PEYTO Energy Trust

President's Monthly Report

August 2007 — From the desk of Darren Gee, President & CEO

Natural gas prices have been all the talk this summer. What with a lack of material hot weather in the US and a flood of LNG imports combining to swell the natural gas in storage close to historical highs. This has resulted in short term natural gas prices (AECO ave. daily) dropping from $7.50/GJ in February to just over $5.00/GJ in July. Although natural gas price is very important to us at Peyto, because of our long life reserves, it is the longer term price that affects our value more than the short term price.

As in the past, this report includes an estimate of monthly capital spending, as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below).

Capital Investment

2007 Capital Summary (millions$ CND)*

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	0	0	0	1	0	1	0	1
Drilling	5	5	6	16	0	0	6	6
Completions	3	3	4	10	1	0	3	4
Tie ins	2	0	1	3	1	0	0	1
Facilities	0	1	0	1	0	0	0	0
Other	0	0	0	0	0	0	0	0
Total	**10**	**9**	**11**	**30**	**2**	**1**	**9**	**13**

This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material.

Production

2007 Production ('000 boe/d)*

	Feb	Mar	Q1	Apr	May	June	Q2	Jul
Sundance	17.1	16.8	16.9	16.9	16.3	15.8	16.3	15.6
Kakwa	2.1	2.2	2.2	2.3	2.2	2.1	2.2	2.1
Other	2.3	2.1	2.3	2.2	2.1	2.0	2.1	1.6
Total	**21.5**	**21.2**	**21.4**	**21.3**	**20.5**	**19.9**	**20.5**	**19.3**

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The "right" price for Peyto

With spot natural gas prices being the topic of discussion for the past few weeks, some commentaries have suggested that at these low gas prices combined with current high service costs, explorers cannot afford to invest capital. These comments have gone one step further to estimate what price is required to stimulate investment which would translate into natural gas drilling, suggesting the price is well over $8/GJ. This has prompted me to evaluate our own economics for Peyto's "right" price, presuming our price should be lower as we are a much lower cost operator.

Methodology

Estimating breakeven pricing required for investment is difficult to do for the industry as a whole. That is because the profitability of any given investment into natural gas exploration and development is very specific to the type of opportunity. The economics of shallow gas drilling, for example, are very different from the economics of deep basin drilling. Their respective sensitivity to gas prices will also vary significantly. This is because of differences in the various components that go into the economic analysis; reserves, production forecast, price forecast, royalty structure, operating costs and capital costs (See February's monthly report for additional discussion of these variables). Ultimately, it is the rate of return on the capital invested that dictates whether or not a project should proceed.

One attempt at finding the "right" price for investment was to back out the price required to achieve a recycle ratio of 1.3 or greater. This method implies that if the netback (revenue less royalty and op cost) received for each boe sold exceeds the total finding, development and acquisition cost by 1.3 times, the project is economic.

In Peyto's case, using the 2006 FD&A cost for PDP reserves and the Q1 2007 royalties and operating costs, a price of $5.19/GJ is required to achieve 1.3 time recycle. This method is outlined in Figure 1.

	Peyto	Industry*
Recycle Ratio (RR)	1.3	1.3
2006 PDP FD&A ($/boe)	$17.67	$21.00
Netback required for 1.3 RR ($/boe)	$22.97	$27.30
Add back:		
Royalties ($/boe)	$10.59	$13.50
Operating costs ($/boe)	$2.84	$9.30
Revenue required for 1.3 RR ($/boe)	$36.40	$50.10
Gas price ($/mcf, 6 mcf = 1 boe)	$6.07	$8.35
Gas price required for 1.3 RR ($/GJ)	**$5.19**	**$8.35**
(17% heat content premium)		

*Industry analysis source: FirstEnergy Capital Corp.

Figure 1

While this method may be a decent "stab" at the economic threshold for the industry as a whole, the assumption that 1.3 times recycle delivers a profitable return may not always be correct. The specifics of the type of investment must be known to yield a more meaningful estimate of "right" price.

IRR

At Peyto, we have always relied on an estimate of the Internal Rate of Return (IRR) of a project to determine

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whether or not we proceed and also to look back at the success of that decision. Our strategy has always been to focus on a select type of investment that we feel yields the most predictable and repeatable returns and is accompanied by the lowest cost structure so as to be the least sensitive to commodity price variability. These opportunities also deliver the production stream over a very long period of time so as not to expose the entire resource to any one time price.

For illustrative purposes, I've presented the economic sensitivity of three very specific types of projects that we pursue; higher deliverability Cardium wells, lower deliverability Cardium wells and Deeper Cadomin/Notikewin wells. In all cases, an "all-in" cost has been used to reflect the full cycle capital costs of land, seismic, drilling, completion, equip/tie in and facilities.

