PEYTO Energy Trust

President's Monthly Report

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

Ouch! Just when things start looking up, WhamO! Out comes the government with another proposal to take away what little profit our Alberta oil and gas industry can muster. Good thing the Canadian dollar is at par with the US, we may well be importing our oil and gas from them in the future if this fiscal trend continues. Fortunately for Peyto, it is still a proposal for debate at this stage and hopefully clearer heads will prevail. On the flip side, as one of the lowest cost operators in the province, we can not only withstand some of the additional burden, it could create a significant opportunity for us, versus those that cannot. On the whole though, I believe this proposal as it stands would be detrimental to the economy, and ultimately citizens of Alberta, by reducing re-investment and subjecting the province to rapidly declining production.

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). A recent turnaround at our Kakwa gas plant, in anticipation of commissioning our Chime connector pipeline, resulted in reduced Kakwa volumes for September.

Capital Investment

*2007 Capital Summary (millions$ CND)**

	Q1	Apr	May	Jun	Q2	July	Aug	Sept	Q3	2007 YTD
Land & Seismic	1	0	1	0	1	0	0			2
Drilling	16	0	0	6	6	7	6			36
Completions	10	1	0	3	4	5	3			21
Tie ins	3	1	0	0	1	2	3			9
Facilities	1	0	0	0	0	0	0			1
Other	0	0	0	0	0	0	0			0
Total	**30**	**2**	**1**	**9**	**13**	**14**	**13**			**69**

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)**

	Apr	May	June	Q2	Jul	Aug	Sept	Q3
Sundance	16.9	16.3	15.8	16.3	15.6	16.1	16.4	16.0
Kakwa	2.3	2.2	2.1	2.2	2.1	2.1	1.7	2.0
Other	2.2	2.1	2.0	2.1	1.6	1.9	1.9	1.8
Total	**21.3**	**20.5**	**19.9**	**20.5**	**19.3**	**20.1**	**20.0**	**19.8**

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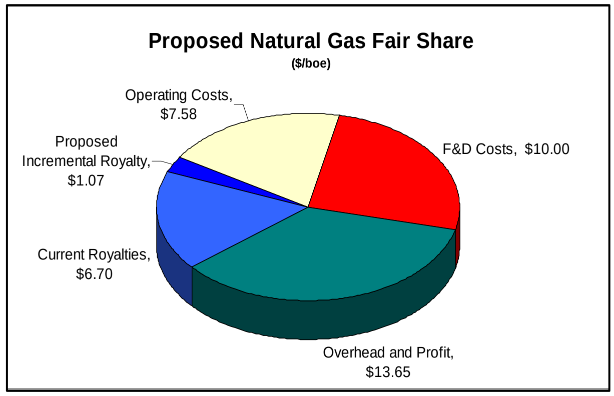
The Great Royalty Debate

The Alberta Royalty Review Panel, whose report was delivered to the Alberta Minister of Finance on September 18, 2007, has sparked enormous debate. The report was entitled "Our Fair Share" and suggests that Albertans do not receive a large enough share of the revenue from oil and gas resources in Alberta.

Fair Share Fallacy

The basic premise of the report is that rising commodity prices have created a bigger "pie" and therefore Albertans should be getting a larger slice or "take" in order to stay whole and capture their "fair share."

Numerous analyses continue to be published that tear apart the Panel's report to show that it is full of flaws; flawed assumptions on capital and operating costs, and flawed conclusions on profits and available royalty take. The pie hasn't gotten bigger. Albertans are not missing out on their fair share.



Take the natural gas pie for example. Using the Alberta Department of Energy's numbers for 2006, as indicated in the Panel's Report, gas production of 5.3 tcf generated approximate total revenue of $34 billion at an average price of $6.22/GJ. That's approximately $39/boe. Take away the current royalty charge of $6.70/boe and you're left with $32.30/boe.

Now here is where the Panel appears to have been misinformed. The analysis then goes on to evaluate the incremental slice that is available when you apply various unit cost assumptions (exploration, development and production). The panel used mid point costs of $17.58/boe to determine that there was at least another $1.07/boe available for Albertans.

