

Financial Statements of
Canadian Spirit Resources Inc.

September 30, 2007
(unaudited)

1. BALANCE SHEETS
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INCOME AND DEFICIT
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NOTICE: The interim financial statements and notes thereto for the three and nine month periods ended September 30, 2007 have not been reviewed by the Company's external auditors.

Canadian Spirit Resources Inc.

BALANCE SHEETS

	September 30, 2007 <i>(unaudited)</i>	December 31, 2006 <i>(audited)</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,494,725	\$ 3,212,878
Accounts receivable	132,588	202,176
Prepaid expenses and other	<u>65,480</u>	<u>39,989</u>
	2,692,793	3,455,043
Property, plant and equipment (note 3)	<u>36,086,430</u>	<u>32,793,986</u>
	<u>\$ 38,779,223</u>	<u>\$ 36,249,029</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable & accrued trade liabilities	<u>\$ 751,655</u>	<u>\$ 857,202</u>
Accrued liability for share appreciation rights (note 5)	246,000	534,000
Asset retirement obligation (note 4)	<u>203,677</u>	<u>158,650</u>
	<u>1,201,332</u>	<u>1,549,852</u>
Shareholders' equity		
Equity instruments (note 5)	50,354,877	46,991,811
Contributed surplus (note 5)	3,239,676	3,250,910
Deficit	<u>(16,016,662)</u>	<u>(15,543,544)</u>
	<u>37,577,891</u>	<u>34,699,177</u>
	<u>\$ 38,779,223</u>	<u>\$ 36,249,029</u>

Nature of operations and going concern (note 1)

ON BEHALF OF THE BOARD:

(signed) "Philip H. Grubbe"

Director

(signed) "J.R. Richard Couillard"

Director

Canadian Spirit Resources Inc.

STATEMENTS OF OPERATIONS, OTHER COMPREHENSIVE INCOME AND DEFICIT

For the periods ended September 30
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Revenue				
Interest and other income	\$ 31,620	\$ 36,970	\$ 71,112	\$ 235,760
Expenses				
Consulting fees	64,478	54,399	147,709	172,459
Salaries and benefits	84,594	100,605	298,421	289,465
Other general administration	91,124	104,562	334,883	427,904
Stock-based compensation (note 5)	(194,046)	(431,560)	(299,234)	18,353
Accretion expense	16,754	7,615	27,765	10,460
Impairment of conventional natural gas costs	-	14,979	-	51,744
Amortization	11,652	12,278	34,686	35,564
	<u>74,556</u>	<u>(137,122)</u>	<u>544,230</u>	<u>1,005,949</u>
Net earnings (loss) and other comprehensive income	(42,936)	174,092	(473,118)	(770,189)
Deficit, beginning of period	<u>(15,973,726)</u>	<u>(15,412,610)</u>	<u>(15,543,544)</u>	<u>(14,468,329)</u>
Deficit, end of period	<u><u>\$(16,016,662)</u></u>	<u><u>\$(15,238,518)</u></u>	<u><u>\$(16,016,662)</u></u>	<u><u>\$(15,238,518)</u></u>
Loss per share (Basic & Diluted)	<u><u>\$ -</u></u>	<u><u>\$ 0.01</u></u>	<u><u>\$ (0.01)</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	
	2007	2006	2007	2006
Operating Activities:				
Net earnings (loss) and other comprehensive income	\$ (42,936)	\$ 174,092	\$ (473,118)	\$ (770,189)
Add items not affecting cash				
Amortization	11,652	12,278	34,686	35,564
Accretion expense	16,754	7,615	27,765	10,460
Impairment of natural gas costs	-	14,979	-	51,744
Stock-based compensation	(194,046)	(431,560)	(299,234)	18,353
	(208,576)	(222,596)	(709,901)	(654,068)
Changes in non-cash working capital items	(19,755)	76,887	(159,202)	(61,426)
	(228,331)	(145,709)	(869,103)	(715,494)
Financing Activities:				
Shares issued for cash	3,544,700	6,560,000	3,544,700	6,576,000
Share issue costs	(177,256)	(454,169)	(181,634)	(454,169)
	3,367,444	6,105,831	3,363,066	6,121,831
Investing Activities:				
Furniture and office equipment	-	(10,985)	(3,251)	(15,640)
Exploration expenditures	(1,722,077)	(3,986,180)	(3,234,323)	(8,444,332)
Acquisition/retention of natural gas rights	(20,134)	(43,141)	(72,294)	(70,399)
	(1,742,211)	(4,040,306)	(3,309,868)	(8,530,371)
Changes in non-cash working capital items	247,989	2,459,627	97,752	95,445
	(1,494,222)	(1,580,679)	(3,212,116)	(8,434,926)
Change in cash	1,644,891	4,379,443	(718,153)	(3,028,589)
Cash position, beginning of period	849,834	3,280,091	3,212,878	10,688,123
Cash position, end of period	\$ 2,494,725	\$ 7,659,534	\$ 2,494,725	\$ 7,659,534
Cash taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -

