PEYTO Energy Trust

President's Monthly Report

January 2009 | From the desk of Darren Gee, President & CEO

Happy New Year! In a way, it is a relief to put 2008 behind us. What a rollercoaster. Natural gas prices didn't give us quite the same ride as oil prices did, but it was still quite a year. Looking back, the average price of $7.75 CND/GJ for gas and $103 CND/bbl for oil (AECO and Edm. light) for the year will surely fail to tell the whole story. Especially when you consider that the *change in price*, from the high to the low, was $4.75/GJ and $96/bbl. Couple that with a meltdown in the economy, and the ensuing credit crisis, is it any wonder investors in the public markets have been running for cover. It makes the planning and budgeting for exploration and development activity a bit challenging. Considering what 2009 probably has in store for us, just having a nice boring year might be a blessing.

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*	*2*	
Drilling	*17*	*10*	*10*	*11*	*13*	*35*	*5*	*1*	
Completions	*9*	*7*	*7*	*6*	*7*	*20*	*4*	*4*	
Tie ins	*5*	*3*	*2*	*2*	*2*	*6*	*1*	*2*	
Facilities	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	
Other	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	
Total	***33***	***21***	***20***	***20***	***22***	***62***	***10***	***8***	

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*	*16.5*	*16.6*
Kakwa	*2.6*	*2.3*	*2.4*	*2.2*	*2.4*	*2.3*	*2.2*	*2.2*	*2.2*	*2.2*
Other	*1.4*	*1.3*	*1.2*	*1.2*	*1.3*	*1.2*	*1.2*	*1.2*	*1.3*	*1.2*
Total	***20.4***	***19.6***	***19.7***	***19.9***	***20.3***	***19.9***	***20.3***	***19.8***	***20.0***	***20.0***

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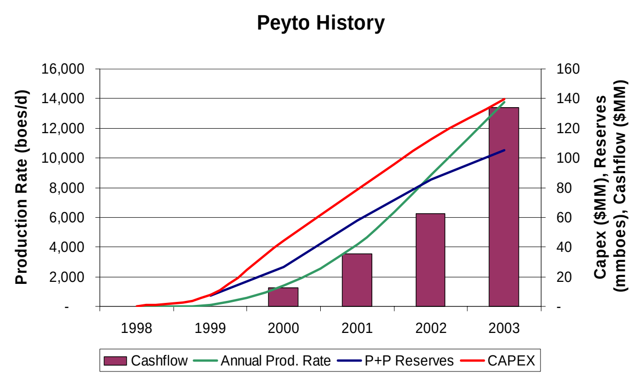
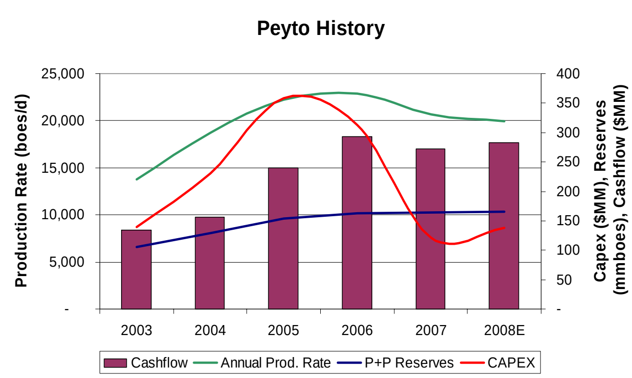
Hindsight is 20/20

Peyto's participation in the oil and gas industry in Western Canada over the last ten years has allowed me some valuable insights that I think might come in handy over the next ten years. Peyto has had periods of profound success and dramatic growth, and we have had periods of perhaps less impressive success and limited growth. Fortunately, we have been able to adapt our corporate structure to provide the greatest benefit for shareholders/unitholders over those times.

For the first 4.5 years Peyto was a corporation. During that period production grew from zero to 13,300 boe/d while P+P reserves grew from zero to 85 mmboes. Throughout this same time, $300 million dollars of capital was invested and $140 million dollars of cashflow was generated. There is no question, the growth was dramatic.

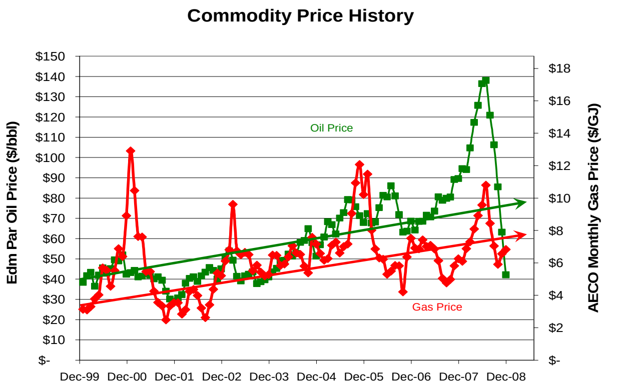


For the 5.5 years that followed, Peyto was structured as a trust. During that time, production grew less dramatically, from 13,300 boe/d to level off lately at around 20,000 boe/d. P+P reserves continued to grow, but also less dramatically, from 85 mmboes to around 165 mmboes. Throughout this time, $1.2 billion dollars of capital was invested and $1.35 billion dollars of cashflow was generated. Unitholders during this period also collected $809 million dollars in distributions or $7.96/unit.



