

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

March 31, 2010

1. BALANCE SHEETS
2. STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT
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NOTICE: The interim financial statements and notes thereto for the three month period ended March 31, 2010 have not been reviewed by the Corporation's external auditors.

Canadian Spirit Resources Inc.

BALANCE SHEETS

	March 31, 2010 <i>(unaudited)</i>	December 31, 2009 <i>(audited)</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,666,321	\$ 9,647,890
Accounts receivable	213,529	203,995
Prepaid expenses and other	67,771	51,290
	<u>12,947,621</u>	<u>9,903,175</u>
Long term assets:		
Property, plant and equipment (note 3)	<u>36,223,723</u>	<u>35,251,948</u>
	<u>\$ 49,171,344</u>	<u>\$ 45,155,123</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued trade liabilities	\$ 303,193	\$ 418,095
Long term liabilities:		
Asset retirement obligation (note 4)	293,136	288,095
Shareholders' equity		
Common shares (note 5)	62,460,982	56,775,426
Share purchase warrants (note 5)	688,781	1,940,927
Contributed surplus (note 5)	6,181,447	5,865,418
Deficit	<u>(20,756,195)</u>	<u>(20,132,838)</u>
	<u>48,575,015</u>	<u>44,448,933</u>
	<u>\$ 49,171,344</u>	<u>\$ 45,155,123</u>

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

Commitments (note 7)

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 Three Months ended March 31
(*unaudited*)

	2010	2009
Revenue		
Interest and other income	\$ 10,925	\$ 14,070
Expenses		
Consulting fees	11,644	8,273
Salaries and benefits	194,814	111,932
Other general administration	156,116	159,647
Stock-based compensation (note 5)	260,252	86,463
Accretion (note 4)	5,041	5,445
Depreciation and amortization	6,415	5,216
	<u>634,282</u>	<u>376,976</u>
Net loss and comprehensive loss	(623,357)	(362,906)
Deficit, beginning of period	<u>(20,132,838)</u>	<u>(18,117,340)</u>
Deficit, end of period	<u>\$ (20,756,195)</u>	<u>\$ (18,480,246)</u>
Net loss and comprehensive loss per share (basic & diluted)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

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

Canadian Spirit Resources Inc.

STATEMENTS OF CASH FLOWS

For the Three Months ended March 31
(unaudited)

	2010	2009
Operating Activities:		
Net loss	\$ (623,357)	\$ (362,906)
Add (deduct) items not affecting cash		
Depreciation and amortization	6,415	5,216
Accretion (note 4)	5,041	5,445
Stock-based compensation (note 5)	260,252	86,463
	<u>(351,649)</u>	<u>(265,782)</u>
Changes in non-cash working capital items	<u>(272,332)</u>	<u>(41,669)</u>
	<u>(623,981)</u>	<u>(307,451)</u>
Financing Activities:		
Common shares issued for cash (note 5)	4,384,550	322,400
Common shares re-purchased and cancelled (note 5)	-	(345,750)
Share issue costs (note 5)	(600)	(6,125)
	<u>4,383,950</u>	<u>(29,475)</u>
Investing Activities:		
Computer and office equipment, furniture and fixtures	(5,943)	(38)
Expenditure of exploration and development costs	(909,582)	(84,670)
Acquisition and retention of natural gas rights	(62,665)	(25,229)
	<u>(978,190)</u>	<u>(109,937)</u>
Changes in non-cash working capital items	<u>236,652</u>	<u>(1,157,831)</u>
	<u>(741,538)</u>	<u>(1,267,768)</u>
Change in cash	3,018,431	(1,604,694)
Cash position, beginning of period	<u>9,647,890</u>	<u>11,217,762</u>
Cash position, end of period	<u>\$ 12,666,321</u>	<u>\$ 9,613,068</u>
Cash taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three months ended March 31, 2010 and 2009

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

Canadian Spirit Resources Inc. (“CSRI” or the “Corporation”) 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 Corporation 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 Corporation’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 Corporation has incurred losses since inception totaling \$20,756,195 which includes a net loss after income taxes of \$623,357 for the three months ended March 31, 2010 (2009: loss of \$362,906).