Now for Reality

Based on BMO and First Energy analysis, the industry averaged more than $20/boe to find and develop proven reserves in 2006, while at the same time paying close to $10/boe for operating costs. Take that away and you are left with only $2.30/boe to cover overhead (G&A, interest expense, etc.) and profit on the $20/boe of capital investment. Most firms have at least $1/boe of G&A and

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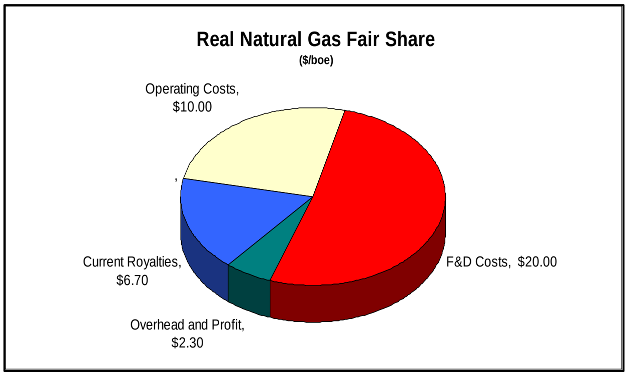
$2/boe of interest expense. That basically leaves little to no profit on the capital investment. Exactly the conclusion of many of the research firms of last year. So exactly where does this larger slice come from?



The answer is, there isn't one. As much as the industry is trying to bring costs down, both operating and F&D, the reality is, much of it is beyond our control. The costs of steel, fuel and labour are driven by the global markets, not by industry activity in Western Canada. The assumption that costs will come back down to allow for a larger government take is an incorrect one. At least, definitely not to the level they used in their analysis.

The Panel responded "that costs are the same for all and that it is the mandate of corporate management to control their costs and that they have tools to do so."

We've tried, believe me. The industry has reduced conventional drilling activity to a 5 year low at just 43% rig utilization. The service sector is laying off staff and reducing salaries, as evidenced by Bonnett Wireline's recent announcement. But unless everyone in the industry is prepared to go back to pre-2003 cost structure, I think higher costs are the new reality. As it is, our recent actions are causing a significant "Brain Drain" on Alberta as technically qualified industry workers leave our basin for the US where activity is greater.

To further frustrate matters, our Canadian dollar is trading at par, a fact the Panel failed to acknowledge in their report. Not only do our projects now have to compete with capital investment opportunities south of the border, we actually have to be more efficient to cover the cost to transport the hydrocarbon to that market. In the Appendix of the report a $6.50 USD gas price would equate to a $6.19 CND, while in reality it currently translates into only $5.65 CND.

There is no question that if the report is adopted by the government, there will be significantly less capital invested in Alberta. There has to be. For one, there will immediately be less cashflow from existing production available for reinvestment. Secondly, corporate lending lines, which were based on previous cashflow figures, will be reduced. And finally, the message this sends to the investment community who have poured capital into our industry over the past several years is, "STAY AWAY!" This reduced investment means production and reserves will decline and with it, the governments take. So, not only will Albertans fail to realize the incremental royalties sought by the Panel's recommendations, they would end up with a larger piece of an ever decreasing pie. The president of CAPP (Canadian Association of Petroleum Producers) presented additional industry views in a presentation at the Calgary Chamber of Commerce which is available on their website at www.capp.ca. It's worth a look.

Peyto will endeavor to work with industry representatives and government to negotiate a more realistic and workable solution. Fortunately for Peyto, our total cost wedge gives us a significant advantage over the majority of the industry.

Commodity Prices and Activity Levels

Minimal storm activity disrupted production in the Gulf of Mexico and record LNG injection means we leave the cooling season at similar levels of storage to last year. Gas prices for the upcoming winter heating season are hovering around the $6.50/GJ CND mark. Despite views to the contrary, I am coming to the belief that the supply/demand variables that influence natural gas prices, like weather, storage, worldwide LNG supply/demand and geopolitical factors will all have a greater impact on the price of natural gas than the relative price of oil. The strong correlation of the past, caused primarily by fuel switching, appears to be weakening in recent years. Perhaps it is unrealistic to expect a heating equivalent ratio with oil will persist into the future. That said, even though oil prices continue to climb, the long term prospects for natural gas remain healthy. I believe that North American demand growth, which has stalled out in the last few years, will resume at record levels as more and more coal fired power stations convert to natural gas.

On the drilling front, long term rig utilization in Alberta continues to drop. In contrast, long term rig utilization in British Columbia continues to increase. Which province do you think is providing the right amount of incentive to drill new gas wells? In general though, Western Canadian rig utilization is indicating that the economics for gas development remains tight. We have seen little additional movement in service costs despite a sustained reduction in activity indicating that margins in the service sector are extremely thin.

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