

SPIRIT EXPLORATION, INC.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

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GRUBER & COMPANY LLC**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

THE Board of Spirit Exploration, Inc.:

We have audited the accompanying balance sheet of Spirit Exploration, Inc. (An Exploration Stage Company) as of September 30, 2007 and December 31, 2006, and the related statements of operations, stockholders equity and cash flows for the periods then ended and from inception of the Exploration Stage of January 1, 2006 to September 30, 2007. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spirit Exploration, Inc. as at September 30, 2007 and December 31, 2006 and the results of its' operations and its' stockholders equity and cash flows for the years then ended and from inception of the Exploration Stage of January 1, 2006 to September 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in note 2 to these financial statements the Company has incurred recurring losses. This raises substantial doubt about its ability to continue as a going concern. Managements' plans in dealing with this are also discussed. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A handwritten signature in black ink, appearing to read "Robert L. Gruber". The signature is fluid and cursive, with a long horizontal stroke at the beginning and a stylized "G" at the end.

Gruber & Company, LLC Saint Louis, Missouri
December 11, 2007

SPIRIT EXPLORATION, INC.
(AN EXPLORATION STAGE COMPANY)

Consolidated Balance Sheets

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Assets		
Current assets:		
Cash	\$ 70,495	\$ -
Note receivable	<u>385,057</u>	<u>-</u>
Total current assets	455,552	-
Equipment	<u>74,549</u>	<u>-</u>
Total Assets	<u>\$ 530,101</u>	<u>\$ -</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accruals	\$ 713,672	\$ 3,778
Convertible Note payable	-	84,375
Loans payable	988,059	-
Accrued Derivative Liability	<u>137,259</u>	<u>-</u>
Total current liabilities	<u>1,838,990</u>	<u>88,153</u>
Stockholders' Equity (deficit):		
Common stock; \$.001 par value; 300,000,000 shares authorized and 47,940,800 and 153,800 issued and outstanding as of September 30, 2007 and December 31, 2006, respectively	47,940	154
Additional paid-in capital	44,924,664	-
Deficit Accumulated During Exploration Stage	<u>(46,281,493)</u>	<u>(88,307)</u>
Total stockholders' equity (deficit)	<u>(1,308,889)</u>	<u>(88,153)</u>
Total liabilities and stockholders' deficit	<u>\$ 530,101</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

SPIRIT EXPLORATION, INC.
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Operations

	<u>Nine Months Ended</u> <u>September 30, 2007</u>	January 1, 2006 Through <u>December 31, 2006</u>	Inception of Exploration Stage at January 1, 2006 Through <u>September 30, 2007</u>
Sales	\$ -	\$ -	\$ -
Cost of goods sold	<u>-</u>	<u>-</u>	<u>-</u>
Gross profit	-	-	-
Operating expenses:			
Accrued Management fees	120,000	-	120,000
Personnel and wages	223,413	-	223,412
Selling, general and administrative	<u>418,897</u>	<u>3,778</u>	<u>422,675</u>
	<u>762,310</u>	<u>3,778</u>	<u>766,088</u>
Loss from operations	(762,310)	(3,778)	(766,088)
Other (expense) income:			
Impairment on Mineral Rights	45,430,876	-	45,530,876
Loss of Derivative Liability	137,259	-	137,259
Interest (expense) income	<u>-</u>	<u>-</u>	<u>-</u>
	45,440,876	-	45,440,876
Net loss before taxes	(46,193,186)	-	(46,196,964)
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>
Net Loss	<u>\$ (46,193,186)</u>	<u>\$ (3,778)</u>	<u>\$ (46,196,964)</u>
Loss per share, basic and diluted	<u>\$ (.97)</u>	<u>\$ (.02)</u>	<u>\$ (.97)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>47,603,800</u>	<u>153,800</u>	<u>47,603,800</u>

The accompanying notes are an integral part of the financial statements.

