# PEYTO Energy Trust

## President's Monthly Report

March 2009 From the desk of Darren Gee, President & CEO

I apologize that this month's report is late getting to you. I was busy bundling up ten years of history in this year's annual report. I wish we could be celebrating under happier circumstances. 2008 was a tough year. Although perhaps for different reasons, 2009 is setting up to be just as bad. There is much fear and panic which seems to be driving a lot of irrational behavior. Irrational energy prices (we're still going to run out eventually), irrational market valuations and irrational government policy on both sides of the 49th parallel (green stimulus?). As Warren Buffet wrote in his letter this year, we're "trapped in a vicious negative-feedback cycle." Hopefully it doesn't continue for too much longer.

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 | Q3 | Oct | Nov | Dec | Q4 | 2008 | Jan | Feb |
|---|---|---|---|---|---|---|---|---|---|---|
| Land & Seismic | 1 | 2 | 2 | 0 | 2 | 0 | 2 | 6 | 0 | |
| Drilling | 17 | 10 | 35 | 5 | 1 | 1 | 8 | 70 | 5 | |
| Completions | 9 | 7 | 20 | 4 | 4 | 1 | 8 | 45 | 1 | |
| Tie ins | 5 | 3 | 6 | 1 | 2 | 2 | 4 | 17 | 0 | |
| Facilities | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 0 | |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **Total** | **33** | **21** | **62** | **10** | **8** | **4** | **22** | **139** | **7** | |

***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 | Feb |
|---|---|---|---|---|---|---|---|---|---|---|
| Sundance | 16.4 | 16.0 | 16.4 | 16.9 | 16.4 | 16.5 | 16.6 | 16.3 | 16.1 | 15.8 |
| Kakwa | 2.6 | 2.3 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.4 | 2.1 | 2.0 |
| Other | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 |
| **Total** | **20.4** | **19.6** | **19.9** | **20.3** | **19.8** | **20.0** | **20.0** | 20.0 | **19.5** | **19.0** |

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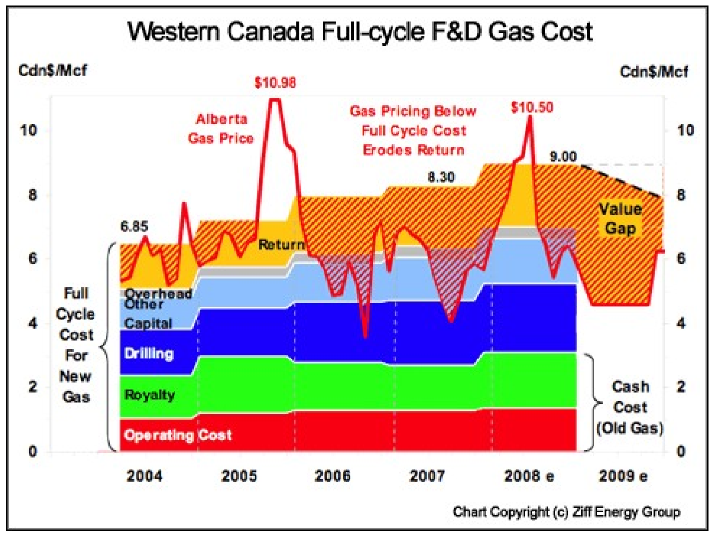
## Competitive Advantage

When people pay lip service to the advantage of being a low cost operator, I think sometimes they miss the point. We've all heard the sayings: *"A rising tide lifts all boats", "Even turkeys can fly in a strong wind", "Only when the tide goes out do you discover who's been swimming naked"* and on it goes. Usually the reminders come when the tide is out or the wind has died, like right now.

The competitive advantage of being a low cost producer in the energy industry extends beyond just these times, it's all the time. It's just that in these times it's more amplified. That point has never been more succinctly put than by a bank engineer who commented to me last week that Peyto's reserves were the first he's tested on his "low" commodity forecast, where all the volumes remained cashflow positive. In other words – we're the only company he's looked at where a good portion of our assets don't become worthless during the lows of the commodity cycle.

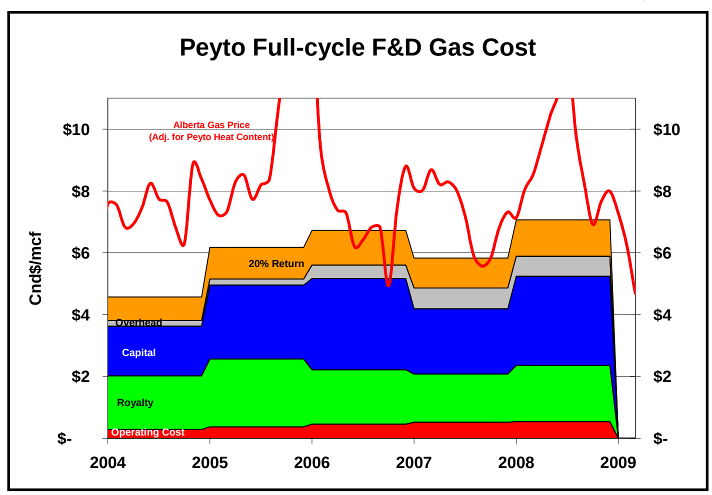
Ziff energy publishes a study of the Full Cycle Western Canadian natural gas costs that I read in the Daily Oil Bulletin the other day. The flowing graphic was used to display the full-cycle costs for natural gas in western Canada and how the average producer was struggling to make a return.

