as at December 31, 2010 and no change has occurred since the prior financial year. | | | | | | | | | | | | | | | | | | | | | | | | |
| PART 5 | ADDITIONAL INFORMATION RELATING TO RESERVES DATA | | | | | | | | | | | | | | | | | | | | | | | | |
| | The Corporation has no proved or probable undeveloped reserves as at December 31, 2010. | | | | | | | | | | | | | | | | | | | | | | | | |
| PART 6 | OTHER OIL AND GAS INFORMATION | | | | | | | | | | | | | | | | | | | | | | | | |
| Item 6.1.1 | <p>Sproule Unconventional Limited ("Sproule") was engaged to prepare an independent resource assessment of the Montney Formation on the Corporation's Farrell Creek lands in northeastern British Columbia as at December 31, 2010 in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("Sproule Report"). The engagement was to assess the future development and resource potential of the Montney Formation and did not include the Doig and Doig phosphate intervals (fracture stimulated and tested by other Farrell Creek operators) or the adsorbed gas component associated with any formation. Further, the Sproule resource assessment did not include approximately 5 adjacent sections of Montney rights acquired by CSRI after December 31, 2010. CSRI currently holds 34.4 net sections (22,000 acres) of Montney rights in the Farrell Creek area.</p> <p>The following table summarizes certain information contained in the 2009 and 2010 Sproule Reports.</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="5">SUMMARY OF ANNUAL CHANGES GROSS AND COMPANY GROSS NATURAL GAS INITIALLY-IN-PLACE</th> </tr> <tr> <th rowspan="2">Resource Classification</th> <th colspan="2">Gross GIIP Bcf (Raw)</th> <th colspan="2">Company Gross GIIP Bcf (Sales)</th> </tr> <tr> <th>2009</th> <th>2010</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>DISCOVERED GIIP ⁽¹⁾</td> <td>1,378</td> <td>2,654</td> <td>478</td> <td>1,028</td> </tr> <tr> <td>UNDISCOVERED GIIP ⁽²⁾</td> <td>2,243</td> <td>2,370</td> <td>648</td> <td>1,294</td> </tr> </tbody> </table> <p>NOTES: (1) There is no certainty that it will be commercially viable to produce any portion of this resource. (2) There is no certainty that any portion of this resource will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resource.</p> | SUMMARY OF ANNUAL CHANGES GROSS AND COMPANY GROSS NATURAL GAS INITIALLY-IN-PLACE | | | | | Resource Classification | Gross GIIP Bcf (Raw) | | Company Gross GIIP Bcf (Sales) | | 2009 | 2010 | 2009 | 2010 | DISCOVERED GIIP ⁽¹⁾ | 1,378 | 2,654 | 478 | 1,028 | UNDISCOVERED GIIP ⁽²⁾ | 2,243 | 2,370 | 648 | 1,294 |
| SUMMARY OF ANNUAL CHANGES GROSS AND COMPANY GROSS NATURAL GAS INITIALLY-IN-PLACE | | | | | | | | | | | | | | | | | | | | | | | | | |
| Resource Classification | Gross GIIP Bcf (Raw) | | Company Gross GIIP Bcf (Sales) | | | | | | | | | | | | | | | | | | | | | | |
| | 2009 | 2010 | 2009 | 2010 | | | | | | | | | | | | | | | | | | | | | |
| DISCOVERED GIIP ⁽¹⁾ | 1,378 | 2,654 | 478 | 1,028 | | | | | | | | | | | | | | | | | | | | | |
| UNDISCOVERED GIIP ⁽²⁾ | 2,243 | 2,370 | 648 | 1,294 | | | | | | | | | | | | | | | | | | | | | |

The following table summarizes certain information contained in the resource assessment prepared by Sproule. The Sproule Report was prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook (“COGE Handbook”).

| SUMMARY OF NATURAL GAS RESOURCES WITHIN THE MONTNEY FORMATION IN THE FARRELL CREEK AREA OF BRITISH COLUMBIA | | | | | |
|--|---|---|---------------------------|---|---|
| Classification & Category | Company Gross* Natural Gas Initially-In- Place Bcf (Raw) | Company Gross* Contingent Gas Resources Bcf (Sales) ⁽¹⁾ | Classification & Category | Company Gross* Natural Gas Initially-In- Place Bcf (Raw) | Company Gross* Prospective Gas Resources Bcf (Sales) |
| DISCOVERED | | | UNDISCOVERED | | |
| Low Estimate | 253 | 48 | Low Estimate | 1,294 | 202 |
| Best Estimate | 505 | 134 | Best Estimate | 1,294 | 274 |
| High Estimate | 1,028 | 577 | High Estimate | 1,294 | 675 |

* Company working interest (operating or non-operating) share before deduction of royalties.

NOTE:

(1) As at December 31, 2010, the contingency that prevents the classification of Contingent Gas Resources as reserves is that reported volumes do not meet the economic requirement of reserves.

The Sproule resource assessment used an industry standard 6% limestone porosity cut-off. This provided an average of 75 Bcf per section in the Montney Formation.

