

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

September 30, 2009

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

NOTICE: The interim financial statements and notes hereto for the three and nine month periods ended September 30, 2009 have not been reviewed by the Company's external auditors.

Canadian Spirit Resources Inc.

BALANCE SHEETS

	September 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,804,016	\$ 11,217,762
Accounts receivable	343,585	1,585,657
Prepaid expenses and other	78,837	47,054
	<u>10,226,438</u>	<u>12,850,473</u>
Property, plant and equipment (note 3)	<u>34,984,881</u>	<u>34,685,065</u>
	<u>\$ 45,211,319</u>	<u>\$ 47,535,538</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued trade liabilities	\$ 90,012	\$ 1,132,785
Long term liabilities:		
Asset retirement obligation (note 4)	250,279	211,848
Shareholders' equity		
Common shares (note 5)	56,903,553	57,461,109
Share purchase warrants (note 5)	1,613,463	1,613,463
Contributed surplus (note 5)	5,716,955	5,233,673
Deficit	<u>(19,362,943)</u>	<u>(18,117,340)</u>
	<u>44,871,028</u>	<u>46,190,905</u>
	<u>\$ 45,211,319</u>	<u>\$ 47,535,538</u>

Nature of operations, going concern and basis of presentation (note 1)

Commitments (note 8)

Canadian Spirit Resources Inc.

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

For the periods ended September 30
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue				
Interest and other income	\$ 10,292	\$ 55,324	\$ 34,773	\$ 99,181
Expenses				
Consulting fees	42,037	35,737	111,254	141,184
Salaries and benefits	159,857	206,883	465,463	424,378
Other general and administrative	140,188	117,871	448,058	404,021
Stock-based compensation (note 5)	41,312	(277,821)	223,697	462,425
Accretion (note 4)	4,537	27	13,801	7,028
Amortization (note 3)	6,645	8,353	18,103	19,343
	<u>394,576</u>	<u>91,050</u>	<u>1,280,376</u>	<u>1,458,379</u>
Loss before income taxes	(384,284)	(35,726)	(1,245,603)	(1,359,198)
Recovery of future taxes (note 7)	-	120,000	-	292,925
Net income (loss) and comprehensive income (loss)	(384,284)	84,274	(1,245,603)	(1,066,273)
Deficit, beginning of period	<u>(18,978,659)</u>	<u>(17,569,655)</u>	<u>(18,117,340)</u>	<u>(16,419,108)</u>
Deficit, end of period	<u><u>\$(19,362,943)</u></u>	<u><u>\$(17,485,381)</u></u>	<u><u>\$(19,362,943)</u></u>	<u><u>\$(17,485,381)</u></u>
Net loss per share (basic & diluted)	<u><u>\$ (0.01)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (0.03)</u></u>	<u><u>\$ (0.03)</u></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 ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Operating Activities:				
Net income (loss)	\$ (384,284)	\$ 84,274	\$ (1,245,603)	\$ (1,066,273)
Add items not affecting cash				
Amortization	6,645	8,353	18,103	19,343
Accretion	4,537	27	13,801	7,028
Recovery of future taxes	-	(120,000)	-	(292,925)
Stock-based compensation	41,312	(277,821)	223,697	462,425
	(331,790)	(305,167)	(990,002)	(870,402)
Changes in non-cash working capital items	(47,717)	27,409	(75,108)	(119,317)
	(379,507)	(277,758)	(1,065,110)	(989,719)
Financing Activities:				
Common shares issued for cash	36,500	4,751,385	358,900	10,549,785
Common shares subscriptions received	-	(346,974)	-	-
Common shares re-purchased and cancelled	(125,935)	-	(641,835)	-
Share issue costs	(3,543)	(137,933)	(15,036)	(467,027)
	(92,978)	4,266,478	(297,971)	10,082,758
Investing Activities:				
Computer and office equipment, furniture	(7,009)	(51,887)	(8,663)	(62,060)
Expenditure of exploration and development costs	2,231	5,151,600	(202,672)	3,231,813
Acquisition and retention of natural gas rights	(28,650)	(37,589)	(81,954)	(76,568)
	(33,428)	5,062,124	(293,289)	3,093,185
Changes in non-cash working capital items	235,311	(858,315)	242,624	(1,375,113)
	201,883	4,203,809	(50,665)	1,718,072
Change in cash	(270,602)	8,192,529	(1,413,746)	10,811,111
Cash position, beginning of period	10,074,618	3,682,072	11,217,762	1,063,490
Cash position, end of period	<u>\$ 9,804,016</u>	<u>\$ 11,874,601</u>	<u>\$ 9,804,016</u>	<u>\$ 11,874,601</u>
Cash taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three and Nine Months ended September 30, 2009 and 2008

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

Canadian Spirit Resources Inc. (the "Company") is incorporated in the province of British Columbia and is a public company listed on the TSX Venture Exchange (the "Exchange").

