



LUSCAR LTD.

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July 22, 2005

Devon Canada Corporation
2000, 400 3rd Avenue SW
Calgary, AB T2P 4H2

VIA FAX (403) 232-7625

Attention: Ms. Shelly Mueller

Dear Sirs:

Re: Devon Canada Corporation Applications for Well Licences
and Holding Section 9, in Township 34, Range 26 W4M (the "Lands")

We are in receipt of the decision of the Alberta Energy and Utilities Board (the "Board") dated May 26, 2005 (the "EUB Decision") respecting the captioned applications (the "Devon Applications"). We would advise that it is Luscar's present intention to appeal the EUB Decision and to apply to the Board for a review of the EUB Decision on a timely basis.

Luscar is willing to negotiate a commercial transaction with Devon to resolve the dispute between our corporations as to ownership of coalbed methane ("CBM") underlying and within the Lands. In that regard, representatives of Luscar are available to meet with representatives of Devon for the purpose of discussing a commercial resolution at your convenience. In light of the past history of this matter, we would recommend that both parties avail ourselves of the services of Board staff and solicit their assistance to mediate the outstanding matters.

Alternatively, or in addition to the foregoing, Luscar would be willing to forego further opposition to Devon's drilling and holding approvals respecting the Lands at the Board level on the following terms. All proposals are restricted solely to the Lands and other lands in which Luscar has coal rights.

1. Devon would dually complete all of its wells on the Lands (the "Wells"), with separate metering, rather than commingling CBM production with conventional natural gas. In this manner, production of CBM could be properly accounted for when the matter ultimately comes before the courts.
2. After deduction of all drilling, completing and tie-in costs out of production from both conventional gas and CBM from each of the Wells (on a well-by-well basis), Devon would pay the proceeds of production from CBM (net of operating costs attributable to CBM production) ("CBM Net Proceeds") into Court, pending the earlier of (a) a final, unappealable judicial determination as to whether Luscar, as coal owner, or Devon's lessor(s), as natural gas owner, is entitled to CBM from the Wells; or (b) a definitive

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settlement agreement between Luscar, Devon and Devon's lessor(s). Alternatively, Luscar would be amenable to having Devon pay the CBM Net Proceeds into trust with a national trust company, with the interest accrued on the CBM Net Proceeds to follow the principal upon resolution in accordance with this paragraph 2.

- 3. Alternatively to paragraph 2, Luscar would be willing to negotiate a commercially certain royalty payable by Devon on all CBM production on terms and conditions acceptable to Devon and Luscar; provided that each well is capable of separate measurement of CBM and conventional natural gas.
- 4. Upon execution of a settlement agreement on terms and conditions acceptable to both parties, Luscar would abandon any appeals or applications for review before the Board respecting the Lands and would not oppose further Devon applications respecting the Wells.
- 5. Luscar would covenant not to oppose any future wells or holding applications proposed by Devon on lands in which Luscar owns the coal rights; provided that Devon agrees in writing to the terms and conditions contained in paragraphs 1 and above (or, in the alternative, paragraphs 1 and 3 above) in respect of all such future wells.

Should you have any questions concerning this letter, please do not hesitate to contact the writer.

Yours very truly,

Luscar Ltd.

Per:



Robert Donick
Corporate Counsel

c. Alberta Energy and Utilities Board
Attention: Ms. Giuseppa Bentivegna

VIA FAX (403) 297-7031