PEYTO Energy Trust

President's Monthly Report

August 2008 From the desk of Darren Gee, President & CEO

Apparently, I shouldn't go on vacation. I leave for two weeks at the lake and the whole natural gas business turns upside down. Both the near term (summer 08) and longer term (Nov12-Oct13) AECO natural gas prices have fallen close to 30% in the last month. It appears, by the market anyway, that we suddenly have an overabundance of natural gas supply in North America. Maybe we should do as Aubrey McClendon, CEO of Chesapeake Energy, suggests and "build a LNG liquefaction plant in America" to ship gas to Europe since they're prepared to pay double what we're getting here. I suspect the market is overestimating our industry's ability to continuously develop cheap natural gas production and reserves.

Peyto units have closely followed the natural gas price down. This is ironic because in the near term we are mostly hedged and in the longer term the world is in an energy crisis.

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

2008 Capital Summary (millions$ CND)*

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	*0*	*0*	*0*	*1*	*0*	*0*	*1*	*2*
Drilling	*6*	*5*	*6*	*17*	*1*	*1*	*8*	*10*
Completions	*2*	*3*	*4*	*9*	*2*	*0*	*5*	*7*
Tie ins	*1*	*2*	*3*	*5*	*1*	*0*	*2*	*3*
Facilities	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total	***10***	***10***	***13***	***33***	***3***	***2***	***16***	***21***

****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

2008 Production ('000 boe/d)*

	Q1 08	Apr	May	June	Q2 08	Jul	Aug	Sept	Q3 08
Sundance	*16.4*	*16.3*	*16.0*	*15.6*	*16.0*	*16.1*			
Kakwa	*2.6*	*2.5*	*2.3*	*2.2*	*2.3*	*2.4*			
Other	*1.4*	*1.4*	*1.2*	*1.2*	*1.3*	*1.2*			
Total	***20.4***	***20.2***	***19.5***	***19.0***	***19.6***	***19.7***	*-*	*-*	*-*

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All Hail the Savior?

Natural gas prices have fallen hard in the last month, almost double the drop of oil. Why the big drop? Most industry observers are citing higher natural gas storage levels as the reason. That is not a very strong argument considering current levels are tracking 5 year averages and demand is as high as ever. Definitely, Canadian supplies are down, so it must be the strong supply increases resulting from US shale gas development that has convinced the market new supplies are coming faster than demand is growing. Maybe, but I'm not convinced. For now I'm still in the T. Boone Pickens camp and think that if we have the supplies, we can start fuel switching from oil and that should cause increased demand. I'm also a bit skeptical of shale gas saving the day. Don't get me wrong, it has definitely proven itself, but its producing profile is very similar to the tight gas that Peyto develops. It has high initial rates, followed by steep early time decline, followed by long life, low rate, and low decline production (see Figure 1 below). Ultimately, it is a nice resource, but a very tough treadmill in the early going. More and more wells and greater and greater amounts of capital have to be invested to keep the total production rate climbing.

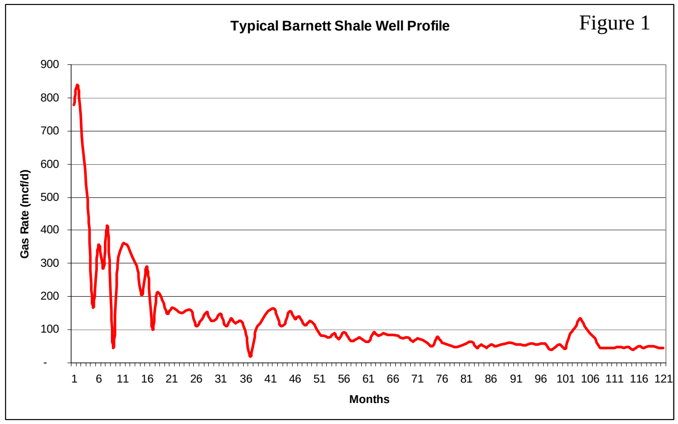

Figure 1

Just holding the US onshore rig count at 1800 is not going to continue to add 5 bcf/d of new production each year. If there is ever a decrease in activity, because of a downturn in commodity prices or a sharp rise in service costs, then the declines become very hard to offset. Really, it is not all that dissimilar to Peyto over the last few years. Figure 2 shows Peyto's annual production build relative to the net wells drilled each year. For 2008 we are targeting 60 net wells.

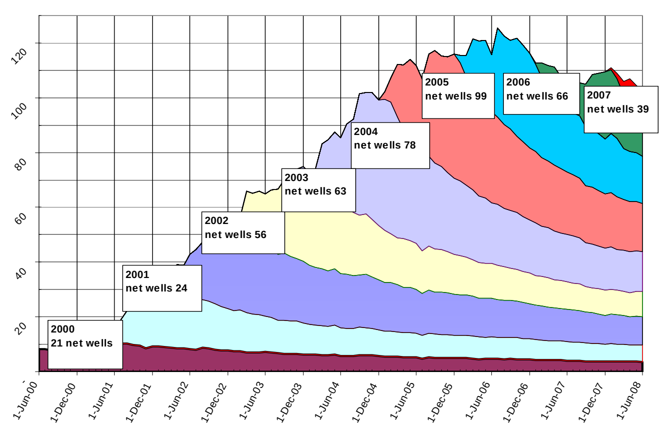

Figure 2

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When you consider some of the prices being paid for unconventional shale and tight gas plays these days (both BC's landsale activity and Shell's recent purchase of Duvernay come to mind), there is going to be nothing cheap about these new unconventional reserves and production. That means commodity prices will have to remain high to justify the ongoing developments.

