PEYTO Energy Trust

President's Monthly Report

February 2009 — From the desk of Darren Gee, President & CEO

How low can they go? That seems to be the question on everybody's mind these days. How low can oil and natural gas prices go and how low can the stocks of oil and natural gas producers who rely on those prices go? Amazingly, just six months ago the questions were more along the lines of "what are you going to do with all the extra cashflow?" "Where is the growth coming from?" Now, it's "do you have the financial flexibility to sustain this downturn and emerge on the other side?"

Personally, I think we had better be prepared for prices to go lower in the short term but when they start to rebound, look out. This supply destruction could very well result in significant demand imbalance when it does turn. I think Jeff Currie of Goldman Sachs pegged it right when he wrote:

> *"Storage and transportation capacity provides the system with a buffer to supply-and-demand shocks by allowing it to run surpluses and deficits that smooth the normal cyclical swings in prices. As global storage capacity has failed to keep pace with growth in global demand over the past three decades, this buffer has shrunk relative to the size of the market, resulting in chronically higher than normal price volatility."*

The greater the volatility in commodity prices, the more flexible we at Peyto have to be to absorb it and deal with it.

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	Q4	2008
Land & Seismic	1	2	1	1	0	2	0	2	0	2	6
Drilling	17	10	10	11	13	35	5	1	1	8	70
Completions	9	7	7	6	7	20	4	4	1	8	45
Tie ins	5	3	2	2	2	6	1	2	2	4	17
Facilities	0	0	0	0	0	0	0	0	0	1	2
Other	0	0	0	0	0	0	0	0	0	0	0
Total	**33**	**21**	**20**	**20**	**22**	**62**	**10**	**8**	**4**	**22**	**139**

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

*2008/2009 Production ('000 boe/d)**

	Q1 08	Q2 08	Q3 08	Oct	Nov	Dec	Q4 08	2008	Jan
Sundance	16.4	16.0	16.4	16.9	16.4	16.5	16.6	16.3	16.1
Kakwa	2.6	2.3	2.3	2.2	2.2	2.2	2.2	2.4	2.1
Other	1.4	1.3	1.2	1.2	1.2	1.3	1.2	1.3	1.3
Total	**20.4**	**19.6**	**19.9**	**20.3**	**19.8**	**20.0**	**20.0**	20.0	**19.5** *

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Skin in the Game

I tend to quote Warren Buffet a lot in these monthly reports which is funny, because I don't always mean to. With all the distribution cuts and equity issues by energy trusts lately, I thought I would devote some time discussing what is running through the minds of management and directors when making these decisions.

The first observation that jumped out was the different perspectives brought to these decisions depending on how much "skin in the game" those respective insiders have. Whether it is Warren Buffet or President Obama, the phrase "skin in the game" is used often to refer to those that have financial exposure to the impacts of various tough decisions.

Take distribution cuts for instance. Now, I'm not suggesting that many of the trusts that have cut distributions are not being prudent, especially considering the significant correction in commodity prices we've just seen. It is more the extent of the distribution cuts and the timing of them that leaves me with questions. Sure the mandate of both management and directors is to look out for the best interest of the organization, but if they're also not looking out for the current unitholder, who is? Of course, the market has responded in most cases quite positively to the cuts. And why not? The prospective buyer now has that out of the way. But the existing unitholder who has been hanging on, or bought six months ago doesn't't like it, nor should he.

Figure 1 shows the insider ownership for the various energy trusts. In general, most boards and management have significant "skin in the game" which is good because it aligns their decision making with the interests of the unitholders.

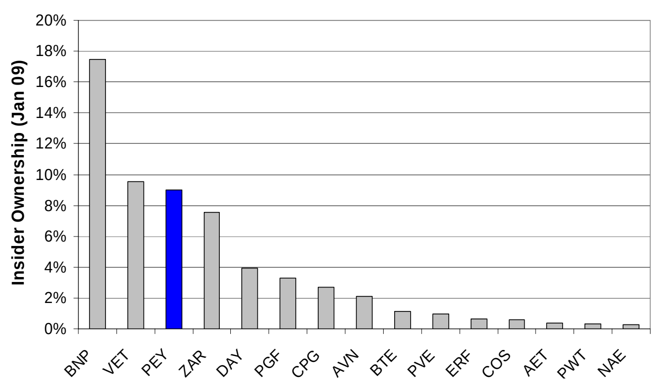

Figure 1

If we overlay that same ownership with the distribution reductions over the last six months a different correlation emerges. Perhaps having some "skin in the game" does factor in?