Spirit Exploration, Inc.
(An Exploration Stage Company)
Consolidated Statements of Changes in Stockholders' Deficit
For the period from January 1, 2006 through September 30, 2007

	<u>Common Stock</u>			Deficit Accumulated During Development Stage	
	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>		<u>Total</u>
Balance, January 1, 2006	153,800	\$ 154	\$ -	\$ (88,307)	\$ (88,153)
Balance, January 1, 2007	153,800	\$ 154	\$ -	\$ (88,307)	\$ (88,153)
Issuance of common stock for cash	24,000,000	24,000	76,000		100,000
Issuance of common stock for Legal services	750,000	750	-	-	750
Issuance of common stock on Conversion of note	3,450,000	3,450	-	-	3,450
Issuance of common stock for cash	336,000	336	167,664	-	168,000
Issuance of common stock on Conversion of note and cash	4,000,000	4,000	1,196,000	-	1,200,000
Issuance of common stock for Mineral properties	15,000,000	15,000	43,485,000	-	43,500,000
Issuance of common stock for Consulting services	250,000	250	-	-	250
Net loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46,193,186)</u>	<u>(46,193,186)</u>
Balance, September 30, 2007	<u>47,939,800</u>	<u>\$ 47,940</u>	<u>\$ 44,924,664</u>	<u>\$ (46,281,493)</u>	<u>\$ (1,308,889)</u>

The accompanying notes are an integral part of the financial statements.

Spirit Exploration, Inc.
(an exploration stage company)

Consolidated Statements of Cash Flows

	September 30, 2007	December 31, 2006	Inception of Exploration Stage on January 1, 2006 to September 30, 2007
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Loss for the period	(46,193,186)	(3,778)	(46,196,194)
Common stock issued for acquisition	43,500,000	-	43,500,000
Common stock issued for services and debt	4,450	-	4,450
Non-cash item:			
Loss on derivative liability	137,259	-	137,259
Changes in non-cash working capital			
Note receivable	(385,057)	-	(385,057)
Accounts payable and accrued liabilities	<u>709,894</u>	<u>3,778</u>	<u>713,672</u>
Cash flows from operating activities	<u>(2,226,640)</u>	<u>-</u>	<u>(2,226,640)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of equipment	<u>(74,549)</u>	<u>-</u>	<u>(74,549)</u>
	<u>(74,549)</u>	<u>-</u>	<u>(74,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Common Stock	1,468,000	-	1,468,000
Increase in Loans Payable	988,059	-	988,059
Reduction of Debt	<u>(84,375)</u>	<u>-</u>	<u>(84,375)</u>
	<u>2,371,684</u>	<u>-</u>	<u>2,371,684</u>
NET INCREASE IN CASH	70,495	-	70,495
CASH – beginning of the period	<u>-</u>	<u>-</u>	<u>-</u>
CASH – end of the period	<u><u>70,495</u></u>	<u><u>-</u></u>	<u><u>70,495</u></u>

The accompanying notes are an integral part of the financial statements.

SPIRIT EXPLORATION, INC.
(AN EXPLORATION STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED SEPTEMBER 30, 2007

NOTE 1 BACKGROUND, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

Spirit Exploration, Inc. was incorporated on March 10, 1970 in the state of Nevada. In 2006 the name was changed to Spirit Exploration, Inc. The Company currently trades on the "pink sheets" under the symbol "SPXP.PK".

(A) ORGANIZATION AND BASIS OF PRESENTATION

Spirit Exploration, Inc. (an exploration stage company) (the "Company"), through its 99% owned subsidiary ECUADORGOLDCORP, S.A. ("Ecuadorgold"), is a natural resource exploration company with an objective of acquiring, exploring and if warranted and feasible, developing natural resource properties. Activities during the exploration stage include developing the business plan, raising capital, acquiring mining properties in Ecuador.

The consolidated financial statements include the accounts of the Company and Ecuadorgold. Intercompany accounts and transactions have been eliminated in consolidation.

