

**Financial Statements of**

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

**For the Nine Months Ended September 30, 2004**  
**(Unaudited)**

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

# Canadian Spirit Resources Inc.

## BALANCE SHEETS

	September 30, 2004 (unaudited)	December 31, 2003 (audited)
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 5,512,516	\$ 2,629,565
Accounts receivable	481,507	40,212
Prepaid expenses and other	14,753	11,503
	<hr/> 6,008,776	<hr/> 2,681,280
Office furniture and equipment (note 2)	14,011	18,124
Natural gas and mineral properties (note 2)	12,689,622	1,543,264
	<hr/> \$ 18,712,409	<hr/> \$ 4,242,668
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 645,874	\$ 246,124
Asset retirement obligation (note 3)	18,553	8,761
Shareholders' equity		
Share capital (note 4)	27,731,106	12,808,180
Share subscriptions	11,250	-
Contributed surplus	434,870	99,696
Deficit	(10,129,244)	(8,920,093)
	<hr/> 18,047,982	<hr/> 3,987,783
	<hr/> \$ 18,712,409	<hr/> \$ 4,242,668

See accompanying notes to financial statements

# Canadian Spirit Resources Inc.

## STATEMENTS OF OPERATIONS AND DEFICIT

For the period ended September 30  
(Unaudited)

	Three months		Nine Months	
	2004	2003 (Restated)	2004	2003 (Restated)
<b>REVENUE</b>				
Interest and other income	\$ 19,235	\$ -	\$ 45,273	\$ -
<b>EXPENSES</b>				
Consulting fees	77,008	45,660	167,885	145,066
Salaries and benefits	42,887	38,676	128,565	118,055
Management fees	-	16,598	-	44,625
Other general administration	76,084	26,004	250,662	117,476
Stock-based compensation (note 4)	382,752	20,133	701,253	79,563
Asset retirement accretion	357	83	866	83
Depreciation	1,867	687	5,192	3,269
<b>Net Loss</b>	(561,720)	(147,841)	(1,209,150)	(508,137)
<b>Deficit, beginning of period</b>	(9,567,523)	(8,886,326)	(8,920,093)	(8,526,030)
<b>Deficit, end of period</b>	(10,129,243)	(9,034,167)	(10,129,243)	(9,034,167)
<b>Loss per share (basic)</b>	\$(0.03)	\$(0.02)	\$(0.08)	\$(0.09)

See accompanying notes to financial statements

# Canadian Spirit Resources Inc.

## STATEMENTS OF CASH FLOWS

For the period ended September 30  
(Unaudited)

	Three months		Nine Months	
	2004	2003	2004	2003
		(Restated)		(Restated)
<b>OPERATING ACTIVITIES:</b>				
Net loss	\$(561,720)	\$(147,841)	\$(1,209,150)	\$(508,137)
Add items not affecting cash-				
Depreciation and amortization	2,619	687	7,450	3,269
Stock-based compensation	382,752	20,133	701,253	79,563
Asset retirement accretion	357	83	866	83
	(175,992)	(126,938)	(499,581)	(425,222)
Changes in non-cash working capital items	(439,297)	284	(443,133)	(282,049)
	(615,289)	(133,210)	(942,714)	(707,271)
<b>FINANCING ACTIVITIES:</b>				
Shares issued for cash	5,916,505	-	14,899,862	689,248
Subscriptions received	11,250	22,638	11,250	22,800
	5,927,755	22,638	14,911,111	712,048
<b>INVESTING ACTIVITIES:</b>				
Software and office equipment	(60)	(2,597)	(3,336)	(12,845)
Exploration expenditures	(106,662)	(334,774)	(1,161,261)	(342,316)
Acquisition of P&NG rights	(4,950,852)	-	(9,976,171)	-
	(5,057,574)	(337,371)	(11,140,768)	(355,161)
Changes in non-cash working capital items	(10,184)	-	55,321	-
	(5,067,758)	(337,371)	(11,085,446)	(355,161)
<b>Change in cash</b>	<b>\$ 244,708</b>	<b>\$(314,449)</b>	<b>\$ 2,882,951</b>	<b>\$ 74,838</b>
<b>Cash position, beginning of period</b>	<b>5,267,808</b>	<b>712,790</b>	<b>2,629,565</b>	<b>323,503</b>
<b>Cash position, end of period</b>	<b>5,512,516</b>	<b>398,341</b>	<b>5,512,516</b>	<b>398,341</b>
<b>Cash taxes paid</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Interest received (paid)</b>	<b>\$19,235</b>	<b>-</b>	<b>\$45,273</b>	<b>-</b>

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Nine months ended September 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 nine month periods ended September 30, 2003 have been restated, resulting in an increase of \$20,216 and \$80,585 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

	Sept. 30, 2004	Dec. 31, 2003
Oil and Gas Properties	\$12,689,621	\$1,543,263
Mineral Property (Isk Wollastonite)	1	1
Other Capital Assets	26,052	22,716
Less accumulated depreciation and amortization	12,041	4,592
Total Capital Assets	\$12,703,633	\$1,561,388

As the Company had no proved reserves at September 30, 2004, there was no depletion charge for the period. At September 30, 2004, oil and gas properties included \$10,959,655 (2003: \$Nil) relating to unproved properties that, in any case, would have been excluded from the depletion calculation.

During the three and nine month periods ended September 30, 2004, the Company capitalized \$35,700 and \$107,100 respectively (2003: \$10,200 and \$30,600) of overhead costs directly related to exploration activities.

