

**Financial Statements of**

**Canadian Spirit Resources Inc.  
(formerly Spirit Energy Corp.)**

**For the Six Months Ended June 30, 2004  
(Unaudited)**

1. STATEMENTS OF OPERATIONS AND DEFICIT
2. BALANCE SHEETS
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**NOTICE:** The interim financial statements and notes thereto for the three and six month periods ended June 30, 2004 have not been reviewed by the Company's external auditors.

# Canadian Spirit Resources Inc.

## STATEMENTS OF OPERATIONS AND DEFICIT

For the period ended June 30  
(Unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	2004	2003	2004	2003
		(Restated)		(Restated)
<b>REVENUE</b>				
Interest and other income	\$ 12,361	\$ -	\$ 26,038	\$ -
<b>EXPENSES</b>				
Consulting fees	43,792	45,774	91,260	99,406
Salaries and benefits	43,875	40,599	85,678	79,379
Management fees	-	16,027	-	28,027
Other general administration	127,124	48,988	174,578	91,472
Stock-based compensation (note 4)	179,052	30,770	318,501	59,430
Asset retirement accretion	344	-	509	-
Depreciation	1,541	1,944	3,325	2,582
<b>Net Loss</b>	(383,367)	(184,099)	(647,813)	(360,296)
<b>Deficit, beginning of period</b>	(9,184,156)	(8,702,227)	(8,920,093)	(8,526,030)
<b>Deficit, end of period</b>	(9,567,523)	(8,886,326)	(9,567,523)	(8,886,326)
<b>Loss per share (basic &amp; diluted)</b>	\$(0.03)	\$(0.03)	\$(0.05)	\$(0.07)

See accompanying notes to financial statements

# Canadian Spirit Resources Inc.

## BALANCE SHEETS

	<b>June 30, 2004 (unaudited)</b>	<b>December 31, 2003 (audited)</b>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 5,267,808	\$ 2,629,565
Accounts receivable	54,771	40,212
Prepaid expenses and other	17,461	11,503
	<hr/> 5,340,040	<hr/> 2,681,280
Office furniture and equipment (note 2)	16,570	18,124
Natural gas and mineral properties (note 2)	7,632,108	1,543,264
	<hr/> \$ 12,988,718	<hr/> \$ 4,242,668
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 384,848	\$ 246,124
Asset retirement obligation (note 3)	18,196	8,761
Shareholders' equity		
Share capital (note 4)	21,777,375	12,808,180
Share subscriptions	14,163	-
Contributed surplus	362,043	99,696
Deficit	(9,567,907)	(8,920,093)
	<hr/> 12,585,674	<hr/> 3,987,783
	<hr/> \$ 12,988,718	<hr/> \$ 4,242,668

See accompanying notes to financial statements

# Canadian Spirit Resources Inc.

## STATEMENTS OF CASH FLOWS

For the period ended June 30  
(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		(Restated)		(Restated)
<b>OPERATING ACTIVITIES:</b>				
Net loss	\$ (383,749)	\$(184,099)	\$ (647,813)	\$(360,296)
Add items not affecting cash-				
Depreciation and amortization	2,293	1,941	4,829	2,582
Stock-based compensation	179,052	30,770	318,501	59,430
Asset retirement accretion	344	-	509	-
	(202,060)	(151,388)	(323,974)	(298,284)
Changes in non-cash working capital items	45,772	18,178	(3,453)	15,012
	(156,287)	(133,210)	(327,427)	(234,093)
<b>FINANCING ACTIVITIES:</b>				
Shares issued for cash	8,759,070	301,498	8,969,195	394,498
Subscriptions received	14,163	294,750	14,163	294,750
	8,773,233	596,248	8,983,358	689,249
<b>INVESTING ACTIVITIES:</b>				
Software and office equipment	(3,276)	(10,248)	(3,276)	(10,248)
Exploration expenditures	(432,688)	(7,542)	(1,054,599)	(7,542)
Acquisition of P&NG rights	(3,822,319)	-	(5,025,319)	-
	(4,258,283)	(17,790)	(6,083,194)	(17,790)
Changes in non-cash working capital items	(407,200)	-	65,506	-
	(4,665,483)	(17,790)	(6,017,688)	(17,790)
<b>Change in cash</b>	<b>\$ 3,951,462</b>	<b>\$ 445,248</b>	<b>\$ 2,638,243</b>	<b>\$ 388,186</b>
<b>Cash position, beginning of period</b>	<b>1,316,346</b>	<b>266,441</b>	<b>2,629,565</b>	<b>323,503</b>
<b>Cash position, end of period</b>	<b>5,267,808</b>	<b>711,689</b>	<b>5,267,808</b>	<b>711,689</b>
<b>Cash taxes paid</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Interest received (paid)</b>	<b>\$10,361</b>	<b>-</b>	<b>\$24,038</b>	<b>-</b>

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Six months ended June 30, 2004

The interim unaudited financial statements of Canadian Spirit Resources Inc. (the "Company") have been prepared by management in accordance with accounting policies generally accepted in Canada. 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, 2003. 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, 2003.

