

**Financial Statements of  
Canadian Spirit Resources Inc.**

**June 30, 2008**

1. BALANCE SHEETS
2. STATEMENTS OF OPERATIONS,  
COMPREHENSIVE LOSS AND DEFICIT
3. STATEMENTS OF CASH FLOWS
4. NOTES TO FINANCIAL STATEMENTS

**NOTICE: The interim financial statements and notes thereto for the three and six month periods ended June 30, 2008 have not been reviewed by the Company's external auditors.**

# Canadian Spirit Resources Inc.

## BALANCE SHEETS

	June 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,682,072	\$ 1,063,490
Accounts receivable	293,399	89,447
Prepaid expenses and other	34,164	52,542
	<u>4,009,635</u>	<u>1,205,479</u>
Property, plant and equipment (note 3)	<u>39,512,469</u>	<u>37,543,148</u>
	<u>\$ 43,522,104</u>	<u>\$ 38,748,627</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable & accrued trade liabilities	\$ 376,494	\$ 854,444
Accrued liability for share appreciation rights (note 5)	582,000	18,000
	<u>958,494</u>	<u>872,444</u>
Asset retirement obligation (note 4)	217,058	198,685
Shareholders' equity		
Equity instruments (note 5)	54,573,703	49,168,204
Equity instruments subscriptions	346,974	-
Contributed surplus (note 5)	4,995,530	4,928,402
Deficit	(17,569,655)	(16,419,108)
	<u>42,346,552</u>	<u>37,677,498</u>
	<u>\$ 43,522,104</u>	<u>\$ 38,748,627</u>

Nature of operations and going concern (note 1)

Financial instruments (note 8)

Capital management (note 9)

ON BEHALF OF THE BOARD:

*(signed) "Philip H. Grubbe"*

\_\_\_\_\_  
Director

*(signed) "J.R. Richard Couillard"*

\_\_\_\_\_  
Director

# Canadian Spirit Resources Inc.

## STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the periods ended June 30

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Revenue</b>				
Interest and other income	\$ 21,536	\$ 13,976	\$ 43,857	\$ 39,492
<b>Expenses</b>				
Consulting fees	75,683	35,159	105,447	83,231
Salaries and benefits	113,733	91,239	217,495	213,827
Other general administration	153,804	107,286	286,150	243,759
Stock-based compensation (note 5)	493,622	(85,155)	740,246	(105,188)
Accretion	3,640	4,022	7,001	11,011
Amortization	5,705	11,652	10,990	23,034
	<u>846,187</u>	<u>164,203</u>	<u>1,367,329</u>	<u>469,674</u>
<b>Loss before income taxes</b>	(824,651)	(150,227)	(1,323,472)	(430,182)
Recovery of future income taxes (note 7)	<u>-</u>	<u>-</u>	<u>172,925</u>	<u>-</u>
<b>Net loss and comprehensive loss</b>	(824,651)	(150,227)	(1,150,547)	(430,182)
<b>Deficit, beginning of period</b>	<u>(16,745,004)</u>	<u>(15,823,499)</u>	<u>(16,419,108)</u>	<u>(15,543,544)</u>
<b>Deficit, end of period</b>	<u><u>\$(17,569,655)</u></u>	<u><u>\$(15,973,726)</u></u>	<u><u>\$(17,569,655)</u></u>	<u><u>\$(15,973,726)</u></u>
<b>Net loss per share (basic &amp; diluted)</b>	<u><u>\$ (0.02)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (0.03)</u></u>	<u><u>\$ (0.01)</u></u>

Nature of operations and going concern (note 1)

