



TORCH RESEARCH SERVICES, INC.

September 2, 2003



BPI INDUSTRIES Inc.

BPR.V: TSX Venture Exchange

NEW RECOMMENDATION: SPECULATIVE BUY

We are initiating coverage of BPI Industries Inc. with a speculative buy rating.

Recent Price:	\$0.67
52-week range:	\$0.51-1.26
Shareholders' Equity:	\$6,190,685
Fiscal Year End	July
No. common shares	22,128,752
Market Capitalization:	\$14,826,264
Long Term Liabilities:	\$0

Analyst: Charles Strain, Senior E&P Analyst

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BPI Industries Inc.

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Senior Management:

James Azlein, President

Keith Ebert, Vice President

Dan Anderson, Manager
of Property Acquisitions

Thomas Hite, Consultant



Overview

BPI Industries ("BPI") offers investors a unique opportunity to participate in the development of significant coalbed methane (CBM) production in the Illinois Basin in Southern Illinois and Western Indiana. Reports by the Gas Research Institute estimate the potential CBM gas recovery from the Illinois Basin at 21 trillion cubic feet of gas but the basin has not been actively developed for CBM to date.

BPI has established a large leasehold position in the Basin ahead of most of its competitors. BPI has two separate projects underway that should prove the economic value of coalbed methane recovery in the Illinois Basin.

The theoretical gas recovery from existing BPI leases would provide a net asset value many times the current stock price. Since few CBM projects recover a significant portion of their calculated gas, we have chosen to estimate the net asset value of BPI based on the preliminary results of the first commercial CBM project in the Basin, The Jericho Project. BPI is a partner and Technical Services Manager of the Jericho Project. We have utilized the estimates of a respected international engineering consulting firm, Sproule and Associates for the recoverable gas from the one coal seam currently in production at Jericho. Estimating the recovery from the current acreage position in Illinois by analogy to the single coal seam project at Jericho, we arrive at a net asset value of BPI at \$6.18 (9.2 times the current stock price) per share utilizing a realized natural gas price of US\$4.00 per MMBTU and the current lease position of BPI in the basin.

BPI currently has a leasehold position of 137,000 acres in the basin (excluding the 11.02% interest in the Jericho Project) in three separate projects and is actively pursuing additional large blocks of leases. The amount of gas in place under the existing acreage is very large and held in 7 potentially productive coal seams. Our current appraisal is only based on one 6-foot seam that we have valued as if it were the one seam that is in testing and production at the Jericho Project. Utilization of multiple seams and the expanded acreage position would provide a net asset value per share many times higher than the current stock price of BPI.

BPI has purchased an interest in and is now the technical operator of the Jericho Project in Western Indiana on the edge of the Illinois Basin. Jericho is the only CBM project in the Basin that has demonstrated the ability to economically recover gas from one of the coal seams at a profitable rate. Jericho has been under development for approximately two years.

Recovery of the gas that is in place for many CBM projects is very disappointing due to a lack of ability of the gas to move freely through the coal to the producing wells. The success achieved so far at Jericho provides encouragement that the gas from most of the coals in the basin will be recoverable with attractive economics.

The owners of the Jericho project are currently seeking conventional financing from a local bank for the next phase of development at Jericho, which will roughly triple the number of wells and expand production to three coal seams.

There is an excellent market for the gas from BPI's properties. In another coincidence, both the Jericho and the Delta property are each crossed by two large, interstate pipelines. Jericho has tapped into one of the lines to market its gas. Because of the proximity of BPI's acreage to major



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natural gas markets, the gas produced from the coal receives very attractive prices. The location premium tends to offset the normal pipeline charges so the gas price net to the wellhead is above the reference price for natural gas at the Henry Hub in Louisiana.

BPI has recently started a comprehensive testing and evaluation program at its 43,000-acre Delta block near Marion in Southern Illinois. The property has 19 CBM wells and core holes drilled on it, but has never had an adequate flow test conducted on the wells. BPI has just finished reworking four wells and is currently reworking another five wells. BIP is evaluating selling the gas produced from these wells to a local industrial customer or installing a sales tap into one of the two interstate pipelines. This should provide the opportunity for sustained production from these wells and allow better conclusions to be drawn regarding the ultimate recovery and economics of two of the seven coal seams in this location. Initial results have been very encouraging with three of the initial four wells showing gas available at the surface before the dewatering phase of the production has even commenced.

Current new BPI management has rescued the company from an untenable situation in a minority position and contract with the former operator of the properties, restructured and formed a new company management team and has acquired 100% ownership of the project and assumed complete control of the operations.

Further, BPI has acquired an 11.03% interest in the Jericho project. The project provides hands on experience in developing the CBM in the Illinois Basin. BPI has also brought the founder and manager of Jericho (Mr. Tom Hite) into the management of BPI. He is leading some of the efforts to evaluate the acreage positions of BPI in Illinois.

