

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

September 30, 2008

1. BALANCE SHEETS
2. STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT
3. STATEMENTS OF CASH FLOWS
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NOTICE: The interim financial statements and notes thereto for the three and nine month periods ended September 30, 2008 have not been reviewed by the Company's external auditors.

Canadian Spirit Resources Inc.

BALANCE SHEETS

	September 30, 2008 <i>(unaudited)</i>	December 31, 2007 <i>(audited)</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,874,601	\$ 1,063,490
Accounts receivable	1,579,167	89,447
Prepaid expenses and other	70,975	52,542
	<u>13,524,743</u>	<u>1,205,479</u>
Property, plant and equipment (note 3)	<u>34,438,248</u>	<u>37,543,148</u>
	<u>\$ 47,962,991</u>	<u>\$ 38,748,627</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable & accrued trade liabilities	\$ 868,167	\$ 854,444
Accrued liability for share appreciation rights (note 5)	246,000	18,000
	<u>1,114,167</u>	<u>872,444</u>
Asset retirement obligation (note 4)	213,341	198,685
Shareholders' equity		
Equity instruments (note 5)	59,107,561	49,168,204
Contributed surplus (note 5)	5,013,303	4,928,402
Deficit	<u>(17,485,381)</u>	<u>(16,419,108)</u>
	<u>46,635,483</u>	<u>37,677,498</u>
	<u>\$ 47,962,991</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 September 30
(unaudited)

	Three months		Nine months	
	2008	2007	2008	2007
Revenue				
Interest and other income	\$ 55,324	\$ 31,620	\$ 99,181	\$ 71,112
Expenses				
Consulting fees	35,737	64,478	141,184	147,709
Salaries and benefits	206,883	84,594	424,378	298,421
Other general administration	117,871	91,124	404,021	334,883
Stock-based compensation (note 5)	(277,821)	(194,046)	462,425	(299,234)
Accretion	27	16,754	7,028	27,765
Amortization	8,353	11,652	19,343	34,686
	<u>91,050</u>	<u>74,556</u>	<u>1,458,379</u>	<u>544,230</u>
Loss before income taxes	(35,726)	(42,936)	(1,359,198)	(473,118)
Recovery of future income taxes (note 7)	<u>120,000</u>	<u>-</u>	<u>292,925</u>	<u>-</u>
Net income (loss) and comprehensive income (loss)	84,274	(42,936)	(1,066,273)	(473,118)
Deficit, beginning of period	<u>(17,569,655)</u>	<u>(15,973,726)</u>	<u>(16,419,108)</u>	<u>(15,543,544)</u>
Deficit, end of period	<u>\$(17,485,381)</u>	<u>\$(16,016,662)</u>	<u>\$(17,485,381)</u>	<u>\$(16,016,662)</u>
Net loss per share (basic & diluted)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>

Nature of operations and going concern (note 1)

Canadian Spirit Resources Inc.

STATEMENTS OF CASH FLOWS

For the periods ended September 30
(unaudited)

	Three months		Nine months	
	2008	2007	2008	2007
Operating Activities:				
Net income (loss)	\$ 84,274	\$ (42,936)	\$ (1,066,273)	\$ (473,118)
Add items not affecting cash				
Amortization	8,353	11,652	19,343	34,686
Accretion	27	16,754	7,028	27,765
Recovery of future income taxes	(120,000)	-	(292,925)	-
Stock-based compensation	(277,821)	(194,046)	462,425	(299,234)
	(305,167)	(208,576)	(870,402)	(709,901)
Changes in non-cash working capital items	27,409	(19,755)	(119,317)	(159,202)
	(277,758)	(228,331)	(989,719)	(869,103)
Financing Activities:				
Equity instruments issued for cash	4,751,385	3,544,700	10,549,785	3,544,700
Equity instruments subscriptions received	(346,974)	-	-	-
Equity instruments issue costs	(137,933)	(177,256)	(467,027)	(181,634)
	4,266,478	3,367,444	10,082,758	3,363,066
Investing Activities:				
Furniture and office equipment	(51,887)	-	(62,060)	(3,251)
Recovery (expenditure) of exploration costs	5,151,600	(1,722,077)	3,231,813	(3,234,323)
Acquisition and retention of natural gas rights	(37,589)	(20,134)	(76,568)	(72,294)
	5,062,124	(1,742,211)	3,093,185	(3,309,868)
Changes in non-cash working capital items	(858,315)	247,989	(1,375,113)	97,752
	4,203,809	(1,494,222)	1,718,072	(3,212,116)
Change in cash	8,192,529	1,644,891	10,811,111	(718,153)
Cash position, beginning of period	3,682,072	849,834	1,063,490	3,212,878
Cash position, end of period	\$ 11,874,601	\$ 2,494,725	\$ 11,874,601	\$ 2,494,725
Cash taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -

See the accompanying notes to the financial statements

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS (*unaudited*)

Three and nine months ended September 30, 2008 and 2007

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

Canadian Spirit Resources Inc. (the “Company”) is incorporated in British Columbia and 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 and joint venture partners, obtaining additional financing and generating revenues sufficient to cover its operating costs.