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 ultimately 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 \$19,362,943 which includes a net loss after income taxes of \$1,245,603 for the nine months ended September 30, 2009 (2008: loss of \$1,066,273).

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. 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; such adjustments could be material and thus the use of accounting principles applicable to a going concern may or may not be appropriate.

Certain of the prior year's comparative figures have been restated to conform to the current year's presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim 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, 2008. The interim 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, 2008, except for the following new accounting pronouncements which have been adopted effective January 1, 2009.

Canadian Institute of Chartered Accountants Handbook: Section 3064, *Goodwill and Intangible Assets*

Section 3064 revises the definition of an intangible asset in order to align with International Financial Reporting Standards by clarifying the criteria for the recognition of intangible assets and providing guidance to help distinguish intangible assets from expenses. The new section provides guidance on the recognition and measurement of internally developed intangible assets.

This new standard is effective for fiscal years beginning on or after October 1, 2008 and therefore the Company has adopted it effective January 1, 2009, however the adoption of this standard has not had a material effect on its financial statements.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three and Nine Months ended September 30, 2009 and 2008

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian generally accepted accounting principles in 2011 for profit-oriented Canadian publicly accountable enterprises. As such, the Company will be required to report its results in accordance with IFRS beginning in 2011.

Effective July 23, 2009 the International Accounting Standards Board amended IFRS to allow enterprises using the full cost method of accounting to be exempt from retrospective application of IFRS for oil and gas assets. The Company plans to elect this exemption and thereby use the carrying value as at December 31, 2010 as the deemed cost of its oil and gas assets upon first-time adoption of IFRS on January 1, 2011.

In the time leading up to the conversion date, some existing Canadian standards will change to converge with IFRS. The Company's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian generally accepted accounting principles as it exists on each reporting date. Financial statements commencing with the quarter ended March 31, 2011, including comparative information, will be prepared on an IFRS basis.

The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The key elements of the Company's changeover plan include:

- (a) determining appropriate changes to accounting policies and required amendments to financial disclosures;
- (b) identifying and implementing changes in associated processes and information systems;
- (c) complying with internal control requirements;
- (d) communicating collateral impacts to appropriate internal personnel and
- (e) educating and training internal and external stakeholders.

The Company is currently analyzing accounting policy alternatives and identifying implementation options for the corresponding process changes. CSRI will update its IFRS changeover plan as necessary to reflect any new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the full impact of IFRS on the Company's financial statements is not reasonably determinable at this time.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three and Nine Months ended September 30, 2009 and 2008

3. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2009	December 31, 2008
Unproved natural gas properties	\$ 36,113,575	\$ 35,804,319
Mineral property	1	1
Computer and office equipment, furniture	233,935	225,272
	<u>36,347,511</u>	<u>36,029,592</u>
Less: Accumulated depletion, amortization & impairment	<u>(1,362,630)</u>	<u>(1,344,527)</u>
Total property, plant and equipment	<u>\$ 34,984,881</u>	<u>\$ 34,685,065</u>

Production volumes from the announcement of first sales gas in June 2009 to September 30, 2009 have, as per the terms of the joint venture agreement, been substantially utilized by the Operator of the Farrell Creek Pilot Project for plant operating requirements. As a result the Company has not recorded any production revenue, royalties or operating costs through the end of the third quarter 2009. Since the Company had no (net) reported production revenue nor proved reserves as at September 30, 2009, there was no depletion charge for the period. There has been no impairment of unproved natural gas properties during 2008 nor in the first nine months of 2009.

During the three and nine months ended September 30, 2009, the Company capitalized \$121,929 and \$329,181 respectively (2008: \$163,620 and \$444,441 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 years, the book value of the mineral property was written down to \$1 to reflect its present economic value.