BPI has been transformed from a company locked in a stalemate with its previous operator on the original 43,000 acre project to a company that has an interest in a currently, profitable CBM production in the Illinois Basin with an expanded acreage base, currently at 137,000 acres, that provides large potential upside to the value of the shares.

BPI management is making strong efforts to distinguish BPI as an operational company working to expand and develop its assets.

INVESTMENT HIGHLIGHTS

We estimate the net asset value (NAV) per share of BPI at \$6.18 per share, is more than 9 times the current price of the common stock. Our NAV estimate is made with very conservative assumptions on only one of seven potential productive seams and is based on analogy to the single seam production at Jericho.

BPI is now actively acquiring large amounts of acreage and pursuing testing and development of existing acreage.

BPI is actively pursuing an extended testing and evaluation program on the Delta block of acreage near Marion, Illinois that has large potential.

Calculation of recoverable gas from existing acreage by volumetric estimates yields asset values that would allow the stock price to increase substantially above its current level.



BPI management is committed to a practice of reporting results that are conservative and defensible by experts accompanied by timely reporting of events as they unfold in the development of the properties. This type of reporting should separate BPI from the more speculative natural resource stocks that trade on the Canadian Venture Exchange.

The BPI properties are adjacent to large markets for natural gas and have convenient pipeline access to those markets. The current realized prices for gas at The Jericho Project, after deducting transportation charges, is higher than the reference price at the Henry Hub in Louisiana.

Current evaluations of economic value are based on the Jericho Project which is producing gas from only one seam of coal. There are at least 7 potentially productive coal seams in the shallower coals under most of BPI's properties.

Most experts consider the outlook for natural gas prices to be very strong for the next few years. Estimates of \$5.00 plus prices for the next few years are common.

The ratio of estimated gas recovery per well compares very favorably with the costs of drilling and completing the wells and installing the necessary infrastructure to market the gas and dispose of the produced water in the Jericho Project. It appears the same will hold true for the Delta Project and other Illinois acreage blocks.

BPI seeks to avoid the possible concern over whether the gas from the CBM operations in the Illinois Basin will ultimately be determined to belong to the coal estate or the oil and gas estate by first obtaining the coal leases and subsequently obtaining the oil and gas leases just prior to development. The current management of BPI has demonstrated an ability to obtain required financing through the private placement sale of common stock.

BPI management's goal is to increase the value of the common stock to the shareholders.

BRIEF HISTORY

BPI first became involved in CBM in the Illinois Basin in 1994 by agreeing to fund a drilling and test program to earn an interest in the operations of a private company that had obtained a farmout on a 43,000-acre tract in the Illinois Basin for development of coalbed methane. At that time BPI had a 49% net revenue interest in the project. The results of the work by previous management were deemed to be inconclusive.

Since then BPI has a new management team and board of directors who have a consolidated 100% of the ownership of the project within BPI. Further, management has made considerable progress in establishing a large acreage position in Illinois and in acquiring the personnel and experience to begin the exploitation of the resource. See the Background section near the end of this report for more details.

STRATEGY

We interpret the strategy of BPI as consisting of the following major steps in building value in the common shares of the company:



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Acquire a large lease position in the Illinois Basin before the rest of the industry takes action to develop CBM in the basin.

Lease large blocks of land from the coal estates. When a specific project is committed to development go back and lease the small and diversified interest in the oil and gas estate for the project.

Acquire basin specific knowledge and operating ability. The arrangements with Hite, Halliburton and Sproule are part of this effort.

Initiate programs to test and evaluate the acreage in order to validate its economic worth.

As information on the potential of the properties is developed, contact large players in CBM to determine if a deal could be struck with one of them that would be of more value to BPI shareholders than a strategy of "bootstrapping" development of the properties by itself.

Build shareholder confidence in BPI by adopting a policy of providing conservative estimates of the properties and then provide timely information on the results of the testing and development of the properties. This is an effort to distance BPI from the "promotional" resource companies that are sometimes encountered on the Canadian Venture Exchange.

NEAR TERM PLANS

Based on its experience in the Marion, Illinois area and in the Jericho Project, BPI has concluded that the Illinois Basin has the potential to produce large amounts of gas from coalbeds. Development of this coalbed methane gas has the potential to provide large financial rewards to the owners of large blocks of acreage in the basin. BPI has secured adequate financing from private placements of its stock and has developed a leasing strategy to grow the Company's acreage position through the acquisition of large blocks of leases in the basin. It has recently concluded a 94,000 acre option to lease with Montgomery County, Illinois. It is currently negotiating on 27 large acreage blocks. BPI has taken a low profile in its efforts to acquire these leases and has not attracted significant attention from competitors to date although the first signs of serious interest by others in the Illinois Basin have started to emerge.