The Company has incurred losses since inception totaling \$17,485,381 which includes a net loss after income taxes of \$1,066,273 for the nine months ended September 30, 2008 (2007: loss of \$473,118). 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 nine months ended September 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 future financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2008	December 31, 2007
Unproved natural gas properties	\$ 35,549,934	\$ 38,697,551
Mineral property	1	1
Office furniture and equipment	226,698	164,638
	<u>35,776,633</u>	<u>38,862,190</u>
Less: Accumulated depletion, amortization & impairment	<u>(1,338,385)</u>	<u>(1,319,042)</u>
Total property, plant and equipment	<u>\$ 34,438,248</u>	<u>\$ 37,543,148</u>

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

During the third quarter 2008, the Company received, or accrued as receivable, \$5,455,246 of previously expended drilling and completion costs from a joint venture partner. The recovery of these expenditures has been recorded as a reduction in unproved natural gas properties capitalized costs as at September 30, 2008.

During the three and nine month periods ended September 30, 2008, the Company capitalized \$163,620 and \$444,441 respectively (2007: \$217,527 and \$490,156 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.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS *(unaudited)*

Three and nine months ended September 30, 2008 and 2007

4. ASSET RETIREMENT OBLIGATION

	September 30, 2008	December 31, 2007
Balance, beginning of year	\$ 198,685	\$ 158,650
Liabilities incurred	25,441	14,029
Revisions in estimated future obligation	-	14,385
Accretion	7,028	11,621
Less: liabilities settled	(17,813)	-
Balance, end of period	<u>\$ 213,341</u>	<u>\$ 198,685</u>

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 September 30, 2008 the estimated total future liability of \$1,012,031 has a present value of \$213,341 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 July 16, 2008, 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, 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.

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.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS *(unaudited)*

Three and nine months ended September 30, 2008 and 2007

On December 28, 2007, the Company issued 250,000 Flow-Through Shares at \$0.80 per share. The Flow-Through Shares entitled 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, was assigned to common shares and had been fully expended on eligible development costs as at 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 entitled 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, was assigned to common shares and had been fully expended on eligible development costs as of the end of 2007.

The equity instruments are as follows:

	September 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	14,113,319	8,707,985	3,750,000	3,744,700
Warrants exercised	1,514,000	1,653,400	-	-
Warrants expired	-	(18,375)	-	(1,358,782)
Equity instruments issue costs	-	(467,027)	-	(209,525)
Credit from contributed surplus	-	167,899	-	-
Tax effect of Flow-Through Shares	-	(292,925)	-	-
Balance - end of period	48,675,401	\$ 59,107,561	32,583,082	\$ 49,168,204

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and nine months ended September 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.

Issue Date	Exercise Price of Warrants	Out-standing at Dec. 31, 2007	Issued	Exercised or Expired	Out-standing at Sept. 30, 2008	Expiry Date
July 18, 2007	\$1.10	1,526,500	-	(1,474,000) (52,500)	-	⁽¹⁾ July 18, 2008
Feb. 19, 2008	\$0.80	-	5,610,000	(40,000)	5,570,000	⁽²⁾ Feb. 19, 2010
July 16, 2008	\$1.40	-	1,246,660	-	1,246,660	Jan. 16, 2010
	Total	1,526,500	6,856,660	(1,566,500)	6,816,660	

Notes:

- (1) In July 2008, 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.
(2) On July 25, 2008, 40,000 of these warrants were duly exercised resulting in total proceeds to the Company of \$32,000.

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 September 30, 2008, there were 4,426,000 common shares reserved for issuance under the plans. Options to acquire 2,407,000 common shares were outstanding at September 30, 2008, of which 1,761,000 had vested and 646,000 remained unvested, as follows:

Exercise Price of Option	Out-standing at Dec. 31, 2007	Granted	Exercised, Expired or Cancelled	Out-standing at Sept. 30, 2008	Vested at Sept. 30, 2008	Year of Expiry
\$0.40 to \$0.41	465,000	-	⁽²⁾ (465,000)	-	-	2008
\$0.56 to \$0.76	-	887,000	-	887,000	441,000	2010/2013
\$0.83 to \$0.85	150,000	-	-	150,000	75,000	2012
\$1.00 to \$1.24	80,000	-	-	80,000	60,000	2009/12
\$1.50 to \$1.72	680,000	-	-	680,000	680,000	2009
\$2.05	95,000	-	-	⁽¹⁾ 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	-	⁽³⁾ (50,000)	-	-	2008
\$3.30	75,000	-	-	75,000	75,000	2009
\$3.65	450,000	-	⁽⁴⁾ (450,000)	-	-	2008
\$4.15 to \$7.15	320,000	-	-	320,000	320,000	2010
Total	2,485,000	887,000	(965,000)	2,407,000	1,761,000	