See the accompanying notes to the financial statements

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

The Company has incurred losses since inception totaling \$16,016,662 which includes a net loss of \$473,118 for the nine months ended September 30, 2007 (2006: net loss of \$770,189). 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 unaudited financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2006. 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, 2006, except for the following new accounting pronouncements which have been adopted effective January 1, 2007.

Financial Instruments

Canadian Institute of Chartered Accountants Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*; Section 1530, *Comprehensive Income*; and Section 3865, *Hedges*.

Recognition and Measurement

These standards require that all financial instruments including derivatives be measured at fair value, with the exception of loans and receivables, debt securities classified as held-to-maturity financial assets, and non-speculative financial instruments which would be measured at amortized cost.

The Company does not have any financial instruments designated as hedges and therefore does not present a separate statement of comprehensive income.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

Classification

These standards require that all financial instruments be classified either as held-for-trading financial assets or liabilities, available-for-sale financial assets, held-to-maturity financial assets, loans and receivables or other liabilities. Effective January 1, 2007 the Company has classified each of its financial instruments as a) accounts receivable as loans and receivables and b) accounts payable & accrued trade liabilities as other liabilities.

The Company does not have any other financial assets or financial liabilities requiring classification, nor does it have any embedded derivative financial instruments or contracts.

3. **PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2007	December 31, 2006
Natural gas properties	\$ 37,229,275	\$ 33,905,396
Mineral property	1	1
Office furniture and equipment	164,638	161,387
	<u>37,393,914</u>	<u>34,066,784</u>
Less: Accumulated depletion, amortization & impairment	<u>(1,307,484)</u>	<u>(1,272,798)</u>
Total property, plant and equipment	<u>\$ 36,086,430</u>	<u>\$ 32,793,986</u>

As the Company had no production or proved reserves at September 30, 2007, there was no depletion charge for the period. At September 30, 2007, natural gas properties included \$13,426,309 (2006: \$13,379,784) relating to undeveloped properties, and \$71,375 (2006: \$10,000) relating to fees and deposits with the Alberta Energy and Utilities Board. There has been no impairment of undeveloped properties and all costs incurred on the development of natural gas from coals and shales charged to natural gas properties are considered to be on unproven properties. During the three and nine month periods ended September 30, 2007, the Company capitalized \$217,527 and \$494,534 respectively (2006: \$132,864 and \$454,480) of overhead directly related to exploration 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.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

4. ASSET RETIREMENT OBLIGATION

	September 30, 2007	December 31, 2006
Balance, beginning of year	\$ 158,650	\$ 84,395
Liabilities incurred	17,262	20,466
Revisions in estimated future obligation	-	38,398
Accretion expense	27,765	15,391
Less: liabilities settled	-	-
Balance, end of period	<u>\$ 203,677</u>	<u>\$ 158,650</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, 2007 the estimated total future liability of \$994,464 has a present value of \$203,677 assuming the liability is settled in approximately 24 years, using an estimated credit-adjusted risk-free interest rate of 7.25 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.

