

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

December 31, 2005

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Canadian Spirit Resources Inc.

AUDITORS' REPORT

April 6, 2006

To the Shareholders of Canadian Spirit Resources Inc.

We have audited the balance sheets of Canadian Spirit Resources Inc. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers"

Chartered Accountants

Calgary, Alberta

Canadian Spirit Resources Inc.

BALANCE SHEETS

As at December 31 2005 2004

ASSETS

Current assets:

Cash and cash equivalents	\$ 10,688,123	\$ 5,971,330
Accounts receivable	1,039,211	797,668
Prepaid expenses and other	36,921	45,515
	<u>11,764,255</u>	<u>6,814,513</u>

Property, plant and equipment (note 3)	<u>22,247,043</u>	<u>14,070,160</u>
	<u>\$ 34,011,298</u>	<u>\$ 20,884,673</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable & accrued trade liabilities	\$ 3,722,768	\$ 1,223,229
Accrued liability for share appreciation rights (note 5)	1,176,000	845,333
Asset retirement obligation (note 4)	84,395	26,236
	<u>4,983,163</u>	<u>2,094,798</u>

Shareholders' equity

Share capital (note 5)	40,879,476	28,613,668
Contributed surplus (note 5)	2,616,988	838,120
Deficit	(14,468,329)	(10,661,913)
	<u>29,028,135</u>	<u>18,789,875</u>
	<u>\$ 34,011,298</u>	<u>\$ 20,884,673</u>

Nature of operations and going concern (note 1)
Commitments (note 8)

ON BEHALF OF THE BOARD:

(signed) "Philip H. Grubbe"

Director

(signed) "J.R. Richard Couillard"

Director

Canadian Spirit Resources Inc.

STATEMENTS OF OPERATIONS AND DEFICIT

For the year ended December 31

2005

2004

Revenue

Interest and other income	\$ 499,089	\$ 74,117
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Expenses

Consulting fees	157,841	176,546
Salaries and benefits	339,541	175,748
Other general administration	468,770	249,817
Stock-based compensation (note 5)	2,175,851	1,537,925
Accretion expense	3,069	1,273
Impairment of conventional natural gas costs (note 3)	1,121,164	-
Depreciation	39,269	10,828

	<u>4,305,505</u>	<u>2,152,137</u>
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Loss before income taxes	(3,806,416)	(2,078,020)
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Future income tax recovery (note 7)	<u>-</u>	<u>336,200</u>
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Net Loss	(3,806,416)	(1,741,820)
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Deficit, beginning of period	<u>(10,661,913)</u>	<u>(8,920,093)</u>
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Deficit, end of period	<u>\$ (14,468,329)</u>	<u>\$ (10,661,913)</u>
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Loss per share (Basic & Diluted)	<u>\$ (0.16)</u>	<u>\$ (0.10)</u>
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Nature of operations and going concern (note 1)

Canadian Spirit Resources Inc.

STATEMENTS OF CASH FLOWS

For the year ended December 31	2005	2004
Operating Activities:		
Net loss	\$ (3,806,416)	\$ (1,741,820)
Add items not affecting cash		
Depreciation	39,269	10,828
Accretion expense	3,069	1,273
Future income tax recovery	-	(336,200)
Impairment of conventional natural gas costs	1,121,164	-
Stock-based compensation	2,175,851	1,537,925
	<u>(467,063)</u>	<u>(527,994)</u>
Changes in non-cash working capital items	<u>104,842</u>	<u>(65,041)</u>
	<u>(362,221)</u>	<u>(593,035)</u>
Financing Activities:		
Shares issued for cash	12,460,168	16,616,826
Share issue costs	(260,676)	(507,306)
	<u>12,199,492</u>	<u>16,109,520</u>
Investing Activities:		
Furniture and office equipment	(68,378)	(58,245)
Exploration expenditures	(7,004,057)	(2,336,136)
Acquisition/retention of natural gas rights	(2,209,791)	(10,109,017)
	<u>(9,282,226)</u>	<u>(12,503,398)</u>
Changes in non-cash working capital items	<u>2,161,748</u>	<u>328,678</u>
	<u>(7,120,478)</u>	<u>(12,174,720)</u>
Change in cash	4,716,793	3,341,765
Cash position, beginning of period	5,971,330	2,629,565
Cash position, end of period	\$ 10,688,123	\$ 5,971,330
Cash taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 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. On 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 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 its operating costs.

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. The Company has incurred losses since inception totaling \$14,468,329, which includes an operating loss of \$3,806,416 for the year ended December 31, 2005 (2004: loss of \$1,741,820).