# Canadian Spirit Resources Inc.

## STATEMENTS OF CASH FLOWS

For the periods ended June 30

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Operating Activities:</b>				
Net loss	\$ (824,651)	\$ (150,227)	\$ (1,150,547)	\$ (430,182)
Add items not affecting cash				
Amortization	5,705	11,652	10,990	23,034
Accretion	3,640	4,022	7,001	11,011
Recovery of future income taxes	-	-	(172,925)	-
Stock-based compensation	493,622	(85,155)	740,246	(105,188)
	(321,684)	(219,708)	(565,235)	(501,325)
Changes in non-cash working capital items	(86,381)	(69,644)	(146,726)	(139,447)
	(408,065)	(289,352)	(711,961)	(640,772)
<b>Financing Activities:</b>				
Equity instruments issued for cash	98,400	-	5,798,400	-
Equity instruments subscriptions received	346,974	-	346,974	-
Equity instruments issue costs	(5,157)	-	(329,094)	(4,378)
	440,217	-	5,816,280	(4,378)
<b>Investing Activities:</b>				
Furniture and office equipment	(475)	(3,251)	(10,173)	(3,251)
Exploration expenditures	(529,542)	(675,828)	(1,919,787)	(1,512,246)
Acquisition and retention of natural gas rights	(27,908)	(34,470)	(38,979)	(52,160)
	(557,925)	(713,549)	(1,968,939)	(1,567,657)
Changes in non-cash working capital items	(768,942)	119,457	(516,798)	(150,237)
	(1,326,867)	(594,092)	(2,485,737)	(1,717,894)
<b>Change in cash</b>	(1,294,715)	(883,444)	2,618,582	(2,363,044)
<b>Cash position, beginning of period</b>	4,976,787	1,733,278	1,063,490	3,212,878
<b>Cash position, end of period</b>	\$ 3,682,072	\$ 849,834	\$ 3,682,072	\$ 849,834
<b>Cash taxes paid</b>	\$ -	\$ -	\$ -	\$ -
<b>Interest paid</b>	\$ -	\$ -	\$ -	\$ -

See the accompanying notes to the financial statements

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS (*unaudited*)

Three and six months ended June 30, 2008 and 2007

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### 1. NATURE OF OPERATIONS, GOING CONCERN AND BASIS OF PRESENTATION

Canadian Spirit Resources Inc. (the “Company”) incorporated in British Columbia, is a public company listed on the TSX Venture Exchange (the “Exchange”). Effective June 15, 2004, the Company changed its name from Spirit Energy Corp. to Canadian Spirit Resources Inc.

Since May 2002, the Company has been evaluating the resource potential of certain unconventional natural gas properties and is considered to be in its development stage of operations. The recoverability of amounts shown for natural gas properties is dependent upon the determination of economically recoverable reserves. The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover its operating costs.

The Company has incurred losses since inception totaling \$17,569,655 which includes a net loss after income taxes of \$1,150,547 for the six months ended June 30, 2008 (2007: loss of \$430,182). The financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which may or may not be appropriate. The financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities at amounts different from those reflected in these financial statements; such adjustments could be material.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited financial statements of the Company have been prepared by management in accordance with accounting policies generally accepted in Canada. The disclosures included below are incremental to those included with the annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2007. The interim unaudited financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal year ended December 31, 2007, except for the following new accounting pronouncements which have been adopted effective January 1, 2008.

Canadian Institute Chartered Accountants Handbook: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863 *Financial Instruments – Presentation*.

Sections 3862 and 3863 will replace Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks – see note 8.

Section 1535 establishes disclosure requirements about an entity’s capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity’s objectives, policies and processes for managing capital – see note 9.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and six months ended June 30, 2008 and 2007

In early 2008, the Canadian Accounting Standards Board announced that Canadian public companies will be required to adopt International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact these new standards will have on its financial statements.

#### 3. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2008	December 31, 2007
Unproved natural gas properties	\$ 40,667,689	\$ 38,697,551
Mineral property	1	1
Office furniture and equipment	174,811	164,638
	<u>40,842,501</u>	<u>38,862,190</u>
Less: Accumulated depletion, amortization & impairment	<u>(1,330,032)</u>	<u>(1,319,042)</u>
Total property, plant and equipment	<u>\$ 39,512,469</u>	<u>\$ 37,543,148</u>

As the Company had no production or proved reserves at June 30, 2008, there was no depletion charge for the period. There has been no impairment of unproved properties in 2008 or 2007.