As is common in many coal-producing areas, the question of the ownership of the gas contained in the coals between the coal estate and the oil and gas estate has not been defined in either Illinois or Indiana. The preponderance of the legal opinion favors the ownership residing with the coal estate at this point. BPI's approach has been to secure the coal estate leases in large, contiguous blocks and to later come back and acquire the oil and gas leases, which are usually broken up into very small blocks. Under the circumstances of disputed ownership and lack of commercial CBM success in the area, the oil and gas estate owners have been willing to sign very reasonable leases.

BPI's stated goal is to quantify and grow its coalbed methane asset base in the Illinois Basin. This management strategy is currently being executed through valid pump testing of existing wells that have been reworked on the Delta Project, the acquisition of the Jericho Project interest, additional wells and additional seam testing on the Jericho Project, and the leasing efforts that have to date increase BPI's acreage position in the Illinois Basin by over 300%.



LONGER TERM PLANS

While these data gathering operations are underway, we expect that BPI will initiate contact with many of the larger CBM players in the country to begin a dialogue regarding a possible joint venture.

BPI's challenge in these discussions are negotiations to find the proper time to maximize value for the shareholders through a joint venture or sale of the assets to a large company versus developing and financing the properties itself.

MANAGEMENT

Officers and Directors

James Azlein, President-Cleveland, Ohio, USA

For the past eighteen years Mr. Azlein has been involved in international project development as a principal and officer in companies that have developed various projects including hotels, agricultural projects, medical facilities and manufacturing plants. In all cases, the development companies would identify the technologies, management, marketing, investment and financing for each project and provide project oversight from the initial planning through the start-up and operational phase of the project.

Keith Ebert, Vice President-Vancouver, B.C., Canada

Currently BPI's Vice-President for Corporate Development and Finance. Mr. Ebert works closely with Mr. Azlein in the development and execution of all aspects of the company's business plan. Mr. Ebert has extensive experience in and of the capital markets having been part of the North American and European Brokerage Industry for over ten years. Mr. Ebert received his Professional Engineering designation during his tenure as a Project Manager with a subsidiary of Imperial Chemical Industries PLC of the UK.

Senior Personnel

Dan Anderson, Manager of Property Acquisitions

Mr. Anderson has over 25 years of applicable oil and gas and real estate experience having held positions as a land department manager in the oil and gas Industry with John Carey Oil Company, Inc.; Manager of Marketing and Development with Prairie Land Development Inc., as President of his own oil and gas investment consulting and real estate development company as well.

Thomas Hite, Consultant

Mr. Hite has been in the oil and gas business in the Illinois Basin for over 30 years. He has been involved in the development of coalbed methane production from both abandoned mines and in-seam production for the past 15 years. Mr. Hite conceived, developed, and has managed the Jericho Project since its inception.



Directors

Costas Vrisakis- Sydney, Australia Financier

Mr. Vrisakis, based in Sydney Australia, is a successful financier and entrepreneur. He has been a founder and director of several successful Sydney Stock Exchange listed companies.

Sean Shanahan-Toronto, Ontario, Canada Director of Strategic Capital

Mr. Shanahan is currently Director, Strategic Capital with a Canadian brokerage firm in Toronto. He brings a wealth of experience in the areas of public finance and equity markets.

Dr. Luc Berthoud-Zurich, Switzerland International Financier

Dr. Berthoud holds a PH.D. in Economics from the University of Lausanne following and MBA in Paris. Beginning in 1968, he has been active in international investment banking, holding Senior Management positions at both the Schoroeder and Mercury (Warburg) groups in London. Since 1998 Dr. Berthoud has been a consultant to private clients for investment management and venture capital.

Advisory Board

Joe Cooper

Mr. Cooper's involvement in coalbed methane extends over 13 years starting with Amoco in the Oak Grove Field in the Black Warrior Basin, Alabama. Mr. Cooper was later involved with Amoco in CBM exploration in China, India, South America, South Africa and Australia.

William Ginn

Mr. Ginn is currently of Counsel for the prominent Cleveland based law firm of Thompson Hine, LLC.

Clyde House

Mr. House has been involved in oil and gas all of his life. Over the past 15 years Mr. House has focused his attention on the development of coalbed methane. Mr. House directed the development of the first 300 wells that River Gas Company (later acquired by Phillips) drilled in the Black Warrior Basin coalbed methane development. Mr. House originally identified the potential for a gas project in the Illinois Basin that provided the basis for BPI's Illinois Basin Methane Project.

