

# PEYTO ENERGY TRUST

Sustainability Discussion

*November 22, 2005*

# Profile

- Established - *November 1998*
- Expertise - *Exploration & Development of Long-life Gas Reserves*
- Core Area of Operations – *Sundance & Smoky/Kakwa, located in Alberta's Central Deep Basin*
- Units Outstanding - *Basic & Diluted 102 million*
  - **NO CONVERTIBLE DEBENTURES OR EXCHANGEABLE SHARES**
- Monthly Distribution - *\$0.12/unit/month; since July 2003, the distribution has been increased four times from the initial \$0.075/unit/month*

# Sustainability

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Sustainability is an economic state where the demands (distributions) placed upon the business can be met without reducing the capacity of the business to meet the same demands in the future.

Not all energy trusts were designed to be sustainable.

Energy Trusts were created to maximize unitholder value with a more tax efficient capital structure and more disciplined capital investments.

# Sustainability, *Assets*



Reserve Life – assets with a longer reserve life are more sustainable and have more value

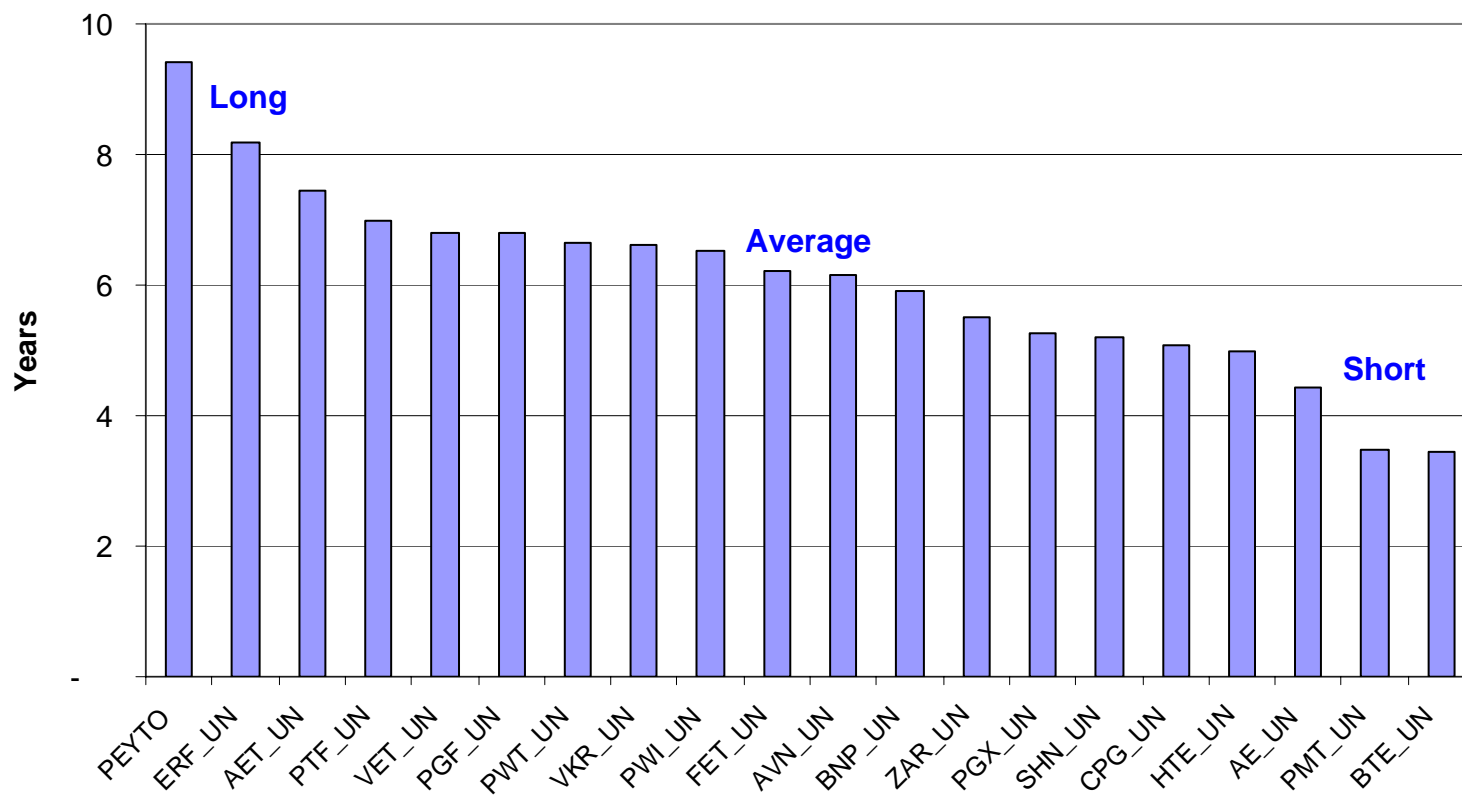
Operating Costs – lower operating cost assets are more sustainable and have more value