One of Peyto's strengths that has been most interesting to me is that the business has been able to generate enough organic drilling activity to consume all of the $1.5 billion dollars of available funding. It is not often one sees that in our basin, especially over that long a period of time. Normally, Mergers and A&D (Acquisitions and Divestitures) play a much bigger role in the overall course of an oil and gas company's history.

Another interesting observation is the change in commodity prices over that same period. Oil prices have continued to rise, reflecting the ongoing realization that human beings are slowly running out of this form of hydrocarbon fuel and that, regardless of what demand is calling for, developing global production levels beyond 85 mmbbbls/d is increasingly less likely.



Thus the global demand for alternative fuel, like natural gas, is increasing. North American natural gas, while still mostly tied to this continent's weather, is starting to see the effect of a growing global transportation network of liquefaction, LNG tanker and regassification capacity. The underlying long term rise in natural gas prices is probably driven more by this fundamental, while the extreme highs and lows are still in response to short term weather related supply and demand. Fortunately for us who actually live in these frigid climates, declining conventional reserves of natural gas have come to be replaced by more unconventional tight gas and shale gas reserves. (A fact I have been most thankful for during this very cold holiday season.)

Warren Buffet likes to say that the "rear view mirror is always clearer than the windshield." So, what can we take from our experiences over the last ten years that will help us navigate 2009 and the next ten years?

Firstly, I would say that sustained ongoing profitability can be had with just the drill bit. That is not something I could have been convinced of ten years ago.

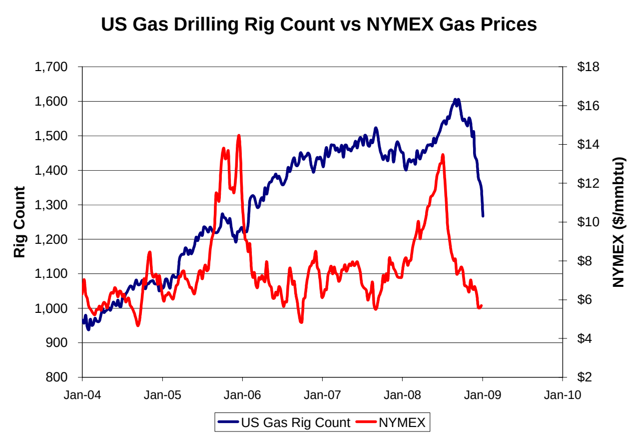
Secondly, profit generated on capital investments may not always result in growth. Growth depends on individual decline profiles, the pace of capital investment levels and industry activity levels. If you always want profit, you must be prepared to only invest at times when profit can be had. If you are strictly chasing growth, you must continue to invest whether the time is right or not. That doesn't always mean you are being profitable.

Thirdly, while acquisitions can change the size of a company and in many cases mask the performance of capital investment programs, it doesn't necessarily result in an accretive benefit for stakeholders. There are numerous examples of acquisitions done at the height of the market, when companies are flush with cash, which never generate enough returns to be profitable.

Lastly, hydrocarbons should continue to appreciate in value. I would expect the only form of energy that can ultimately replace the use of hydrocarbon fuels is nuclear. The human race will have to get there eventually, but the total volume required and our ability to translate that nuclear power to replace hydrocarbons is quite a ways away. Alternative energy sources like solar, hydro, wind and bio fuels cannot supply enough energy or require too much energy input for what you get out. As a growing number of human beings continue to run out of hydrocarbons, the hydrocarbons will continue to increase in value.

That's a lot of big thoughts for a brand new year. In the short term, we have a recession to contend with. After that, perhaps more exciting times in the oil patch are yet to come. It's a good time to hunker down and build up the war chest of profitable drilling locations. Hopefully, 2009 will be a nice boring year of doing just that.

Activity Levels and Commodity Prices



The US rig count continues to plummet, driven down not only by low gas prices but a general lack of access to capital. The 2009 budget year has begun and we should start to see the effect of reduced activity on service costs and material costs. Most significant for Peyto, is the casing costs, driven by steel prices. We should start to see a significant reduction in that component as a result of the activity downturn. Overall natural gas supply should start to become affected too and that should have a positive effect on price.