PEYTO Energy Trust

President's Monthly Report

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

Merry Christmas?! Boy, is it hard to be very merry right now. The markets are fearful and capital is extremely tight. The current economic recession is driving deeper and deeper into the pocket books of North Americans. A lump of coal from jolly ol' St. Nick might not be so bad this season, at least you can burn it to keep warm.

Despite this doom and gloom, the value of the assets we own remains very high, strengthened even, by strong commodity prices on the horizon. Although the short term natural gas price for this winter and next summer are not that robust, at just over $7/GJ, the longer term price, winter 2009/2010 and beyond are surprisingly strong. Here's where future AECO natural gas prices currently sit in $/GJ:

	NYMEX	AECO	Basis
Jan09-Mar09	$6.87	$7.17	(0.58)
Apr09-Oct09	$7.04	$7.36	(0.69)
Nov09-Mar10	$8.07	$8.52	(0.71)
Apr10-Oct10	$7.70	$8.05	(0.73)
Nov10-Mar11	$8.49	$9.01	(0.69)

*Source – CIBC World Markets

Mostly this is the result of a weaker Canadian dollar which has fallen to around $0.80 USD, but all the same, it is providing a strong Canadian natural gas price for natural gas producers.

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)**

	Q1	Q2	July	Aug	Sept	Q3	Oct	Nov	Dec
Land & Seismic	1	2	1	1	0	2	0		
Drilling	17	10	10	11	13	35	5		
Completions	9	7	7	6	7	20	4		
Tie ins	5	3	2	2	2	6	1		
Facilities	0	0	0	0	0	0	0		
Other	0	0	0	0	0	0	0		
Total	**33**	**21**	**20**	**20**	**22**	**62**	**10**		

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	Q2 08	Jul	Aug	Sept	Q3 08	Oct	Nov	Dec	Q4 08
Sundance	16.4	16.0	16.1	16.5	16.6	16.4	16.9	16.4		
Kakwa	2.6	2.3	2.4	2.2	2.4	2.3	2.2	2.2		
Other	1.4	1.3	1.2	1.2	1.3	1.2	1.2	1.2		
Total	**20.4**	**19.6**	**19.7**	**19.9**	**20.3**	**19.9**	**20.3**	**19.8**	**-**	**-**

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Cardinal Rule #2

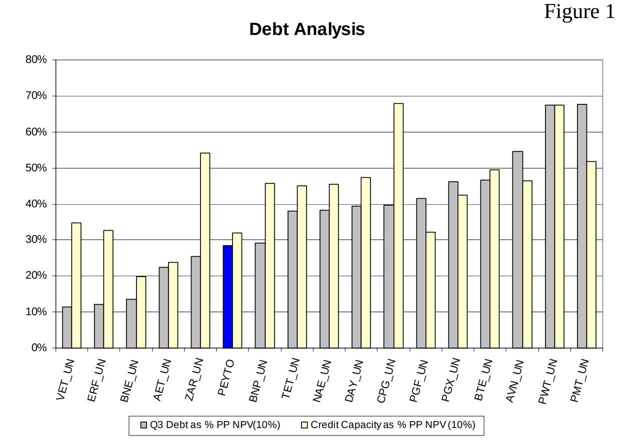
A real banker (not those investment kind on Wall Street that everyone is blaming for this current mess, but the corporate ones) will tell you that there are two rules to banking when it comes to returns. Remember to get *return **on** capital* and *return **of** capital*. Unfortunately sub-prime mortgages only focused on rule #1 and forgot about rule #2.

*Return **of** capital* implies that a fairly valued asset acts as collateral for any amount of loan. So what is fair value? That is perhaps the question that should have been asked of all those over-valued homes that were offered mortgages.

At least for our natural gas assets, fair value is determined by the reserves that will come out of the ground and what they will sell for when they do. The market right now is unfortunately not valuing them that way. I would guess it's because there are currently more sellers than buyers as people look to move into cash to pay off other debts. But the fair value of our assets, valued at what we are currently selling them for and what we can sell them for into the future, remains strong and several multiples of the amount we have borrowed against them.

