

**Financial Statements of**

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

**March 31, 2005**

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

**NOTICE:** The interim financial statements and notes thereto for the three month periods ended March 31, 2005 have not been reviewed by the Company's external auditors.

## Canadian Spirit Resources Inc.

### BALANCE SHEETS

	March 31 2005 <i>(unaudited)</i>	December 31 2004 <i>(audited)</i>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,377,029	\$ 5,971,330
Accounts receivable	920,168	797,668
Prepaid expenses and other	66,708	45,515
	<u>14,363,905</u>	<u>6,814,513</u>
Property, plant and equipment (note 2)	<u>14,298,997</u>	<u>14,070,160</u>
	<u>\$ 28,662,902</u>	<u>\$ 20,884,673</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable & accrued trade liabilities	\$ 167,716	\$ 1,223,229
Accrued liability for share appreciation rights (note 4)	1,003,833	845,333
Asset retirement obligation (note 3)	26,746	26,236
	<u>1,198,295</u>	<u>2,094,798</u>
Shareholders' equity		
Share capital (note 4)	37,687,755	28,613,668
Contributed surplus (note 4)	1,533,339	838,120
Deficit	<u>(11,756,487)</u>	<u>(10,661,913)</u>
	<u>27,464,607</u>	<u>18,789,875</u>
	<u>\$ 28,662,902</u>	<u>\$ 20,884,673</u>

Nature of operations and going concern (note 1)

ON BEHALF OF THE BOARD:

*(signed) "Donald R. Gardner"*

\_\_\_\_\_  
Director

*(signed) "Phillip D.C. Geiger"*

\_\_\_\_\_  
Director

## Canadian Spirit Resources Inc.

### STATEMENTS OF OPERATIONS AND DEFICIT

For the Three Months ended March 31

(unaudited)

	2005	2004
<b>Revenue</b>		
Interest and other income	\$ 53,534	\$ 13,509
<b>Expenses</b>		
Consulting fees	39,216	47,086
Salaries and benefits	68,806	41,804
Other general administration	112,143	47,285
Stock-based compensation (note 4)	920,035	139,448
Accretion expense	510	165
Depreciation	7,398	1,784
	<u>1,148,108</u>	<u>277,572</u>
<b>Net Loss</b>	(1,094,574)	(264,063)
<b>Deficit, beginning of period</b>	<u>(10,661,913)</u>	<u>(8,920,093)</u>
<b>Deficit, end of period</b>	<u>\$ (11,756,487)</u>	<u>\$ (9,184,156)</u>
<b>Loss per share (Basic &amp; Diluted)</b>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>

Nature of operations and going concern (note 1)

## Canadian Spirit Resources Inc.

### STATEMENTS OF CASH FLOWS

For the Three Months ended March 31  
(unaudited)

	2005	2004
<b>Operating Activities:</b>		
Net loss	\$ (1,094,574)	\$ (264,063)
Add items not affecting cash		
Depreciation	7,398	1,784
Accretion expense	510	165
Stock-based compensation	920,035	139,448
	<u>(166,631)</u>	<u>(122,666)</u>
Changes in non-cash working capital items	<u>(14,105)</u>	<u>(48,473)</u>
	<u>(180,736)</u>	<u>(171,139)</u>
<b>Financing Activities:</b>		
Shares issued for cash	9,258,644	210,125
Share issue costs	(250,873)	-
	<u>9,007,771</u>	<u>210,125</u>
<b>Investing Activities:</b>		
Furniture and office equipment	(26,909)	-
Exploration expenditures	(196,674)	(621,911)
Acquisition and retention of natural gas rights	(12,652)	(1,203,000)
	<u>(236,235)</u>	<u>(1,824,911)</u>
Changes in non-cash working capital items	<u>(1,185,101)</u>	<u>472,706</u>
	<u>(1,421,336)</u>	<u>(1,352,205)</u>
<b>Change in cash</b>	<b>7,405,699</b>	<b>(1,313,219)</b>
<b>Cash position, beginning of period</b>	<b>5,971,330</b>	<b>2,629,565</b>
<b>Cash position, end of period</b>	<b>\$ 13,377,029</b>	<b>\$ 1,316,346</b>
<b>Cash taxes paid</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Interest paid</b>	<b>\$ -</b>	<b>\$ -</b>

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Three months ended March 31, 2005

---

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, 2004. 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, 2004.

