PEYTO Energy Trust

President's Monthly Report

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

They say that the Great Recession is now officially over. If the amount of capital flying off the sidelines is any indication, investors are eager to get back in the game and see if they can recoup some of their losses over the last year. I hope they are right and it is not just sheer optimism driving this wave. I suppose that positive sentiment is half the battle though; if you believe, it may just be so. The alternative is that we are experiencing the calm at the eye of the storm, which is a scary thought.

Commodity prices are definitely looking up, but then so is the Canadian dollar, doing its part to mitigate some of the impact to Canadian energy company's bottom lines. As for our business at Peyto, enthusiasm is running at high levels. Natural gas futures, and especially the daily spot price, have risen significantly in the last month. Couple that with positive initial results from our first two horizontal wells and it's no wonder the Peyto team is even more excited about what the future might hold.

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)**

	Q1	Apr	May	Jun	Q2	July	Aug	Sept	Q3
Land & Seismic	0	0	0	0	0	1	0	3	4
Drilling	7	1	1	2	3	6	7	5	18
Completions	4	0	0	0	0	2	3	3	8
Tie ins	2	0	0	0	0	0	1	2	3
Facilities	1	0	1	1	1	0	0	0	0
Drilling Credit	0	0	0	0	0	0	0	-3	-3
Total	**13**	**1**	**1**	**3**	**5**	**9**	**10**	**9**	**29**

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	Q2 09	Jul	Aug	Sept	Q3 09	Oct	Nov	Dec	Q4 09
Sundance	15.9	15.2	15.1	14.5	14.9	14.8	16.0			
Kakwa	2.0	1.7	1.7	1.9	1.8	1.8	1.8			
Other	1.3	1.1	1.2	1.2	1.2	1.2	1.1			
Total	**19.1**	**18.1**	**18.0**	**17.6**	**17.9**	**17.8**	**18.8**	-	-	-

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.

Burning a Hole

These past few weeks have been a very busy time for Canadian investment bankers, especially those here in Calgary. At last toll, September and October have yielded no less than $2.9 Billion dollars in new energy company equity issues. From what I'm hearing, investors were clamoring to get their hands on most of it, which tells me capital is eager to get back in the game.

One might argue that these were additional moves to strengthen the balance sheets of a sector that has been exposed to some of the lowest natural gas prices in close to a decade. Or the counter argument is that it is going to bolster capital budgets as we head into economic recovery. If the later is true, we could be in for some heated levels of oilfield investment activity in 2010.

Pouring $2.9 billion into drilling and well related activity in the Western Canadian Sedimentary Basin in 2010 would be a welcome change for service industry providers like drilling and completion rigs, frac companies and pipe suppliers. But it would surely strain a downsized workforce and ultimately increase service costs again. If everybody tries to get back to work drilling new horizontal multi stage frac wells, be it Bakken oil, Montney shale or Deep Basin sandstones, then a certain portion of the service sector will be bursting. Boom and bust have long been familiar characteristics of our Canadian energy industry.

If history teaches us anything, that probably won't be the case. Historically, that much capital, raised that quickly, will be burning a hole in corporate pockets to be spent just as fast. That means acquisitions. Perhaps then, it's not surprising that there will be close to 85,000 boe/d of dispositions offered over the next six months to a year from the likes of Talisman, ConocoPhilips, Suncor (ex Petro Canada) and others. At even conservative metrics of $40,000/boe/d, that translates into well over $3 billion. More than enough to gobble up all that equity. Figure 1 illustrates the percentage of capital spent on acquisitions versus drilling, or organic activity, over the last several years in the WCSB. Unless we're in for a big change, one would expect less than half of that equity to make into the ground.

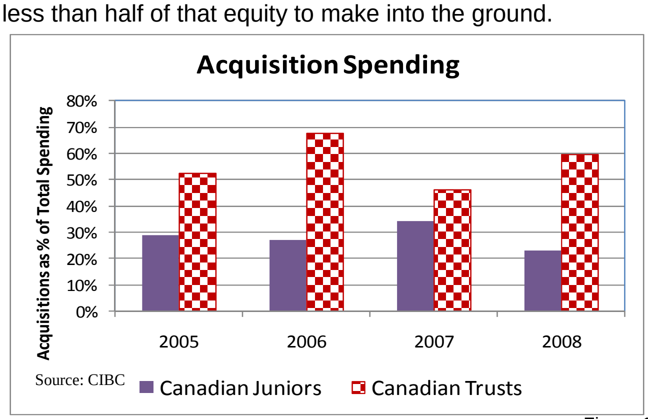

Figure 1

That's good news for Peyto. As an all organic developer, the last thing we want is for industry activity to significantly increase our competition for and cost of oilfield services.

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Right now, anyway, we're enjoying service costs that are equivalent to those experienced in 2004. A typical Cardium vertical well in Sundance is costing closer to $1.5 million ($850k D&C, $450 Comp, $200 equip & T/I) versus $1.9 million during the peak of 2006 ($1.1 D&C, $550 Comp, $250 equip & T/I). So long as the industry sticks to its usual pattern of acquisitions over drilling, it should stay that way.

