

PEYTO Energy Trust

President's Monthly Report

February 2007

From the desk of Darren Gee, President & CEO

Hello again. After a slightly longer than normal activity shut down for Christmas and New Years we are up and running steady again, with two drilling rigs active in the greater Sundance area. We are also in the throws of supplying the independent engineering firm, Paddock Lindstrom & Associates, with all the necessary raw data for a complete evaluation of the company's assets. This report should be ready mid-February for communication to unit holders. Unlike a financial audit, which is a review of Peyto's accounting statements, a reserves evaluation is an independent determination of the volume and value of reserves that Peyto owns. Since it is the season of reserves evaluations, I thought it might be timely to devote a monthly report to this topic.

As before, 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). Although we maintain an abundance of opportunities, our pace of development has slowed to a level in line with retained cash flow. We are choosing at this time not to accelerate our opportunities with additional funding. Power interruptions at our Sundance and Nosehill gas plants caused January sales to be softer than expected.

Capital Investment

2006 Capital Summary (millions\$ CND)*

	Q1	Q2	Jul	Aug	Sept	Q3	Oct	Nov	Dec	Q4	2006
Land & Seismic	16	4	1	1	0	1	0	0	0	1	22
Drilling	67	30	8	9	12	29	7	4	3	15	140
Completions	34	22	11	6	6	23	4	3	2	8	87
Tie ins	16	7	3	2	4	9	2	0	1	4	36
Facilities	12	4	5	3	1	9	1	0	1	1	26
Other	0	0	0	0	0	0	0	0	0	0	0
Total	145	67	27	22	22	71	14	8	7	29	312

*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.

Production

2006/2007 Production ('000 boe/d)*

	Oct	Nov	Dec	Q4	2006	Jan	Feb	Mar	Q1 2007
Sundance	18.5	17.8	17.4	17.9	18.0	16.9			16.9
Kakwa	2.3	2.3	2.4	2.3	2.8	2.4			2.4
Other	2.1	2.4	2.5	2.3	2.0	2.4			2.4
Total	22.9	22.5	22.2	22.5	22.8	21.7	-	-	21.7

*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.

Reserves Evaluation 101

Every year we commission a complete evaluation of the oil and gas assets owned by Peyto in order to determine the total reserves and their associated value. This enables us to assess the ongoing performance of the base assets and to

evaluate the effectiveness of the capital that was invested during the year.

Each and every one of the producing and non-producing zones that Peyto has discovered is evaluated for its respective potential and categorized by confidence level into Proven Developed (greater than 90% confidence), Total Proven (Developed plus Undeveloped), and Proven plus Probable additional (>50% confidence).

Reserves

Firstly, the size of the resource is determined using detailed mapping. The vast majority of Peyto's reservoirs are in resource plays that are definable by well penetrations. Next, the volume of recoverable hydrocarbons is determined. In our case this volume is determined by using two different methods; volumetric determination and production decline analysis, with the lower of the two results being used. In general, using more than one method of determining the reserves increases the confidence and quality of the evaluation. Relying solely on the historical production performance, without quantifying the potential volume of resource available, can lead to material errors in assessment.

Readers may remember, in 2001, an Intermediate E&P took a large reserve revision in their Cardium play at Ansell because the reserves were being assigned using only production decline analysis, ignoring what the volumetric calculations were telling them about the amount of resource in place. In 2001, after their revision, we decided to have two engineering firms independently evaluate our Cardium producers. Figure 1, illustrates the year over year gas reserve assignment to these 37 Cardium wells in Sundance

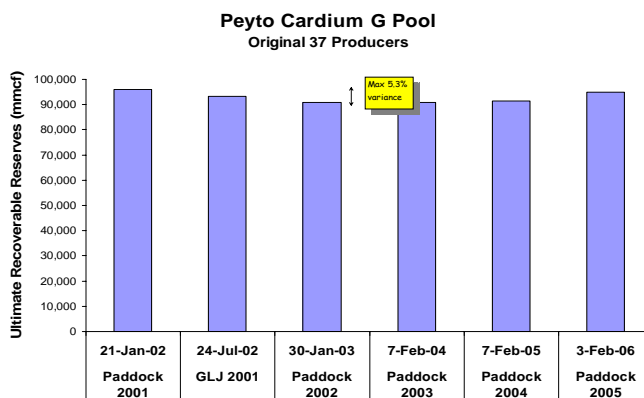


Figure 1

that have now been on production for the last 7 years. There is little variability in the estimate of ultimate recoverable reserves with each new year of production performance.

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Predictability of the recovery is also very important to increasing the confidence in the evaluation. For example, if a particular zone is prone to sudden water encroachment and can therefore "water out" or become uneconomic due to excessive water production, this can lower the confidence level of a potential recovery. The deep basin tight gas reservoirs that Peyto pursues are not subject to this phenomenon which adds to their predictability and overall attractiveness.

Production Forecast

After the volume of recoverable reserves is determined, a production forecast is created which honors the current and future productive capacity of the producing zone. This forecast is automatically cut off at 50 years, whether the economic limit is reached or not, as per the requirements of National Instrument 51-101. This forecast applies to all saleable products including natural gas, oil and natural gas liquids (Butane, Propane and Condensate).

Prices and Costs

Applied to the production forecast are a prediction of future commodity prices and a forecast of both operating costs and royalty payments. This is the point in the economic evaluation where high heat content, tight gas assets like Peyto's demonstrate their superiority. With both royalty incentives and low operating costs, these types of assets deliver some of the highest netbacks per boe (barrel of oil equivalent) of any natural gas stream.