Commodity Quality – higher quality oil and gas captures a higher revenue stream and enhances sustainability and value

# Sustainability, *Assets, Reserve Life, Proven Producing*



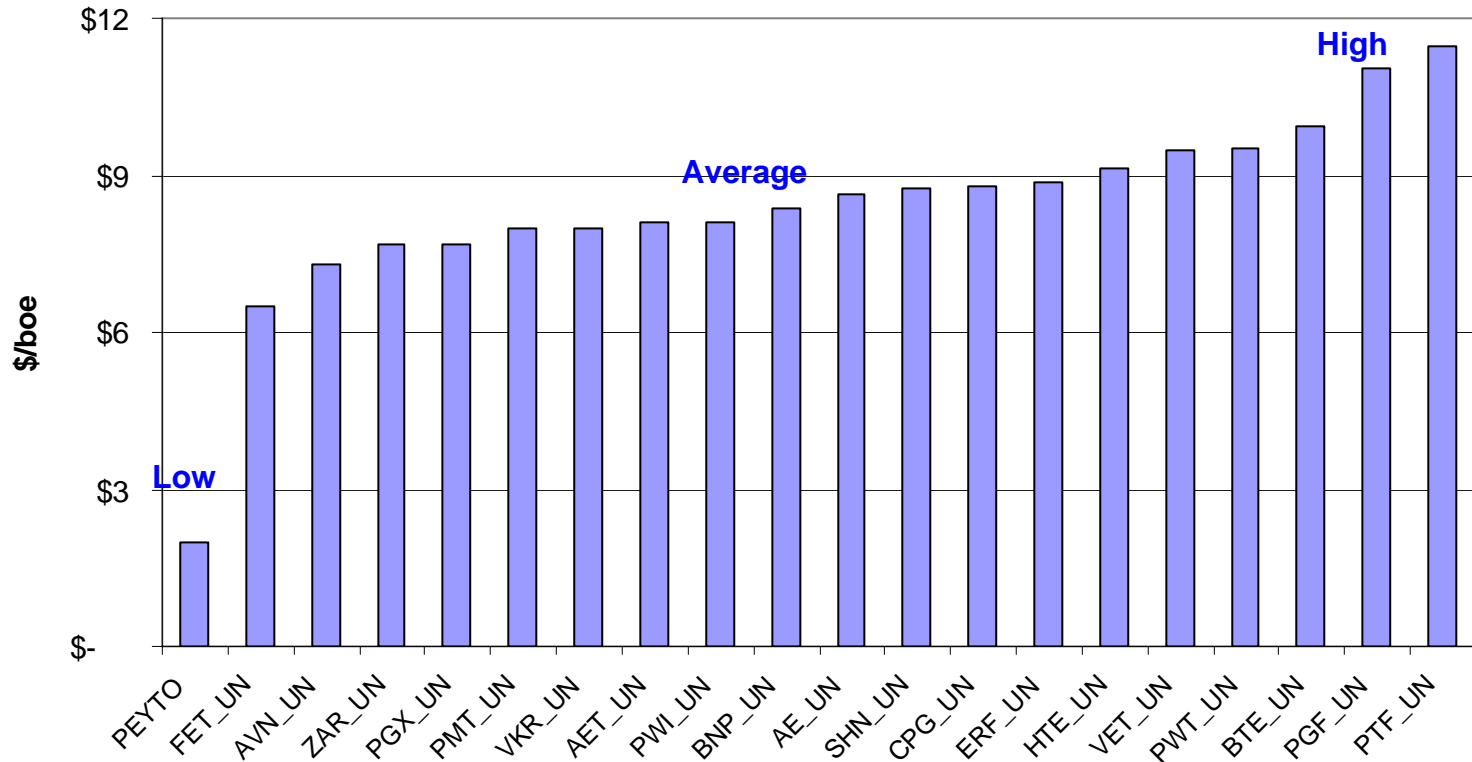
2004 Year End Proven Producing Reserve Life