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 has 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 will entitle the holder to certain income tax benefits in the form of Canadian Development Expense. The full proceeds of the Flow-Through Shares Placement, or \$491,700, has been assigned to common shares and has been fully expended on eligible development costs as of September 30, 2007.

On August 11, 2006, the Company issued 3,200,000 Units at \$2.05 per Unit. Each Unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one share for one year at an exercise price of \$2.50 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 has assigned a value of \$0.64 per warrant or \$1,358,782 of the proceeds to the warrants, with the remaining \$5,201,218 of the proceeds assigned to the common shares.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

The equity instruments are as follows:

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
	<u>Number of shares</u>	<u>Amount of shares and warrants</u>	<u>Number of shares</u>	<u>Amount of shares and warrants</u>
Balance - beginning of year	28,833,082	\$ 46,991,811	25,593,082	\$ 40,879,476
Shares issued for cash:				
Stock options	-	-	40,000	16,000
Private placements	3,500,000	3,544,700	3,200,000	6,560,000
Warrants exercised	-	-	-	-
Equity instruments issue costs	-	(181,634)	-	(472,633)
Credit from contributed surplus	-	-	-	8,968
Balance - end of period	<u>32,333,082</u>	<u>\$ 50,354,877</u>	<u>28,833,082</u>	<u>\$ 46,991,811</u>

Share Purchase Warrants

In conjunction with previous financings, the Company issued warrants with terms of one year to acquire common shares at specific exercise prices. Warrants outstanding at period-end are:

Exercise Price of Warrants	Outstanding at Dec. 31, 2006	Issued	Expired	Outstanding at Sept. 30, 2007	Expiry Date
\$2.50	3,200,000	-	-	3,200,000	¹⁾ December 14, 2007
\$1.10	-	1,526,500	-	1,526,500	July 18, 2008
Total	3,200,000	1,526,500	-	4,726,500	

Note:

1) Effective July 18, 2007, the expiry date of these warrants was extended from August 11, 2007 to December 14, 2007.

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, 2007, there were 2,700,000 common shares reserved for issuance under the plans of which options to acquire 2,385,000 common shares were outstanding (2,058,332 vested and 326,668 unvested).

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

Exercise Price of Option	Out-standing at Dec. 31, 2006	Granted	Exercised or Cancelled	Out-standing at Sept. 30, 2007	Vested at Sept. 30, 2007	Year of Expiry
\$0.40 to \$0.41	465,000	-	-	465,000	465,000	2008
\$1.00	-	51,000	-	51,000	25,000	2009/12
\$1.10	-	25,000	-	25,000	12,500	2009
\$1.24	-	70,000	16,000	54,000	12,500	2009/12
\$1.50 to \$1.72	680,000	-	-	680,000	680,000	2009
\$2.05	195,000	-	100,000	²⁾ 95,000	31,666	2009/10
\$2.05	41,000	-	21,000	20,000	6,666	2011
\$2.15	100,000	-	-	100,000	-	2011
\$2.50	50,000	-	-	50,000	25,000	2008
\$3.30	75,000	-	-	75,000	75,000	2009
\$3.65	450,000	-	-	¹⁾ 450,000	450,000	2008
\$4.50	50,000	-	50,000	-	-	2009
\$4.15	140,000	-	-	140,000	140,000	2010
\$7.15	180,000	-	-	180,000	135,000	2010
Total	2,426,000	146,000	187,000	2,385,000	2,058,332	

Notes:

- 1) The exercise of these vested stock options are subject to the Company achieving certain minimum production or profit thresholds.
- 2) These stock options were re-priced on September 19, 2006 with no change to the original expiry date.

Options granted after January 1, 2003 are accounted for using the fair value method. The compensation recovery charged against earnings in the three and nine month periods ended September 30, 2007 for stock options granted was \$164,046 and \$11,234 respectively (2006: recovery of \$3,246 and expense of \$498,052 respectively).