History of the Company

The Company was originally incorporated on March 10, 1970 for the purpose of raising capital to develop and possibly put into production certain oil and mineral deposits. The Company was unable to raise development money and the Company's operations ceased and the mineral deposits were abandoned. On June 4, 1997 the Company acquired Krystar International Ltd. (Krystar) in exchange for 6,000,000 shares of common stock. Krystar had proprietary ownership of a technology that transported minerals using Boundary Air/Laminar Flow Technology. On September 24, 1997, the Board of Directors of the Company discontinued the operations of Krystar and the 6,000,000 shares of common stock were cancelled. On June 23, 1997, the Company acquired all of the outstanding shares of Chow's Consulting Corporation for 90,000 common shares of its common stock. The only asset of Chow's was a mining claim that has since been deemed worthless and Chow's was dissolved.

On October 14, 1997 the Company changed its name from Dynasty Oil and Minerals Corporation to Global Telephone Communication, Inc. The Company's focus at that time was to seek and develop opportunities in the IT (Information Technology), telecommunications, and Internet industries.

Prior to approximately January 1, 2003, the Company as Global Telephone Communication, Inc. was an operating company with its common shares listed for trading on the OTCBB market. The company failed to remain current on its SEC filing requirements and as a result was demoted to the Pink Sheets. The Company has not filed any periodic reports since the report filed for the quarter ended September 30, 2002. Subsequently, the Company ceased all business operations and has been dormant since approximately January 1, 2003. During the same period, all the Company's officers and directors ceased acting on behalf of the Company and abandoned their obligations to the Company and its shareholders. As a result, the Company was considered to be dormant from approximately January 1, 2003 to December 31, 2005.

Since January 1, 2006, the Company is in the exploration stage and has commenced its current business plan. The Company formed and is the 99% owner of ECUADORGOLDCORP, S.A., an Ecuadorian corporation which is the operating subsidiary of the Corporation. ECUADORGOLDCORP, S.A. is the entity undertaking the Company's mining operations in Ecuador. The Company's common shares are currently listed for trading on the Pink Sheets under the symbol SPXP.PK.

SPIRIT EXPLORATION, INC.
(AN EXPLORATION STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED SEPTEMBER 30, 2007

NOTE 1 BACKGROUND, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

(B) USE OF ESTIMATES

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(C) CASH AND CASH EQUIVALENTS

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

(D) INCOME TAXES

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(E) LOSS PER SHARE

Basic and diluted net loss per common share is computed based upon the weighted average common shares outstanding as defined by Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Per share amounts have been adjusted to reflect the 1:660 reverse stock split approved and effective on May 20, 2006.

(F) LONG-LIVED ASSETS

The Company accounts for long-lived assets under the Statements of Financial Accounting Standards Nos. 142 and 144 "Accounting for Goodwill and Other Intangible Assets" and "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 142 and 144"). In accordance with SFAS 142 and 144, long-lived assets, goodwill and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, goodwill and intangible assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets.

(G) FOREIGN CURRENCY TRANSLATION

In accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" ("SFAS 52"), the Company has determined that its functional currency is the United States Dollar.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED SEPTEMBER 30, 2007

NOTE 1 BACKGROUND, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

(H) BUSINESS SEGMENTS

The Company operates in one segment and therefore segment information is not presented.

(I) CONCENTRATION OF CREDIT RISK

At September 30, 2007, the Company had total cash of \$70,495 in a United States bank which is uninsured.

(J) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES" ("FIN 48"), an interpretation of FAS 109, "ACCOUNTING FOR INCOME TAXES." FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006 and has no current applicability to the Company's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "FAIR VALUE MEASUREMENTS" ("SFAS 157"). SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS" ("SFAS 158"), an amendment of FASB Statements of Financial Accounting Standards Nos. 87, 88, 106 and 132(R). SFAS 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer's statement of financial position, (b) measurement of the funded status as of the employer's fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. SFAS 158 has no current applicability to the Company's financial statements.

In September 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings and disclose the nature and amount of each individual error being corrected in the cumulative adjustment.