PROPERTIES

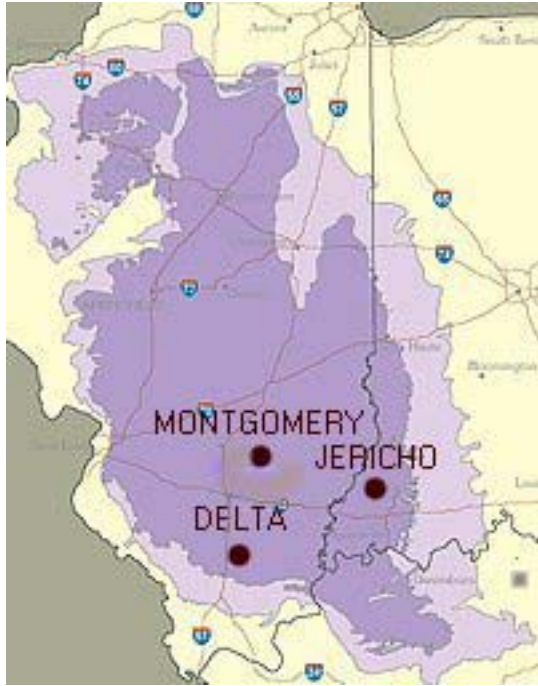
COALBED METHANE IN THE ILLINOIS BASIN

The Illinois Basin, shown in Figure 1, extends over 53,000 square miles. It is located mostly in Southern Illinois but extends into Western Indiana, and Southwestern Kentucky. The basin is a broad, depression with as much as 20,000 feet of sediments at its center. The basin contains more



than 50 well recognized coal seams. The two largest seams lie within 1,500 feet of the surface.

The Gas Research Institute has estimated that the basin contains 21 trillion cubic feet (TCF) of coal-bed methane. This is generally considered a conservative estimate because it is based on only 100 standard cubic feet of gas per ton of coal.



(FIGURE 1)

DELTA

BPI refers to the original 43,000-acre lease position acquired by BPI and the new acreage being acquired in the same area as the Delta Project. We have seen this project referred to by outside agencies as the Harco South project (named for a nearby gas field). The genesis of the project was the success in court of validating a farm in of a lease from the successor to Penn Central on 43,000 acres near Marion, Illinois. The rights to the acreage were earned several years ago and current BPI management has recently revalidated the lease to the coal estate.

Several industry experts including Halliburton, Joe Cooper and Keith Murray have studied the preliminary data obtained from coal company records and the drilling and partial testing of 19 coalbed methane (CBM) wells and have concluded that a large amount of gas is in place at depths that should provide for economical recovery.

MONTGOMERY PROJECT

BPI has signed an option to execute a lease that has already been negotiated on 94,000 acres in Montgomery County, Illinois in the Northern portion of the Illinois Basin. This option gives BPI 18 months to evaluate the development potential of the acreage with an additional 18-month option



extension available to BPI. There are no further costs to BPI associated with signing the lease, only minimum annual royalty payments to the lessor once the option is exercised. This lease is referred to as the Montgomery Project and evaluations are currently being made on a testing program on this site.

One of BPI's short-term goals is to gather test, production and reserve information on all seams on all three project sites.

JERICO PROJECT

The Jericho project is 43,000 acres in size (it is a coincidence that both Jericho and the initial lease position of Illinois Basin Methane, Project Delta, contain 43,000 acres) and consists of 4 leases in which Jericho has a 100% working interest. The project is in Sullivan County, Indiana, on the Indiana/Illinois border approximately 80 miles from BPI's Delta project in Illinois. BPI has a net 11.03% interest in Jericho through its ownership of Hite Coalbed Methane LLC. Jericho is the only commercially producing in-seam coalbed methane project in the Illinois Basin. The project currently produces approximately 900 MCF per day from 26 wells that produce from the III coal seam at approximately 400 feet.

Jericho has been consistently producing coalbed methane gas from 26 wells from one seam of coal, III coal, for more than a year in a dewatering and testing program of that seam. Production and sales from this test program, 26 wells in production from one seam, are increasing monthly and for the past four months have generated sufficient cash flow to support 100% of all lease operating expenses, administrative expense plus a profit. Over the past four months, this testing and production phase has generated a profit of US\$ 120,000. Testing of up to 7 additional coal seams for future development is planned on this project. The average price realized from the sale of gas at the Jericho Project over the past four months is US\$6.01 per mmbtu.

The acquisition of the Jericho Project is very important strategically in our opinion. The acquisition provides BPI with first hand information on the production characteristics and problems of the coals that it has targeted under its acreage in Illinois. It also sealed BPI's relationship with Tom Hite, the originator and manager of the Jericho Project.

BPI acquired its interest by purchasing the 49% interest in Hite Coalbed Methane LLC (HCM) owned by Tom Hite. HCM owns a 45% interest in Pulse Energy LLC, the operator of the Jericho project. Mr. Hite has resigned as President of Pulse Energy and has joined the management team and advisory board of BPI. Pulse Energy has entered into a Technical Services Agreement with BPI for day-to-day operational and technical management services related to the Jericho Project.