### 1. NATURE OF OPERATIONS AND GOING CONCERN

Canadian Spirit Resources Inc., incorporated in British Columbia, is a public company listed on the TSX Venture Exchange. Since May 2002, the Company has been evaluating the resource potential of certain natural gas from coal 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 financing and generating revenues sufficient to cover the operating costs.

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.

### 2. PROPERTY, PLANT AND EQUIPMENT

	2005	2004
Natural gas properties	\$ 14,213,944	\$ 3,377,100
Mineral property	1	1
Office furniture and equipment	104,860	22,716
Less accumulated depletion, depreciation and amortization	(19,808)	(7,128)
Total property, plant and equipment	\$ 14,298,997	\$ 3,392,689

As the Company had no production or proved reserves at March 31, 2005, there was no depletion charge for the period and a ceiling test was not performed. At March 31, 2005, natural gas properties included \$11,112,247 (2004 - \$2,186,484) relating to undeveloped properties. There has been no impairment of undeveloped properties and all costs attributed to natural gas properties are considered to be on unproven properties. During the first three months of 2005, the Company capitalized \$133,607 (2004 - \$35,700) of overhead directly related to exploration activities.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS

Three months ended March 31, 2005

#### 3. ASSET RETIREMENT OBLIGATION

	2005	2004
Balance, Beginning of Period	\$ 26,236	\$ 8,761
Liabilities incurred	-	8,926
Accretion expense	510	165
Liabilities settled	-	-
Balance, End of Period	\$ 26,746	\$ 17,852

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 March 31, 2005 the estimated total future liability of \$166,367 has a present value of \$26,746 assuming the liability is settled in 2029 and using an estimated credit-adjusted risk-free interest rate of 7.50 percent.

#### 4. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common shares of no par value. The issued share capital at March 31 is as follows:

	2005		2004	
	Number	Amount	Number	Amount
Balance – Beginning of period	22,337,348	\$ 28,613,668	11,734,908	\$ 12,808,180
Shares issued for Cash -				
Stock options	125,000	105,000	50,000	24,000
Private Placements	1,341,696	9,056,448	-	-
Warrants exercised	52,538	97,196	372,250	186,125
Share issue costs	-	(250,873)	-	-
Credit from contributed surplus	-	66,316	-	-
Balance – End of period	23,856,582	\$ 37,687,755	12,157,658	\$ 13,018,305

On March 11, 2005, the Company issued 1,341,696 Units at \$6.75 per Unit. Each Unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one share for one year at an exercise price of \$8.00 per share.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS

Three months ended March 31, 2005

#### 4. SHARE CAPITAL (continued)

##### Share Purchase Warrants

In conjunction with previous financings, the Company issued warrants with terms of one to two years to acquire common shares at specific exercise prices. Warrants outstanding at March 31 are as follows:

Exercise Price of Warrants	Outstanding at December 31, 2004	Granted or (Cancelled)	Exercised or Expired	Outstanding at March 31, 2005	Expiry Date
\$0.75	10,000	-	-	10,000	July 4, 2005
\$1.85	1,779,038	-	52,538	1,726,500	June 22, 2005
\$3.85	750,000	-	-	750,000	Sept. 15, 2005
\$8.00	-	670,848	-	670,848	March 11, 2006
<b>Total</b>	<b>2,539,038</b>	<b>670,848</b>	<b>52,538</b>	<b>3,157,348</b>	

##### 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 of not less than eighteen months and expire after a maximum of five years. At March 31, 2005, there were 2,683,311 common shares reserved for issuance under the plans of which options to acquire 2,260,000 common shares were outstanding (1,107,500 vested and 1,152,500 unvested).