During the three and six month periods ended June 30, 2008, the Company capitalized \$127,875 and \$280,821 respectively (2007: \$152,919 and \$272,629 respectively) of overhead directly related to exploration and development activities.

The Company's mineral property is the Isk Wollastonite project where the Company holds a 100 percent undivided interest, subject to a 10 percent net profits interest, in a mineral claim covering 450 hectares in the Iskut River area of the Liard Mining Division, British Columbia. In prior periods, the book value of the mineral property was written down to \$1 to reflect its present economic value.

#### 4. ASSET RETIREMENT OBLIGATION

	June 30, 2008	December 31, 2007
Balance, beginning of year	\$ 198,685	\$ 158,650
Liabilities incurred	11,372	14,029
Revisions in estimated future obligation	-	14,385
Accretion	7,001	11,621
Less: liabilities settled	<u>-</u>	<u>-</u>
Balance, end of period	<u>\$ 217,058</u>	<u>\$ 198,685</u>

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS (*unaudited*)

Three and six months ended June 30, 2008 and 2007

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The total future asset retirement obligation including costs to reclaim and abandon wells and facilities plus the year in which such costs are expected to be incurred is estimated by management. At June 30, 2008 the estimated total future liability of \$1,047,941 has a present value of \$217,058 assuming the liability is settled in approximately 23 years, using an estimated credit-adjusted risk-free interest rate of 7.00 percent, and an inflation rate of 2.25 percent.

### 5. EQUITY INSTRUMENTS

The Company has authorized share capital of an unlimited number of common shares of no par value. The Company has closed the following private placements since 2007:

On February 19, 2008, the Company issued 11,220,000 Units at \$0.50 per Unit. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one share for two years at an exercise price of \$0.80 per share. Prior to expiry, if the common shares of the Company close at a price of \$1.20 per share or greater for twenty consecutive trading days, then the Company shall have the option upon thirty days written notice to require the exercise of the warrants by the end of such period at which time any unexercised warrants shall expire. The fair value of the warrants was estimated at the date of closing using the Black-Scholes pricing model, under which the Company assigned a value of \$0.18 per whole warrant or \$1,311,618 of the Unit proceeds to warrants, with the remaining \$4,298,382 of the Unit proceeds assigned to common shares.

On December 28, 2007, the Company issued 250,000 Flow-Through Shares at \$0.80 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 \$200,000, has been assigned to common shares and has been fully expended on eligible development costs as of December 31, 2007.

On July 18, 2007, the Company issued 3,053,000 Units at \$1.00 per Unit and 447,000 Flow-Through Shares at \$1.10 per share. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one share for one year at an exercise price of \$1.10 per share. The fair value of the warrants was estimated at the date of closing using the Black-Scholes pricing model, under which the Company assigned a value of \$0.21 per whole warrant or \$534,275 of the Unit proceeds to warrants, with the remaining \$2,518,725 of the Unit proceeds assigned to common shares. 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 \$491,700, has been assigned to common shares and has been fully expended on eligible development costs as of the end of 2007.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS *(unaudited)*

Three and six months ended June 30, 2008 and 2007

The equity instruments are as follows:

	June 30, 2008		December 31, 2007	
	Number of shares	Amount of shares and warrants	Number of shares	Amount of shares and warrants
Balance - beginning of year	32,583,082	\$ 49,168,204	28,833,082	\$ 46,991,811
Equity instruments issued for cash:				
Stock options	465,000	188,400	-	-
Private placements	11,220,000	5,610,000	3,750,000	3,744,700
Warrants exercised	-	-	-	-
Warrants expired	-	-	-	(1,358,782)
Equity instruments issue costs	-	(329,094)	-	(209,525)
Credit from contributed surplus	-	109,118	-	-
Tax effect of Flow-Through Shares	-	(172,925)	-	-
Balance - end of period	44,268,082	\$ 54,573,703	32,583,082	\$ 49,168,204

