PEYTO Energy Trust

President's Monthly Report

June 2010 From the desk of Darren Gee, President & CEO

Despite the fact that this report is dated June, we have yet to see much in the way of summer here out West. The 21st day of May was supposed to be 2/3 of the way between the first day of spring and the first day of summer but that hardly seemed the case this year. With a spring blizzard knocking out power to parts of Alberta (including our Oldman and Nosehill gas plants) and causing all kinds of havoc on the drilling rigs (see the morning after on May 22 in the picture below).

Hopefully the spring rains won't be as bad and we can get all 5 rigs up and running full steam. At least from a natural gas consumption standpoint, having furnaces firing out west and air conditioners running strong in both the east and south should bolster demand and hopefully natural gas prices.

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

*2009/2010 Capital Summary (millions$ CND)**

	2009	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	6	0	0	0	0	0			
Drilling	44	10	9	12	31	3			
Completions	23	4	7	6	16	6			
Tie ins	10	4	2	3	8	1			
Facilities	2	1	0	1	2	1			
Drilling Credit Used	-6	-1	-1	-1	-3	0			
Sub Total	**78**	**18**	**17**	**20**	**54**	**11**			
Rem. Drilling Credit	-5	-3	-1	-1	-5	0			
Total	**73**	**15**	**16**	**19**	**49**	**11**			

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

*2010 Production ('000 boe/d)**

	Jan	Feb	Mar	Q1 10	Apr	May	Jun	Q2 09
Sundance	15.9	16.5	17.1	16.5	18.3	18.9		
Kakwa	2.5	2.9	3.0	2.8	2.9	2.7		
Other	1.2	1.4	1.3	1.3	1.1	1.1		
Total	**19.5**	**20.8**	**21.4**	**20.6**	**22.3**	**22.7**	-	-

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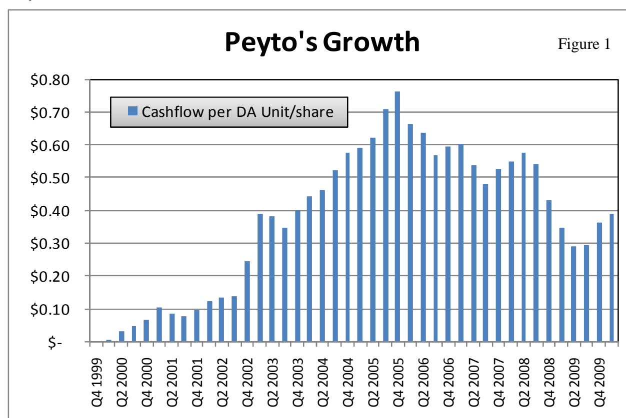
Banging The Growth Drum

It seems like most everyone in the energy industry is talking about growth these days. Long forgotten are the days of income and sustainability. And maybe that's understandable considering how income is currently handled and proposed to be handled by both the Canadian and US taxman (see my report last month on that discussion). Like Calgary streets in summer, re-investment and capital appreciation may be the last remaining roadway that hasn't been blocked with the construction of new and increasing taxes. Of course, with all of the stimulus spending over the last couple of years there are only two ways out of the big debt hole: taxation or inflation, so perhaps we shouldn't be so surprised by these new roadblocks.

So, re-investment and growth is the more tax efficient answer. Sounds good, but those with long memories remember that particular road isn't so easy either. Not everyone can grow. They either don't have the assets, they are too big for the growth assets they do have or they don't have (and never had) the capital efficiency that it takes.

As a result, there is much talk about growth assets and who has them, but unfortunately, it is without the perspective of relative size or track record of performance. Growth is also a hard thing to measure. Do we look at production growth? Most would, but that is only a snapshot in time; production ultimately declines. And we all know, not all barrels of production are created equal. Do we look at reserves growth? Maybe, but those also deplete. And some reserves are not as valuable as others (or have any value at all). Historically, anyway, cashflow growth (and ultimately earnings growth) has been most relevant. But you also can't measure that on an absolute basis. It has to be cashflow growth per share or unit and it shouldn't really come at the expense of increased debt.



By that traditional measure, Peyto was once a dynamically growing company, or perhaps on closer inspection, has always been a growing company. It depends if you include

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the distributions or not. Without distributions, growth has not been so evident. Figure 1 shows quarterly cashflow per debt adjusted unit (debt paid off by issuing units at the quarter end price).

At first glance you would assume Peyto hasn't been growing since 2005. But if you include the distributions, instead assuming they were used to buy back units at the quarter end price, the following chart shows the growth.