Definitions (as defined in the COGE Handbook):

- Total Petroleum (Gas) Initially-In-Place** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.
- Discovered Petroleum (Gas) Initially-In-Place** is 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 (Gas) Initially-In-Place includes production, reserves, and contingent resources; the remainder is unrecoverable.
- Undiscovered Petroleum (Gas) Initially-In-Place** is 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 (Gas) Initially-In-Place is referred to as prospective resources; the remainder is unrecoverable.
- Contingent Resources** are defined as those quantities of natural gas estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as Contingent Resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.
- Prospective Resources** are defined as those quantities of natural gas estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.
- Low estimate (P90)** is a classification of estimated resources as being considered to be a conservative estimate of the quantity that will be actually recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the low estimate.
- Best estimate (P50)** is a classification of estimate resources as being considered to be the best estimate of the quantity that will be actually recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate.
- High estimate (P10)** is a classification of estimated resources as being considered to be an optimistic estimate of the quantity that will be actually recovered. If probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the high estimate.

Item 6.1.2

Under its Farrell Creek joint venture with Canbriam Energy BC Partnership (“Canbriam”), four wells were drilled into the Montney Formation in 2010. Cumulatively, Canbriam has drilled seven Montney wells for testing, production and land retention purposes. In 2011, further operations on the western portion of the Farrell Creek lands will include the completion of three existing wells, and tie-in to the natural gas facility which was commissioned in January 2011.

| | |
|------------|---|
| | <p>On June 18, 2010, Shell elected not to continue to the development stage and as a result shut-in the gas facility in early July 2010. As per the joint venture agreement, the Corporation is now the operator of the Gething project and will retain 100% working interest in its 59 sections (37,760 acres) of Shallow Rights, the gas facility, the additional wells and the related infrastructure at no additional cost. The Corporation is currently minimizing its expenditures on the Gething project and is considering several options that include seeking a new joint venture partner to further develop the Gething Rights.</p> |
| Item 6.2.1 | <p>The Corporation's unproved properties are comprised of 17,319 gross (7,800 net) hectares of Montney Formation rights and 15,431 gross (15,300 net) hectares of Gething Formation rights located in British Columbia, Canada, none of which have any work commitments.</p> |
| Item 6.2.2 | <p>The Corporation has 3,416 hectares (683 net) of unproved properties in western Canada which primary term expires within one year. The Corporation intends to extend 3,416 hectares (683 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, 2010, the Corporation had 21 cased (16 net) wells on its unproved properties for which the future abandonment and reclamation costs are estimated to be \$2,221,099 and the present value using a discount rate of nine percent is \$445,066. 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 | <p>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.</p> |
| Item 6.6 | <p>During 2010, the Corporation incurred \$4,269,875 of acquisition costs for unproved properties and \$15,247,048 (net) of exploration and development costs in western Canada.</p> |
| Item 6.7.1 | <p>During 2010, Canbriam, as part of its joint venture with the Corporation, drilled and cased four wells into the Montney Formation.</p> |
| Item 6.7.2 | <p>For the year ended December 31, 2010, gross capital expenditures including land acquisitions totaled \$19.5 million (2009: \$0.7 million), compared to a budgeted capital expenditure of \$19.7 million (2009: \$1.2 million). Offsetting the Corporation's capital expenditures in 2009 were \$0.2 million of reimbursements of previously expended drilling and completion costs from a joint venture partner in relation to the Gething operations at Farrell Creek. The recovery of these expenditures was recorded as a reduction of capitalized drilling and completion costs.</p> <p>The Corporation's capital budget is reviewed and approved by the Board of Directors on a quarterly basis. The Corporation's Board of Directors has approved a total forecasted capital expenditure in 2011 of up to \$16.2 million, including an estimated \$0.5 million for capitalized overhead. The capital budget for the first half of 2011 was approved for a total of up to \$4.8 million, including \$0.2 million for capitalized overhead.</p> <p>Cash administration expenses (general and administration expenses excluding stock-based compensation) for 2011 are expected to total \$2.6 million (2010: \$2.1 million), before capitalization of exploration and development related overhead. Revenue from interest on cash balances is budgeted at \$0.1 million for the 2011 year.</p> |
| Item 6.8 | <p>The Corporation has no proved or probable reserves as at December 31, 2010 and therefore has made no production estimates for 2011.</p> |
| Item 6.9 | <p>The Corporation has no production history.</p> |

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, 2010, 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 21, 2011

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 (Honors) 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 auditor's 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 financial statements for 2010 and 2009 and for other services provided by PricewaterhouseCoopers LLP:

| | 2010 | 2009 |
|-----------------------------------|-------------|-------------|
| Audit fees | \$39,000 | \$39,000 |
| Audit-related fees ⁽¹⁾ | \$38,000 | \$Nil |
| Tax fees | \$Nil | \$Nil |
| All other fees ⁽²⁾ | \$22,000 | \$2,600 |

NOTES:

(1) Audit-related fees in 2010 were for quarterly reviews and prospectus related audit services.

(2) Other fees in 2010 refer to the IFRS opening balance sheet audit, and other fees in 2009 relate to additional services regarding the Corporation's accounting system conversion.

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 auditor's 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 auditor's 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

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