Subsequent to the period end, the Company issued 2,493,319 Units at \$1.05 per Unit and 400,000 Flow-Through Shares at \$1.20 per share. Each Unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one share for eighteen months at an exercise price of \$1.40 per share. The fair value of the warrants was estimated at the date of closing, July 16, 2008, using the Black-Scholes pricing model, under which the Company assigned a value of \$0.49 per whole warrant or \$697,169 of the Unit proceeds to warrants, with the remaining \$1,920,816 of the Unit proceeds assigned to common shares. 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 \$480,000, has been assigned to common shares and is expected to be fully expended on eligible development costs by the end of 2008. The resultant recovery of future income taxes due to the issuance of the Flow-Through Shares will be booked in the accounting records of the Company in the third quarter of 2008.

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and six months ended June 30, 2008 and 2007

### Share Purchase Warrants

In conjunction with previous financings, the Company issued warrants with terms of one to two years to acquire common shares at specific exercise prices.

Exercise Price of Warrants	Outstanding at Dec. 31, 2007	Issued	Expired	Outstanding at June 30, 2008	Expiry Date
\$1.10	1,526,500	-	-	1,526,500	<sup>(1)</sup> July 18, 2008
\$0.80	-	5,610,000	-	5,610,000	February 19, 2010
Total	1,526,500	5,610,000	-	7,136,500	

Note:

(1) Subsequent to the period end, 1,474,000 of these warrants were duly exercised prior to expiry resulting in total proceeds to the Company of \$1,621,400. The remaining 52,500 warrants expired unexercised.

### Stock Options

The Company has stock option plans for directors, officers, employees and consultants which provides for the granting of options to acquire common shares. Under the terms of each plan, options vest over periods as determined by the Company and expire after a maximum of five years.

At June 30, 2008, there were 4,426,000 common shares reserved for issuance under the plans. Options to acquire 2,857,000 common shares were outstanding at June 30, 2008, of which 1,983,916 had vested and 873,084 remained unvested, as follows:

Exercise Price of Option	Outstanding at Dec. 31, 2007	Granted	Exercised or Cancelled	Outstanding at June 30, 2008	Vested at June 30, 2008	Year of Expiry
\$0.40 to \$0.41	465,000	-	<sup>(3)</sup> 465,000	-	-	2008
\$0.56 to \$0.76	-	887,000	-	887,000	220,500	2010/2013
\$0.83 to \$0.85	150,000	-	-	150,000	75,000	2012
\$1.00 to \$1.24	80,000	-	-	80,000	53,416	2009/12
\$1.50 to \$1.72	680,000	-	-	680,000	680,000	2009
\$2.05	95,000	-	-	<sup>(2)</sup> 95,000	63,333	2010
\$2.05	20,000	-	-	20,000	13,333	2011
\$2.15	100,000	-	-	100,000	33,334	2011
\$2.50	50,000	-	50,000	-	-	2008
\$3.30	75,000	-	-	75,000	75,000	2009
\$3.65	450,000	-	-	<sup>(1)</sup> 450,000	450,000	2008
\$4.15 to \$7.15	320,000	-	-	320,000	320,000	2010
Total	2,485,000	887,000	515,000	2,857,000	1,983,916	

Notes:

(1) The exercise of these vested stock options are subject to the Company achieving certain minimum performance thresholds.

(2) These stock options were re-priced on September 19, 2006 with no change to the original expiry date.

(3) These stock options were exercised on January 23, 2008 (225,000) and May 2, 2008 (240,000).

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and six months ended June 30, 2008 and 2007

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Options granted are accounted for using the fair value method. The compensation cost charged against earnings for stock options granted in the first three and six month periods ended June 30, 2008 were \$73,622 and \$176,246 respectively (2007: \$10,845 and \$152,812 respectively).

