PEYTO Energy Trust
President's Monthly Report

June 2008 — From the desk of Darren Gee, President & CEO

"The Dash for Gas." It's a buzz phrase I've read more than a few times in the last few months. From industry observers to power company board rooms, it seems the only real fuel alternative for increasing energy demand is natural gas. Coal is dirty, Nuclear is scary and expensive, Wind/Solar are intermittent and Oil is drying up. Most of the new government imposed environmental regulations are calling for cleaner emissions, so industry will have no choice but to switch to either natural gas or electrical power (generated from natural gas) in order to meet those reduction targets. I expect there should be a rapidly rising demand picture emerging for natural gas that may see it trading at an environmental premium to the 6:1 heat content conversion with oil. Good thing we have a stake in long life natural gas reserves.

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). May production was impacted by spring snow storms and power outages.

Capital Investment

*2008 Capital Summary (millions$ CND)**

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	*0*	*0*	*0*	*1*	*0*			
Drilling	*6*	*5*	*6*	*17*	*1*			
Completions	*2*	*3*	*4*	*9*	*2*			
Tie ins	*1*	*2*	*3*	*5*	*1*			
Facilities	*0*	*0*	*0*	*0*	*0*			
Other	*0*	*0*	*0*	*0*	*0*			
Total	***10***	***10***	***13***	***33***	***3***			

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. Tables may not add due to rounding.

Production

*2007/08 Production ('000 boe/d)**

	Jan	Feb	Mar	Q1	Apr	May	June
Sundance	*16.6*	*16.3*	*16.2*	*16.4*	*16.3*	*16.0*	
Kakwa	*2.7*	*2.7*	*2.5*	*2.6*	*2.5*	*2.3*	
Other	*1.3*	*1.4*	*1.4*	*1.4*	*1.4*	*1.2*	
Total	***20.6***	***20.4***	***20.1***	***20.4***	***20.2***	***19.5***	***-***

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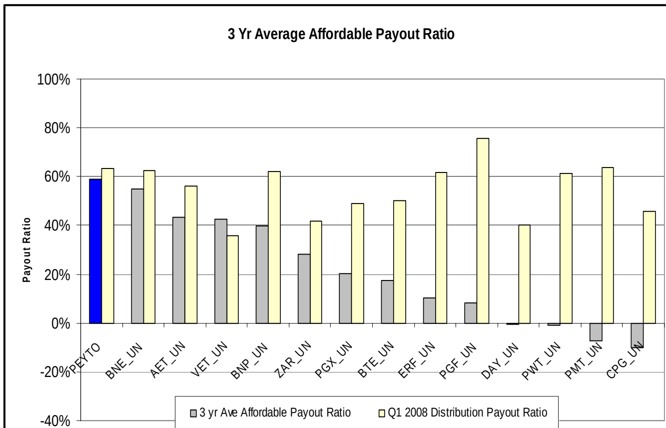
Raise Distributions vs Grow Production?

There has been much debate in the Peyto camp over the last few months about what to do with the additional cashflow derived from higher natural gas prices. As the decline rate of our base production continues to lessen, production levels become more and more sustainable, and as commodity prices strengthen we have more cash to put to work. Many different factors need to be considered, such as drilling inventory requiring capital funding, debt levels and future interest rates, tax pools available to shelter retained income, and unitholder liquidity with a depressed unit price.

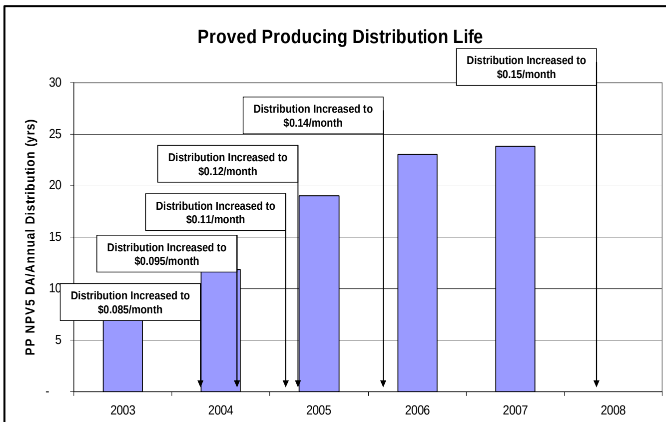
A raise for unitholders

The Peyto model was intended to have increasing distributions. As we grow our asset base and it becomes more stable, there is the ability to fund increasing distributions. In fact, it's a necessity. The whole trust model was designed to flow income out to unitholders because the businesses can't shelter all of the cashflow from taxes. As I mentioned in my last report, you don't want to be paying taxes structured as a trust, the rates are much higher than for a corporation. For Peyto's assets and efficiency, I believe the optimal payout level to be 50-60% on a sustainable basis. The challenge for many trusts is that the payout needs to be much higher for tax shelter reasons, but then they aren't retaining enough to sustain their business going forward. It's a tough spot to be in when you can't fund your business with high priced equity. From the standpoint of ongoing sustainability, only the most efficient trusts should be able to afford the highest payout ratios (see figure 1).