Currently, 33 wells have been drilled on the Jericho project and 26 are producing approximately 900 MCF per day from the III coal sea. The wells are all connected to a central compression and treating facility where the gas is sold into a nearby interstate pipeline.

The water produced from the coals is of high quality and almost meets the requirements to be considered as potable water. Currently most of the water is placed in surface ponds under agreements from state environmental organizations. Cattle and wildlife in the area utilize the ponds.

The quality of the gas is monitored at the central processing and compression station and is nor-



mally within the pipeline specifications for nitrogen, carbon dioxide, water vapor and other non-methane components.

A three-stage compressor is utilized to increase the pressure of the gas from the 15psi at the inlet to the compressor station to the 500psi required to put the gas into the pipeline. A screw type compressor has just been installed to reduce the inlet pressure at the compressor station and thereby reduce the backpressure at the individual wellheads and allow increased gas production.

Based on the higher production volumes which we expect next year, and an estimated compression charges of \$0.23 per MCF, we estimate the operating costs of the wells at Jericho will be less than \$0.40 per MCF. These are attractive operating cost figures that will allow profitable production of the gas at realized prices in excess of \$2.00 per MCF. Current realized prices are more than \$4.00 per MCF. The reasonable operating costs are largely the result of the practical, innovative, and low-cost approach to the project that has been taken by Mr. Hite.

We estimate the finding and development costs per net MCF at \$0.32 per MCF including the costs of gathering and compression. Thus the net income before overhead, interest, and other fixed charges will be approximately \$2.30 per MCF for \$3.00 realized gas price. A gross margin of 76%. Deducting depletion would provide a net income before overhead and other fixed charges of \$1.90 per MCF. A gross margin of 63% for a \$3.00 realized price.

Utilizing an assumed initial production rate and decline curve, we estimate the present value of the gas at Jericho at \$1.01 per MCF for a \$3.00 realized price and \$1.32 per MCF for a \$4.00 realized price.

Plans are to drill and connect 60 more wells at Jericho over the next eighteen months. These wells will also include completions in seams other than the III seam in which the current wells are completed. The expansion is expected to be financed by a conventional energy loan from a regional bank.

While the Jericho and Delta Projects are approximately 80 miles apart, the character of the coals and water and the geologic environment are very similar. Thus it is expected that lessons learned in producing the coalbed methane gas at Jericho will be largely applicable to BPI's Illinois acreage as information gathered from the Delta Project will be applicable to the Jericho Project. The methods for drilling, completing, and stimulating the wells should be similar. The method of producing and disposing of the water from the coals should be similar. The Jericho project is located primarily on land reclaimed from coal strip mining, as is a large portion of the core 43,000-acre Delta acreage in Illinois.

TESTING AND SALES PILOT PROGRAM

BPI has initiated a production-testing program on the 43,000-acre core acreage position, the Delta Project. Four existing wells, that are closely spaced, have been completed in the Mt. Rorah and Wise Ridge seams. They have been reworked and are on pump to evaluate water and gas production of these seams. The presence of gas pressure before the water has been pumped off of some of these wells is a very positive sign that significant gas production can be obtained from these coals. Five additional wells completed in the Davis and DeKovian seams are currently being re-



worked and will be put into production testing later this summer.

The produced gas from all of the test wells is being gathered and BPI is in discussions with a local end user related to buying gas from this testing program. BPI is also exploring the economics of installing a tap in one of the two interstate gas lines that cross the project acreage. The existence of a market for at least a portion of the produced gas will allow a longer and more complete test program than could be conducted by venting the produced gas under state regulations.

The program is similar to the method by which the Jericho project was developed by Tom Hite in Indiana. Mr. Hite has developed the test program for the Delta Project in Illinois in association with Halliburton Services, Sproule Engineering and the BPI advisory board. The program should result in testing several seams in a methodical manner to ultimately determine productive capacity and reserves. BPI is prepared to drill new wells to enhance the testing program if necessary.

The test program will first test the Wise Ridge and Mt. Rorah coals. These coals have not been tested at Jericho and should, therefore, provide a significant amount of new data that can be utilized to advance both projects.

VALUATION OF PROPERTIES

Our estimates of ultimate recoverable gas from the projects of BPI are based on volumetric calculations at this time because there is not sufficient production experience (even at Jericho) to base the estimate on the more reliable decline curve analysis method. The volumetric calculations are based on estimation of the volume of coal in a seam from data obtained from wells that penetrated the seams and from geologic projections. An estimate of gas contained in the coals is made utilizing data from analysis of the coal that has been recovered from core holes. The recovery of the total gas in place is another estimate that is based on experience. We have made an independent estimation of the recoverable gas from the III seam at Jericho and come very close to the 197 million cubic feet recoverable estimated by Sproule and Associates Inc. for each 160-acre location.