The world is in an energy crisis. Finding new reserves of any of the carbon based fuels is needed for future growth and future generations. Coal is the dirtiest, but also the cheapest. Natural gas is the cleanest, but less readily available. Oil is in the middle but new supply is unlikely. I like natural gas, and like T. Boone, I too have a vested interest, so of course am a big proponent for my own financial gain. That still doesn't change the fact that natural gas is the cleanest fuel, is now transportable around the globe and more abundant than oil. If it is truly going to be the new oil, we better find a lot more of it.

Activity Levels and Commodity Prices

Drilling rig utilization had recently picked up, spurned by the upturn in natural gas prices in Q2. I suspect if this more recent fall back in gas price lasts, rig utilization may also pull back. Alberta utilization lags the other provinces because of upcoming higher royalties in 2009. What is interesting about this rig utilization is that we are almost out of rig workers.

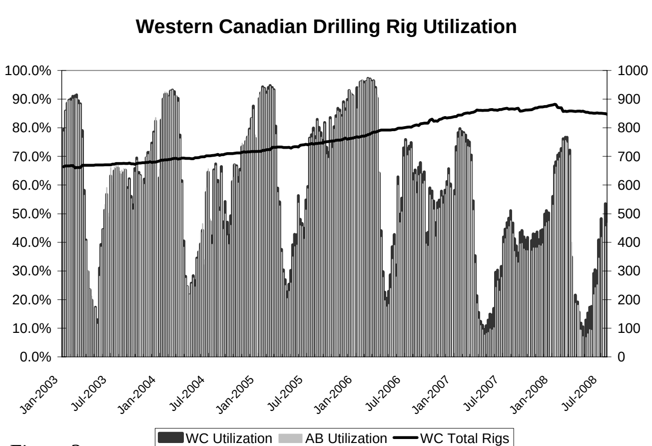

Figure 3

According to Precision Drilling this week, even though there is available iron, there are no available bodies to run it. This means the rig utilization may be a poor indicator of increasing service costs. For sure the utilization doesn't recognize the increase in the cost of steel or fuel. Steel is becoming scarce and expensive, even finding casing for new wells is getting harder.

As I alluded to earlier, natural gas prices (and oil prices too for that matter) have recently dropped significantly. The relative difference between gas and oil still remains high at a price ratio of 15:1. Nowhere close to the 6:1 energy equivalent. Figure 4 shows the gas prices relative to oil at the more historic 8:1 ratio.

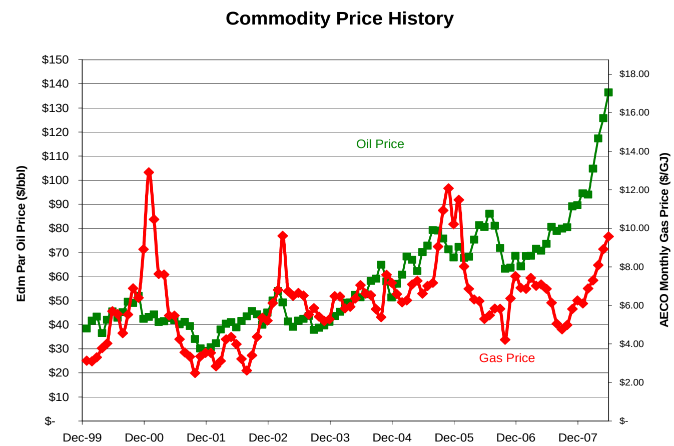

Figure 4

Even if the natural gas futures are oversold right now, they have a long way to go to get back to where they were a month ago.

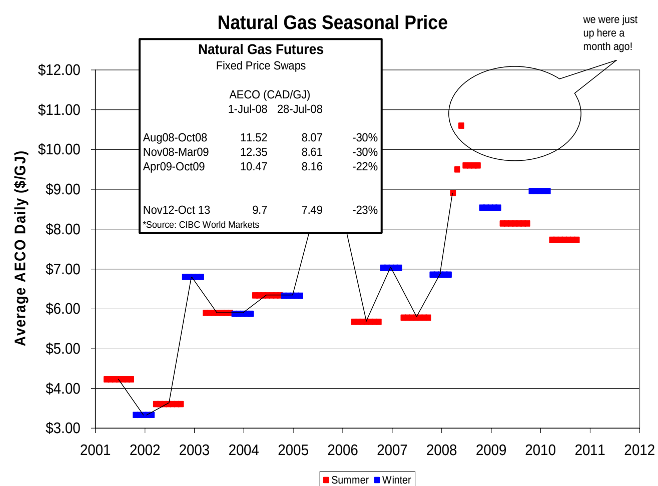

Figure 5

For Peyto, this means we may have slightly less capital and perhaps a more tempered start to the acceleration of our development plans.