

# PEYTO Energy Trust

## President's Monthly Report

December 2007

From the desk of Darren Gee, President & CEO

It appears that winter has finally arrived in Western Canada, with our first cold blast of the year last week. With it came some renewed interest in natural gas, as Alberta prices started to improve off their lows. It won't be until mid-way through the heating season that we'll discover if current swollen storage levels in North America are sufficient to meet demand and if these lower winter gas prices are justified. Beyond that, gas prices have firmed up to historical levels for next summer and the following winter. Our operations are continuing their steady pace up to the Christmas break, with encouraging results in all areas. We look forward to the year end and our independent reserves review for a measure of this year's success.

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)\*

	Q1	Q2	July	Aug	Sept	Q3	Oct	Nov	Dec	Q4	2007 YTD
Land & Seismic	1	1	0	0	1	1	0			0	2
Drilling	16	6	7	6	6	20	8			8	51
Completions	10	4	5	3	4	11	3			3	28
Tie ins	3	1	2	3	5	10	1			1	16
Facilities	1	0	0	0	0	0	0			0	1
Other	0	0	0	0	0	0	0			0	0
<b>Total</b>	<b>30</b>	<b>13</b>	<b>14</b>	<b>13</b>	<b>16</b>	<b>43</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>98</b>

\*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

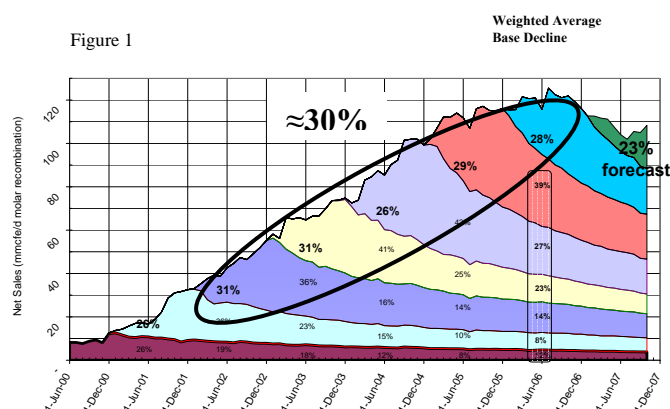
2007 Production ('000 boe/d)\*

	Q1	Q2	Q3	Oct	Nov	Dec	Q4	2007
Sundance	16.9	16.3	16.0	16.7	16.7			
Kakwa	2.2	2.2	2.0	2.9	2.9			
Other	2.3	2.1	1.8	1.5	1.4			
<b>Total</b>	<b>21.4</b>	<b>20.5</b>	<b>19.8</b>	<b>21.0</b>	<b>21.0</b>	<b>-</b>	<b>-</b>	

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### Deep Basin Declines and the "Search for the Holy Grail"

One of the skepticisms I've heard about our asset base is the steep decline that we've experienced on our base production. To us, this decline was expected because that is the way deep basin tight gas reservoirs perform. Tight gas reservoirs/wells produce at higher initial rate with greater decline, followed by an ever-shallowing decline that evolves into lower productivity, low decline, long producing life reserves. Since all of Peyto's wells produce from tight gas reservoirs of this type, each year's wedge of new production follows this pattern, as shown in the familiar waterfall plot.



For Peyto, this ever shallowing decline characteristic has been obscured by the fact that, for the last several years, we have built a new wedge of production each year that represents a large percentage of the total and is subject to the steepest declines (2007 will be the first year where new drills will be a much smaller percentage of the whole). The result has been that our corporate base decline rate has remained relatively constant around the 30%/year mark. Our reduced activity in 2007 and the resultant wedge of new production means we will begin to experience the effect of the ever shallowing decline in the base production to a greater degree.

Our confidence in the future performance of these types of tight gas reservoirs comes from the numerous analog wells along trend that show us this same performance. But still, the questions linger:

- Are Peyto's reservoirs the same?
- Is the way Peyto developed their reservoirs going to deliver a similar result?

An answer to these questions ultimately becomes a matter of time. We didn't acquire wells that someone else built, that were already on production for a long time and had an established producing profile. Peyto's wells are all new. With additional production performance, we gain greater certainty in our ability to forecast the ultimate result.