Figure 1




It is hard to argue that even at $6 natural gas price there is much of a sustainable business to be had, let alone at the $4 dollars that we currently have.

Figure 2

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I thought it would be interesting to see how Peyto has fared, under this same analysis, considering that we are the lowest cost producer in the basin. Figure 2 show's Peyto's cost structure under that same gas price history. As this analysis indicates, there is room for a 20% return and then some. No surprise then, on the returns we have and continue to deliver.

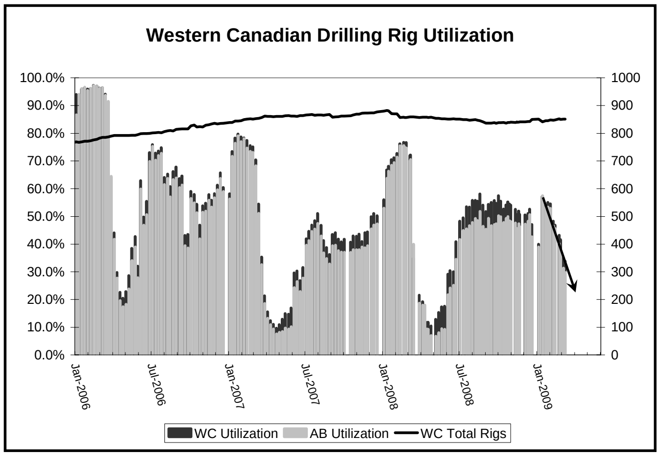
When you compare these supply costs to those being touted for the US shale gas plays, with threshold economics of $5.50, it's obvious we can compete. Besides, the average US producer is much more heavily levered, relative to the value of their asset base, than we are. Apparently, being the low cost producer has its competitive advantage on more than just the calm days.

## Activity Levels and Commodity Prices

The Alberta government's new drilling incentive, which begins April 1, 2009, means that rig activity in Alberta should come to a grinding halt for the next three weeks. No point in drilling a well today if you are going to get full royalty credits for spudding it after April 1.

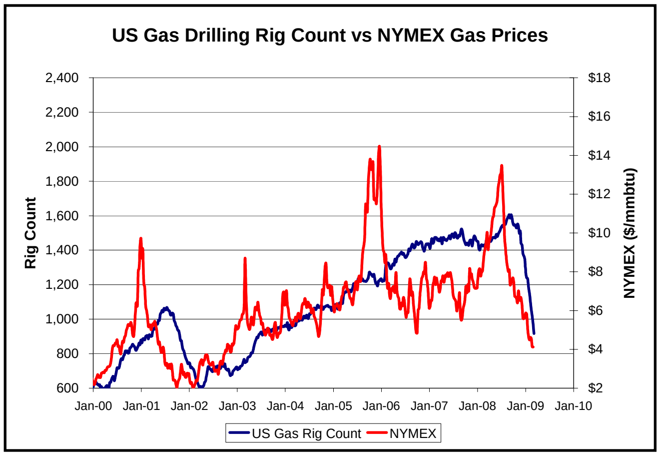
For rigs that are currently drilling, there's no rush to have the well completed and on-stream until then either. That way you get the 5% minimum for the next year, and maybe more. All this, just to accommodate a March 31 provincial year end. Ah well, at least this program has some material benefits for Peyto. Western Canada's rig utilization, still dominated by Alberta is shown in Figure 3 to be dropping fast.

Figure 3




Down south the gas price continues to shut rigs down as well. US gas rig count and NYMEX gas prices are shown in Figure 4. Much of the analysis I read suggests that supply destruction from their 58 bcf/d of domestic production begins at about 1200 rigs. With the rig count now at 916, one would expect to see a significant supply response soon.

Figure 4




In some ways, supply destruction is a scary thought, especially when you wake up to -25 C on the thermometer.

The forward strip (Figure 5) for AECO natural gas price is showing a very low price for this summer followed by a recovery to the $7/GJ mark (that's around $8.20/mcf for Peyto's heat content). To put that in perspective, only two of the last six years have delivered an average price above $7/GJ ($8.26/GJ in 2005 and $7.75/GJ in 2008).

Figure 5