# Sustainability, Assets, Operating Costs



Q2 2005 Operating Costs

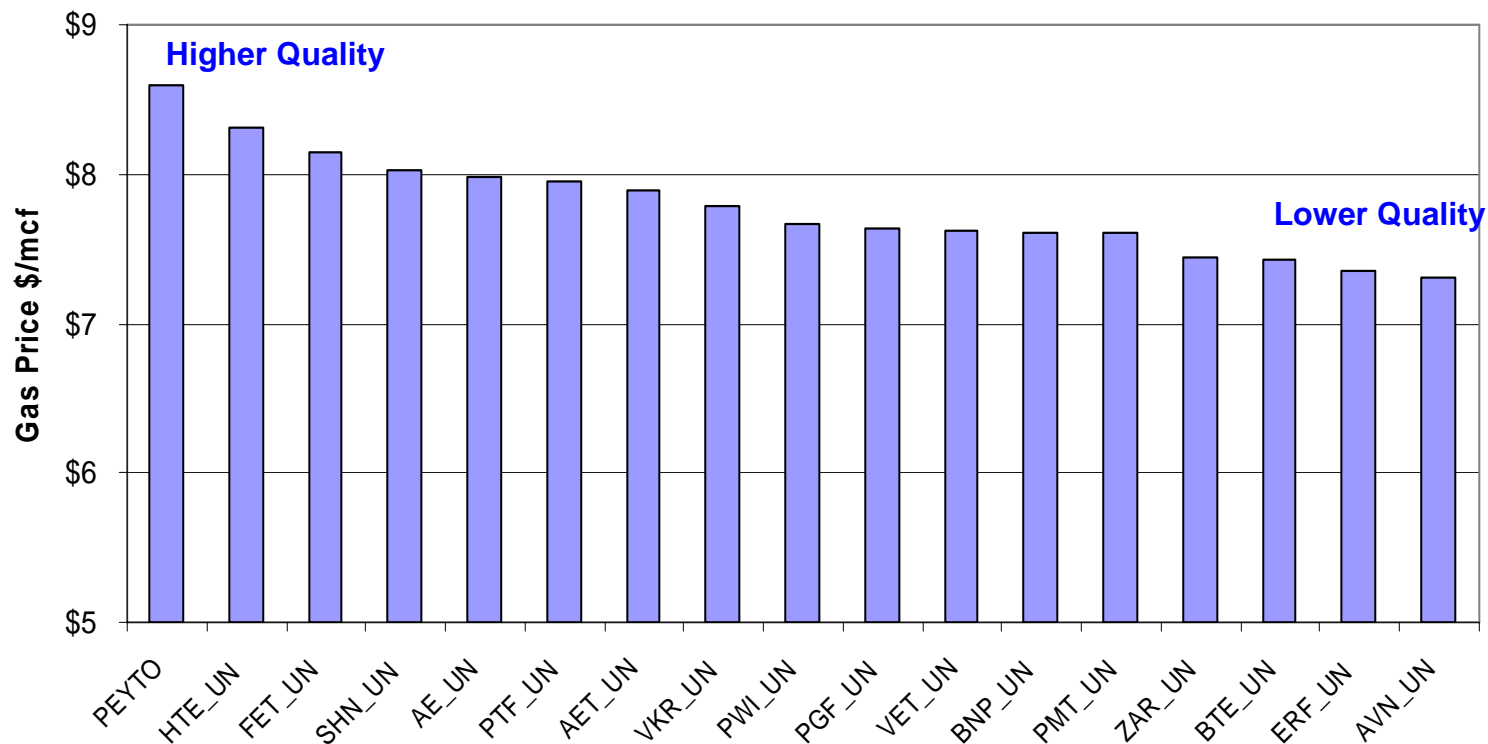


Operating Costs include Transportation costs. Peyto has always included transportation costs as part of its operating costs.