### 1. CHANGES IN ACCOUNTING POLICIES

During the fourth quarter of 2003, the Company adopted new accounting policies for stock-based compensation and asset retirement obligations. The 2003 audited annual financial statements describe the impact of these changes. The financial statements for the three and six month periods ended June 30, 2003 have been restated, resulting in an increase of \$30,770 and \$59,430 in the net loss for the respective periods.

During the fourth quarter of 2003, the Company also adopted the revised guideline for full cost oil and gas accounting. This change had no impact on the financial results of the Company.

Certain comparative amounts have been reclassified to conform with current year's presentation.

### 2. CAPITAL ASSETS

	June 30, 2004	Dec. 31, 2003
Oil and Gas Properties	\$7,632,107	\$1,543,263
Mineral Property (Isk Wollastonite)	1	1
Other Capital Assets	25,991	22,716
Less accumulated depreciation and amortization	9,421	4,592
Total Capital Assets	\$7,648,678	\$1,561,388

As the Company had no proved reserves at June 30, 2004, there was no depletion charge for the period. At June 30, 2004, oil and gas properties included \$6,008,803 (2003: \$Nil) relating to unproved properties that, in any case, would have been excluded from the depletion calculation.

During the three and six month periods ended June 30, 2004, the Company capitalized \$35,700 and \$71,400 respectively (2003: \$10,200 and \$20,400) of overhead directly related to exploration activities.

### 3. ASSET RETIREMENT OBLIGATION

For the Six Months ended June 30	2004	2003
Balance, beginning of year	\$ 8,761	\$ -
Liabilities incurred	8,926	-
Accretion expense	344	-
Liabilities settled	-	-
Balance, end of period	\$18,031	\$ -

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Six months ended June 30, 2004

The total future asset retirement obligation is calculated using management estimates of costs to reclaim and abandon wells and facilities and the year in which such costs are expected to be incurred.

At June 30, 2004 the estimated total future liability of \$120,000 has a present value of \$18,196 assuming the liability is settled in 2029 and using an estimated credit-adjusted risk-free interest rate of 8 percent. At June 30, 2003, the Company had no future asset retirement liabilities.

### 4. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common shares. The issued share capital of the Company at June 30 is as follows:

	2004		2003	
	Number	Amount	Number	Amount
Balance – beginning of year	11,734,908	\$12,808,180	3,835,473	\$8,403,157
Shares issued for cash -				
Private placements	4,950,000	8,105,000	1,200,000	480,000
Options exercised	275,000	126,750	-	-
Warrants exercised	1,591,464	890,411	669,996	301,498
Finders' fees – private placements	30,750	50,738	112,000	44,800
Share issue costs	-	(203,704)	-	(44,800)
Balance – end of period	18,582,122	\$21,777,375	5,817,469	\$9,184,655

### Stock Options

Exercise Price	Out-standing at Dec. 31, 2003	Granted or (Cancelled)	Exercised or Expired	Out-standing at June 30, 2004	Vested at June 30, 2004	Expiry Date
<b>Options</b>						
\$0.48	200,000	-	200,000	-	-	June 7, 2004
\$0.40	380,000	-	-	380,000	285,000	Jan. 23, 2008
\$0.41	315,000	-	75,000	240,000	180,000	June 18, 2008
\$1.55	-	10,000	-	10,000	2,500	Jan. 6, 2009
\$1.50	-	450,000	-	450,000	112,500	Jan. 21, 2009
\$1.72	-	50,000	-	50,000	12,500	April 20, 2009
\$1.65	-	225,000	-	225,000	56,250	May 27, 2009
<b>Total</b>	<b>895,000</b>	<b>735,000</b>	<b>275,000</b>	<b>1,355,000</b>	<b>648,750</b>	

