

PEYTO Energy Trust

President's Monthly Report

July 2007

From the desk of Darren Gee, President & CEO

A rain soaked June has put a damper on what we hoped would be an early start to the back half of 2007. Our fourth drilling rig was finally put into action this past week. Bill C-52 has passed through the Senate and moves the proposed tax on trust distributions that much closer to reality. Although the tax will not take effect until 2011, we will ensure that our organizational structure is as tax efficient as it can be both before and after that time.

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

2007 Capital Summary (millions\$ CND)*

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	0	0	0	1	0	1		
Drilling	5	5	6	16	0	0		
Completions	3	3	4	10	1	0		
Tie ins	2	0	1	3	1	0		
Facilities	0	1	0	1	0	0		
Other	0	0	0	0	0	0		
Total	10	9	11	30	2	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.

Production

2007 Production ('000 boe/d)*

	Jan	Feb	Mar	Q1	Apr	May	June	Q2
Sundance	16.9	17.1	16.8	16.9	16.9	16.3	15.8	16.3
Kakwa	2.4	2.1	2.2	2.2	2.3	2.2	2.1	2.2
Other	2.4	2.3	2.1	2.3	2.2	2.1	2.0	2.1
Total	21.7	21.5	21.2	21.4	21.3	20.5	19.9	20.5

*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.

The conventional in unconventional

I have often been heard to remark that Peyto is a conventional energy company that builds unconventional assets. But what defines "unconventional" assets and how can you take a conventional approach to them?

Unconventional assets

Conventional oil and gas reserves are those that can be more easily obtained from the reservoir because the reservoirs have a greater ability to transmit fluids through larger more well connected inter-granular pore spaces in the rock. By contrast then, unconventional reserves are those that are more difficult to recover because the reservoirs have a very poor ability to transmit fluids, as the pores spaces are very small and poorly connected. Natural gas, being far less dense and less viscous than liquid, is often times the only

fluid that will move through this type of reservoir rock. Sources of unconventional gas include tight sands, coal seams, organic shales and gas hydrates. Each type of unconventional gas has its own unique extraction methods but all of them have several common traits: big resource, low stabilized productivity, very long reserve/producing life.

Tight gas sands, which are typically at deeper depths, require significant fracture stimulation to increase the deliverability to commercial levels. Sometimes the reservoirs are naturally fractured by tectonic activity which enhances their productivity. Close to 100% of Peyto's assets are of the tight sand variety.

Coal seams or coal bed methane, typically at shallower depths, in many cases also requires fracture stimulation to initiate the flow of methane from the coals. Some coals are dry while others have water in the fracture networks that must first be removed before the gas can produce. Reservoir pressures tend to be very low which requires advanced compression and pipeline hydraulic solutions.

Tight organic shales, like the Barnett Shale in Texas, offer significant unconventional gas reserves as well. Here, horizontal drilling has been utilized to access the shales, under the city of Fort Worth for example. Then, hydraulic fractures are placed to enhance the deliverability from the shales.

One last source of unconventional gas is gas hydrates. Gas hydrates are ice-like substances comprised of water and natural gas that form when gases combine with water at low temperature and high pressure. Gas hydrates exist as natural accumulations under large portions of the world's Arctic areas and on deep sea continental slopes in water depths greater than about 600m.

The worldwide amount of methane in gas hydrates is considered to contain about twice the amount of carbon held in all fossil fuels on earth. At this time, though, no commercial extraction methods exist.

Conventional development

Peyto's approach to the exploration and production of natural gas is what I would consider a conventional one. We follow traditional operating practices in the drilling and completion of the tight gas sands we develop. We do so to minimize the added risks of "bleeding edge" (as opposed to leading edge) technologies in our business and to ensure our results are predictable and repeatable.

The drilling operations can, at times, be challenging, especially considering we are drilling to depths of 3000+ meters or 10,000 ft. We often deploy specialized drilling mud systems designed to lift cuttings from that depth while ensuring that the different strata does not react with the fluids and start to fall apart. We use directional drilling technology

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to access specific bottomhole targets when we have surface constraints due to rugged topography. We make use of specific drill bits that perform better in the various rocks that we are drilling through. But all of this is still very conventional drilling practice.