SPIRIT EXPLORATION, INC.
(AN EXPLORATION STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED SEPTEMBER 30, 2007

NOTE 1 BACKGROUND, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES" ("SFAS 159"), an amendment of FASB Statement of Financial Accounting Standards No. 115. SFAS 159 addresses how companies should measure many financial instruments and certain other items at fair value. The objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS 159.

(K) EQUIPMENT AND DEPRECIATION

Equipment is recorded at cost, and depreciation is provided on a declining-balance basis over its estimated useful life.

NOTE 2 GOING CONCERN

As reflected in the accompanying financial statements, the Company is in the exploration stage with no revenue and a negative cash flow from operations of \$1,308,889 for the period from January 1, 2006 through September 30, 2007 (which reflects the operations of the current business). This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management believes that actions presently being taken to obtain additional funding (See Note 4) and implement its strategic plans (see Note 3) to provide the opportunity for the Company to continue as a going concern.

NOTE 3 MINERAL PROPERTIES AND IMPAIRMENT ON MINERAL RIGHTS

Effective April 21, 2007 the Company entered into an Assignment and Operating Agreement (the "Operating Agreement") with Minera Pacifico Noroeste, S.A. ("Pacifico"), pursuant to which the Company acquired certain assets relating to mining concessions and interests and related obligations including the Muluncay Project, the Maria Olivia Project and the Kylee concession, all subject to certain mortgages and obligations. Under the terms of the Agreement with Pacifico, the Company through its subsidiary ECUADORGOLDCORP., S.A. acquired a 100 % interest in the operating mines and related assets. The purchase consideration for the interest consisted of 15,000,000 restricted common shares which the Company valued at market on the date of issue or a total of \$43,500,000.

Under accounting guidelines promulgated by the US Securities and Exchange Commission in Industry Guide 7, as well as the Financial Accounting Standards Board ("FASB"), the Company is not permitted to capitalize the value of the mining rights until such point as they are "proven" or at least "probable" reserves. While the Company's evaluation of the properties as set forth in its industry standard 43-101 reports on both the Muluncay and the Maria Olivia Properties provides evidence of substantial "inferred reserves", current accounting and disclosure rules prohibit the Company from including those as assets on its balance sheet. The recoverability of capitalized costs would likely be insupportable under Financial Accounting Standard 121 ("FASB 121"), prior to the determination of a commercially minable deposit, particularly as contemplated by the SEC's Industry Guide for a mining company in the exploration stage. As a consequence, the SEC Staff has advised that those costs should be expensed as incurred during the exploration stage under generally accepted accounting rules.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED SEPTEMBER 30, 2007

NOTE 3 MINERAL PROPERTIES AND IMPAIRMENT ON MINERAL RIGHTS (CONTINUED)

The three primary properties in the Muluncay Project (the “Lopez” mine, the “Esperanza” mine and the “Asanza” mine) acquired by the Company included mortgages payable on the properties which at the time of acquisition from Pacifico as part of the Operating Agreement totaled \$1,560,000. At September 30, 2007, the balance remaining owed on these mortgages was approximately \$1,155,000. Pacifico has entered into an Assignment and Assumption Agreement with Ecuadorgoldcorp, S.A., the Company’s 99% subsidiary, which assigned these properties to Ecuadorgoldcorp on behalf of the Company, and pursuant to which the Company agreed to pay the balance of these mortgages from the first proceeds of financing received by the Company. As the properties are part of the expense recorded on the Company’s Consolidated Income Statement, the mortgages are included within that expense and are not set out as a separate liability of the Company.