The fair value of each option grant in 2008 and 2007 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	Six Months 2008	Six Months 2007
Risk free interest rate	3.39%	4.06%
Expected dividend yield	0%	0%
Expected stock price volatility	59.59%	66.12%
Expected life of options	4.9 years	3.4 years
Weighted average fair value of options granted during the period	\$0.30	\$0.56

#### Performance Units

In 2006, the Company implemented a full value performance unit incentive plan for senior officers and directors of the Company. A performance factor ranging from zero to three will be determined for each performance period based on the average closing price of the Company's shares over the last ten trading days of each performance period relative to a share price scale established at the date of grant. Awards under this plan are paid in cash within 60 days of the end of each performance period, meaning that upon each vesting date the units either pay out or expire. Payments for vested units are determined by multiplying the number of units vested by the performance factor achieved during that performance period and multiplying the product by the 10 day average closing price of the Company's shares at the end of the performance period.

On September 19, 2006, three senior officers of the Company were granted a total of 39,000 performance units vesting in equal amounts at performance periods ending on the 1<sup>st</sup> of January 2007, 2008, and 2009. Independent directors of the Company were granted a total of 16,000 performance units vesting on January 1, 2009. For the purpose of calculating the performance factor associated with the 2006 grant, minimum and maximum 10 day average closing share prices were set at \$2.50 and \$5.00 per share respectively for all performance periods. Based on the 10 day average closing share price on the Exchange as at June 30, 2008 of \$1.19 per share and the 10 day average closing share price on the Exchange as at December 31, 2007 of \$0.55 per share, the resultant performance factors for both periods equal zero and therefore the total compensation expense for the 2006 grant for the six month period ended June 30, 2008 and the year ended December 31, 2007 are \$Nil.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and six months ended June 30, 2008 and 2007

On January 18, 2007, the Company granted a total of 119,000 performance units pursuant to its Performance Unit Incentive Plan. Senior officers were granted 93,400 performance units vesting in equal amounts at performance periods ending on the 1<sup>st</sup> of January 2008, 2009 and 2010. Independent directors were granted 25,600 performance units which vest on January 1, 2010. The criterion for the 2007 grant is the average closing price of the Company's shares for the last 10 trading days of each performance period and vesting is subject to minimum and maximum average share prices of \$1.75 and \$4.25 per share respectively. Payout of vested units is made in cash following the end of each performance period. The total compensation expense for the 2007 grant for the six month period ended June 30, 2008 and the year ended December 31, 2007 were \$Nil as the 10 day average closing share prices on the Exchange as at June 30, 2008 and December 31, 2007 were \$1.19 and \$0.55 per share respectively.

Grant Date	Outstanding at Dec. 31, 2007	Granted or (Expired)	Exercised and Paid	Outstanding and Unvested at June 30, 2008	Expiry Date
Sept. 19, 2006	42,000	(13,000)	-	29,000	March 2, 2009
Jan. 18, 2007	119,000	(31,100)	-	87,900	March 2, 2010
Total	161,000	(44,100)	-	116,900	

#### Share Appreciation Rights

On August 28, 2003, three senior employees were granted share appreciation rights ("SARs") entitling them to cash payments equal to the excess of the then current price of the common shares (to a maximum of \$3.65, as amended) over the exercise price of the right. Terms of the SARs are similar to the provisions of the stock option plans however, the exercise of vested SARs is subject to achieving certain minimum performance thresholds.

Exercise Price	Outstanding at Dec. 31, 2007	Granted or (Cancelled)	Exercised or Expired	Outstanding at June 30, 2008	Vested at June 30, 2008	Expiry Date
\$0.48	600,000	-	-	600,000	600,000	<sup>(1)</sup> Aug. 28, 2008

Note:

(1) Subsequent to June 30, 2008, the Board of Directors determined that the exercise conditions associated with these SARs had been achieved and extended the expiry date of the SARs to January 28, 2009. As a result, these vested SARs may be exercised at any time up to the new expiry date.