Our estimates of the value of the current acreage positions of BPI are based on a much more conservative approach than volumetric estimates of the acreage available. We have taken the reserve estimates arrived at by Sproule for the Jericho project for the one seam (III coal) and utilized those as our estimates of recoverable gas for the other BPI properties by analogy. Estimation by analogy is a well-accepted method of estimating potential gas recoveries. In this case we believe the estimates will prove conservative for the following reasons:

The Sproule estimate is based on production from only the III seam at Jericho. We anticipate that several additional seams will ultimately prove economic both at Jericho and the other BPI properties.

The Sproule estimate is based on a single coal seam that averages approximately 6 feet in thickness. We anticipate that other coal seams will prove to have greater thickness.

The Sproule estimate was made in July of 2001. Additional production has been experienced and more wells have been added since that time.

The Sproule estimate is based on relatively few wells compared to the number of potential well lo-



cations. This causes many of the potential reserves from the more remote locations to be categorized as probable and possible reserves or not to be categorized as reserves at all.

The table below shows some of the key parameters of the Sproule report on Jericho.

SELECTED VALUES FROM SPROULE REPORT-JERICHO 7/1/02

LEASE	ACRES	NO. OF 160 ACRE LOCATIONS	NO. OF wells to date	TOTAL OF UNRISKED RESERVES	TOTAL OF RISKED RESERVES	PRESENT VALUE OF CASH FLOW FROM RISKED RESERVES \$000s
Minnehaha	10,179	63.6		13,914	7,144	\$4,931
Thunderbird	9,817	61.4		13,759	4,650	\$2,030
Templeton	15,770	98.6		14,496	8,424	\$10,967
W. Pocahontas	3,200	20.0		2,899	580	
Indiv. Leases	4,034	25.2				
Total	43,000	269	32	45,068	20,798	\$17,928

One significant conservative factor that is incorporated in the table above is the penalty imposed by the limited number of producing wells currently available.. With only 32 wells out of 269 possible 160-acre locations, Sproule was permitted only a limited number of proved undeveloped locations due to requirements that proved reserves be within a specific number of locations of an economical producing well. Thus a large portion of the 160-acre locations are relegated to probable or possible categories or eliminated entirely from the reserve estimate by this proximity requirement. The risked reserves utilize 80% of proved undeveloped reserves, 50% of probable reserves and 20% of possible reserves as risked reserves. Therefore the lack of wells causes the risked reserves to be 20,798 MMCF compared to unrisked reserves of 45,068 MMCF simply because of a lack of proximity of many of the locations to producing wells.

Dividing the present value of the risked cash flow of \$17,928 by the 20,798 MMCF of risked reserves provides a present value per MCF of the reserves of \$0.86 per MCF. The pricing utilized in the above estimate was \$2.25 until February of 2004 on the Minnehaha and Thunderbird leases which then escalates to \$3.94 for the remaining life. Current realizations at Jericho approximate the reference price at Henry Hub of more than \$5.00 per MCF. Thus the pricing in the Sproule case is conservative compared to current realized prices.

RISKED RESOURCE VALUATION

In the table below shows our calculation of the net asset value per share for three assumed net acreage positions of BPI. We show the 43,000-acre calculation for reference and historical informa-



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tion as BPI currently has 137,000 net acres in hand in Illinois. We estimate that BPI could have up to 500,000 acres under lease over the next 12 months in the Illinois Basin. BPI's 11.03% interest in the Jericho Project has been ignored in these calculations..

To calculate the values in the table, we have taken the net acres in Illinois and estimated the risk adjusted gas recovery based on the recovery from 35,766 acres that actually contributed to the total risked reserves at Jericho. We have then inserted those risk adjusted reserves times our assumed net present value per MCF (for the various assumed sales prices) into our net asset model to arrive at the net asset value per share. Even after the considerable conservative bias built into this estimate the net asset values per share are considerably more than the current stock price.

NET ACRES IN ILLINOIS	43,000	137,000	500,000
RISK ADJUSTED RECOVERY-MMCF	25,004	79,665	290,747
	(In Canadian Dollars)		
NET ASSET VALUE /SHARE-US\$5.00 gas	\$2.85	\$8.51	\$30.38
NET ASSET VALUE /SHARE-US\$4.00 gas	\$2.12	\$6.18	\$21.87
NET ASSET VALUE /SHARE-US\$3.00 gas	\$1.68	\$4.79	\$16.79

NOTE: The values in this table are derived by analogy to The Jericho Project in Indiana. A reserve report prepared on that project by Sproule and Associates Inc., a well respected consulting engineering firm, was utilized as the basis for our resource estimates.