Cash flow

By combining the production, prices, and costs, an annual estimate of net operating income for the producing entity is created. Additional future development capital and ultimate abandonment costs complete the determination of all future net cash flow. These future amounts are then discounted, to translate them back into today's value, to reflect the company's cost of capital.

Why Go To All this Work?

There is significant variability in the attributes that make up an oil and gas property. You cannot simply assume that all production is the same. There are big differences in reserves confidence, production profiles, operating costs, heat content, liquid yields and royalties. The warning is often heard that *"a barrel is not always a barrel."*

Analysis of the Results

When the report is finished we conduct an internal analysis of the results to answer several important questions:

1. What is the Net Asset Value (NAV) of Peyto?
2. How did the base assets perform over the year and are there any material changes to our previous assessment of reserves and value?

3. What amount and value of new reserves was added to the asset base? What was the cost of that addition?
4. Is our enterprise growing, staying flat or shrinking?

It is only after we have this detailed, independent evaluation of our new assets, that we can begin to assess if performance based compensation is warranted.

Performance Based Compensation

Peyto has two types of performance based compensation; Market Based and Reserve Value Based. Both types are designed to be aligned to unit holders and both are treated as a true cost or expense, paid in cash, in order to reduce taxable income in the company. Paying out in cash is more transparent and tax efficient for the Trust and ultimately its unit holders.

The Market Based award or Unit Appreciation Right (UAR) is similar to a stock option except that ours is paid out in cash and both the vesting and exercise dates are fixed at the year end. This prevents participants from capitalizing on the best price of the year for their award. The award is aligned to the unit holder's objective of increasing the unit price. However, since it can be affected by things beyond the employee's control, like rising commodity prices, it only makes up half of the performance based compensation. The performance is measured one third for the first year return, one third for second year return and one third for the third year return. These rights currently represent approximately 4% of the units outstanding.

The Reserve Value Based award is quite unique in the oil and gas industry. We feel it is aligned with the unit holder's long term objective of increasing the discounted Proven Producing Net Asset Value (NAV) of the company. NAV is the most important parameter that we manage. Since the company was founded in 1998, efficient growth in NAV has been our ultimate goal. In order to grow the Proven Producing NAV we must focus on smart capital allocation, high return on capital, low operating cost, high asset quality, and low risk.

At Peyto we put a strong emphasis on reserves that are performing or on production. This is why our Reserve Value Based performance award is for growth in the discounted value (NAV) of the Proven Developed Producing (PDP) reserves. These reserves have successfully been brought onto production and are generating cash flow. By neutralizing the effects of commodity prices and adjusting for changes in net debt, changes in the number of units outstanding and the annual distribution, the true incremental year over year value addition (discounted at 8%) is determined. The amount of the performance award which results is 3% of this incremental debt adjusted, per unit value creation.

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Commodity Prices and Activity Levels

Commodity prices are a lot stronger today than they were when we converted to a trust in 2003. Since the conversion, our distribution has been increased five times, never been decreased and ultimately grown by 87%. Despite these relatively high commodity prices, this month we have seen a flurry of distribution cuts across the energy trust sector, as shown in Figure 2.

cautiously awaiting some service cost price reductions before more aggressively pursuing additional opportunities.

At Peyto, we continue to build high quality assets that have the attributes to withstand short term commodity price swings. Our monthly distribution is set with our long term outlook in mind. I'm happy to report that the long term outlook continues to get brighter and that we have no current plans to decrease our distribution.

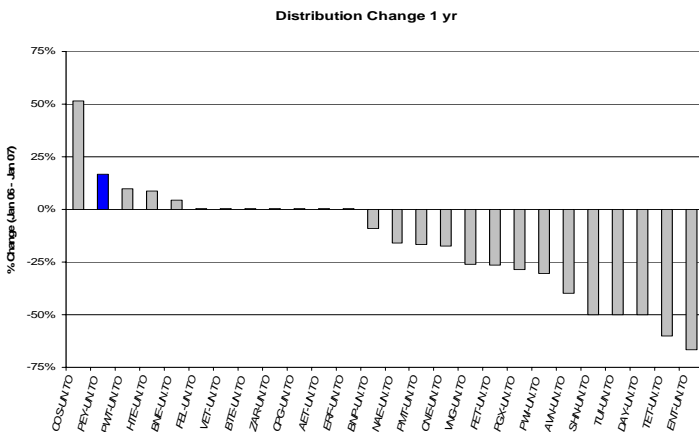


Figure 2

Since my last report, we have seen the natural gas prices firm up for the remainder of 2007 and the recent pull back in oil prices has aligned the two commodities closer to the historical 8:1 level. We will watch closely to see if this historical level is maintained.

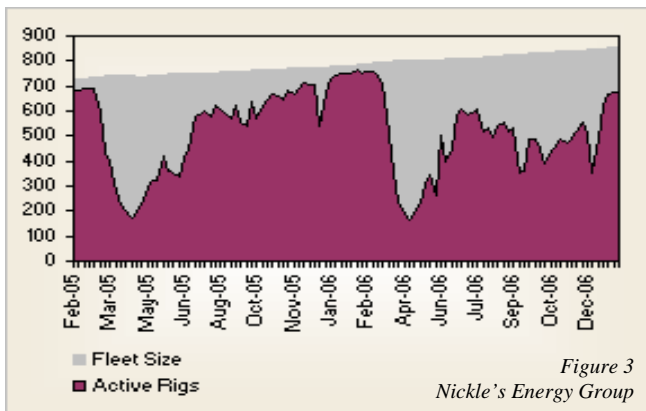


Figure 3
Nickle's Energy Group

We have also seen a sudden surge of drilling activity which has increased drilling rig utilization to approximately 80% (see Figure 3). This may just be a short spike of winter access driven drilling and an anomaly to the general downturn in Western Canadian activity. We are still