PEYTO Energy Trust

President's Monthly Report

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

The Great Recession persists and continues to weigh on economies around the globe. The Canadian oil patch seems to be a reasonable barometer for the overall economy with its anemic levels of activity, driven primarily by unsustainably low natural gas prices. Most energy companies are idling, trying to gauge when gas prices will recover - *not if*, but when. At Peyto, we've taken the opposite approach; raising capital in a depressed market in order to get busy and build assets accretive enough to overcome any discount to NAV, and at a time when costs are at historically low levels. As of August, we have 3 drilling rigs running with the most recent drilling costs coming in 20-25% below Q4 2008 levels.

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

*2009 Capital Summary (millions$ CND)**

	2008	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	6	0	0	0	0	0	0	0	0
Drilling	70	5	2	0	7	1	1	2	3
Completions	45	1	2	0	4	0	0	0	0
Tie ins	17	0	1	0	2	0	0	0	0
Facilities	2	0	0	0	1	0	1	1	1
Other	0	0	0	0	0	0	0	0	0
Total	**139**	**7**	**6**	**1**	**13**	**1**	**1**	**3**	**5**

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

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

	Q1 09	Apr	May	June	Q2 09	Jul	Aug	Sept	Q3 09
Sundance	15.9	15.6	15.1	15.0	15.2	15.1			
Kakwa	2.0	1.9	1.7	1.6	1.7	1.7			
Other	1.3	1.1	1.2	1.0	1.1	1.2			
Total	**19.1**	**18.6**	**18.0**	**17.6**	**18.1**	**18.0**			*

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Uses of Cash

Most unitholders/shareholders would probably love to be a fly on the wall in the board rooms of an energy company. It's a very dynamic industry, with lots of interesting, if not exciting, issues to discuss. Not the least of which are commodity prices, industry activity, mergers and acquisitions, hot new plays, technology, government policy and, of course, any important concerns relating to that specific company.

The board room of Peyto is no different. As with any responsible Board, we discuss the relevance of all those issues and their impact on our business. We also spend a significant amount of time discussing our opportunities and how best to fund them. What one might describe as "uses for our cash."

Figure 1 below highlights the historical balance between Peyto's cash sources and its cash uses. Cash sources include funds from operations or cashflow (Revenue less Royalties, Op costs, G&A and Interest), equity raised and any additional debt we wish to take on. Cash uses include the annual capital program, distribution payments (as a Trust) and any debt repayments.

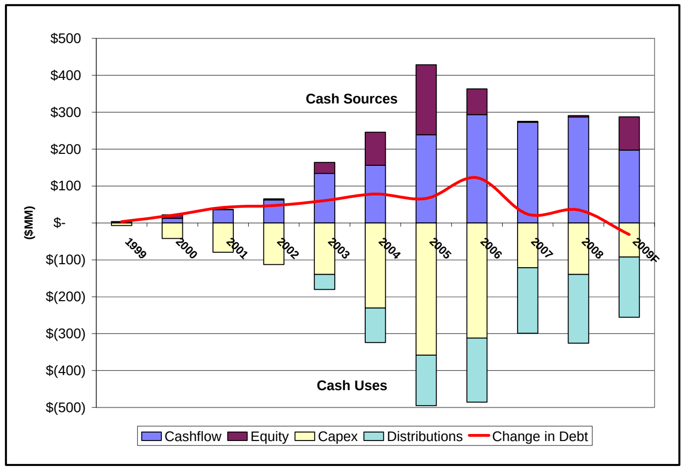

Figure 1

Of course balancing cash sources against cash uses can be challenging; especially with dramatically changing commodity prices affecting cashflow and changing costs affecting capital programs. Throw in a healthy dose of changing tax and royalty regimes, and one can see how keeping the scales balanced becomes a difficult task.

Cash Sources

Cashflow makes up the majority of cash sources for Peyto, and the high quality assets that Peyto owns generate some of the highest cashflow per volume (mcfe or boe) in the industry. A hedging strategy was introduced at the time of Trust conversion (2003) to provide some commodity price certainty as a part of that cashflow equation. This strategy uses a "dollar cost averaging" approach to forward sales, to smooth out some of the volatility in commodity prices. Since oil is a very small part of the revenue, it is concentrated on future sales of natural gas only. This strategy has proved to be quite profitable ($85 million to date) even though it was really only designed to buffer the volatility - not outthink the market.

Equity has played a minor role to date on the cash sources side of the line, periodically providing funding at times when building assets is most optimal.

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Debt has also played a minor but equally important role in funding opportunities at key stages. Relative to the ultimate value of the assets that were built, the level of debt remains manageable.

