



OIL AND GAS COMMISSION

January 31, 2007

9000-2700-59240-15

Kenneth G. Sinclair
Vice President, Business Development
Canadian Spirit Resources Inc.
Ford Tower
Suite 1950, 633 – 6th Avenue S.W.
Calgary, Alberta T2P 2Y5

Dear Mr. Sinclair:

RE: EXPERIMENTAL SCHEME APPROVAL
FARRELL CREEK AREA, GETHING FORMATION

The Commission has reviewed your application dated November 24, 2006, requesting experimental scheme approval to evaluate the unconventional natural gas resource potential from the shale, tight sand and coal of the Gething Formation in the Farrell Creek area of northeast British Columbia.

The unconventional scheme is considered experimental as it requires ongoing research as to drilling, completion and production methodology. No objections were received following the publication of a notice of your application in the B.C. Gazette. Attached is Approval 06-15-005 for the application granted under section 100 of the Petroleum and Natural Gas Act

The Commission must be notified in writing of the effective commencement date of activity for the scheme approval. In accordance with section 57 of the *Drilling & Production Regulation* all well reports and well data will be held confidential for a period of 3 years after the date of release of the drilling rig for a well forming part of this experimental scheme.

Please note that progress reports, as specified in item 4 of the approvals, must be submitted on an annual basis with the first one due on the first anniversary of the commencement date.

Sincerely,

Doug McKenzie
Director
Resource Conservation Branch

Attachment

RESOURCE CONSERVATION BRANCH

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APPROVAL 06-15-005

THE PROVINCE OF BRITISH COLUMBIA
PETROLEUM AND NATURAL GAS ACT
OIL AND GAS COMMISSION

IN THE MATTER of the experimental scheme of Canadian Spirit Resources Inc. (CSRI), to evaluate the unconventional natural gas resource potential from the shale, tight sand and coal of the Gething Formation in the Farrell Creek area of northeast British Columbia.

NOW THEREFORE, the Commission, pursuant to section 100 of the Petroleum and Natural Gas Act, R.S.B.C. 1996, c.361 orders as follows:

1. The experimental scheme to evaluate unconventional gas potential by exploration and production from the Gething Formation in the Farrell Creek area as described in the application from CSRI to the Commission dated November 24, 2006 is hereby approved, subject to terms and conditions herein contained.
2. The area of the experimental scheme consists of the following lands:
 - 094-A-04: Block E – units 80, 90, 100
Block L – unit 10
 - 094-B-01: Block H – units 71-75, 81-85, 91-95
Block I – units 1-5.
3. The gas wells within the scheme area may be produced without individual well allowable restrictions.
4. The operator must submit a progress report to the Commission annually. The progress report is due within 60 days after the end of each period and must contain:
 - the daily average rate of gas and water production during each month for each producing well, and for the scheme as a whole;
 - the monthly cumulative gas and water production for each producing well, and for the scheme as a whole;
 - details of any workover or fracture treatment program done on any of the wells with results of the workovers or fracture treatment,
 - an evaluation of bottom hole pressures and any other data collected,
 - representative sample analysis of produced gas and water;
 - the date and type of any well treatment or workover for any well in the scheme;
 - a discussion of the overall performance of the scheme,

- all information gathered to evaluate the coal's reservoir qualities such as gas content, desorption analysis, injectivity tests and permeabilities of coal seams.
 - any other information that is considered necessary, in the opinion of the Commission, to evaluate the progress, performance and efficiency of the scheme.
5. Associated gas produced during the pilot testing may be flared for a maximum period of 6 months with a total volume not to exceed $300 \times 10^3 \text{ m}^3/\text{well}$.
 6. A well may be drilled anywhere within the scheme area provided that it is not nearer than 250 m to the sides of the scheme area.
 7. All information and analysis related to the scheme shall be made available to the Commission upon request.
 8. The approval or any condition of it may be modified or rescinded upon application or if deemed appropriate by the Commission.



Doug McKenzie
Director
Resource Conservation Branch
Oil and Gas Commission

DATED AT the City of Victoria, in the Province of British Columbia, this 31st day of January 2007.