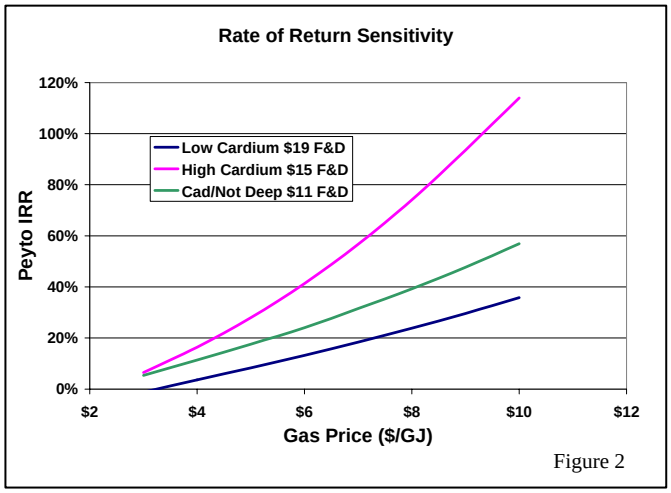

Figure 2

From this analysis, the "right" or breakeven price for Peyto's type of projects appears to be below $4/GJ. What is also evident is that the correlation between rate of return and FD&A cost is not very strong, which is why the previous analysis can be misleading.

Commodity Prices and Activity Levels

Of course, all of this discussion is only of interest if gas prices are going to be lower for the long term. For the short term, until Nov 1, 2007, Peyto has in place forward sales that have committed approximately 70% of our net of royalty volume to an average price of $7.82/GJ (approx. $9.15/mcf). Long term, the natural gas price has not varied much. Figure 3 shows a graph of the 5 year out price, which was offered at the time, plotted over the last year and a half. Right now, a price of $7.30/GJ is being offered for November 2011 to October 2012, whereas a year ago a price of $7.69/GJ was being offered from November 2010 to October 2011. The long term price offered over the 18 month period averaged approximately $7.50/GJ while Peyto achieved an average price of $7.44/GJ over that same period. This demonstrates that Peyto's hedging strategy has basically achieved the long term price over the last year and a half.

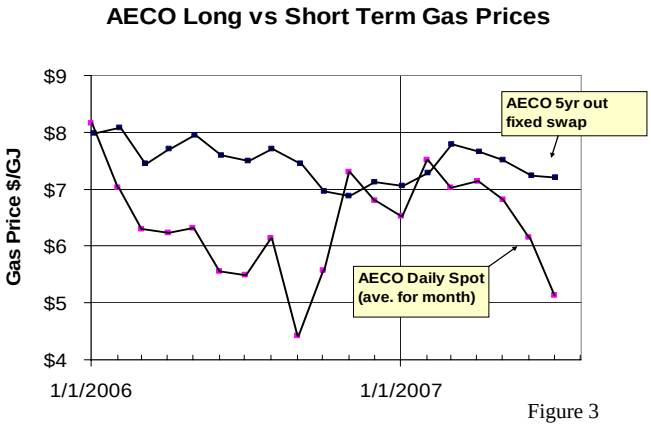

Figure 3

The fact that the long term price of natural gas has not materially changed, also means that the value of Peyto's long reserve life assets has not materially changed. This is in contrast to the volatility seen in the short term price caused by the more immediate supply demand imbalance.

Industry activity as a result of the short term gas price has remained quite tempered. Drilling rig utilization appears to be holding at the 50% mark.

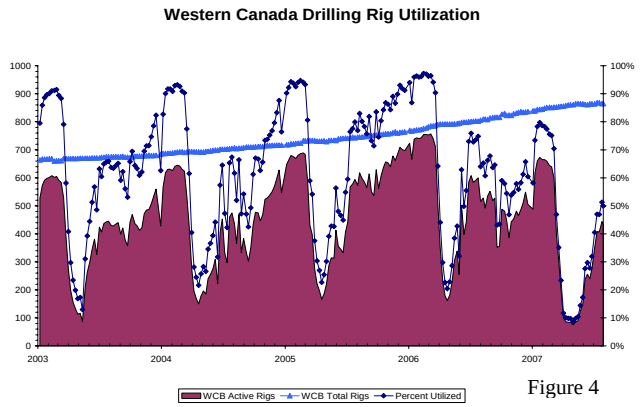

Figure 4

Although rig utilization is low, word in the field is that there is not abundant unemployment. It appears the extra manpower that was here to run that extra equipment has since departed, meaning further cost reductions may be limited. Peyto is currently active with 3 drilling rigs in the greater Sundance area drilling approximately 5 wells a month. The first of the new drilling that commenced after breakup is now reaching the tie in stage and we will start to bring on new production volumes in August.