As part of the Operating Agreement, the Company also agreed to obtain capitalization and funding required for the operation of the properties, including without limitation development, exploration and mining operations for the properties. Such funding shall be pursuant to mutually agreed upon budgets between the Company and Pacifico. Pacifico will remain the operator on all properties of the Company in Ecuador in consideration for (i) reimbursement of all expenses incurred on the projects at cost plus 10%, (ii) fee of the lower of 10% of the net revenues or \$10,000 per month, (iii) \$10,000 per month for the first twelve months, which is deferred until the earlier of April 11, 2008 or funding of the Company (fees payable after that shall be negotiated between Pacifico and the Company) and (iv) a 3% Net Smelter Return Royalty for 30 years or the life of the property. In the event of any material default on the Operating Agreement, the offended party may immediately terminate the Agreement. Upon any such termination, the fees and expenses, including without limitation the Net Smelter Return Royalty, are immediately terminated and neither party would have any further rights or obligations with respect to the other.

The Company’s mineral properties currently consist of its two major projects – the Muluncay Project and the Maria Olivia Project, as well as the Kylee project and several optioned properties including Fierro Urco I, Fierro Urco II and Campo de Oro.

Muluncay Project

The Muluncay Project consists of the acquisition of three mines and a flotation processing plant in Southern Ecuador. This initial acquisition has provided properties from which the Company has already started the production of gold concentrate, with revenues actually received in the period subsequent to the period ended September 30, 2007. The Muluncay mines are presently being upgraded. This area has historically yielded in excess of 4.5 million oz. of gold from epithermal gold/silver vein systems. Spirit’s holding encompasses 2100 hectares.

The Company plans to undertake production of the Muluncay production in three phases:

1. Initially through continuation of mine preparation and modernization with equipment for proper mining excavation for the tonnage required for the production plant(s). The Company intends to acquire 100 hectares for the new Central Processing Plant for growth and tailing ponds to fulfill the required Environmental Impact Studies for this future site. The Company will acquire new equipment to bring the current plant to 150 tons per day at the Company’s Esperanza location and acquire equipment for the new flotation plant that will begin under construction during Phase 2.
2. In Phase 2, the Company intends to construct a new central flotation plant, with clearing of land, preparation of utilities and pouring footers to begin immediately. During concrete curing, the Company will begin tailing pond preparation and equipment transportation to the site. The Company will then begin on site assembly of

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tanks and crushing line assembly for installation. The Company intends to apply equipment in order of placement and continue through a test run of plant at 250 tons per day operation.

NOTE 3 MINERAL PROPERTIES AND IMPAIRMENT ON MINERAL RIGHTS (CONTINUED)

3. In Phase 3, the Company will continue the mine development and slashing process to continue to create proper ore feed. The Company will develop holding deposits for extracting ore for proper blending for the plant. After plant runs at approximately 250 tons per day for 90 consecutive days, the Company will begin the process to add additional equipment to raise production to 500 tons per day. Ore volume per day will dictate the growth stages (50 ton tanks can be added quickly) based on the mining progress for vein quality

Maria Olivia Project

The Company also acquired from Pacifico another concession – the “Maria Olivia” – in the same region. Both the Muluncay Project and the Maria Olivia Project are open to depth and management of the Company believes that both projects could yield substantial reserves. The Company has signed a letter of intent to joint venture this project with Franzosi S.A., an exploration company based in Quito, Ecuador. Maria Olivia has similar geology, structures and mineralization as Muluncay. Franzosi has agreed to provide a total of \$4,800,000 in funding through the four planned stages of production to finance completion and production in the Maria Olivia concession.

The Company plans to undertake production of the Maria Olivia concession production in four phases:

1. Initially in Phase 1 through startup exploration, completion of an environmental impact study, undertaking soil and water studies to begin with laboratory results and engaging mining engineers to begin surface evaluations for possible entry points of the main tunnel.

2. In Phase 2, the Company will put its drill program into place. This will including (i) hiring a drill team with an approved North American Geologist to prepare cores for booking and lab preparation; (ii) building a security shelter for cores and equipment; (iii) moving equipment on site and beginning drilling; (iv) preparing a model from drilling results of the ore body after the first 16,000 feet have been drilled and sampled; (v) beginning calculation of provable resources based upon early lab reports; (vi) starting a second round of drilling (16,000 feet); (vii) using these results to assure mining tonnage and grade for valuations and (viii) repeating the above based upon distance, depth and width of findings.