Corporate lenders use proven producing net present value to determine credit capacity. Figure 1 shows both the amount of credit capacity relative to the proven producing net present value reserve assets (discounted at 10%) and the amount of debt currently held against that same asset, for the trust sector. As you can see, Peyto may have drawn a significant portion of its credit capacity, but that capacity only represents a small portion of the total value of our assets. Compared to the rest of the trust sector we remain relatively under levered.

Figure 1



That should leave the banks with greater confidence that both return *on* capital and return *of* capital will be realized.

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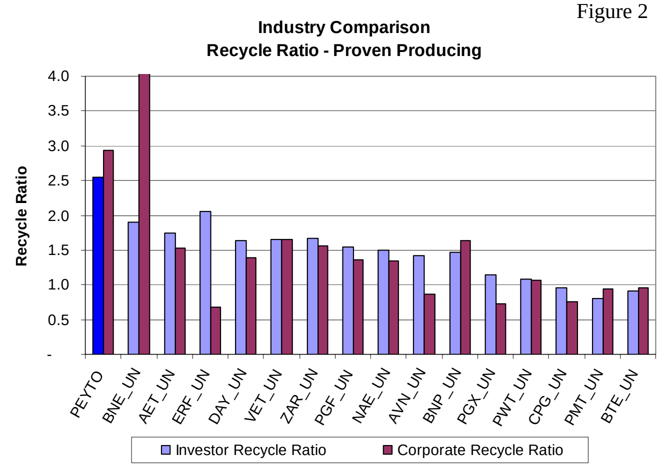
So what about the unitholders? How does an investment in Peyto get "paid back?" In a traditional sense, one would expect that return *on* capital comes from the profit a company generates while return *of* capital is available for the taking at any time in a liquid, public market. Right now, most unitholders have lost their ability to get a return *of* capital; at least, not without taking a significant loss.

That leaves only one way to get your money back from an investment in natural gas reserves; over time. Unfortunately "over time" requires patience, which we seem to have lost in this instant gratification world of ours.

Investors today, have an even more attractive "recycle ratio" than most companies. Most companies' reserves are trading well below what they are paying to add new reserves. Even Peyto, with its industry leading costs has a recycle ratio that is only slightly better than what the investors can get in the market right now. Figure 2 shows the current investor recycle ratio in comparison to the 2007 trust sector recycle ratio.

Figure 2



Investor Recycle Ratio - Netback/boe divided by Enterprise value/proven boe
Corporate Recycle Ratio - Netback/boe divided by Netback/boe

So for now, if we can, we wait, patiently collecting our returns over time. Knowing that the value of the assets remains strong and the returns can still be achieved. Both on our capital and of our capital.

Activity Levels and Commodity Prices

On November 19, 2008, the Alberta provincial government came out with a transitional royalty structure to encourage drilling new wells over the next few years. Unfortunately, by there own admission, the impact to the industry is only an estimated savings of $172 million for 2009. Not much on $14 billion of resource revenues but at least it is an acknowledgement that the royalty rate directly impacts the re-investment rate; especially in recessionary times like these. It did not address, however, the loss of trust by the industry. How do we know that the transitional incentives will be upheld for five years? If we go and invest tomorrow, how do we know they won't erase the program in a year's time, just like the last few drilling incentives were erased with the New Royalty Framework?

I think the Province of Alberta needs to rebuild the trust of the oil and gas industry when it comes to royalty incentives. Yanking incentives one minute and then putting them back the next does nothing to instill confidence for billions of dollars of capital investment.

Natural gas prices are climbing, especially in future years, pulling the price back closer to $9/GJ. Peyto has responded to these attractive prices, coupled with the current financial uncertainty, by extending our hedging policy to 24 months out from 18. It is only because of our confidence in our long reserve life assets that we can forward sell so much, so far into the future.

Figure 3

Surprisingly, there seems to be more volatility in the long term price of natural gas (Figure 3) than I've seen in the past. Perhaps this is evidence of a longer term tightening of supply and demand. Perhaps too, this is evidence of rising costs and slowing activity in the US shale gas plays. The US gas rig count last week dropped sharply (see Figure 4).

Figure 4