# Sustainability, Assets, Commodity Quality, Gas



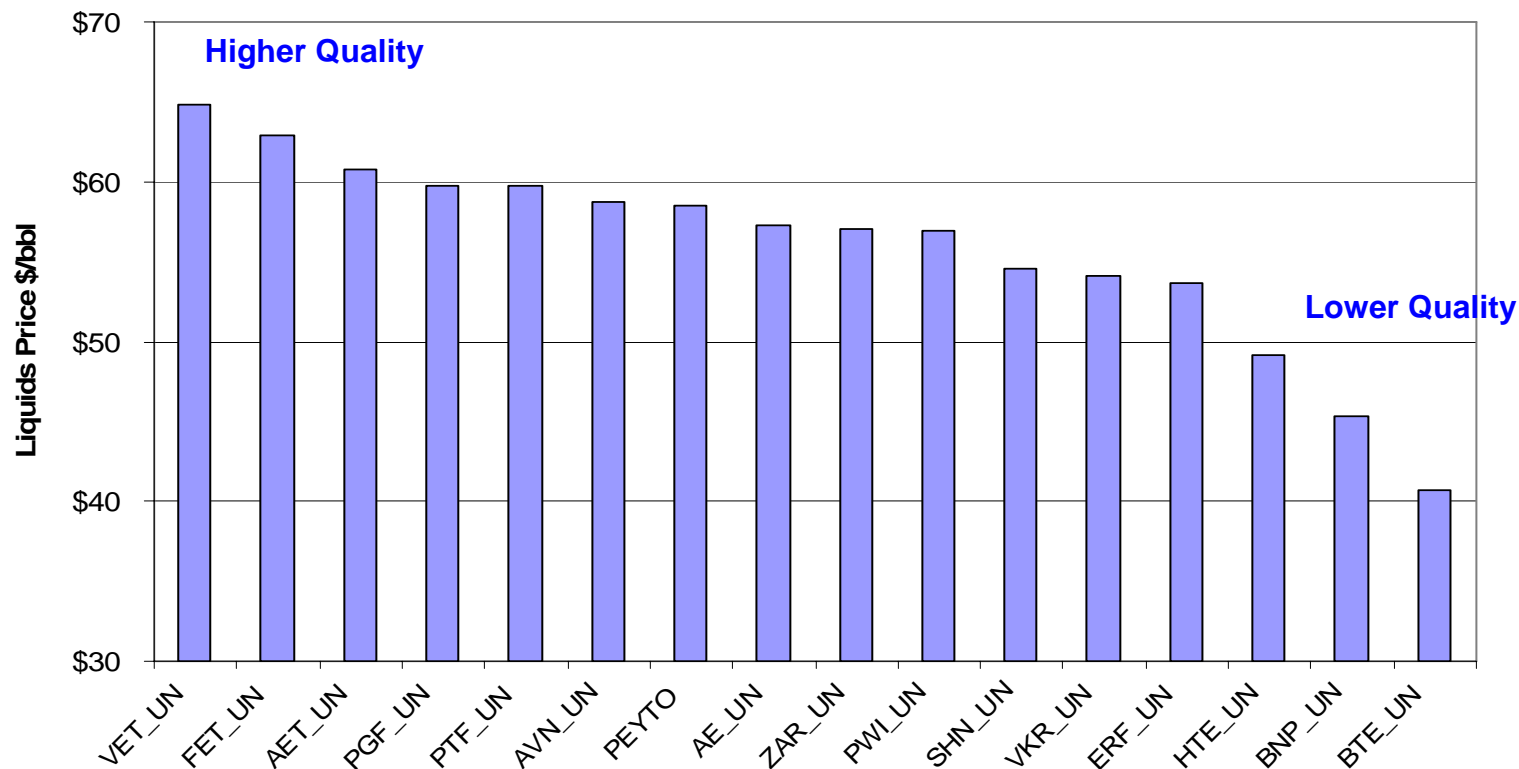
Gas Price (before hedging)  
Q1 to Q3 2005



# Sustainability, Assets, Commodity Quality, Liquids



Liquids Price (before hedging)  
Q1 to Q3 2005



# Sustainability, *Business*



Recycle Ratio – the higher the netback is relative to the cost of finding and developing new reserves the more sustainable and valuable the business