These interim 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 interim financial statements do not give effect to any adjustments which would be necessary should the Corporation 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.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The interim financial statements of the Corporation have been prepared by management in accordance with accounting policies generally accepted in Canada. These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2009. 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, 2009, including the following accounting pronouncements which have been adopted effective January 1, 2009.

CICA Handbook: Section 3064, *Goodwill and Intangible Assets*

Section 3064 revises the definition of an intangible asset by clarifying the criteria for the recognition of intangible assets and providing guidance to help distinguish intangible assets from expenses. This section provides guidance on the recognition and measurement of internally developed intangible assets.

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

CICA Handbook: Section 3862, *Financial Instruments – Disclosures*

The amended Section 3862 requires disclosures about the inputs to fair value measurements and became effective for fiscal years ending on or after September 30, 2009. This amended standard establishes a three-tier hierarchy as the framework for disclosing fair value based on inputs used to value the Corporation’s investments.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three months ended March 31, 2010 and 2009

The hierarchy of inputs is summarized as follows:

Level One - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level Two - Inputs other than quoted prices included in Level One that are observable for the asset or liability, either directly or indirectly; and

Level Three - Inputs for the asset or liability that are not based on observable market data.

The Corporation adopted the amended Section 3862 commencing with the year ended December 31, 2009, however the adoption of this standard has had no impact on the valuation methods or policies of the Corporation.

The Corporation's cash and cash equivalents are categorized within Level One.

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 Corporation will be required to report its results in accordance with IFRS beginning in 2011. In the time leading up to the conversion date, some existing Canadian standards will change in order to converge with IFRS. The Corporation'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 ("GAAP") 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 Corporation commenced its IFRS conversion project during 2009 and early in 2010 by purchasing a software tool designed to assist small and medium-sized enterprises through the planning, policy decision-making and implementation processes. In addition, an external consulting firm has been engaged to assist the Corporation with its decision-making and conversion processes. The Corporation's external auditors, as part of the 2010 audit process, will review accounting policy decisions as they are made during the conversion project. The Corporation's Audit Committee will monitor the progress and critical decisions in the transition to IFRS.

The Corporation has developed a changeover plan to complete the transition to IFRS by the first quarter 2011, including the preparation of required comparative information and an assessment of the Corporation's information technology systems.

The Corporation's IFRS conversion plan consists of three stages: Planning, Policy Decision-Making and Implementation. The Corporation has completed the Planning stage which involved an assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on financial accounting and reporting processes, internal control requirements, information technology systems; business processes and required amendments to financial disclosures.

The Policy Decision-Making stage has also begun and involves an analysis and evaluation of the financial impacts of various alternatives available under IFRS, and the selection of appropriate accounting policies. This phase also includes identification of effects on business processes, analysis of financial disclosure requirements, and a review of the optional exemptions and mandatory exceptions of IFRS 1 (First-Time Adoption of International Financial Reporting Standards) for retrospective application upon transition to IFRS in 2011. The Corporation is currently analyzing accounting policy alternatives and identifying implementation options for the corresponding business process changes.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 2010 and 2009

The third, or Implementation stage, has not yet commenced but will involve the preparation of opening IFRS balances as at January 1, 2010 and the compilation of financial information necessary to present comparative IFRS financial statements and opening reconciliations to Canadian GAAP commencing with the first quarter of 2011 for approval by the Corporation's Audit Committee.

CSRI will update its IFRS changeover plan as necessary to reflect new and amended accounting standards issued by the International Accounting Standards Board. Other than format, classification and additional notes disclosure, the conversion to IFRS is not expected at this time to have a material impact on the Corporation's financial statements. However, as IFRS is expected to change prior to 2011, the full impact of IFRS on the Corporation's financial statements is not fully determinable at this time.

Comparative Information

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

3. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2010	December 31, 2009
Unproved natural gas properties	\$ 37,359,466	\$ 36,387,219
Mineral property	1	1
Computer and office equipment, furniture and fixtures	240,459	234,516
	<u>37,599,926</u>	<u>36,621,736</u>
Accumulated depreciation, amortization and impairment	<u>(1,376,203)</u>	<u>(1,369,788)</u>
Total property, plant and equipment	<u>\$ 36,223,723</u>	<u>\$ 35,251,948</u>

The joint venture Gething pilot project has produced nominal volumes of sales gas since June 2009. Under the terms of the joint venture agreement, operating and transportation costs less 100% of net sales revenue are the responsibility of the Operator and are applied against the financial amount committed by the Operator. As of March 31, 2010 no royalties are accrued since the pilot production levels are minimal and revenue is less than credits earned under the applicable British Columbia royalty regime.