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The amounts recorded for depreciation, asset retirement obligations, stock based compensation and future income taxes are based upon estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of cash flow statements, cash and short term deposits include investments with an original maturity of three months or less.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. It is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from its financial instruments and that their fair values approximate their carrying values due to their short term nature, unless otherwise noted.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

Property, Plant and Equipment

(a) Natural Gas Operations:

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of natural gas reserves are capitalized. Such costs include lease acquisitions, geological and geophysical, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment, and overhead charges directly related to acquisition, exploration and development activities. Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.

Upon commencement of commercial production all costs of acquisition, exploration and development of natural gas reserves, associated tangible plant and equipment costs, asset retirement obligations and estimated costs of future development of proved undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proved reserves before royalties as determined by independent evaluators. Natural gas reserves are converted to equivalent units using their relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

The costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion calculations. These properties are assessed annually to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion.

Natural gas assets are evaluated annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves plus the lower of cost and market of unproved properties exceed the carrying value of the petroleum and natural gas assets. If the carrying value of the petroleum and natural gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk-free interest rate.

(b) Mineral Property:

Expenditures incurred on properties identified as having development potential are recorded at cost and are deferred on a project basis until the viability of the project is determined. If a project is successful, the project costs are amortized using the unit of production method based on recoverable mineral reserves. If a project is abandoned or it is determined that the mineral property is uneconomic to produce, the accumulated project costs are charged to earnings in the period in which the determination is made.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

(c) Office Equipment:

Computer and office equipment are recorded at cost and depreciated over its estimated useful life on a straight line basis over three years. Furniture and fixtures are recorded at cost and depreciated over its estimated useful life on a straight line basis over five years.

Asset Retirement Obligation

The Company follows the accounting methodology outlined in Section 3110 of the Canadian Institute of Chartered Accountants (“CICA”) handbook with respect to asset retirement obligations. The Company records the present value of legal obligations associated with the retirement of long-lived tangible assets, such as producing well sites and natural gas processing plants, in the period in which they are incurred with a corresponding increase in the carrying amount of the related long-lived asset. The liability accretes until the Company settles the retirement obligation. The carrying amounts of the long-lived assets are depleted using the unit of production method. Actual costs to retire tangible assets are deducted from the liability as incurred.

Stock-based Compensation

The Company adopted a new accounting policy for stock-based compensation related to common share options. Stock options granted on or after January 1, 2003 have been accounted for based on the fair value method. The fair value is measured at the grant date and charged to earnings on a pro-rata basis over the vesting period with a corresponding increase in contributed surplus. Consideration paid to the Company on exercise of all options is credited to share capital.

Compensation cost attributable to awards to employees that call for settlement in cash is measured at intrinsic value and charged to stock-based compensation expense on a straight-line basis over the vesting period with a corresponding increase in accrued liabilities. Changes in intrinsic value between the grant date and each measurement date result in a change in the measure of compensation cost.

Earnings per Share

Basic earnings per common share are calculated on the net earnings using the weighted average number of shares outstanding during the fiscal period. Diluted earnings per share information is calculated using the treasury stock method which assumes that proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price for the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

Flow-Through Shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these share issues, the related resource expenditure deductions for income tax purposes are renounced to investors. Accordingly, when the expenditures are renounced and upon filing of documents with the taxation authorities, share capital is reduced and future income tax liabilities are increased by the estimated value of the renounced tax deductions.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future tax assets will be recognized when the Company determines that there will be virtual certainty of realization.

3. PROPERTY, PLANT AND EQUIPMENT

	2005	2004
Natural gas properties	\$ 23,273,556	\$ 14,004,618
Mineral property	1	1
Office furniture and equipment	146,329	77,951
	<u>23,419,886</u>	<u>14,082,570</u>
Less: Accumulated depletion, depreciation & amortization	<u>(1,172,843)</u>	<u>(12,410)</u>
Total property, plant and equipment	<u>\$ 22,247,043</u>	<u>\$ 14,070,160</u>

As the Company had no production or proved reserves at December 31, 2005, there was no depletion charge for the period. At December 31, 2005, natural gas properties included \$13,309,386 (2004: \$11,099,595) relating to undeveloped properties. There has been no impairment of undeveloped properties and all costs incurred on the development of natural gas from coal and shale gas charged to natural gas properties are considered to be on unproven properties. During 2005, the Company capitalized \$628,217 (2004: \$220,947) of overhead directly related to exploration activities.

During 2005, the Company expended \$1,121,164 completing and production testing two test wells at West Farrell for conventional gas in the Bluesky formation. Although these wells continue to be prospective for both shale gas in the Gates and Moosebar formations and natural gas from coal in the Gething formation, it was determined that the Bluesky formation does not contain commercially recoverable quantities of hydrocarbons. As a result, the Company has made an impairment provision of \$1,121,164 for 2005 (2004: \$Nil) relating to the Bluesky completion costs.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

3. **PROPERTY, PLANT AND EQUIPMENT (Continued)**

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 thirteen mineral claims covering 2,925 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. The Company was party to an option agreement which granted an unrelated party the sole and exclusive right and option to acquire a 50 percent undivided interest, subject to a 3 percent Net Smelter Return, in the Isk Wollastonite property. This option agreement expired on December 31, 2005 and was not renewed.