The fair value of each option grant or re-pricing in 2007 and 2006 was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

	Nine Months 2007	Twelve Months 2006
Risk free interest rate	4.28%	4.02%
Expected dividend yield	0%	0%
Expected stock price volatility	65.02%	63.81%
Expected life of options	3.0 years	2.6 years

Weighted average fair value of options granted during the period	\$0.49	\$0.71
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Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

Performance Units

On September 19, 2006, the Company implemented a full value performance unit incentive plan for senior officers and directors of the Company. 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. A performance factor ranging from zero to three will be determined for each performance period based on the average closing price of the Company's shares over the last ten trading days of each performance period relative to a share price scale established at the date of grant. Awards under this plan are paid in cash within 60 days of the end of each performance period. 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. 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 for all performance periods. The 2006 total compensation expense for the 2006 grant was therefore \$Nil as the 10 day average closing share price on the Exchange as at December 31, 2006 was \$1.43 per share, resulting in a performance factor of zero.

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 a minimum average price of \$1.75 per share. Payout of vested units is made in cash following the end of each performance period.

The total compensation expense for the 2006 and 2007 grants for the first nine months of 2007 was therefore \$Nil as the 10 day average closing share price on the Exchange as at September 30, 2007 was \$0.85 per share.

Grant Date	Outstanding at Dec. 31, 2006	Granted or (Vested/ Expired)	Exercised and Paid	Outstanding at Sept. 30, 2007	Expiry Date
Sept. 19, 2006	55,000	(13,000)	-	42,000	March 2, 2009
Jan. 18, 2007	-	119,000	-	119,000	March 2, 2010
Total	55,000	106,000	-	161,000	

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

Contributed Surplus

	September 30, 2007	December 31, 2006
Balance, beginning of year	\$ 3,250,910	\$ 2,616,988
Value of options granted	(11,234)	642,890
Options exercised and transferred to equity instruments	-	(8,968)
Balance, end of period	<u>\$ 3,239,676</u>	<u>\$ 3,250,910</u>

Share Appreciation Rights

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

Exercise Price	Out-standing at Dec. 31, 2006	Granted or (Cancelled)	Exercised or Expired	Out-standing at Sept. 30, 2007	Vested at Sept. 30, 2007	Expiry Date
\$0.48	600,000	-	-	600,000	600,000	Aug. 28, 2008

Total compensation recovery for share appreciation rights for the three and nine month periods ended September 30, 2007 was \$30,000 and \$288,000 respectively (2006: \$432,000 and \$486,000 respectively) based on a closing price of \$0.89 per share on the Exchange at September 28, 2007. The Company has accrued a long term liability of \$246,000 at September 30, 2007 (2006: \$690,000) relating to share appreciation rights.

Per Share Amounts

The weighted average number of shares outstanding during the three and nine month periods ended September 30, 2007 was Basic 31,648,299 and 29,781,800 respectively (2006: 27,339,604 and 26,187,954 respectively) and Diluted 32,210,025 and 30,330,605 respectively (2006: 27,716,379 and 26,795,475 respectively).

For the nine month period ended September 30, 2007, 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 FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2007

6. RELATED PARTY TRANSACTIONS

During 2007 and 2006, the Company had transactions with directors and a former officer 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	2007	2006
Consulting fees	\$ 84,150	\$ 63,900
Salaries and benefits	\$ 89,661	\$ 87,395

Consulting fees in the first nine months of 2007 included \$84,150 (2006: \$63,900) paid or payable to a director and senior officer of the Company. Accounts payable at September 30, 2007 includes \$3,716 (2006: \$13,362) due to a director and senior officer of the Company.

Salaries and benefits of \$89,661 (2006: \$87,395) was the compensation paid or payable to a director and senior officer of the Company during the first nine months of 2007.

Transactions with related parties are recorded at exchange amounts for services provided. In addition, during the first nine months of 2007 certain directors, relatives of directors, or companies controlled by directors subscribed for 1,500 (2006: 14,354) shares or units in private placement offerings of the Company under the same terms as other investors.