### The Original 20

It's been six and a half years since the first of Peyto's wells were brought on production with the commissioning of the Oldman gas plant in Sundance. As anticipated, all 20 wells that were brought on in the year 2000, are still on production today.

An analysis of this group of wells confirms the expectation that they will produce much like the analog wells along the trend that have over 20+ years of production history.

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Figure 2

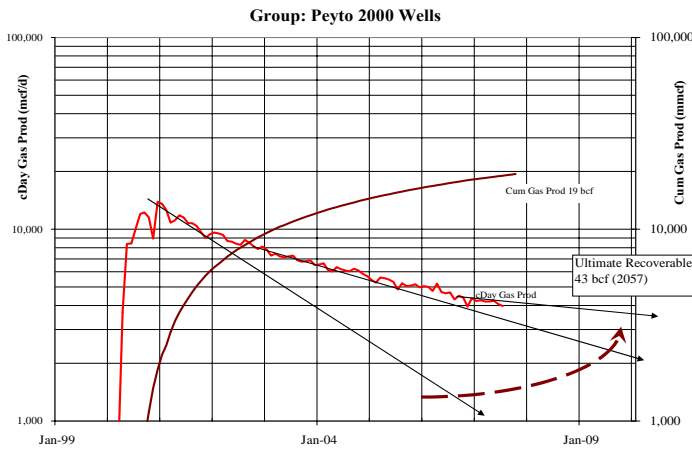
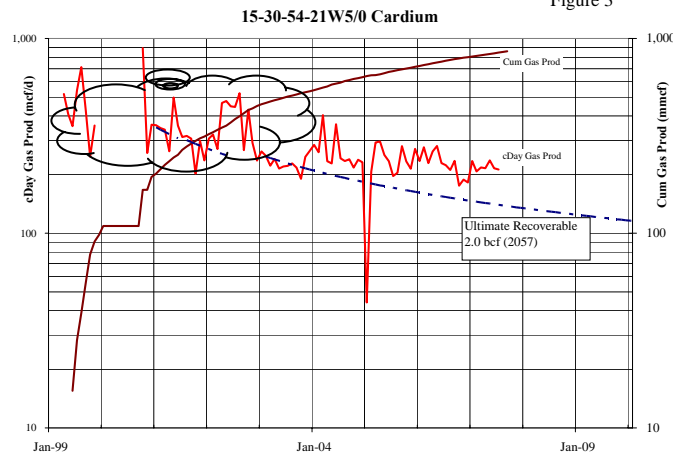


Figure 2 shows the 2000 well group which reached a combined peak production rate of 14 mmcf/d (700 mcf/d/well) and now exhibits the ever shallowing decline and stabilization that is expected. It is interesting to note that it has taken over five years to reach this “stabilized” condition of around 4 mmcf/d (200 mcf/d/well). Of course, this time to stabilization is in complete agreement with the physics of gas flow in these types of low permeability reservoirs. With 19 bcf of the ultimate 43 bcf already produced, it appears that half of the ultimate recoverable reserves will be captured in the first 10 years, with the balance in the following 40-50 years. Also of note is that the Reserve Life Index (RLI), which began at 8.4 years, has now increased to over 16 years.

When looking at individual wells in this group, other observations can be drawn. Operational “noise” for instance, can often mask reservoir response, making it difficult to forecast in the first few years when limited history is available.

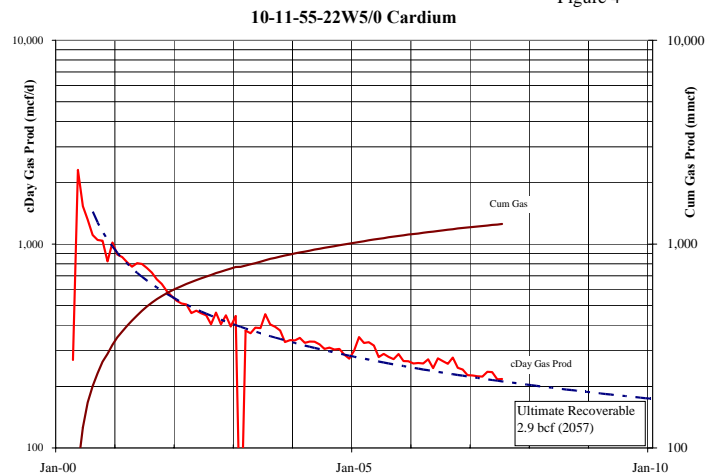
Figure 3



The 15-30 Cardium well, as shown in Figure 3, illustrates this phenomenon. Without the benefit of older wells with more history to compare to, this could lead to the wrong conclusion regarding reserves and value.