Exercise Price of Option	Out-standing at Dec. 31, 2004	Granted or (Cancelled)	Exercised or Expired	Out-standing at Mar. 31, 2005	Vested at Mar. 31, 2005	Expiry Date
\$0.40	340,000	-	75,000	265,000	265,000	Jan. 23, 2008
\$0.41	240,000	-	-	240,000	240,000	June 18, 2008
\$1.55	5,000	-	-	5,000	2,500	Jan. 06, 2009
\$1.50	450,000	-	50,000	400,000	175,000	Jan. 21, 2009
\$1.72	50,000	-	-	50,000	25,000	Apr. 20, 2009
\$1.65	225,000	-	-	225,000	112,500	May 27, 2009
\$3.30	75,000	-	-	75,000	37,500	Aug. 18, 2009
\$3.65	450,000	-	-	450,000	<sup>1)</sup> 112,500	Aug. 28, 2008
\$4.50	-	300,000	-	300,000	75,000	Nov. 10, 2009
\$7.15	-	250,000	-	250,000	62,500	Jan. 18, 2010
<b>Total</b>	<b>1,835,000</b>	<b>550,000</b>	<b>125,000</b>	<b>2,260,000</b>	<b>1,107,500</b>	

Note:

- 1) The exercise of these vested options are subject to the Company achieving certain minimum production or profit thresholds.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS

Three months ended March 31, 2005

#### 4. SHARE CAPITAL (continued)

In the three month period ended March 31, 2005 the compensation cost charged against earnings for stock options granted was \$761,535 (2004: \$142,261). The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Risk free interest rate	3.20%	3.32%
Expected dividend yield	0%	0%
Expected stock price volatility	84%	97%
Expected life of options	3 years	3 years

#### 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. The SARs vest in three equal amounts on the first, second and third anniversary of the date of grant and the exercise of vested SARs is subject to achieving certain minimum production or profit thresholds.

Exercise Price	Out-standing at Dec. 31, 2004	Granted or (Cancelled)	Exercised or Expired	Out-standing at Mar. 31, 2005	Vested at Mar. 31, 2005	Expiry Date
\$0.48	600,000	-	-	600,000	200,000	Aug. 28, 2008

Total compensation expense for share appreciation rights for the three month period ended March 31, 2005 was \$158,500 (2004: \$2,813) based on a closing price being in excess of \$3.65 per share on the TSX Venture Exchange on March 31, 2005.

#### Per Share Amounts

The weighted average number of shares outstanding during the three month period ended March 31, 2005 was Basic 22,431,800 (2004: 11,962,946) and Diluted 23,077,138 (2004: 14,185,600).

For the three month period ended March 31, 2005, 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.

## Canadian Spirit Resources Inc.

### NOTES TO FINANCIAL STATEMENTS

Three months ended March 31, 2005

---

#### 5. RELATED PARTY TRANSACTIONS

During 2004 and 2005, the Company had transactions with directors of the Company, persons related to them or companies controlled by them in the normal course of business as follows:

	2005	2004
Consulting fees	\$ 21,500	\$ 21,000
Salaries and benefits	\$ 22,500	\$ 21,000
Administration and accounting fees	\$ -	\$ 1,760

Consulting fees in the three month period ended March 31, 2005 included \$21,500 (2004: \$21,000) paid or payable to a director and senior officer of the Company. Accounts payable includes \$12,382 (2004: \$42,236) due to a director for consulting fees earned during the period.

Salaries and benefits of \$22,500 (2004: \$21,000) was the compensation paid to a director and senior officer of the Company during three month period ended March 31, 2005.

Accounting fees of \$Nil (2004: \$1,760) were paid to a company controlled by the spouse of a director and senior officer for accounting services during three month period ended March 31, 2005.

Transactions with related parties are recorded at cost, which represent fair market value for services provided. In addition during 2005, certain directors, relatives of directors, or companies controlled by directors subscribed for 14,354 (2004: Nil) for shares or units in private placement offerings of the Company under the same terms as to other investors.