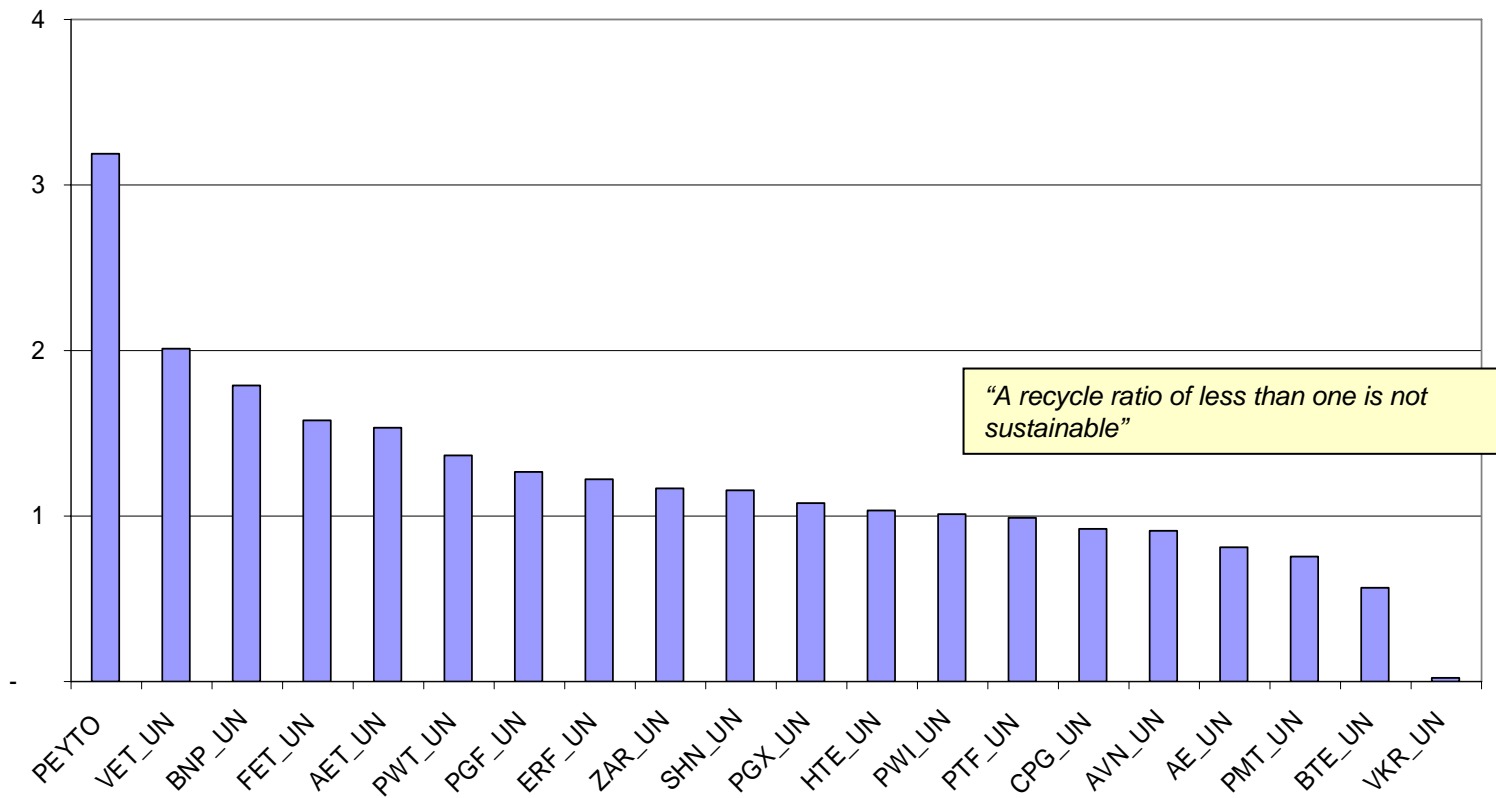
Capital Investments – if your business can generate competitive returns on capital, the more you can invest the more sustainable and valuable the business is

Strategy – the more elements of your strategy you can control the more sustainable your business will be