Options granted after January 1, 2003 are accounted for using the fair value method. The compensation cost charged against earnings for the stock option plan was \$120,086 for the second quarter of 2004 and \$262,347 for the six months ended June 30, 2004. The fair value of each option grant in 2004 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Six months ended June 30, 2004

Risk free interest rate	3.6%
Expected dividend yield	0%
Expected stock price volatility	90%
Expected life of options	3 years

### Share Purchase Warrants

Exercise Price	Outstanding at December 31, 2003	Issued or (Cancelled)	Exercised or Expired	Outstanding at June 30, 2004	Expiry Date
<b>Warrants</b>					
\$0.50	372,250	-	372,250	-	February 7, 2004
\$0.60	533,333	-	533,333	-	May 24, 2004
\$0.50/\$0.75	691,400	-	520,500	170,900	July 4, 2004/2005
\$0.75	1,968,370	-	165,381	1,802,989	October 3, 2004
\$1.85	-	1,865,375	-	1,865,375	June 22, 2005
Total	3,565,353	1,865,375	1,591,464	3,839,264	

### Share Appreciation Rights

Exercise Price	Out-standing at Dec. 31, 2003	Granted or (Cancelled)	Exercised or Expired	Out-standing at March 31, 2004	Vested at March 31, 2004	Expiry Date
\$0.48	600,000	-	-	600,000	-	Aug. 28, 2008

Total compensation expense for share appreciation rights for the three and six month periods ended June 30, 2004 was \$58,966 and \$56,153 respectively (2003: \$Nil) based on a closing price of \$2.55 per share on the TSX Venture Exchange on June 30, 2004.

### Per Share Amounts

The weighted average number of shares outstanding during the three and six month periods ended June 30, 2004 was Basic 13,728,368 and 12,845,657. For the six months ended June 30, 2004, 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 information has not been shown.

## 5. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2004 and 2003, the Company had transactions with directors of the Company, persons related to them or companies controlled by them as follows:

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Six months ended June 30, 2004

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	<b>2004</b>	<b>2003</b>
Consulting Fees	\$42,150	\$30,000
Management Fees	-	24,000
Accounting Fees	1,940	2,360

Consulting fees of \$42,150 (2003: \$30,000) were paid or accrued to a director for services as an officer of the Company. Management fees of \$Nil (2003: \$24,000 paid to a former director and officer of the Company for management and administrative services. Accounting fees of \$1,940 (2003: \$2,360) were paid to a company controlled by the spouse of a director and senior officer for accounting services.

Accounts payable at June 30, 2004 includes \$11,099 (2003: \$33,000) due to a director and officer for consulting fees and accrued expenses.

Accounts receivable at June 30, 2004 includes a net amount of \$39,549 receivable from a company of which a director and officer of the Company is a director and chairman.

# Canadian Spirit Resources Inc.

## CORPORATE INFORMATION

### OFFICERS

George W. Watson  
*Chairman of the Board*

Phillip D.C. Geiger  
*President & Chief Operating Officer*

Donald R. Gardner  
*Chief Financial Officer & Secretary*

Kenneth G. Sinclair  
*Vice President, Business Development*

### BOARD OF DIRECTORS

J.R. Richard Couillard <sup>(1)</sup>  
*Chief Executive Officer*  
*Escavar Energy Inc.*  
*Calgary, Alberta*

Donald R. Gardner  
*Chief Financial Officer & Secretary*  
*Canadian Spirit Resources Inc.*  
*Calgary, Alberta*

Phillip D.C. Geiger  
*President & Chief Operating Officer*  
*Canadian Spirit Resources Inc.*  
*Calgary, Alberta*

Philip H. Grubbe <sup>(1)</sup>  
*Consultant*  
*Calgary, Alberta*

George W. Watson  
*Chief Executive Officer*  
*CriticalControl Solutions Inc.*  
*Calgary, Alberta*

Robert P. Winnitoy <sup>(1)</sup>  
*Consultant*  
*Calgary, Alberta*

<sup>(1)</sup> Member of Audit Committee

### HEAD OFFICE

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### AUDITORS

PricewaterhouseCoopers LLP  
Calgary, Alberta

### SOLICITOR

Gowling Lafleur Henderson LLP  
Calgary, Alberta

### BANKER

Bank of Nova Scotia  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

Pacific Corporate Trust Company  
Vancouver, British Columbia

### STOCK EXCHANGE LISTING

TSX Venture Exchange  
Trading Symbol: SPI

### INVESTOR RELATIONS CONTACTS

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### WEBSITE

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**Dated August 23, 2004**