4. ASSET RETIREMENT OBLIGATION

	September 30, 2009	December 31, 2008
Balance, beginning of year	\$ 211,848	\$ 198,685
Add: liabilities incurred	24,630	22,279
Accretion	13,801	8,697
Less: liabilities settled	<u>-</u>	<u>(17,813)</u>
Balance, end of period	<u>\$ 250,279</u>	<u>\$ 211,848</u>

The total future asset retirement obligation including costs to reclaim and abandon wells and facilities plus the years in which such costs are expected to be incurred, is estimated by management. At September 30, 2009 the estimated total future liability of \$1,221,018 has a present value of \$250,279 assuming the liability is settled in approximately 22 years, using an estimated credit-adjusted risk-free interest rate of 9.0 percent, and an inflation rate of 2.25 percent.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS *(unaudited)*

Three and Nine Months ended September 30, 2009 and 2008

5. **SHAREHOLDERS' EQUITY**

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 the beginning of 2008:

On July 9, 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, with the remaining 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 had been fully expended on eligible development costs by the end of fiscal 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, with the remaining Unit proceeds assigned to common shares.

Common Shares

The common shares of the Company issued and outstanding are summarized as follows:

	September 30, 2009		December 31, 2008	
	Number of shares	Amount of shares	Number of shares	Amount of shares
Balance, beginning of year	48,555,401	\$ 57,461,109	32,583,082	\$ 48,633,929
Common shares issued through:				
Exercise of stock options	702,500	358,900	465,000	188,400
Private placements	-	-	14,113,319	6,699,198
Exercise of warrants	-	-	1,514,000	1,653,400
Common shares cancelled through:				
Issuer bid share repurchase	(854,500)	(1,008,015)	(120,000)	(144,875)
Value of stock options exercised	-	106,595	-	167,899
Value of warrants exercised	-	-	-	911,224
Share issue costs, net of future taxes	-	(15,036)	-	(355,141)
Tax effect of flow-through shares	-	-	-	(292,925)
Balance, end of period	<u>48,403,401</u>	<u>\$ 56,903,553</u>	<u>48,555,401</u>	<u>\$ 57,461,109</u>

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three and Nine Months ended September 30, 2009 and 2008

Normal Course Issuer Bid

The Company received approval from the Exchange on December 2, 2008 to make a Normal Course Issuer Bid (the "Bid") consisting of the acquisition and cancellation of up to 1 million common shares of the Company's stock, representing 2.1% of the total number of common shares outstanding at the commencement of the Bid. On September 24, 2009, the Company received approval from the Exchange to increase the Bid to 1,600,000 common shares, or 3.3% of the total number of common shares outstanding at the commencement of the Bid. The Bid commenced on December 8, 2008 and will run for a maximum term to November 30, 2009.

As of September 30, 2009, the Company had purchased for cancellation a total of 974,500 common shares of the Company for total cash consideration of \$707,510 (at an average price of \$0.73 per common share), representing 2.0% of the total number of common shares outstanding at the commencement of the Bid. Of this amount \$641,835 was charged against common shares in the first nine months of 2009 (2008: \$65,675). Since the average carrying value of common shares outstanding at the time of repurchase was higher than the actual repurchase price per common share during the course of the Bid, the calculated difference per common share for the nine month period ended September 30, 2009 of \$366,180 (2008: \$79,200) has also been charged against common shares with the offset recorded as an increase to contributed surplus.

Share Purchase Warrants

In conjunction with previous financings, the Company issued warrants with terms between one to two years to acquire common shares at specific exercise prices as summarized below:

	September 30, 2009		December 31, 2008	
	Number of warrants	Amount of warrants	Number of warrants	Amount of warrants
Balance, beginning of year	6,816,660	\$ 1,613,463	1,526,500	\$ 534,275
Issued through private placements	-	-	6,856,660	2,008,787
Exercised prior to expiry	-	-	(1,514,000)	(911,224)
Expired unexercised	-	-	(52,500)	(18,375)
Balance, end of period	6,816,660	\$ 1,613,463	6,816,660	\$ 1,613,463

Issue Date	Weighted Average Exercise Price	Number Outstanding at September 30, 2009	Weighted Average Fair Value	Fair Value Amount at September 30, 2009	Expiry Date
Feb. 19, 2008	\$0.80	5,570,000	\$0.18	\$1,002,600	Feb. 19, 2010
July 9, 2008	\$1.40	1,246,660	\$0.49	\$ 610,863	Jan. 9, 2010
	\$0.91	6,816,660	\$0.24	\$1,613,463	

Subsequent to the period end, 235,000 of the \$0.80 warrants were exercised by holders resulting in gross proceeds to the Company of \$188,000. The weighted average fair value of the exercised warrants is \$42,300.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three and Nine Months ended September 30, 2009 and 2008