Perhaps offsetting some of the conservancy built into the figures above is the fact that the reserves in the Sproule report are estimated based on volumetric considerations. The production histories of the wells are not yet mature enough to base the reserve estimates on production histories. Coalbed methane properties do not often meet the expectations of volumetric calculations because of the importance of the permeability within the coals to the ultimate recovery of the gas. The initial production curves at Jericho are promising as far as they go with limited production history.

UNRISKED RESOURCE VALUATION

NET ACRES IN ILLINOIS	43,000	137,000	500,000
UNRISKED RECOVERY-MMCF	50,098	161,526	589,512
	Net Asset Value per share		
	(In Canadian Dollars)		
NET ASSET VALUE /SHARE-US\$5.00 gas	\$5.51	\$16.69	\$61.54
NET ASSET VALUE /SHARE-US\$4.00 gas	\$4.03	\$12.26	\$44.06
NET ASSET VALUE /SHARE-US\$3.00 gas	\$3.14	\$9.44	\$33.78

The table above shows our estimates of the amount of gas that is potentially recoverable from one



seam of seven potentially productive seams on the various acreage positions controlled by BPI **assuming that 90% of all potential well locations are productive.** The estimates in the table are based on test data from the Delta Project, production data from the Jericho Project, a reserve report written by Sproule Associate Inc. on the Jericho Project, and our general knowledge of CBM operations. The estimates by analogy in the table are based only on potentially recoverable gas for 1 seam of coal (6 feet in thickness).

We view the tables showing the current recoverable gas by analogy as very conservative estimates as they assume only 6 feet of coal in one bed produce the gas. We know that at least 7 separate coal seams are present under most of the acreage and anticipate the total thickness of the coals under most of the acreage will be significantly greater than 6 feet as public data as well as project test data reflects total coal thicknesses ranging up to 45 feet over much of the Illinois Basin.

In a sense, the data in the unrisks table above can be considered as a scorecard for BPI management's efforts to develop the gas that is potentially recoverable in the Illinois Basin. As testing and production information becomes available, the estimates of the gas considered to be recoverable with a high probability should increase toward the theoretically available gas. The theoretically available gas should also show change as more information on the basin and recovery factors is obtained.

As mentioned previously, in this report we carefully refrain from using the term reserves for the potentially recoverable gas under the BPI leases. The data currently available does not permit the use of the term reserves as defined by either engineering society standards or the standards of most security exchanges. In this report, we utilized the terms recoverable gas or recoverable resource to describe the amount of gas that we estimate may be recoverable from the BPI acreage in Illinois. However, this is not the case at the Jericho Project as it does have proven developed producing reserves as documented in the Sproule Associates Inc. Reserve report for the III coal at that project.

BPI is currently aggressively adding acreage to its lease position in the southern Illinois Basin and has initiated a methodical testing program that should provide more accurate estimates of the potential of the land position over the next months.

BACKGROUND

BPI first became involved in CBM in the Illinois Basin by committing to provide \$2.8 million to fund a test program in exchange for an option on a 49% net revenue interest in a 43,000-acre project. The project had been developed by two partners and placed in a partnership named Mid Continent Methane Inc (MCMI). The developers had negotiated a farmout agreement from American Premier Underwriters (APU) on 43,000 acres that APU had acquired in its purchase of Penn Central in bankruptcy. The farmout agreement required the drilling and testing of at least 8 wells. The cost of the test program was estimated at US\$2.8 million.

Halliburton, the world's largest oil and gas Service Company, became interested in the project after concluding that the recoverable reserves from only 50 feet of coal were between 230 and 700 BCF. Halliburton proposed a service contract for the entire project that would result in a small equity position in the project for Halliburton. An agreement was never reached with Halliburton; however Halliburton did perform a substantial amount of testing and analysis of the property. A well-



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recognized engineering firm was prepared to provide a reserve report on the property after a conclusive flow test. BPI provided an additional \$400,000 to MCMC to conduct a thorough pump test. MCMC conducted limited flow tests on only 6 wells. Halliburton advised that these tests were incomplete and inconclusive. BPI commissioned a study by Keith Murray, a recognized expert in CBM in 1998. Murray made a conservative estimate, based on his independent review of all test data, that the project contained 184 BCF of recoverable gas in the coal and 73 BCF in the New Albany Shale.

By middle of 2000, the relationships among the various parties were very strained and no progress was being made. James Azlein of Methane Management Inc. was retained as the agent to sell the project on behalf of both MCMC and BPI.

Azlein contacted a number of potential buyers including Sonat, Suncor, and El Paso Gas and concluded that the project was saleable but that to maximize the value additional testing needed to be conducted. However, the various partners did not have the willingness or ability to go forward. Over the next year, Azlein's group, Methane Management Inc., acquired all of the interests from MCMC and obtained a new, standard oil and gas lease from American Premier Underwriters.