### 3. ASSET RETIREMENT OBLIGATION

For the Nine Months ended September 30	2004	2003
Balance, beginning of year	\$ 8,761	\$ -
Liabilities incurred	8,926	8,506
Accretion expense	866	83
Liabilities settled	-	-
Balance, end of period	\$18,553	\$ 8,589

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Nine months ended September 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 September 30, 2004 the estimated total future liability of \$120,000 has a present value of \$18,553 assuming the liability is settled on January 1, 2029 and using an estimated credit-adjusted risk-free interest rate of 8 percent. At September, 2003, the Company had an estimated total future liability of \$60,000 with a present value of \$8,589.

### 4. SHARE CAPITAL

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

#### Common Shares

	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	6,450,000	12,980,000	1,855,000	774,750
Options exercised	315,000	142,750	-	-
Warrants exercised	3,323,353	2,131,836	669,996	301,498
Finders' fees – private placements	30,750	50,738	148,400	61,180
Share issue costs	-	(405,462)	-	(61,180)
Credit from contributed surplus	-	23,064	-	-
Balance – end of period	21,854,011	\$27,731,106	6,508,869	\$9,479,405

#### Stock Options

Exercise Price	Out-standing at Dec 31, 2003	Granted or (Cancelled)	Exercised or Expired	Out-standing at Sept. 30, 2004	Vested at Sept. 30, 2004	Expiry Date
\$0.48	200,000	-	200,000	-	-	June 7, 2004
\$0.40	380,000	-	40,000	340,000	340,000	Jan. 23, 2008
\$0.41	315,000	-	75,000	240,000	161,250	June 18, 2008
\$1.55	-	10,000	-	10,000	5,000	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
\$3.30	-	75,000	-	75,000	18,750	August 18, 2009
Total	895,000	810,000	315,000	1,390,000	706,250	

The weighted average exercise price of stock options outstanding at September 30, 2004 was \$1.17 per share.

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Nine months ended September 30, 2004

Options granted after January 1, 2003 are accounted for using the fair value method. Compensation expense charged against earnings for the stock option plan was \$95,890 for the third quarter of 2004 and \$358,237 for the nine months ended September 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:

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	Out-standing at December 31, 2003	Issued or (Cancelled)	Exercised or Expired	Outstanding at Sept. 30, 2004	Expiry Date
\$0.50	372,250	-	372,250	-	February 7, 2004
\$0.60	533,333	-	533,333	-	May 24, 2004
\$0.75	691,400	-	667,400	24,000	July 4, 2005
\$0.75	1,968,370	-	1,750,370	218,000	October 3, 2004
\$1.85	-	1,865,375	-	1,865,375	June 22, 2005
\$3.85	-	750,000	-	750,000	September 15, 2005
Total	3,565,353	2,615,375	3,323,353	2,857,375	

The weighted average exercise price of warrants outstanding at September 30, 2004 was \$2.28 per share.

### Share Appreciation Rights

Exercise Price	Out-standing at December 31, 2003	Granted or (Cancelled)	Exercised or Expired	Out-standing at Sept. 30, 2004	Vested at Sept. 30, 2004	Expiry Date
\$0.48	600,000	-	-	600,000	200,000	Aug. 28, 2008

The stock appreciation rights (SARs) entitle the holder to cash payments equal to the excess of the then current market price of the common shares to a maximum of \$4.00 over the exercise price of the right. The SARs vest in three equal amounts on August 28, 2004, 2005 and 2006 and the right to exercise vested SARs is subject to the Company achieving certain minimum production or profit thresholds prior to expiry (see Note 6(a)).

Compensation expense for share appreciation rights for the three and nine month periods ended September 30, 2004 was \$286,862 and \$343,015 respectively (2003: \$Nil) based on a closing price of \$3.60 per share on the TSX Venture Exchange on September 30, 2004.

# Canadian Spirit Resources Inc.

## NOTES TO FINANCIAL STATEMENTS

Nine months ended September 30, 2004

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### Per Share Amounts

The weighted average number of shares outstanding during the three and nine month periods ended September 30, 2004 was Basic 19,794,839 and 15,178,959. For the nine months ended September 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 nine months ended September 30, 2004 and 2003, the Company had transactions with directors of the Company, persons related to them or companies controlled by them as follows:

	2004	2003
Consulting Fees	\$62,850	\$45,000
Management Fees	-	43,500
Accounting Fees	1,940	3,800

Consulting fees of \$62,850 (2003: \$45,000) were paid or accrued to a director for services as an officer of the Company. Management fees of \$Nil (2003: \$43,500) were paid to a former director and officer of the Company for management and administrative services. Accounting fees of \$1,940 (2003: \$3,800) were paid to a company controlled by the spouse of a director and senior officer for accounting services.

Accounts payable at September 30, 2004 includes \$7,223 (2003: \$45,000) due to a director and officer for consulting fees.

Accounts receivable at September 30, 2004 includes a net amount of \$46,626 receivable from a company of which a director and officer of the Company is a director and chairman (see Note 6(b)).

### 6. SUBSEQUENT EVENTS

- (a) On October 7, 2004, the Company granted 450,000 stock options to three senior employees with an exercise price of \$3.65 per share and an expiry dated of August 28, 2008 (the "Options"). The recipients of the Options are the holders of the existing stock appreciation rights (SARs) and the terms applicable to the Options are similar to the terms of the SARs. Exercise of vested Options is subject to achieving certain minimum production or profit thresholds prior to expiry. As partial consideration for the granting of the Options, the holders of the SARs agreed to reduce the maximum market (exercised) price of the SARs to \$3.65 per share from the original maximum of \$4.00 per share.
- (b) On November 5, 2004, the Company received \$31,293 from a related party sharing office space and administrative support with the Company as partial payment of its account to September 30, 2004.



# 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>  
*Executive Vice President*  
*High Plains Energy Inc.*  
*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 November 26, 2004