Our completions are also very straightforward. We know that tight sands won't produce at commercial rates without enhancement and therefore require fracture stimulation. For that we use tried and true, water based, guar polymer gels to carry the high strength ceramic proppant (man-made sand) into the formations. We also know that the larger the fracture we can effectively create, the greater the ultimate deliverability and larger area we can drain with that well. Over the long run, it is money well spent. We segregate our production streams to ensure we understand the economic result of our investment and to take advantage of royalty incentives while at the same time educating us on the proper development spacing.

Our wellsites are equipped with standard fluid separation and metering. We only utilize the more costly electronic flow measurement when additional accuracy is required and telemetry where wellsite access is restricted.

Our sweet gas processing facilities separate and stabilize the natural gas and hydrocarbon fluids through a standard dehydration and refrigeration process.

At Peyto, we stick to very conventional operating practices. We have learned through experience that keeping things simple is the key to profitability, especially when you consider the additional risk of unproven technology. Return on our capital remains the key driver for our investments.

Commodity Prices and Activity Levels

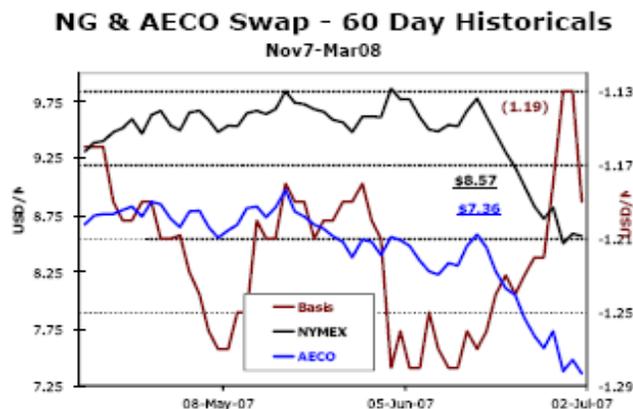


Figure 1

Natural gas prices of late have been softening with Alberta prices hit the hardest. Storage levels are ahead of schedule and we still haven't entered the peak summer cooling season. We also have yet to see any of the normal storms that disrupt production in the gulf coast. As usual, the natural gas market is getting "skiddish" during this waiting period. Figure 1 shows the AECO and NYMEX price for the winter period from Nov 07 to Mar 08 as it has evolved over the last couple of months. The combination of a strengthening CND\$ and weakening fundamentals has driven next winters price down 15% from over \$8.75/GJ to \$7.30/GJ in just two months.

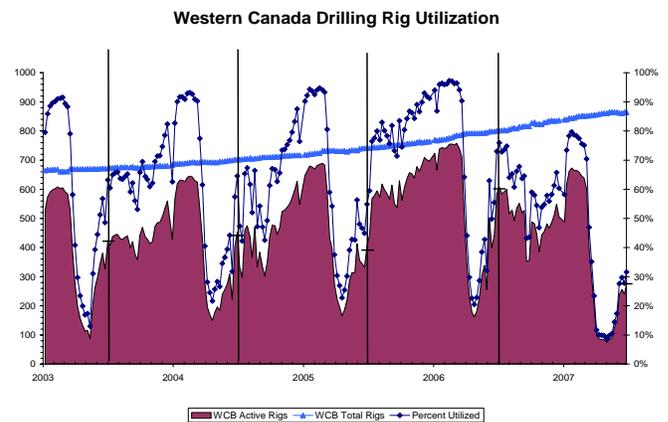


Figure 2

Drilling rig utilization, shown in Figure 2 above, is currently less than 32% as compared to 73% for the same time last year. From what I am hearing this is partly due to commodity price drivers and partly due to wet weather. Pricing of services has come down post breakup and we are cautiously increasing our activity, now accomplishing more for the same capital.