Since the Corporation had no reported production revenue, nor proved reserves as at March 31, 2010 and 2009, there was no depletion charge for the first quarter 2010 nor 2009. There has been no impairment of unproved natural gas properties during the first quarter 2010 nor 2009.

During the first quarter 2010, the Corporation capitalized \$117,592 (2009: \$143,577) of overhead directly related to exploration and development activities. During the three months ended March 31, 2010, the Corporation also capitalized \$105,237 (2009: \$Nil) of stock-based compensation expense for those employees of the Corporation directly involved in exploration and development activities.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 2010 and 2009

The Corporation's mineral property refers to a Wollastonite project where the Corporation 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 a prior year, the book value of the mineral property was written down to \$1 to reflect its present economic value.

4. ASSET RETIREMENT OBLIGATION

	March 31, 2010	December 31, 2009
Balance, beginning of year	\$ 288,095	\$ 211,848
Liabilities incurred	-	24,149
Revisions to estimated future obligation	-	28,447
Accretion	5,041	23,651
Liabilities settled	-	-
Balance, end of period	<u>\$ 293,136</u>	<u>\$ 288,095</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 March 31, 2010 the estimated total future liability of \$1,411,083 has a present value of \$293,136 assuming the liability is settled in approximately 21.5 years, using an estimated credit-adjusted risk-free interest rate of 9.0 percent, and an inflation rate of 2.25 percent.

5. SHAREHOLDERS' EQUITY

The Corporation has authorized share capital of an unlimited number of common shares of no par value. The Corporation has not issued any private placements since the beginning of 2009.

Common Shares

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

	March 31, 2010		December 31, 2009	
	Number of shares	Amount of shares	Number of shares	Amount of shares
Balance, beginning of year	48,653,401	\$ 56,775,426	48,555,401	\$ 57,075,145
Common shares issued for cash:				
Exercise of stock options	147,500	107,550	702,500	358,900
Private placements	-	-	-	-
Exercise of share purchase warrants	5,335,000	4,277,000	250,000	200,000
Common shares cancelled:				
Issuer bid share repurchase	-	-	(854,500)	(1,008,015)
Credit from contributed surplus	-	49,460	-	106,595
Credit from share purchase warrants	-	1,252,146	-	58,500
Share issue costs, net of future taxes	-	(600)	-	(15,699)
Balance, end of period	<u>54,135,901</u>	<u>\$ 62,460,982</u>	<u>48,653,401</u>	<u>\$ 56,775,426</u>

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 2010 and 2009

Normal Course Issuer Bids

The Corporation received approval from the Exchange on December 2, 2008 to make a Normal Course Issuer Bid (the “2008-2009 NCIB”) consisting of the acquisition and cancellation of up to 1.0 million common shares of the Corporation’s stock, representing 2.1% of the total number of common shares outstanding at the commencement of the 2008-2009 NCIB. On September 24, 2009, the Corporation received approval from the Exchange to increase the 2008-2009 NCIB to 1.6 million common shares, or 3.3% of the total number of common shares outstanding at the commencement of the 2008-2009 NCIB. The 2008-2009 NCIB commenced on December 8, 2008 and closed on November 30, 2009. During 2009, the Corporation purchased for cancellation a total of 854,500 common shares of the Corporation for total cash consideration of \$641,835 (at an average price of \$0.75 per common share), representing 1.8% of the total number of common shares outstanding at the commencement of the 2008-2009 NCIB. 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 2008-2009 NCIB, the calculated difference per common share for the year ended December 31, 2009 of \$366,180 was also charged against common shares with the offset recorded as an increase to contributed surplus.

On April 14, 2010, the Corporation received approval from the Exchange to commence a further Normal Course Issuer Bid (the “2010-2011 NCIB”) through the facilities of the Exchange beginning on April 16, 2010. Pursuant to the 2010-2011 NCIB, the Corporation may acquire up to 2.5 million common shares of the Corporation, representing 4.6% of the total number of common shares outstanding at the commencement of the 2010-2011 NCIB, until April 16, 2011.