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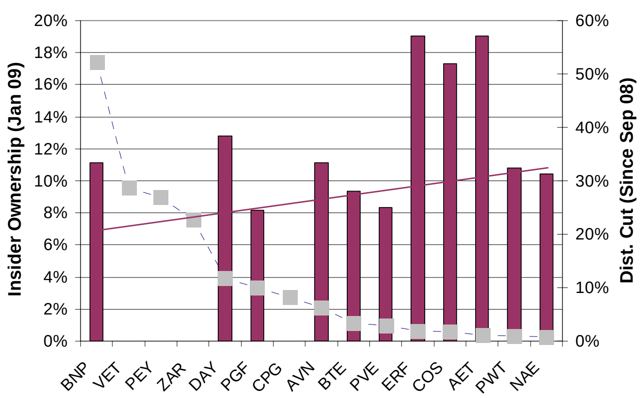
Figure 2



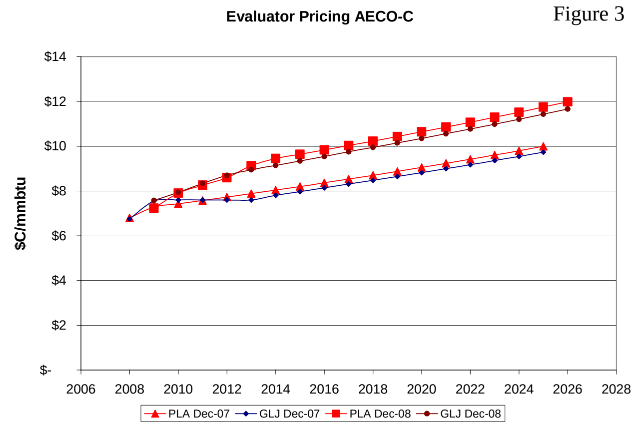
All of the management and boards recognize that setting the distribution level is mostly about balancing the available cashflow. But sometimes I think "preserving financial flexibility" is used too liberally.

Unless the bank is demanding it or the capital program needs it, shouldn't the unitholder get it? Why should it sit on the sidelines, collecting no interest if there is no immediate need for that capital? Yet that seems to be the attitude of those with less "skin in the game." I can see the argument that if the long term fundamentals requires an adjustment to the distribution level, it should be done. Perhaps with 2011 only a couple years away, many are trying to find a level of payout that is truly sustainable, especially with less access to debt and overpriced equity.

Arguably though, the energy trust sector is the least guilty of this lack of alignment. If the architects of many of the financial products on Wall Street, with their extreme leverage, had even the slightest bit of "skin in the game", we wouldn't be experiencing nearly the financial meltdown that we are today.

So what about the equity side? Is the decision to issue dilutive equity in this market any different? It should really come down to whether or not it is truly dilutive. If you have "skin in the game" you are only going to issue equity if the price is at or above NAV or the opportunity requiring the funds is even less. Otherwise you would be diluting yourself out. Then the question becomes what is NAV? For most, NAV is the NPV of your reserve assets at some discount factor and commodity price forecast. The commodity price forecasts, if anything, are even stronger today than last year, at least for natural gas anyway. Figure 3 shows Paddock Lindstrom and GLJ's gas price forecast for last year versus this year which is up 17% on an NPV5 basis. Most of this increase is due to a reduction in the currency exchange rate, but it still translates into increased NPV. Most trusts are currently trading at a fraction of their 2007 year end net asset values so it is hard to argue that their current NAV is significantly less.

Figure 3



What about discount factor? Is the cost of capital that different from last year? On one hand, the cost of debt has never been lower, even with the corporate lenders clawing back their losses. On the other hand, high yield BB rated energy has climbed to 10% from 4% a year ago. Is this a short term spike or a sign of times to come?

I know for our units, we are currently trading at a steep discount to the P+P NPV10 debt adjusted, which is based on last year's price deck. Issuing equity at this level just to set it aside would be way too dilutive for me, but then I've got my "skin in the game."

Activity Levels and Commodity Prices

The US rig count continues to fall, along with the NYMEX gas price. At some point supply destruction should overtake demand reductions. In Canada, the short term AECO price is becoming significantly disconnected from the longer term price. Not dissimilar to a pattern we've seen over the last few years (Figure 4). Hopefully the correction will be as swift.

Figure 4