Affordable Payout Ratio = 3 yr ave. CF/boe minus PP FD&A divided by CF/boe

I believe the sustainability of our distributions can be demonstrated by the distribution life (figure 2).



Over the last five years, as the value of our proven producing asset base has grown, so has the number of years of distributions that can be funded by it. That has prompted distribution increases along the way; six times now, including June's increase to $0.15/month.

The other effect of higher distributions is that it provides increased liquidity for unitholders at a time when unit prices may not be reflective of NAV.

Increased capital program

Increased cashflow can also fund increased activity. We are fortunate at Peyto to have an abundance of high rate of return drilling prospects. Many of them are ready to go today; however, we also know that we learn something new from the results of each one. That new information can be used to refine and improve the next one. Therefore, it's important to get the pace of activity aligned with that ongoing refinement.

In the past, with rapidly changing commodity prices, we've seen spiking service costs. In order to preserve our returns we need to control our costs. If increased commodity prices drive increased activity and rising service costs, we may wish to delay some opportunities to a time when costs are better and so are returns.

For now, service costs are well aligned with commodity prices and there is an opportunity to generate good returns on our prospects. This has prompted our increased capital spending outlook for the balance of 2008, or until we see costs rising again. Based on what has been spent to date and an increased activity level from June to December, we anticipate spending $175 million. This spending level is not nearly as aggressive as we have been in the past, as we are still cautious about runaway costs and the long term sustainability of the current natural gas price.

Another consideration of increased capital spending is tax pools. As we spend cashflow on drilling, completions, seismic, land and facilities we are adding to our tax pool base that can be used to reduce taxable income. Increasing capital spending to make an acquisition, for instance, is much less effective in this regard, while exploratory spending is more effective.

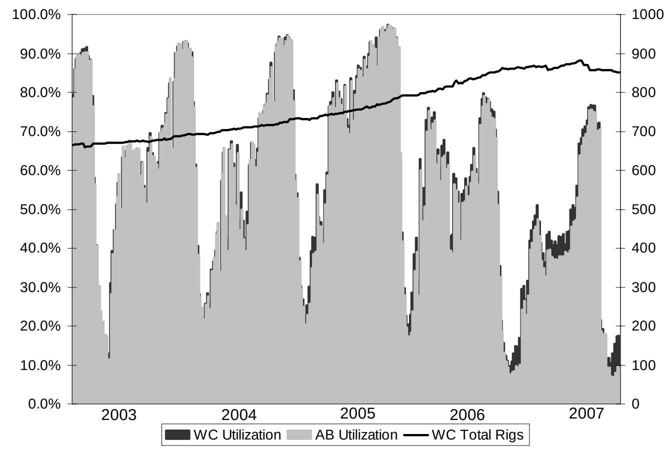
What about the bankers?

One last option for extra cashflow is paying down debt. This would be a more important consideration if interest rates were high or expected to rise significantly. As it is, the cost of debt is very low right now, less than 5-6%, and due to the quality and high value of Peyto's asset base, the amount of leverage that the current debt represents is less than 15% of NAV. Peyto has the option of fixing the interest rate that we pay on the debt if we think that rates are going to rise in the future.

Ultimately, the decision was made to increase both the monthly distribution and the capital program. This addressed both the needs of the unitholders and the needs of the ongoing business.

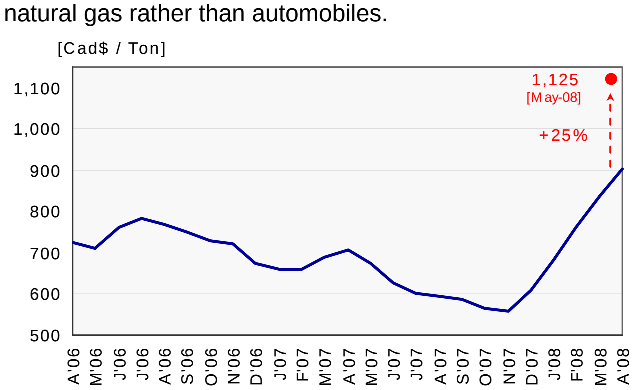
Activity Levels and Commodity Prices

Drilling activity in Western Canada (figure 3) is just starting to pick back up after breakup. Alberta rig utilization is still lagging Western Canada, indicating the effect of the new royalty framework, relative to the other provinces.



Now that the new royalties are settled, it will be interesting to see the effect rising natural gas price has on drilling activity in the Alberta. It should have little effect, since the majority of the price increase is taken up in increased royalty rates.

Rising activity levels usually mean rising service cost, however, not all service costs are driven by activity levels. Casing costs and diesel fuel are being driven up by steel supplies and oil price. Figure 4 indicates the rising costs of steel, as one of the main input costs of welded pipe, up 200% in just 6 months. It makes me glad we manufacture natural gas rather than automobiles.



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