Total compensation expense for share appreciation rights for the three and six month periods ended June 30, 2008 were \$420,000 and \$564,000 respectively (2007: recoveries of \$96,000 and \$258,000 respectively) based on a closing price of \$1.45 per share on the Exchange at June 30, 2008. The Company has accrued a liability of \$582,000 at June 30, 2008 (2007: \$276,000) relating to share appreciation rights.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and six months ended June 30, 2008 and 2007

#### Contributed Surplus

	June 30, 2008	December 31, 2007
Balance, beginning of year	\$ 4,928,402	\$ 3,250,910
Value of options granted or expensed during the period	176,246	792,500
Recovery of cancelled options	-	(473,790)
Options exercised and transferred to equity instruments	(109,118)	-
Warrants expired	-	1,358,782
Balance, end of period	<u>\$ 4,995,530</u>	<u>\$ 4,928,402</u>

#### Per Share Amounts

The weighted average number of shares outstanding during the three and six month periods ended June 30, 2008 were Basic 44,183,686 and 40,995,032 respectively (2007: 28,833,082) and Diluted 46,124,000 and 41,274,144 respectively (2007: 28,894,600 and 28,877,578 respectively).

For the six months ended June 30, 2008, the existence of stock options and warrants affects the calculation of loss per share on a diluted basis. As the effect of this dilution is to reduce the reported loss per share, diluted loss per share equals basic loss per share.

#### 6. RELATED PARTY TRANSACTIONS

During the first six months of 2008 and 2007, the Company had transactions with directors of the Company, persons related to them or companies controlled by them in the normal course of business as follows:

For the six month periods ended June 30	2008	2007
Consulting fees	\$ 68,100	\$ 54,600

Consulting fees during the three and six months ended June 30, 2008 included \$37,800 and \$68,100 respectively (2007: \$29,550 and \$54,600 respectively) and accounts payable at June 30, 2008 included \$16,981 (2007: \$3,716) paid or payable to a director and senior officer of the Company. Transactions with related parties are recorded at exchange amounts for services provided.

#### 7. FUTURE INCOME TAXES

The Company recorded a recovery of future income taxes in the amount of \$172,925 in the first quarter of 2008 related to Flow-Through Shares issued in 2007 (see note 5) since the actual renouncement applications were filed with the appropriate authorities in January 2008.

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and six months ended June 30, 2008 and 2007

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### 8. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk.

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at June 30, 2008 is the carrying amount of the Company's accounts receivable balances.

Market risk is the risk that changes in market indices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its held financial instruments. Since the Company holds no debt and has limited dealings with foreign currency exchange, the Company's exposure to market risk is minimal.

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk by synchronizing its forecasted cash requirements for operations with its anticipated capital financing activities.

At June 30, 2008, the classification of financial instruments and the carrying amounts reported and their estimated fair values are as follows:

	Carrying Amount	Fair Value
Classification		
Held-for-trading instruments (cash and cash equivalents)	\$ 3,682,072	\$ 3,682,072
Available-for-sale financial assets	-	-
Held-to-maturity investments	-	-
Loans and receivables (accounts receivable)	293,399	293,399
Other financial liabilities (accounts payable and accrued trade liabilities)	(376,494)	(376,494)
Total	<u>\$ 3,598,977</u>	<u>\$ 3,598,977</u>

### 9. CAPITAL MANAGEMENT

The Company defines capital as Shareholders' equity and working capital based on the Company's financial statements.

The current objectives of the capital management process are to maximize long term shareholder value by (i) ensuring sufficient funding to enable the Company's unconventional natural gas resource project to reach the stage of reserves and funds from operations and by (ii) minimizing the Company's cost of capital consistent with a low level of financial risk.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS (*unaudited*)

Three and six months ended June 30, 2008 and 2007

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The policies followed by the Company in managing its capital include:

- (a) ensuring a minimum working capital position that covers all budgeted capital commitments, anticipated administration and field operating costs for a minimum period of three months, current reclamation obligations, and other non-contingent financial liabilities;
- (b) funding 100 percent of capital requirements through the issue of common equity; and
- (c) holding the proceeds of equity funding in deposit accounts of major financial institutions providing for immediate access.

The Company manages its capital by continuously monitoring the quality and level of working capital and the amount of its financial commitments and current obligations. An annual funding plan is approved by the Board of Directors in conjunction with the capital budget process and capital commitments are made based on a quarterly budget review and approval process. The capital management process takes into account exploration and development results, economic conditions, cost inflation, commodity prices and capital market conditions.