3. In Phase 3, the Company will begin underground extraction (mining). The Company will need to complete an environmental impact study for extraction. The Company’s mining engineers will begin construction for the entry of the main tunnel and its mechanical engineers will approve final drawings of the flotation processing plant. Key paperwork will be completed include approval of budgets, flow charts and objectives from financing to construction, and setting production objectives.

4. In the final Phase 4, the Company will begin construction of a 200 ton plant and mining extraction. Included in this phase will be (i) setting footers for 400 ton per day Processing flotation plant; (ii) purchasing equipment to set 200 ton per day in this Phase; (iii) developing a tailings pond for five year production at 200 ton per day for a key impact study; (iv) providing rail, water, air and electricity mine for extraction of a 200 ton per day operation; (v) building a laboratory on site and (vi) setting a security perimeter around the active plant and mine area

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NOTE 3 MINERAL PROPERTIES AND IMPAIRMENT ON MINERAL RIGHTS (CONTINUED)

Kylee Concession

The Company also acquired the Kylee Concession from Pacifico subject to a mortgage. This project contains at least one major vein of 1 m width, and is suggested to be 2.3 km long, trending from northeast to southwest, width of vein suggests strength, continuity and depth. The Company's current workings are on a vein exposed along Quebrada Zuro of Rio San Francisco, which lies northeast of the major river, Rio Jubones. There are possible parallel veins in Quebrada Cuchicorral, which appears to be a gully trending northwest where another vein may exist. The area has not been explored for parallel structures which may host similar mineralization. The Company's proposed exploration program would consist of stream sediment sampling of all creeks in the concession, where accessible, at approximately 100 m separation along each creek.

Optioned Properties

The Company has acquired and has options to acquire other mineral production and exploration properties as referenced more fully below in Ecuador totaling in excess of 80,000 hectares. These optioned properties include Fierro Urco I, Fierro Urco II and Campo de Oro.

NOTE 4 NOTES AND LOANS PAYABLE

In 2000, the Company issued a convertible note (the "2000 Note") with an original principal amount of \$35,000 bearing interest at prime plus 0.5% per year, compounded annually. The holder had the ability to demand repayment at any time. The holder could at any time convert all or any portion of the outstanding balance of the Note (but not less than \$50,000 unless the remaining balance of the Note is less than such amount), including accrued but unpaid interest thereon, into shares of the Company's common stock. The conversion price was the lower of (i) \$1.30 per share, adjusted for stock splits and reverse stock splits, and (ii) 80% of the five day trailing average of the Company's common stock on the date notice of conversion is delivered to the Company. Effective February 8, 2007, the Company issued 3,375,000 to accredited investors upon conversion of the 2000 Note.

On April 30, 2007, the Company issued a note to Terry Fields, the Company's Chief Executive Officer, for a loan of \$113,000. The Loan is payable on demand without interest and is unsecured.

On June 20, 2007, the Company issued a note to Resource Buyers and Distribution, Inc. for a loan of \$35,000. The Loan is payable on demand without interest and is unsecured.

On June 26, 2007, the Company issued a note to Webworks for a loan of \$300,000. The Loan is payable on demand and bears interest of 8% per annum and is unsecured. Terry Fields, the Company's Chief Executive Officer, and Peter Laipnieks, the Company's President, each guaranteed \$75,000 of the Webworks' obligation.

On July 15, 2007, the Company issued a note to David Aisenstat for a loan of \$234,188.34. As additional consideration on the loan, David Aisenstat was issued 250,000 shares of the Company's common stock. The Loan is payable at a rate of \$50,000 a month starting in September 2007. It is without interest and is unsecured. The obligation to Mr. Aisenstat is secured by a guarantee by Terry Fields, the Company's Chief Executive Officer, and Peter Laipnieks, the Company's President.