Stock Options

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

At September 30, 2009, there were 3,268,500 common shares reserved for issuance under the plan. Options to acquire 2,279,500 common shares were outstanding at September 30, 2009, of which 1,846,164 had vested and 433,336 remained unvested, as follows:

	September 30, 2009		December 31, 2008	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Outstanding, beginning of year	3,057,000	\$ 1.53	2,485,000	\$ 2.34
Granted	795,000	0.69	1,537,000	0.54
Exercised prior to expiry	(702,500)	0.51	(465,000)	0.41
Forfeited, cancelled or expired	(870,000)	2.11	(500,000)	3.54
Outstanding, end of period	2,279,500	\$ 1.33	3,057,000	\$ 1.53
Options vested, end of period	1,846,164	\$ 1.46	2,444,333	\$ 1.72

The following table summarizes the information about stock options outstanding and vested as at September 30, 2009:

Range of Exercise Price	Options Outstanding			Options Exercisable Remaining		
	Number of Options Outstanding	Remaining Contractual Life (in Yrs)	Weighted Average Exercise Price	Number of Vested Options	Contractual Life (in Yrs)	Weighted Average Exercise Price
\$0.40 - \$0.79	1,629,500	3.62	\$ 0.63	1,239,500	3.42	\$ 0.61
\$0.80 - \$1.72	180,000	3.03	0.91	169,998	3.07	0.89
\$1.73 - \$3.65	215,000	1.33	2.10	181,666	1.17	2.09
\$3.66 - \$7.15	255,000	0.53	5.50	255,000	0.53	5.50
	2,279,500	3.01	\$ 1.33	1,846,164	2.77	\$ 1.46

Options granted are accounted for using the fair value method. The compensation cost charged against earnings for stock option expense during the three and nine months ended September 30, 2009 was \$41,312 and \$223,697 respectively (2008: \$58,179 and \$234,425 respectively).

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three and Nine Months ended September 30, 2009 and 2008

The fair value of all option grants in the first nine months of 2009 and 2008 was estimated on the date of grant using the Black-Scholes pricing model with the following annualized weighted average assumptions:

	Nine Months 2009	Nine Months 2008
Risk free interest rate	1.56%	3.39%
Expected dividend yield	0%	0%
Expected stock price volatility	82.46%	59.59%
Expected life of options	4.6 years	4.9 years
Weighted average fair value of options granted during the period	\$0.40	\$0.30

Performance Units

The Company has a Performance Unit Incentive Plan for executive 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 10 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.

The performance units granted to date are comprised of two separate grants: the first for 55,000 units with performance factors based on minimum and maximum 10 day average closing share prices of \$2.50 and \$5.00 per share respectively for all performance periods, and the second for 119,000 units with performance factors based on minimum and maximum 10 day average closing share prices of \$1.75 and \$4.25 per share respectively for all performance periods. Prior to 2008, 13,000 performance units from the first grant expired based on a performance factor of zero determined for that performance period. Based on the 10 day average closing share price on the Exchange as at September 30, 2009 of \$0.84 per share and the 10 day average closing share price on the Exchange as at December 31, 2008 of \$0.59 per share, the resultant performance factors for both periods equal zero and therefore the total compensation expense for all performance units for the nine months ended September 30, 2009 and the year ended December 31, 2008 are \$Nil respectively.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS *(unaudited)*

Three and Nine Months ended September 30, 2009 and 2008

The performance units are summarized below:

	September 30, 2009		December 31, 2008	
	Number of units	Weighted Average Minimum Vesting Price	Number of units	Weighted Average Minimum Vesting Price
Outstanding, beginning of year	116,900	\$ 1.94	161,000	\$ 1.95
Granted	-	-	-	-
Exercised prior to expiry	-	-	-	-
Cancelled or expired	(66,500)	\$ 2.08	(44,100)	\$ 1.97
Outstanding, end of period	50,400	\$ 1.75	116,900	\$ 1.94
Units vested, end of period	-	\$ 1.75	-	\$ 1.94

The 50,400 performance units outstanding at September 30, 2009 have an expiry date of March 2, 2010 and are currently not exercisable.

