PEYTO Energy Trust

President's Monthly Report

June/July 2009 — From the desk of Darren Gee, President & CEO

My apologies for the missing President's report last month. The recently announced equity financing created a bit of a roadblock. There have been a couple newsworthy items that have transpired since my May report, however, most notably a 40% increase in WTI price from $50/bbl to $70/bbl. Too bad Natural Gas isn't following Oils lead. In addition, the Alberta Government has announced that the 2009 3-point energy incentive plan will be extended for an additional year. Peyto will see some benefit in that.

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	Q4	2008	Jan	Feb	Mar	Q1	Apr	May	Jun
Land & Seismic	1	2	2	2	6	0	0	0	0	0	0	
Drilling	17	10	35	8	70	5	2	0	7	1	1	
Completions	9	7	20	8	45	1	2	0	4	0	0	
Tie ins	5	3	6	4	17	0	1	0	2	0	0	
Facilities	0	0	0	1	2	0	0	0	1	0	1	
Other	0	0	0	0	0	0	0	0	0	0	0	
Total	**33**	**21**	**62**	**22**	**139**	**7**	**6**	**1**	**13**	**1**	**1**	

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)*

	Jan	Feb	Mar	Q1 09	Apr	May	June	Q2 09
Sundance	16.1	15.8	15.7	15.9	15.6	15.1	15.0	15.2
Kakwa	2.1	2.0	2.0	2.0	1.9	1.7	1.6	1.7
Other	1.3	1.3	1.2	1.3	1.1	1.2	1.0	1.1
Total	**19.5**	**19.0**	**18.8**	**19.1**	**18.6**	**18.0**	**17.6**	**18.1**

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Big Test? Big Deal.

I don't think I've ever seen so many test rates finding their way into press releases as I have of late. *"Drilled and completed four Montney horizontal wells with initial test rates of 7 to 9 MMcf/d per well."-Trilogy* or *"one of the horizontal wells…was tested at a stabilized rate of 11 mmcf per day of raw gas."-Birchcliff* or *"A horizontal gas well is currently flowing 5.3 MMcf/d (initial production rate: 9.5 MMcf/d)."-Compton*

Even much of the research being put out these days is full of big test after big test. The Haynesville shale play is a classic example. *"El Paso reported a well that IP'd at 17.8 MMcfe/d."- RBC* and *"The Louisiana Dept of Natural Resources reported two Encana-operated wells that tested an average of 11.9 MMcf/d."-RBC*

All very impressive, but does it really mean anything? I would think that investors should be less concerned with ***how*** companies make money and more concerned with ***if*** companies make money. Rarely though, are either the companies or the research talking about how much money is being made and instead they're all talking about the big test rates they've seen. Is that because maybe those companies are not in the business of making money? Instead they're in the business of making production rather than making profit; or worse still, they're in the business of making your money, their money!

Shouldn't the more important information that companies report be how much money they've invested on behalf of their shareholders or unitholders and how much profit they will generate on those activities? In the immortal words of Jerry Maguire "Show me the money!" Why can't the release read *"The Company invested $2 million drilling a gas well (using horizontal multi stage fracture technology or whatever) and is forecasting the well to make $4 million in ultimate cashflow, thereby generating $2 million in profit or a 35% rate of return on the capital invested."* At least that tells you what you really need to know; that the company is making money.

I thought I would look back at some *big tests* that were released and see if those wells really ended up making those companies so much money that they were newsworthy.

Big Test #1

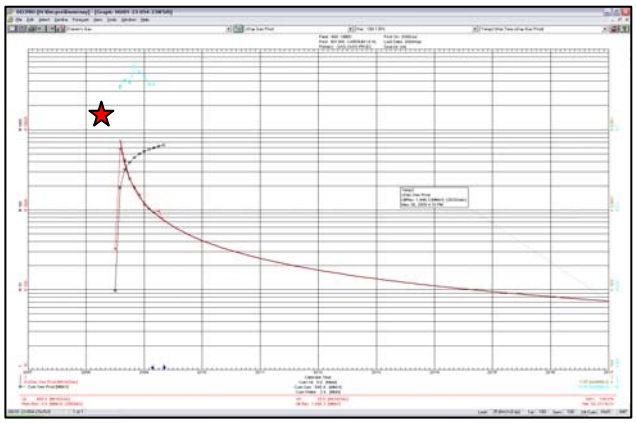
Compton Petroleum, March 6, 2008 – *"the well at 4-27-52-17W5 completed at the end of February is flow testing at 11 mmcf per day."*

