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Direct Energy.

December 19, 2005

Luscar Ltd.
1600 Oxford Tower,
10235 - 101 Street,
Edmonton, Alberta
T5J 3G1

DEC 19 2005

Attention: Brenda Mason

RE: Luscar's letter of December 6, 2005 Objection No. _____
Objecting to Spacing Applications: 1432330, 1432917 and 1433647
Application to Establish Holdings for the Production of Gas from the Edmonton
Coals and Sands in the Manito, Bashaw, Erskine, Stettler, Leahurst, Gadsby,
Halkirk and Leo Fields

This letter is in response to Luscar's letter dated December 6th, 2005 indicating your objection to the above captioned application. Luscar is the registered fee simple owner of coal in the sections indicated in the letter of objection and is claiming ownership of the natural gas derived from coal within these leases.

Centrica holds valid Natural Gas Leases for the production of Natural Gas within the Edmonton formation for those sections mentioned in the application. As such Centrica holds the rights to the natural gas within the coals for the purpose of development and production. Please be advised that Centrica has recently identified that natural gas derived from coal is specifically excluded on three leases. Accordingly, an amendment will be made to remove these three sections from the application.

Information Letter IL 91-11 dated the 26th of August, 1991 which specifically explains how Coalbed Methane production will be regulated by the EUB and Alberta Department of Energy. 'Applicable legislation under the jurisdiction of the EUB and Dept. of Energy includes the Energy Resources Conservation Act, the Gas Resources Preservation Act, the Mines and Minerals Act and regulations relating to these acts. According to the Mines and Minerals Act Natural Gas and Coal are treated as distinct substances and are leased separately. This principle recognizes that natural gas may exist in a variety of reservoir rocks including coal seams.' It is under this interpretation that Centrica entered into an agreement with the freehold mineral owner for the rights to produce Natural Gas from those sections. Centrica will provide copies of the Natural Gas Leases and title documents to the EUB for review when requested.

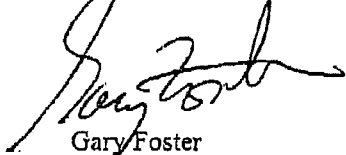
Centrica will be applying to the EUB for well licenses for the production of Natural Gas from the Edmonton Formation. Because Centrica is the rightful holder of a valid Natural Gas Lease we do have the rights to produce natural gas from the coal seams. We also recognize that Centrica does not have the right to remove coal from these seams.

Centrica will also make application to the EUB to request unsegregated production if 2 or more pools are completed and produced commingled within the same well bore. Specific pool

designations for Horseshoe Canyon CBM production have been identified in the Bashaw Field. Centrica will consult with the EUB to confirm appropriate intervals for pools within fields without defined Horseshoe Canyon pools.

In conclusion Luscar's objection is based their interpretation that Natural Gas from the Coal seam belongs to the owner of the coal rights and not to the Natural Gas lessor. It is Centrica's opinion that previous decisions by the EUB specifically Devon's applications No. 1379726 et al, plus current industry practice in Alberta and British Columbia has set precedent where the holder of the Natural Gas lease is entitled to produce the natural gas from the coal seams contained within the leased strata.

Sincerely,



Gary Foster
Senior Exploitation Engineer

Cc: Floyd Krukoff
Brenda Christie
Les Schmidt, Alberta Energy and Utilities Board
Karine Fischer, Alberta Energy and Utilities Board
By Fax: 403-297-2474