Activity Levels and Commodity Prices

As I mentioned earlier, natural gas prices have risen significantly just in the last few weeks. Figure 2 shows the dramatic change in Alberta spot price in the early part of October rising close to $2/GJ in just a few days. Winter 2009/10 also rose approximate 10% but had already been at the $5/GJ mark for some time.

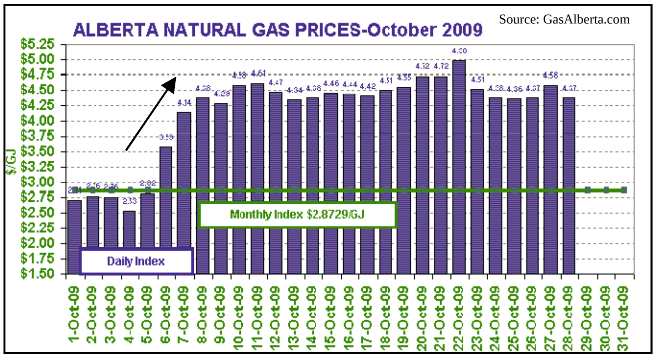

Figure 2

This move definitely brings gas prices back in line with overall North American supply costs which seem to range from $4-5USD/mmbtu for the cheaper shale gas developments to $7-8USD/mmbtu for more conventional parts of the basin.

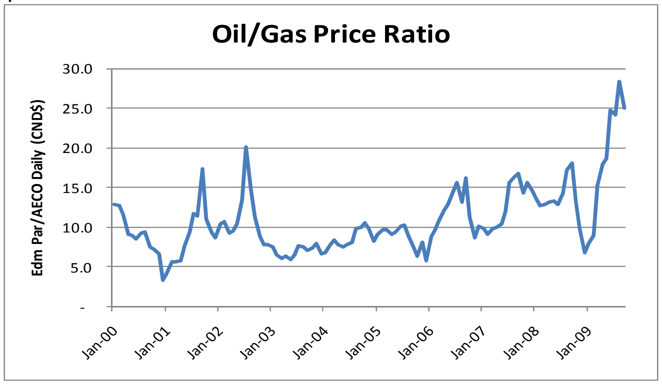

Figure 3

Natural gas is still cheap relative to oil though, with the ratio of Canadian light oil to AECO daily natural gas price above 20 times when it has historically been around 8 and is equivalent on heat content to 6 times (see Figure 3).

It even looks cheap, or did anyway, relative to the less attractive coal. Figure 4 shows how US coal (blue) and natural gas prices (black) have compared over the last ten years, with the majority of 2009 failing to differentiate between the two. I personally have a hard time with this "equality" since natural gas easily wins the environmental argument over coal for power generation. It's now looking like it will be 2010 before the other shoe finally drops with respect to government legislation on the environment and any ensuing impact on the energy industry.

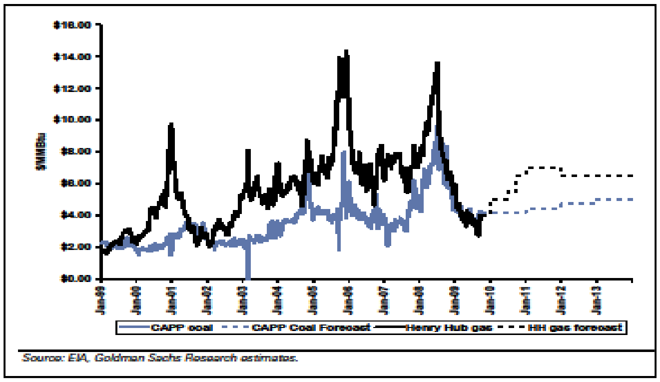

Figure 4

Activity levels in Western Canada remain depressed with drilling rig utilization rates at just 30% of an ever shrinking fleet of around 830 rigs. Total rig utilization is probably becoming a misleading indicator of service costs though, since the rigs that can drill the high impact horizontal wells are limited to about 250 of the total. Specifically, these "third generation heavy tele-doubles," that most operators want, represent less than a third of the total fleet and the utilization of this subset is closer to 50%.

Drilling Rigs Depth Activity Analysis

28-Oct-09

	Alberta		Saskatchewan		British Columbia		WCSB	
	Active	Down	Active	Down	Active	Down	Active	Down
0 - 950M	0	16	0	2	0	0	0	18
951 - 1850M	23	167	7	25	0	4	30	196
1851 - 2450M	21	60	15	14	2	17	38	91
2451 - 3050M	37	72	20	16	1	23	58	111
3051 - 3700M	**48**	**79**	**21**	**9**	**14**	**11**	**83**	**99**
3701 - 4600M	**18**	**27**	**2**	**0**	**16**	**9**	**36**	**36**
Hztl Subtotal	**66**	**106**	**23**	**9**	**30**	**20**	**119**	**135**
4601 M +	5	15	0	0	6	7	11	22
Total	152	436	65	66	39	71	256	573

The potentially more profitable, high impact, low threshold price, horizontal MSF wells continue to draw more demand from service companies than the more traditional and higher threshold price conventional wells. As we move forward, longer term gas prices and North American supplies may be dominated less by the total inventory of locations and more by the ability of the industry to execute on all those locations.