Share Purchase Warrants

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

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Number</u>	<u>Amount of</u>	<u>Number</u>	<u>Amount of</u>
	<u>of warrants</u>	<u>warrants</u>	<u>of warrants</u>	<u>warrants</u>
Balance, beginning of year	6,566,660	\$ 1,940,927	6,816,660	\$ 1,999,427
Issued through private placements	-	-	-	-
Exercised prior to expiry	(5,335,000)	(1,252,146)	(250,000)	(58,500)
Expired unexercised	-	-	-	-
Balance, end of period	<u>1,231,660</u>	<u>\$ 688,781</u>	<u>6,566,660</u>	<u>\$ 1,940,927</u>

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 2010 and 2009

Issue Date	Weighted Average Exercise Price	Number of Warrants Outstanding at March 31, 2010	Weighted Average Fair Value (Rounded)	Weighted Average Fair Value at March 31, 2010	Expiry Date
Feb. 19, 2008	\$0.80	-	\$0.234	\$ -	Feb. 19, 2010 ⁽²⁾
July 9, 2008	\$1.40	1,231,660	\$0.559	\$688,781	July 9, 2010 ⁽¹⁾
	\$1.40	1,231,660	\$0.559	\$688,781	

Notes:

- (1) Effective December 23, 2009, the expiry date of these warrants was extended from January 9, 2010 to July 9, 2010 as approved by the Exchange.
- (2) Prior to expiry, all remaining 5,320,000 of the \$0.80 warrants were duly exercised by holders resulting in gross proceeds to the Corporation of \$4,256,000.

Stock Options

The Corporation 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 Corporation and expire after a maximum of five years.

At March 31, 2010, there were 3,121,000 (2009: 3,331,000) common shares reserved for issuance under the plan. Options to acquire 2,659,500 (2009: 2,267,000) common shares were outstanding at March 31, 2010, of which 1,926,666 (2009: 1,891,998) had vested and 732,834 (2009: 375,002) remained unvested, as follows:

	March 31, 2010		December 31, 2009	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Outstanding, beginning of year	2,267,000	\$ 1.34	3,057,000	\$ 1.53
Granted	725,000	1.80	795,000	0.69
Exercised prior to expiry	(147,500)	0.73	(702,500)	0.51
Forfeited, cancelled or expired	(185,000)	5.22	(882,500)	2.09
Outstanding, end of period	2,659,500	\$ 1.23	2,267,000	\$ 1.34
Options vested, end of period	1,926,666	\$ 1.12	1,891,998	\$ 1.46

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 2010 and 2009

The following table summarizes the information about stock options outstanding and vested as at March 31, 2010:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Remaining Contractual Life (in Yrs)	Weighted Average Exercise Price	Number of Vested Options	Remaining Vested Contractual Life (in Yrs)	Weighted Average Exercise Price
\$0.50 - \$0.79	1,469,500	3.32	\$ 0.62	1,283,250	3.25	\$ 0.61
\$0.80 - \$1.72	190,000	2.65	0.94	179,666	2.53	0.91
\$1.73 - \$3.65	860,000	4.21	1.85	323,750	3.24	1.94
\$3.66 - \$7.15	140,000	0.21	4.15	140,000	0.21	4.15
	2,659,500	3.40	\$ 1.23	1,926,666	2.96	\$ 1.12

Options granted are accounted for using the fair value method. The net compensation cost charged against earnings for stock option expense during the three months ended March 31, 2010 was \$260,252 (2009: \$86,463).

The fair value of all option grants in 2010 and 2009 was estimated on the date of grant using the Black-Scholes pricing model with the following annualized weighted average assumptions:

	Three Months 2010	Three Months 2009
Risk free interest rate	2.48%	1.56%
Expected dividend yield	0%	0%
Expected stock price volatility	82.67%	82.46%
Expected life of options	5.0 years	4.6 years
Weighted average fair value of options granted during the period	\$1.20	\$0.40

Performance Units

The Corporation has a Performance Unit Incentive Plan for executive officers and directors of the Corporation. Currently, there are no performance units outstanding or vested as at March 31, 2010.