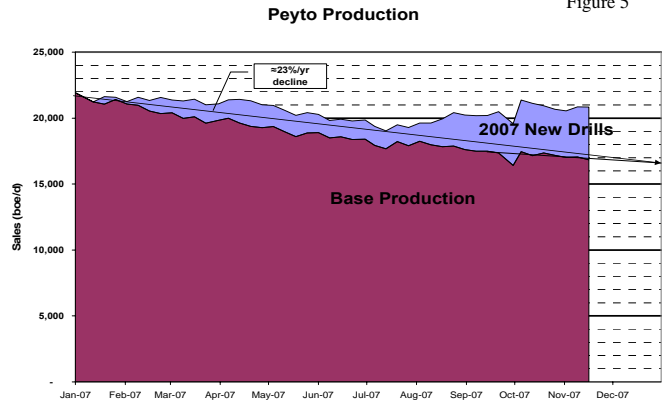
As well, individual well characteristics, such as reservoir quality and stimulation effectiveness, in addition to differences in wellbore and pipeline hydraulics, means that no two wells produce exactly the same during this early period. This is evidenced by comparing the wells in Figures 3 and 4, where, after five years, the two wells are now producing at the same rate.

Figure 4



Despite the daily challenge to our operations staff to get the most from these tight gas wells, the production performance is suggesting that they are ultimately going to deliver the same results as the old analog wells predicted they should. As a consequence, the combination of all of the shallowing declines is producing a more stable base that we can build upon into the future. The base production from 2006, for example, is exhibiting an annualized decline of only 23% this year, rather than the historical 30%.

Figure 5



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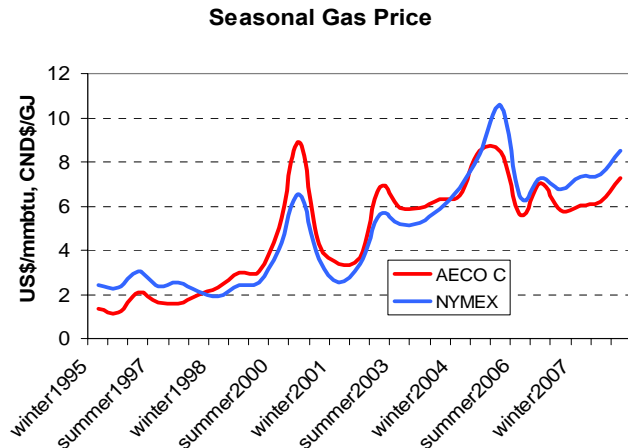
Effectively, we are observing the performance that we expected, with decline characteristics that conform to the physics and are consistent with the analog wells in the more mature areas.

What this means going forward, is that for a constant cost to add new production, less and less capital should ultimately be required to hold the total production at this level. Conversely, a constant level of capital investment should result in total production eventually growing.

Obviously if this type of growth can be achieved with only a fraction of the total cashflow generated from the production base, then we will have achieved the "holy grail" in the energy sector; sustainable growth, funded entirely from a portion of internal cashflow, while distributing a large percentage of income to unitholders. Growth plus income. That's the Peyto model.

### Commodity Prices and Activity Levels

Figure 6



Natural gas prices are currently much stronger in the US than in Canada. This is due to the transportation costs to get Canadian production to the large consumer base in the SE USA and the fact that the Canadian dollar is now at par. It means we have to be even more competitive with both US domestic supply and international LNG, if we are to be successful. Not an easy task considering the provincial government is looking to increase its "take" as natural gas prices strengthen.

This additional challenge is reflected in the current rig utilization rates of 50% for Western Canada and a dismal 45% for Alberta. Either service cost rates or royalties will have to come down or gas prices will have to improve for this activity level to increase. In the meantime, we are taking advantage of the lower activity levels to capture deals and improve cost structure.

Figure 7