Share Appreciation Rights

In prior years, three senior employees were granted share appreciation rights (“SARs”) entitling them to cash payments equal to the excess of the grant date price of the common shares (to a maximum of \$3.65, as amended) over the exercise price of the right. Terms of the SARs were similar to the provisions of the stock option plan, however the exercise of vested SARs was subject to achieving certain minimum performance thresholds. The SARs are summarized as follows:

	September 30, 2009		December 31, 2008	
	Number of SARs	Weighted Average Exercise Price	Number of SARs	Weighted Average Exercise Price
Outstanding, beginning of year	-	\$ -	600,000	\$ 0.48
Granted	-	-	-	-
Exercised prior to expiry	-	-	-	-
Cancelled or expired	-	-	(600,000)	0.48
Outstanding, end of period	-	\$ -	-	\$ -
SARs vested, end of period	-	\$ -	-	\$ -

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three and Nine Months ended September 30, 2009 and 2008

In the third quarter 2008, the Board of Directors determined that the exercise conditions associated with the SARs had been achieved and extended the original expiry date of the SARs from August 28, 2008 to January 28, 2009. On October 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 to March 31, 2009, to cancel and replace all the existing outstanding SARs. The difference of \$0.02 between the exercise price of the SARs and the replacement stock options was paid out to the SARs holders in cash in the fourth quarter 2008. All 600,000 stock options granted as a replacement of the SARs were exercised in the first quarter of 2009.

Total compensation expense for SARs for the three and nine months ended September 30, 2008 was a recovery of \$336,000 and an expense of \$228,000 respectively. As a result of the above cancellation of the SARs in the fourth quarter 2008, the Company no longer has an accrued liability relating to SARs.

Contributed Surplus

	September 30, 2009	December 31, 2008
Balance, beginning of year	\$ 5,233,673	\$ 4,928,402
Stock options expense	223,697	375,595
Value of stock options exercised	(106,595)	(167,899)
Issuer bid share repurchase	366,180	79,200
Warrants expired unexercised	-	18,375
Balance, end of period	<u>\$ 5,716,955</u>	<u>\$ 5,233,673</u>

Per Share Amounts

The weighted average number of common shares outstanding during the three and nine month periods ended September 30, 2009 were basic 48,451,271 and 48,505,889 respectively (2008: 47,872,954 and 43,304,409 respectively) and diluted 48,879,683 and 48,716,665 respectively (2008: 50,130,263 and 44,302,381 respectively).

For the nine months ended September 30, 2009, 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.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three and Nine Months ended September 30, 2009 and 2008

6. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at exchange amounts for services provided. During the nine month periods ended September 30, 2009 and 2008, the only transactions the Company had with its directors, persons related to them or companies controlled by them in the normal course of business were as follows:

For the nine month periods ended September 30	2009	2008
Consulting fees	\$ -	\$ 96,150

The consulting contract with a director and executive officer of the Company was discontinued effective December 31, 2008, upon his full-time employment with the Company. There were no other transactions with directors, persons related to them or companies controlled by them in the normal course of business during the first nine months of 2009 or 2008.

7. FUTURE TAXES

The Company recorded a recovery of future taxes in the amount of \$172,925 in the first quarter of 2008 related to flow-through shares issued in late 2007 since the actual renouncement applications were filed with the appropriate authorities in January 2008.

8. COMMITMENTS

The Company has entered into an office sub-lease agreement which expires on May 30, 2011. Under the terms of the sub-lease agreement, the Company is obligated to pay base annual rent of \$28.00 per square foot on 6,793 square feet as well as its share of the operating costs.

9. 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, 2009 is the carrying amount of the Company's accounts receivable balances. The Company did not incur any write-offs relating to accounts receivable balances during the first nine months of 2009. The accounts receivable balance as at September 30, 2009 is comprised of amounts due from the Company's reputable, financially-stable joint venture partners and are proactively collected by the Company on a timely basis.

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.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three and Nine Months ended September 30, 2009 and 2008

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. The impacts on the Company's liquidity risk due to current equity and commodity price market conditions include a) increased difficulty in raising additional funds for future capital projects and b) a decreased likelihood that the Company will be able to generate sufficient revenues from the sale of natural gas to cover administrative and operating costs. As such, the Company is currently holding significant cash balances and has not budgeted for any significant capital spending during the current fiscal year.

Fair Value of Financial Instruments

Financial instruments held-for-trading include cash and cash equivalents, loans and receivables include accounts receivable and other financial liabilities include accounts payable and accrued trade liabilities. The fair value of cash and cash equivalents and accounts receivable approximate their carrying values due to the short term nature of these instruments. The fair value of accounts payable and accrued trade liabilities approximates the carrying value due to the large cash balances currently carried by the Company.

10. 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 and liquidity risk.

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

- (a) ensuring a minimum working capital position of \$3.0 million 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 equity instruments; 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.