On September 30, 2007, the Company issued a note to Peter Laipnieks, the Company's President, for a loan of \$87,774. The Loan is payable on demand without interest and is unsecured.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 NOTE RECEIVABLE

The Company was also obligated under a convertible note issued in 2002 (the "2002 Note") with an original principal amount of \$19,000 bearing interest at 9% per year, compounded annually. The holder had the ability to demand repayment at any time. The holder could at any time convert all or any portion of the outstanding balance of the Note including accrued but unpaid interest thereon, into shares of the Company's common stock. Effective February 10, 2007, the Company issued 4,000,000 shares of common stock to accredited investors upon conversion of the 2002 Note. In addition to cancellation of the 2002 Note, the Company received a Note Receivable for \$1,200,000. Of that amount, \$814,853 had been paid to the Company at September 30, 2007. The remaining \$385,147 is listed as a Note Receivable on the Company's consolidated balance sheet.

NOTE 6 DERIVATIVE LIABILITY

On May 1, 2007, the Company issued warrants to purchase a total of 2,512,500 shares to four accredited investors exercisable for 5 years at \$1.00 per share. 1,600,000 of these options were issued to the Company's founders, 800,000 were issued in connection with consulting services and 112,500 were issued for legal services.

The Company is accounting for the warrants as derivative liabilities in accordance with Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock."

The fair value of the warrants was determined to be \$137,259 utilizing the Black-Scholes stock option valuation model. The significant assumptions used in the valuation are: the exercise price as noted above; the stock price as of September 30, 2007; expected volatility of 66%; risk free interest rate of approximately 4.50%; and a term of five years.

NOTE 7 STOCKHOLDERS' EQUITY (DEFICIT)

Authorized:

300,000,000 common shares with a par value of \$0.001

	<u>\$</u>
Issued 47,939,800 shares	47,940
Paid-in capital	<u>45,108,054</u>
	<u>45,155,994</u>

On November 11, 2005, the Company issued 82,028 shares of common stock to three accredited investors for consulting services valued at \$56,006.25 (\$0.68 per share).

On May 20, 2006 the Company affected a 1:660 reverse stock split. All share and per share amounts have been retroactively restated.

Effective February 8, 2007 the Company issued 24,000,000 shares to or on behalf of three accredited investors for a total of \$100,000 (\$0.004 per share). Two of the investors were the Company's officers and directors.

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NOTE 7 STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)

Effective February 8, 2007, the Company issued 750,000 shares to the Company's legal counsel, an accredited investor, in consideration for legal services valued at \$3,125 (\$0.004 per share).

On February 8, 2007, the Company issued 75,000 shares to an accredited investor in connection with an agreement to sell a convertible note for \$35,000. The Company valued these shares at \$313 (\$0.004 per share).

Effective February 8, 2007, the Company issued 3,375,000 shares to four accredited investors upon conversion of a convertible note issued in 2000 with an original principal amount of \$50,000 and together with interest valued at \$83,000 (\$0.025 per share).

Effective April 3, 2007, the Company issued 4,000,000 shares to three accredited investors upon conversion of a convertible note originally issued in 2002 with an original principal amount and interest due of \$30,092.98, for a promissory note of \$1,200,000 (\$0.30 per share).

Between April 5, 2007 and June 22, 2007, the Company sold a total of 336,000 shares to six accredited investors at \$.50 per share or total consideration of \$168,000.

Effective May 1, 2007, the Company issued warrants to purchase a total of 2,512,500 shares to four accredited investors exercisable for 5 years at \$1.00 per share. 1,600,000 of these options were issued to the Company's founders, 800,000 were issued in connection with consulting services and 112,500 were issued for legal services.

Effective September 21, 2007, the Company issued 15,000,000 shares in connection with the acquisition of mining properties in Ecuador. These shares were valued at \$2.90 per share or \$43,500,000. These shares were issued into escrow to be further distributed to a limited number of concession holders in Ecuador, which was subsequently completed to a total of 72 persons or entities, all but 24 of which were non United States persons and were related to the Company's operations in Ecuador.