Notes:

- (1) These stock options were re-priced on September 19, 2006 with no change to the original expiry date.
(2) These stock options were exercised on January 23, 2008 (225,000) and May 2, 2008 (240,000).
(3) These stock options were cancelled on February 27, 2008.
(4) These stock options expired effective August 28, 2008.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and nine months ended September 30, 2008 and 2007

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 nine month periods ended September 30, 2008 were \$58,179 and \$234,425 respectively (2007: recoveries of \$164,046 and \$11,234 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:

	Nine Months 2008	Nine Months 2007
Risk free interest rate	3.39%	4.28%
Expected dividend yield	0%	0%
Expected stock price volatility	59.59%	65.02%
Expected life of options	4.9 years	3.0 years
Weighted average fair value of options granted during the period	\$0.30	\$0.49

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. Upon each vesting date the units either pay out or expire. Awards under this plan are paid in cash within 60 days of the end of each performance period. 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 1st 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 September 30, 2008 of \$0.88 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 nine month period ended September 30, 2008 and the year ended December 31, 2007 are \$Nil.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and nine months ended September 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 1st 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 nine month period ended September 30, 2008 and the year ended December 31, 2007 were \$Nil as the 10 day average closing share prices on the Exchange as at September 30, 2008 and December 31, 2007 were \$0.88 and \$0.55 per share respectively.

Grant Date	Out-standing at Dec. 31, 2007	Granted	Expired	Exercised and Paid	Outstanding and Unvested at Sept. 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 was subject to achieving certain minimum performance thresholds.

Exercise Price	Out-standing at Dec. 31, 2007	Granted or (Cancelled)	Exercised or Expired	Out-standing at Sept. 30, 2008	Vested at Sept. 30, 2008	Expiry Date
\$0.48	600,000	-	-	600,000	600,000	⁽¹⁾ Jan. 28, 2009

Note:

(1) In the third quarter 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 from August 28, 2008 to January 28, 2009. Subsequent to September 30, 2008 the Board of Directors approved a grant of 600,000 stock options, at an exercise price of \$0.50 per share with a term of five months having an expiry date of March 31, 2009, to replace all the existing outstanding SARs. The difference of \$0.02 per SAR will be paid out to the SARs holders in cash in the fourth quarter 2008.

Total compensation expense for share appreciation rights for the three and nine month periods ended September 30, 2008 was a recovery of \$336,000 and an expense of \$228,000 respectively (2007: recoveries of \$30,000 and \$288,000 respectively) based on a closing price of \$0.89 per share on the Exchange at September 30, 2008. The Company has accrued a liability of \$246,000 at September 30, 2008 (2007: \$18,000) relating to share appreciation rights. As per the notation above, this liability will be reduced to nil in the fourth quarter 2008.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and nine months ended September 30, 2008 and 2007

Contributed Surplus

	September 30, 2008	December 31, 2007
Balance, beginning of year	\$ 4,928,402	\$ 3,250,910
Value of options granted / expensed during the period	234,425	792,500
Recovery of unvested cancelled options	-	(473,790)
Options exercised and transferred to equity instruments	(167,899)	-
Warrants expired	18,375	1,358,782
Balance, end of period	<u>\$ 5,013,303</u>	<u>\$ 4,928,402</u>

Per Share Amounts

The weighted average number of shares outstanding during the three and nine month periods ended September 30, 2008 were Basic 47,872,954 and 43,304,409 respectively (2007: 31,648,299 and 29,781,800 respectively) and Diluted 50,130,263 and 44,302,381 respectively (2007: 32,210,025 and 30,330,605 respectively).

For the nine months ended September 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 nine 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 nine month periods ended September 30	2008	2007
Consulting fees	\$ 96,150	\$ 84,150

Consulting fees during the three and nine months ended September 30, 2008 consisted of \$28,050 and \$96,150 respectively (2007: \$29,550 and \$84,150 respectively) and accounts payable at September 30, 2008 included \$4,099 (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. Further to the issue of Flow-Through Shares on July 16, 2008 (see note 5), the Company has recorded a further recovery of future income taxes in the amount of \$120,000.

The offsetting entry for each of the above recoveries of future income taxes has been recorded as a reduction in the value of equity instruments (see note 5).

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

Three and nine months ended September 30, 2008 and 2007

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 September 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, holds its cash and cash equivalents in the form of bank deposits 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 September 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)	\$ 11,874,601	\$ 11,874,601
Available-for-sale financial assets	-	-
Held-to-maturity investments	-	-
Loans and receivables (accounts receivable)	1,579,167	1,579,167
Other financial liabilities (accounts payable and accrued trade liabilities)	(868,167)	(868,167)
Total	<u>\$ 12,585,601</u>	<u>\$ 12,585,601</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, production 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 nine months ended September 30, 2008 and 2007

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.