Cash Uses

Since 2003, Peyto has been using the Trust structure to flow profits from our capital investments out to unitholders in the form of pre-tax distributions - pre-tax until 2011 at least. At the same time we have tried to fund capital programs, or our opportunities, honoring both our rate of return objectives and being cognizant of the cost structure in any given year.

In hindsight, flowing profits as aggressively as we have was a good thing, considering that the tax efficiency of Trust distributions is being diminished come 2011. But it did, in some ways, limit the amount of opportunities that could be funded in any given year. In other ways, having available cash reduced by distributions also made us more sensitive to increases in cost structure, and perhaps, as a result, more resolute in trying to control those increases.

In general though, the majority of new investments have been funded from cashflow that previous investments have generated. In total over the last ten years, $1.6 billion in investments, and $900 million in distributions have been funded from $1.6 billion of cashflow, $500 million of equity and $400 million of debt.

The Balance

For 2009, the ongoing job of balancing the scales of cash sources and cash uses continues. Natural gas prices are way down and so the hedging strategy is doing its part in buffering that drop (see the last few months in Figure 2 below).

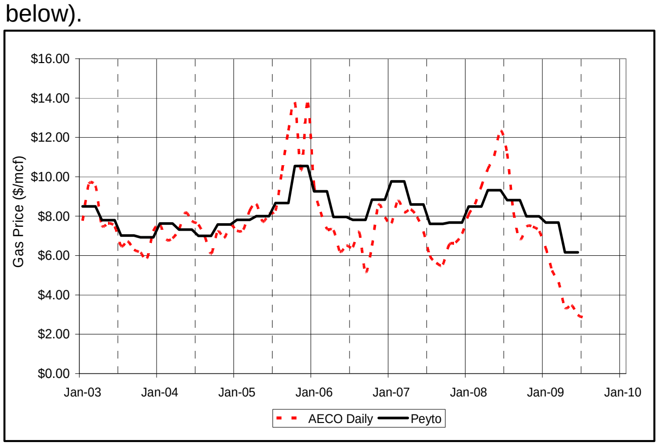

Figure 2

The Great Recession continues, as do the tight credit markets, so this is not the year to take on additional debt. If anything, this is the year to reduce debt load, in anticipation of potential inflation as economies recover. There are only 18 months left to take advantage of the tax efficiency of trust distributions, prior to the 25% proposed federal deduction at source. All the while, a significant reduction in service costs means that capital investments can be made at a much reduced price tag, enhancing long term rates of return.

The Board and Management of Peyto, in its understanding of the opportunities, determined that the best way to balance the scales this year was to issue new equity, as a means of increasing cash sources. Perhaps it comes as no coincidence that in a year with the greatest uses for cash, cash sources are stretched the farthest. But, as has long been the case at Peyto, we continue to maintain a great host of profitable opportunities, and we need to find ways to fund them.

Activity Levels and Commodity Prices

Texas production, which makes up close to 1/3 of US domestic production, has fallen off quite dramatically in the last few months. It is an obvious result of reduced drilling activity and shut-ins due to low gas prices. Figure 3 shows the history in Texas of the activity and production.

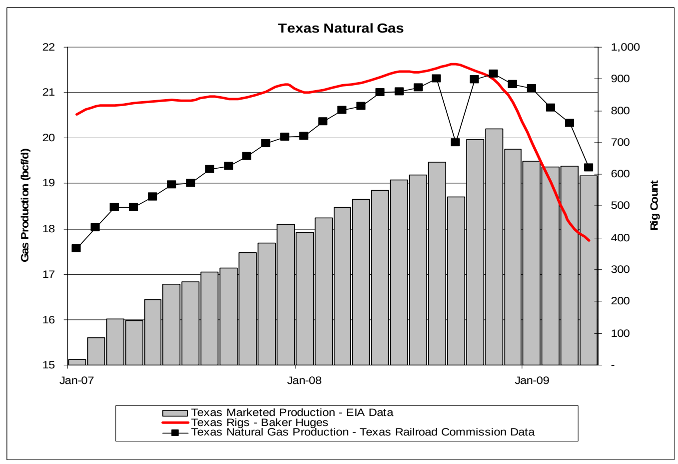

Figure 3

What are confusing are the constant reports from the EIA of stable US gas production. Looking at the EIA website, their models of Texas production present a different story than the Texas Railroad Commission. Figure 3 above shows what the EIA has estimated for Texas production. Note the last few months are not as consistent between the two reporting authorities; one shows a sharp 10% drop, the other only 5% decline. As Texas has its fair share of shale gas, it should be representative of the total US production response to reduced drilling activity. Hopefully the market is not being led astray based on inaccurate estimates and faulty models (kinda like that other debate; the warming trends of a certain planetary orb).