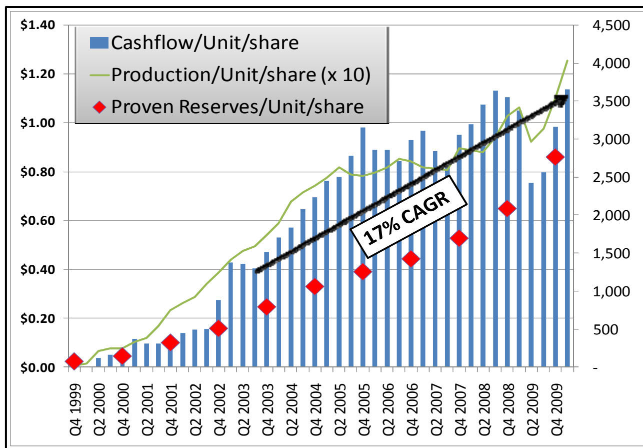

Figure 2

Now the per unit growth in cashflow, reserves and production are unmistakable. In fact, since converting to a trust in mid-2003 Peyto's effective cashflow per unit has grown at a 17% compound annual rate. And that's despite the fact that gas prices have dropped 23% since then. Production/unit grew at 15% compounded annually. Even if you assume that the distributions were first used to pay down all the debt and then start buying back units, the growth would still be 13% compounded annually.

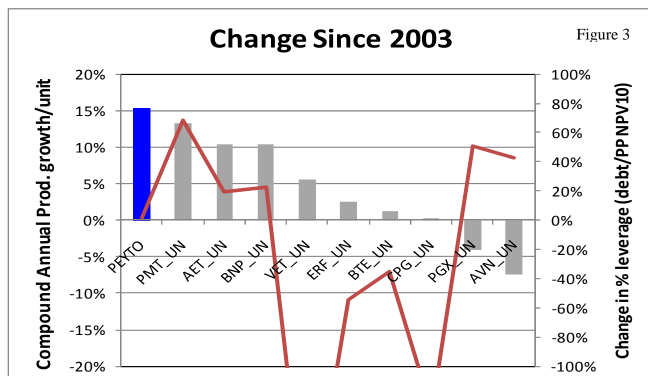

Figure 3

There were several other Trusts that converted around the same time as Peyto. Some have been able to demonstrate consistent growth, while others have not. And for some it has come at the expense of increased leverage. Comparative compound annual production growth/unit, assuming distributions were instead used to buy back units, is shown in Figure 3, as well as the change in leverage of the assets.

When the mass conversion occurs at the end of 2010, and we're all back to banging the drum about growth potential, look to the historical data for that evidence. It's not always an indicator of future performance but as history has shown, this is not a beat everyone is capable of dancing to.

Activity Levels and Commodity Prices

Hopefully we have found the bottom of the season for natural gas prices. The EIA, however, continues to report record US domestic production volumes, even with the newly improved reporting methods. I'm still a skeptic, mostly because they still have not corrected the balancing item that has become so great in the last few years. Either there is less supply or there must be more demand to bring back their traditional volume balance. Figure 4 below shows just how far the error has grown (-548 bcf in 2009) and since the EIA data is the only source for this information, they need to get it right. Gas prices are being driven by their "reported" production.

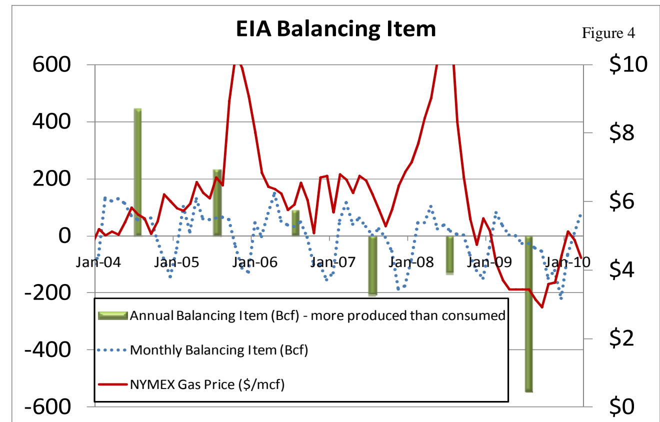

Figure 4

Caution, are you really in the DRIP?

It has come to our attention that some brokerage firms have enrolled their clients into their own synthetic DRIPs instead of Peyto's DRIP. This can be very costly. For instance, the RBC DRIP charged its clients $13.80 and $13.09 for Peyto units in March and April, respectively, while the Peyto DRIP offered participants units at $12.93 and $12.97. Our own Chairman, Don Gray, specifically instructed RBC to put his units in the Peyto DRIP last month, only to find out the next day that they had put them in the RBC synthetic DRIP. The synthetic DRIP does not buy units from Peyto at the 5% discount and instead purchases the units on the open market. Units enrolled in their DRIP are also not eligible for Peyto's OTUPP. If you have had a similar experience, please let us know at info@peyto.com.