4. **ASSET RETIREMENT OBLIGATION**

	2005	2004
Balance, beginning of year	\$ 26,236	\$ 8,761
Liabilities incurred	55,090	16,202
Accretion expense	3,069	1,273
Less: liabilities settled	-	-
Balance, end of year	<u>\$ 84,395</u>	<u>\$ 26,236</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 December 31, 2005 the estimated total future liability of \$482,216 has a present value of \$84,395 assuming the liability is settled in approximately 26 years, using an estimated credit-adjusted risk-free interest rate of 7.00 percent, and an inflation rate of 1.75 percent.

5. **SHARE CAPITAL**

The Company has authorized share capital of an unlimited number of common shares of no par value. Canadian Spirit Resources Inc. has closed the following non-brokered private placements during the past two years:

On March 11, 2005, the Company issued 1,341,696 Units at \$6.75 per Unit. Each Unit consists 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. During January 2006, the Company extended the expiry date of these warrants to July 11, 2006.

On December 29, 2004, the Company issued 160,000 flow-through common shares at \$6.25 per share.

On September 15, 2004, the Company issued 1,500,000 Units at \$3.25 per Unit. Each Unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitled the holder to purchase one share for one year at an exercise price of \$3.75 per share. During August 2005, the Company extended the expiry date of these warrants to January 15, 2006 at which time all 750,000 warrants expired.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

5. **SHARE CAPITAL (continued)**

On June 22, 2004, the Company issued 3,700,000 Units at \$1.65 per Unit. Each Unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitled the holder to purchase one share for one year at an exercise price of \$1.85 per share. Finders' fees of 30,750 Units were issued in conjunction with this placement.

On April 30, 2004 the Company issued 1,250,000 common shares at \$1.60 per share.

The issued share capital is as follows:

	2005		2004	
	Number of shares	Amount	Number of shares	Amount
Balance - beginning of year	22,337,348	\$ 28,613,668	11,734,908	\$ 12,808,180
Shares issued for cash:				
Stock options	125,000	105,000	320,000	150,500
Private placements	1,341,696	9,056,448	6,610,000	13,980,000
Warrants exercised	1,789,038	3,298,720	3,641,690	2,486,326
Finders' fees - private placements	-	-	30,750	50,738
Share issue costs	-	(260,676)	-	(558,044)
Credit from contributed surplus	-	66,316	-	32,168
Tax effect of flow-through shares	-	-	-	(336,200)
Balance - end of year	25,593,082	\$ 40,879,476	22,337,348	\$ 28,613,668

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 year-end are:

Exercise Price of Warrants	Outstanding at December 31, 2004	Issued	Exercised	Outstanding at Dec. 31, 2005	Expiry Date
\$0.75	10,000	-	10,000	-	July 4, 2005
\$1.85	1,779,038	-	1,779,038	-	June 22, 2005
\$3.75	750,000	-	-	750,000	¹⁾ January 15, 2006
\$8.00	-	670,848	-	670,848	²⁾ July 11, 2006
Total	2,539,038	670,848	1,789,038	1,420,848	

Notes:

- 1) The expiry date of these warrants was extended from September 15, 2005 to January 15, 2006 at which time all 750,000 warrants expired.
- 2) The expiry date of these warrants was extended from March 11, 2006 to July 11, 2006.
- 3) There have been no warrants that have expired or were cancelled during 2005.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

5. SHARE CAPITAL (continued)

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 December 31, 2005, there were 2,740,000 common shares reserved for issuance under the plans of which options to acquire 2,475,000 common shares were outstanding (1,617,500 vested and 732,500 unvested).

Exercise Price of Option	Out-standing at Dec. 31, 2004	Granted	Exercised	Out-standing at Dec. 31, 2005	Vested at Dec. 31, 2005	Year of Expiry
\$0.40 to \$0.41	580,000	-	75,000	505,000	505,000	2008
\$1.50 to \$1.72	730,000	-	50,000	680,000	455,000	2009
\$3.30	75,000	-	-	75,000	56,250	2009
\$3.65	450,000	-	-	450,000	¹⁾ 300,000	2008
\$4.50	-	300,000	-	300,000	150,000	2009
\$4.15 to \$4.60	-	215,000	-	215,000	88,750	2010
\$7.15	-	250,000	-	250,000	62,500	2010
Total	1,835,000	765,000	125,000	2,475,000	1,617,500	

Notes:

- 1) The exercise of these vested stock options are subject to the Company achieving certain minimum production or profit thresholds.
- 2) There have been no stock options that have expired or were cancelled during 2005.