A performance factor ranging from zero to three is determined for each performance period based on the average closing price of the Corporation'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 Corporation's shares at the end of the performance period.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (unaudited)

Three months ended March 31, 2010 and 2009

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 2009, 57,100 performance units expired based on performance factors of zero determined for those performance periods. Based on the 10 day average closing share price on the Exchange as at December 31, 2009 of \$1.35 per share, the resultant performance factor equals zero and therefore the total compensation expense for all performance units for the year ended December 31, 2009 is \$Nil. The 50,400 performance units outstanding as at December 31, 2009 expired unexercised on March 2, 2010.

The performance units are summarized below:

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	Number	Weighted	Number	Weighted
	of units	Average	of units	Average
		Minimum		Minimum
		Vesting Price		Vesting Price
Outstanding, beginning of year	50,400	\$ 1.75	116,900	\$ 1.94
Granted	-	-	-	-
Exercised prior to expiry	-	-	-	-
Cancelled or expired	(50,400)	\$ 1.75	(66,500)	\$ 2.08
Outstanding, end of period	-	\$ -	50,400	\$ 1.75
Units vested, end of period	-	\$ -	-	\$ 1.75

Contributed Surplus

	March 31,	December 31,
	2010	2009
Balance, beginning of year	\$ 5,865,418	\$ 5,233,673
Stock options expense	365,489	372,160
Stock options exercised and transferred to common shares	(49,460)	(106,595)
Issuer bid share repurchase	-	366,180
Share purchase warrants expired unexercised	-	-
Balance, end of period	<u>\$ 6,181,447</u>	<u>\$ 5,865,418</u>

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS (*unaudited*)

Three months ended March 31, 2010 and 2009

Per Share Amounts

The weighted average number of common shares outstanding during the three months ended March 31, 2010 was basic 51,064,705 (2009: 48,479,629) and diluted 54,142,658 (2009: 49,040,985).

For the three months ended March 31, 2010, 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

Transactions with related parties are recorded at exchange amounts for services provided. During the three month periods ended March 31, 2010 and 2009, the Corporation had no transactions with its directors, persons related to them or companies controlled by them outside of the normal course of business.

7. COMMITMENTS

The Corporation has an office sub-lease agreement which expires on May 30, 2011. Under the terms of the sub-lease agreement, the Corporation 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.

8. FINANCIAL INSTRUMENTS

The Corporation 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 Corporation if a counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at March 31, 2010 is the carrying amount of the Corporation's accounts receivable balances. The Corporation did not incur any write-offs relating to accounts receivable balances during the three months ended March 31, 2010 nor during the year ended December 31, 2009. The accounts receivable balance as at March 31, 2010 is comprised of amounts due from the Corporation's joint venture partners and are proactively collected by the Corporation 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 Corporation's income or the value of its held financial instruments. Since, as at March 31, 2010, the Corporation held no debt, held its cash and cash equivalents in the form of bank deposits and had limited dealings with foreign currency exchange, the Corporation's exposure to market risk is minimal.

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation manages its liquidity risk by synchronizing its forecasted cash requirements for operations with its anticipated capital financing activities and maintaining significant cash balances. The impacts on the Corporation's liquidity risk due to current equity and commodity price market conditions include a) increased uncertainty in raising additional funds on reasonable terms for future capital projects and b) a reduction in the Corporation's ability to generate sufficient revenues from the sale of natural gas to cover administrative and operating costs. As such, the Corporation held significant cash balances as at March 31, 2010 and has not budgeted for significant capital spending until the third quarter of the current fiscal year.

Canadian Spirit Resources Inc.

NOTES TO INTERIM FINANCIAL STATEMENTS *(unaudited)*

Three months ended March 31, 2010 and 2009

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 is significantly less than the carrying value due to the credit risk of the Corporation.

9. CAPITAL MANAGEMENT

The Corporation defines capital as Shareholders' equity and working capital based on the Corporation'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 Corporation's unconventional natural gas resource project to reach the stage of reserves, production and funds from operations and by (ii) minimizing the Corporation's cost of capital consistent with a low level of financial and liquidity risk.

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

- (a) targeting a minimum working capital position of \$4.0 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 Corporation 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.