As shown in the production history in Figure 1, the big test rate obviously didn't last, dropping from 11 mmcf/d to under 1 mmcf/d in less than a year. It was probably to be expected considering the low permeability of the reservoir rock. If one was to forecast into the future what this well will ultimately recover, it looks to be around 2.5 bcf. Actually, not a bad little

gas well. Pulling the drilling and completion reports shows that the drilling cost was $2.8 million and the completion cost $1.3 million. Add in some wellsite equipment, pipeline, land, and seismic, and this well probably cost, all in, around $4.5 million. Running this production profile against strip pricing, average op costs and Alberta royalties shows that this well makes approximately 20% internal rate of return before tax (12% after tax). Not bad, but hardly something to stop the presses.

Big Test #2

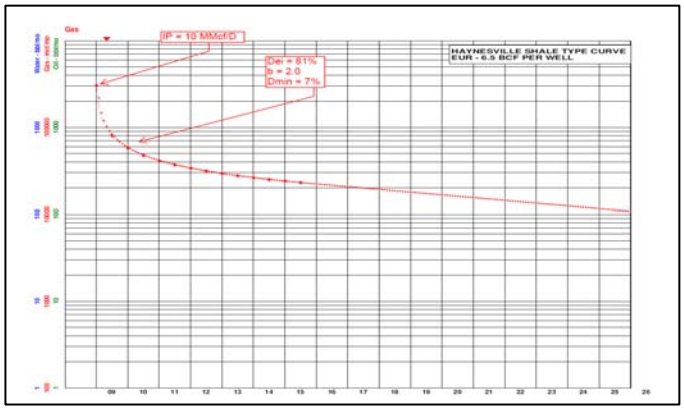
Duvernay, August 13, 2008 – *"The Obed 1-23 well tested at comingled gas rates of 11.2 mmcf/d."*



Again, here the big test rate was really just a mirage. The first month average rate was just half of the test rate and within a year the well is producing less than 10% of the initial test rate. Forecasting the future recovery based on this first year of performance would lead to an estimated recovery of around 1.4 bcf. The drilling and completion costs indicate that this well, all in, costs approximately $4.0 million. An economic run produces a before tax internal rate of return of just 10% (and barely breaks even after tax). Again, this definitely doesn't call for singing in the streets.

Big Test #3

How about a Haynesville Shale gas well? The type curve in Figure 3 was built off several recently drilled wells with average test rates of 10 mmcf/d - not unlike the other big test rates being reported from gas players like Encana, Chesapeake, and others. Its production profile, however, shows the test rate is rather meaningless. Within the first year, the capability of this well has dropped to 2 mmcf/d and a production forecast indicates that this well will recovery 6.5 bcf. The capital costs of $8 million, however, mean that this well will generate a rate of return of around 30%. Pretty good, but worthy of material disclosure? Not for just one well. So why all the hubbub then?



Promoters of these big test rates aren't interested in educating their investors of the potential gains they can deliver with more of the same. If they were, they would be talking in that language – the language of money. Instead, it's more of a "shock and awe" campaign designed to impress people with irrelevant and often times immaterial information. When it comes right down to it, I'm with Jerry…show me the money. Our strategy at Peyto is to invest capital to deliver real returns and incremental value, regardless of the test rates.

Activity Levels and Commodity Prices

Spring break-up is now over and the summer drilling season is upon us. It will be interesting to see if the new economics of drilling in Alberta drive a return of drilling activity. This year's breakup was long, mostly by design, as companies digested the latest commodity prices, service costs and royalty rates.

We are expecting that both service costs and material costs have fallen significantly. If that is the case, now is a good time to build, maybe even the bottom of the cycle. If steel is any indication, we're on our way. Oil Country Tubular Goods (Figure 4) have dropped 35% since their peak last fall.