



October 12, 2007

9000-2700/2800-59240-15

Ken Sinclair
V.P. 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 FOR COAL BED METHANE, AMENDMENT #1
FARRELL CREEK AREA, GETHING AND CADOMIN FORMATION COALS**

The Commission would like to thank you for meeting with us on September 28, 2007 to discuss your plans for development within the Hudson's Hope area of Northeast BC. This letter is a follow up to our discussions regarding two experimental scheme approvals (05-15-009 and 05-15-010) held by Canadian Spirit Resources Inc. (CSRi) in the Farrell Creek Area. These experimental scheme approvals were issued July 6, 2005.

A review of CSRi's applications, dated June 6, 2005, indicate that a commitment had been made to drill initial exploratory wells in both scheme areas within twelve (12) months of approval. To date no wells have been drilled within either scheme area and CSRi has indicated that they have no immediate plans to explore for coal bed methane within the two scheme areas. As such the Commission has amended the experimental scheme approvals to include a condition requiring the drilling of a well within each approval area prior to April 30, 2008. Should CSRi be unable to meet this deadline the OGC will rescind the approval(s). Alternately, CSRi may formally apply to surrender their experimental scheme approvals pursuant to Section 100 (4).

Attached are Approvals 05-15-009 (Amendment #1) and 05-15-010 (Amendment #1) for the application granted under section 100 of the Petroleum and Natural Gas Act.

If you have any question please contact the undersigned at (250) 952-0366.

Sincerely,

Richard Slocomb, P.Eng.
Supervisor, Reservoir Engineering
Resource Conservation

Attachment

RESOURCE CONSERVATION

PO Box 9329 Stn Prov Gov't, Victoria BC V8W 9N3 Tel: (250) 952-0302 Fax: (250) 952-0291
Location: 6th Flr 1810 Blanshard St. Victoria BC

APPROVAL 05-15-009 (Amendment #1)

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

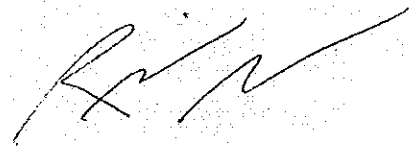
IN THE MATTER of the experimental scheme of Canadian Spirit Resources Inc. (CSRI), to evaluate the coalbed gas potential of the Gething and Cadomin Formation coals of the Farrell Creek area of northeast British Columbia.

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 coalbed methane potential by exploration and production from the Gething and Cadomin Formation coals in the Farrell Creek area as described in the application from CSRI to the Commission dated June 6, 2005 is hereby amended, subject to terms and conditions herein contained.
2. The area of the experimental scheme consists of the following lands:

Township 84-Range 25 W6M: Sections 11, 14 and 23
3. Submit a report of the progress, performance and efficiency of the scheme every 6 months in the first year, and then annually thereafter, within 60 days after the end of each period. The following information must be included in the progress report:
 - 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;
 - Representative sample analysis of produced water obtained once each 6 months;
 - The date and type of any well treatment or workover for any well in 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.
4. Associated gas produced during the pilot testing may be flared for a maximum period of 3 months with a total volume not to exceed $135 \times 10^3 \text{ m}^3/\text{well}$.
5. A well may be drilled anywhere within the scheme area provided that it is not nearer than 100 m to the sides of the scheme area.
6. The requirement to test and determine the absolute open flow potential of the wells as set out in Section 84 of the *Drilling and Production Regulation* is hereby waived.

7. The requirement to measure the static bottom hole pressure of each well prior to production as set out in Section 95 of the *Drilling and Production Regulation* is hereby waived.
8. A well must be drilled within the scheme area prior to April 30, 2008, for the purpose of evaluating the coalbed gas potential of the Gething and Cadomin formations
9. All information and analysis related to the scheme shall be made available to the Commission upon request.
10. The approval or any condition of it may be modified or rescinded upon application or if deemed appropriate by the Commission.



Richard Slocomb, P.Eng.
Supervisor, Reservoir Engineering
Resource Conservation

DATED AT the City of Victoria, in the Province of British Columbia, this 12th day of October 2007.

APPROVAL 05-15-010 (Amendment #1)

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

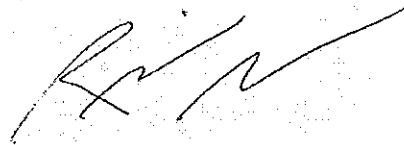
IN THE MATTER of the experimental scheme of Canadian Spirit Resources Inc. (CSRI), to evaluate the coalbed gas potential of the Gething and Cadomin Formation coals of the Farrell Creek area of northeast British Columbia.

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 coalbed methane potential by exploration and production from the Gething and Cadomin Formation coals in the Farrell Creek area as described in the application from CSRI to the Commission dated June 6, 2005 is hereby amended, subject to terms and conditions herein contained.
2. The area of the experimental scheme consists of the following lands:

Township 84-Range 25 W6M: Sections 28 and 33.
3. Submit a report of the progress, performance and efficiency of the scheme every 6 months in the first year, and then annually thereafter, within 60 days after the end of each period. The following information must be included in the progress report:
 - 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;
 - Representative sample analysis of produced water obtained once each 6 months;
 - The date and type of any well treatment or workover for any well in 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.
4. Associated gas produced during the pilot testing may be flared for a maximum period of 3 months with a total volume not to exceed $135 \times 10^3 \text{ m}^3/\text{well}$.
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