Options granted after January 1, 2003 are accounted for using the fair value method. The compensation cost charged against earnings for stock options granted in 2005 was \$1,845,184 (2004: \$770,592). The fair value of each option grant in 2005 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	3.17%	3.32%
Expected dividend yield	0%	0%
Expected stock price volatility	84%	97%
Expected life of options	3 years	3 years

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

5. SHARE CAPITAL (continued)

Contributed Surplus

	2005	2004
Balance, beginning of year	\$ 838,120	\$ 99,696
Value of options granted	1,845,184	770,592
Options exercised and transferred to share capital	<u>(66,316)</u>	<u>(32,168)</u>
Balance, end of year	<u>\$ 2,616,988</u>	<u>\$ 838,120</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. 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 Dec. 31, 2005	Vested at Dec. 31, 2005	Expiry Date
\$0.48	600,000	-	-	600,000	400,000	Aug. 28, 2008

Total compensation expense for share appreciation rights for 2005 was \$330,667 (2004: \$767,333) based on a closing price of \$3.00 per share on the TSX Venture Exchange on December 31, 2005. The Company has accrued a long term liability of \$1,176,000 at December 31, 2005 relating to share appreciation rights.

Per Share Amounts

The weighted average number of shares outstanding during 2005 was Basic 24,513,950 (2004: 16,944,310) and Diluted 25,682,701 (2004: 19,644,102).

For the year ended December 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

Years ended December 31, 2005 and 2004

6. RELATED PARTY TRANSACTIONS

During 2005 and 2004, 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	\$ 79,450	\$ 79,800
Salaries and benefits	\$ 104,572	\$ 97,901

Consulting fees in 2005 included \$79,450 (2004: \$79,800) paid or payable to a director and senior officer of the Company. Accounts payable includes \$11,848 (2004: \$6,765) due to a director for consulting fees earned during 2005.

Salaries and benefits of \$104,572 (2004: \$97,901) was the compensation paid or payable to a director and senior officer of the Company during 2005.

Transactions with related parties are recorded at cost, which represents exchange amounts for services provided. In addition during 2005, certain directors, relatives of directors, or companies controlled by directors subscribed for 14,354 (2004: 15,000) shares or units in private placement offerings of the Company under the same terms as other investors.

7. FUTURE INCOME TAXES

The provision for future income taxes differs from the amount computed by applying the combined statutory Canadian Federal and Provincial tax rates to earnings before taxes. The reasons for these differences are as follows:

	2005	2004
Loss before income taxes	\$ (3,806,416)	\$ (2,078,020)
Rate	<u>37.62%</u>	<u>38.87%</u>
Computed (expected) income tax expense	\$ (1,431,974)	\$ (807,726)
Increase (decrease) in taxes resulting from:		
Stock-based compensation	694,158	299,529
Non-deductible expenses	8,812	4,567
Effect of change in tax rate	70,390	135,422
Resource allowance loss	66,987	47,205
Unrecognized (recognition of) future tax benefit	<u>591,627</u>	<u>(15,197)</u>
Income tax expense (recovery)	<u>\$ -</u>	<u>\$ (336,200)</u>

At December 31, 2005, the Company had estimated tax assets of \$2,800,864 (2004: \$2,590,825) against which a valuation allowance has been applied and therefore no tax recovery has been recognized.

Canadian Spirit Resources Inc.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

7. FUTURE INCOME TAXES (continued)

The following estimated tax deductions are available to reduce future taxable income:

Non-capital losses	\$ 2,548,589
Capital losses	25,932
Canadian exploration expense	3,685,099
Canadian development expense	8,787,959
Canadian oil and gas property expense	13,189,542
Foreign exploration and development expense	120,908
Undepreciated capital costs	316,444
Share issue expense	639,687
	<u>\$ 29,314,160</u>

The non-capital losses available at December 31, 2005 to reduce future taxable income expire as follows:

2006	\$ 165,378
2007	65,797
2008	127,522
2009	599,379
2010	455,973
2014	592,574
2015	541,966
	<u>\$ 2,548,589</u>

8. COMMITMENTS

The Company has entered into an office sub-lease agreement which expires on December 30, 2007. Under the terms of the sub-lease agreement, the Company is obligated to pay base annual rent of \$15.00 per square foot on 4,300 square feet, plus \$13.00 per square foot on 1,700 square feet of office space. The Company is also obligated to pay for its share of operating costs on this office space.

The Company has issued a letter of credit in lieu of a security deposit in the amount of \$42,745 to the BC Oil and Gas Commission that allows for the withdrawal of funds to remedy deficiencies in the drilling or operating of wells in British Columbia.