Effective September 21, 2007, the Company issued 250,000 shares to an accredited investor as a consulting fee.

SHARE PURCHASE WARRANTS

	Number of Warrants	Weighted Average Exercise Price
BALANCE, DECEMBER 31, 2006	--	\$ --
Granted		
May 1, 2007	2,512,500	1.00
BALANCE, September 30, 2007	2,512,500	\$ 1.00

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 RELATED PARTY TRANSACTIONS

Effective April 11, 2007, the Company entered into an employment agreement with the President which calls for a salary of \$10,000 per month for the first twelve months, which payment is deferred until April 11, 2008 or until funding of the Company, whichever is earlier. Commencing on April 11, 2008, the Company will pay the President's base compensation in the gross amount of \$20,000 per month. Thereafter Base Compensation shall increase by 5% annually. The President also received a grant of 800,000 stock options exercisable for five years into shares of the Company's common stock at \$1.00 per share. The President is also entitled to other benefits granted to executive officers and to a bonus of up to 50% of base compensation based on the Company's performance.

Effective April 11, 2007, the Company entered into an employment agreement with the Chief Executive Officer and Secretary which calls for a salary of \$10,000 per month for the first twelve months, which payment is deferred until April 11, 2008 or until funding of the Company, whichever is earlier. Commencing on April 11, 2008, the Company will pay the officer's base compensation in the gross amount of \$20,000 per month. Thereafter Base Compensation shall increase by 5% annually. The officer also received a grant of 800,000 stock options exercisable for five years into shares of the Company's common stock at \$1.00 per share. The Chief Executive Officer and Secretary is also entitled to other benefits granted to executive officers and to a bonus of up to 50% of base compensation based on the Company's performance.

On April 30, 2007, the Company issued a note to Terry Fields, the Company's Chief Executive Officer, for a loan of \$113,000. The Loan is payable on demand without interest and is unsecured.

On June 26, 2007, the Company issued a note to Webworks for a loan of \$300,000. The Loan is payable on demand and bears interest of 8% per annum and is unsecured. Terry Fields, the Company's Chief Executive Officer, and Peter Laipnieks, the Company's President, each guaranteed \$75,000 of the Webworks' obligation.

On July 15, 2007, the Company issued a note to David Aisenstat for a loan of \$234,188.34. As additional consideration on the loan, David Aisenstat was issued 250,000 shares of the Company's common stock. The Loan is payable at a rate of \$50,000 a month starting in September 2007. It is without interest and is unsecured. The obligation to Mr. Aisenstat is secured by a guarantee by Terry Fields, the Company's Chief Executive Officer, and Peter Laipnieks, the Company's President.

On September 30, 2007, the Company issued a note to Peter Laipnieks, the Company's President, for a loan of \$87,774. The Loan is payable on demand without interest and is unsecured.

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NOTE 9 SUBSEQUENT EVENTS

Effective October 19, 2007, the Company issued 5,000 shares to an accredited investor as a finders' fee.

Effective November 9, 2007, the Company issued 50,000 shares to an accredited investor for consulting services.

Effective November 9, 2007, the Company issued 1,000 shares to the Company's transfer agent for a termination fee as the Company's transfer agent.

Effective November 21, 2007, the Company issued 30,000 shares to an accredited investor for consulting services.

On November 26, 2007, the Company, received a firm commitment for the placement of \$20,000,000 in asset-backed notes (the "Notes") and \$10,000,000 in equity financing. The Notes will bear interest at 15% per annum and will be paid semi-annually. The Notes will be secured by the assets constituting the Muluncay Property. The equity financing will be based upon a 17.5% discount from the 30 day weighted average trading price of the Company's common stock on November 28, 2007. The shares will be issued in accordance with Regulation S and will be subject to a requirement to file a registration statement to register the shares with the US Securities and Exchange Commission. The Company has committed to utilization the proceeds from the sale of the Notes and the equity financing for exploration and development of the Muluncay Property and other projects in Ecuador, as well as general corporate working capital.