In June of 2001 Methane Management Inc. exchanged its interests in the properties for 1,000,025 shares of BPI at an agreed price of Cdn\$ 2.30 per share. Jim Azlein is now President and Chief Executive officer of BPI and all of the former management and board have been replaced. An advisory board composed of industry experts has been assembled to advise the new management.

More information on the potential value of the properties was obtained at the time of the exchange of the BPI shares for the CBM properties as Joe Cooper, another recognized CBM expert, was retained to prepare a report to the Vancouver Stock Exchange as part of the exchange of BPI shares for the CBM interests of Methane Management Inc.. Cooper's report provided a 20-year pro forma cash flow from the production of 138 BCF of gas at a \$2.00 per MCF reference price. The report showed a before tax profit of Cdn\$360 million.

Azlein has refocused BPI on CBM development in the Illinois Basin and has extinguished and/or disposed of other company interests. BPI has retained Halliburton Energy Services as Project Manager and for Engineering Services for its coal bed methane involvements in the Illinois Basin.

The new management team recognized early that it needed to obtain basin specific knowledge of CBM in the Illinois Basin. To further its understanding, BPI engaged Halliburton, one of the largest service firms in the oil industry in the world, to develop and implement a testing program on the Delta property. Due to unusually wet weather in the spring of 2002 and other reasons the Halliburton program was never initiated. During this period, BPI identified an opportunity and negotiated an acquisition of an interest in the only in-seam coalbed methane project in production in the Illinois Basin.

In December of 2002, BPI announced that it had finalized negotiations and signed an agreement to purchase 49% membership interest in Hite Coalbed Methane LLC. This gives BPI approximately 11.03% interest in the Jericho Project.

BPI made this purchase to not only acquire the basin specific experience of an operating CBM project but also to obtain the services of Tom Hite, the founder and operations manager of the project. Mr. Hite has developed the Jericho project from the start and the project currently encompasses 43,000 acres and has 26 wells testing and is producing gas from one seam, III coal, into a sales line



through a gathering and compression system that has been built entirely by Jericho. There is also a functioning water disposal system at Jericho.

This acquisition was approved by the Canadian regulatory authorities and closed on July 10, 2003. Mr. Hite has relinquished his position as President of Pulse Energy LLC and has become a member of the BPI management team and is on its advisory board. BPI has the Technical Services Contract for the Jericho Project. Under the agreement, BPI will provide day-to-day operational and technical management services to the Jericho Project.

Mr. Hite has been involved in the oil and gas industry in the Illinois Basin for more than 30 years and has been involved in development of coalbed methane production both from abandoned mines and in-seam production for the past 15 years. Mr. Hite was the instigator of the Jericho Project and has provided the "hands-on" management of the project since its inception.

In April of 2003, BPI announced that it appointed Sproule Associates, Inc. as its Geologist and Petroleum Engineering Consultant. Dr. John Seidle will coordinate Sproule's activities with BPI. Mr. Seidle has over 20 years' experience in worldwide coalbed methane research and development. He has authored 16 technical papers and holds 6 patents related to coalbed methane.

With Hite and Sproule on board, BPI announced in April of 2003 a testing program on its core 43,000-acre Delta block in Southern Illinois. The first phase of the testing program is being conducted on four of the previously drilled wells on the core acreage block. This phase of the testing program is testing the Mt. Rorah and Wise Ridge coal seams. These wells have been reworked and a gathering system is currently being constructed to move the gas and water to a central site.

Phase II testing has been initiated on five additional wells to test the Davis and De Kovic coal seam on the core acreage block. These additional wells are currently being reworked and plans are to have them on pump test by the fall of 2003. Eventually further testing programs will be expanded to provide seam by seam information on all of the potentially productive coal seams that are recognized under this property.

NEW ALBANY SHALE

Public information indicates that a thick deposit of organic rich shale (The New Albany Shale) underlies much of the area of the BPI acreage position at a depth of approximately 4,400 feet. The available data suggests that the shale should be in the range of 160 feet to 300 feet thick and contain between one and two cubic meters of gas per cubic meter of shale. BPI currently has shale rights over 4,300 acres on its Delta Project.

MCM has drilled a well that has penetrated the New Albany Shale and found more than 250 feet of gas bearing shale. Tom Hite, as consultant to BPI, is beginning an investigation of the potential of the New Albany Shale in the area of the one well that has been drilled deep enough to penetrate the shale near Marion, IL. Gas from the shale would be the domain of the oil and gas estate and not the coal estate. This is another reason that both types of leases are being accumulated by BPI. We have assigned no potential gas recovery to the New Albany Shale in this report.



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