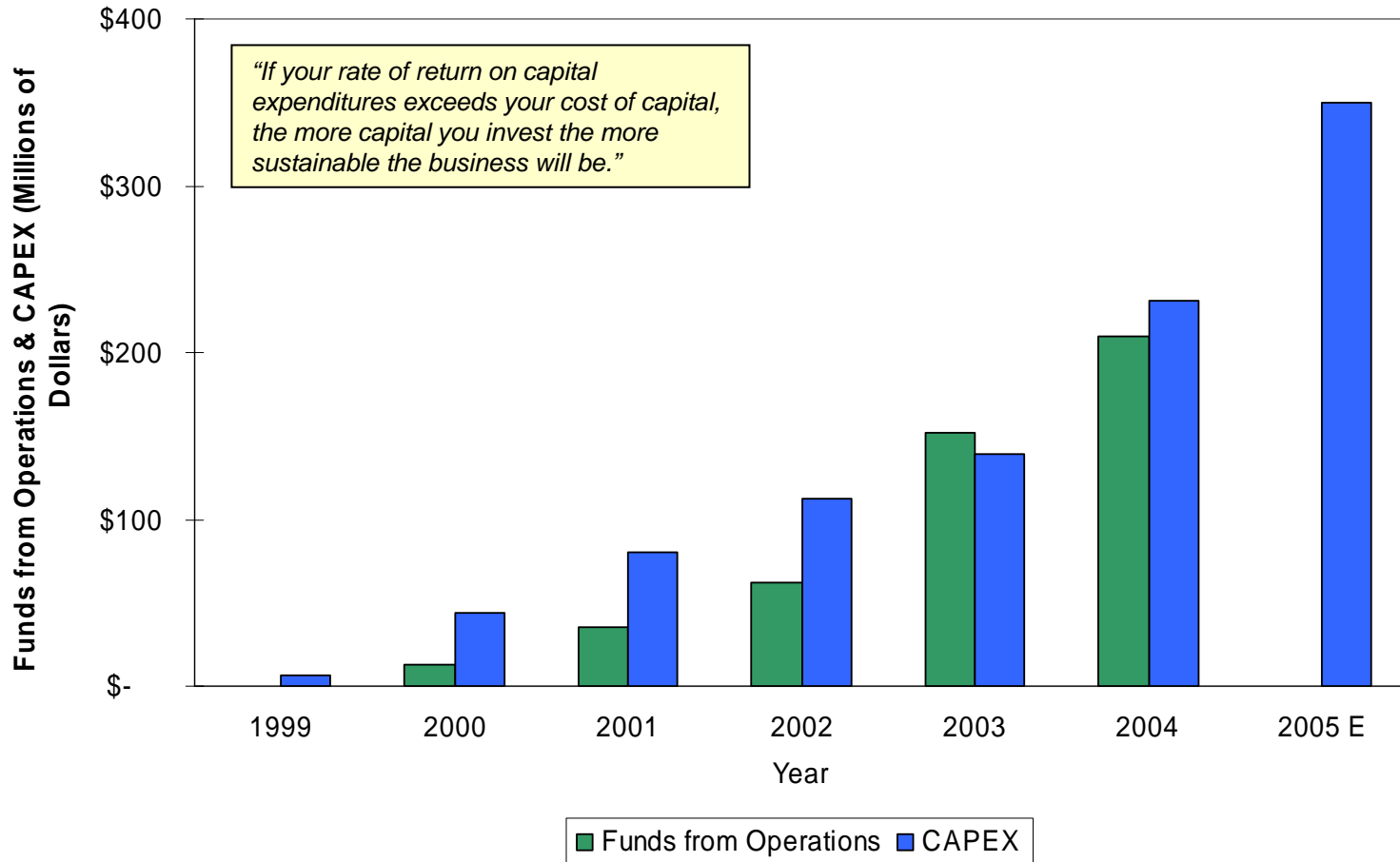
# Sustainability, *Business, Recycle Ratio*



## 2004 Proven Producing Recycle Ratio



# Sustainability, Business, Capital Expenditures vs. Funds from Operations



Management uses funds from operations to analyze operating performance. In order to facilitate comparative analysis funds from operations is defined throughout this report as earnings before bonus, non-cash and non-recurring expenses. As presented, funds from operations does not have any standardized meaning prescribed by Canadian GAAP.

# Sustainability,

*Business Strategy, Drill/Build*



Utilize the best engineering and geological expertise to generate capital investments that lead to the building of an oil and gas asset. If executed correctly this strategy offers the highest returns and the most control over your destiny.

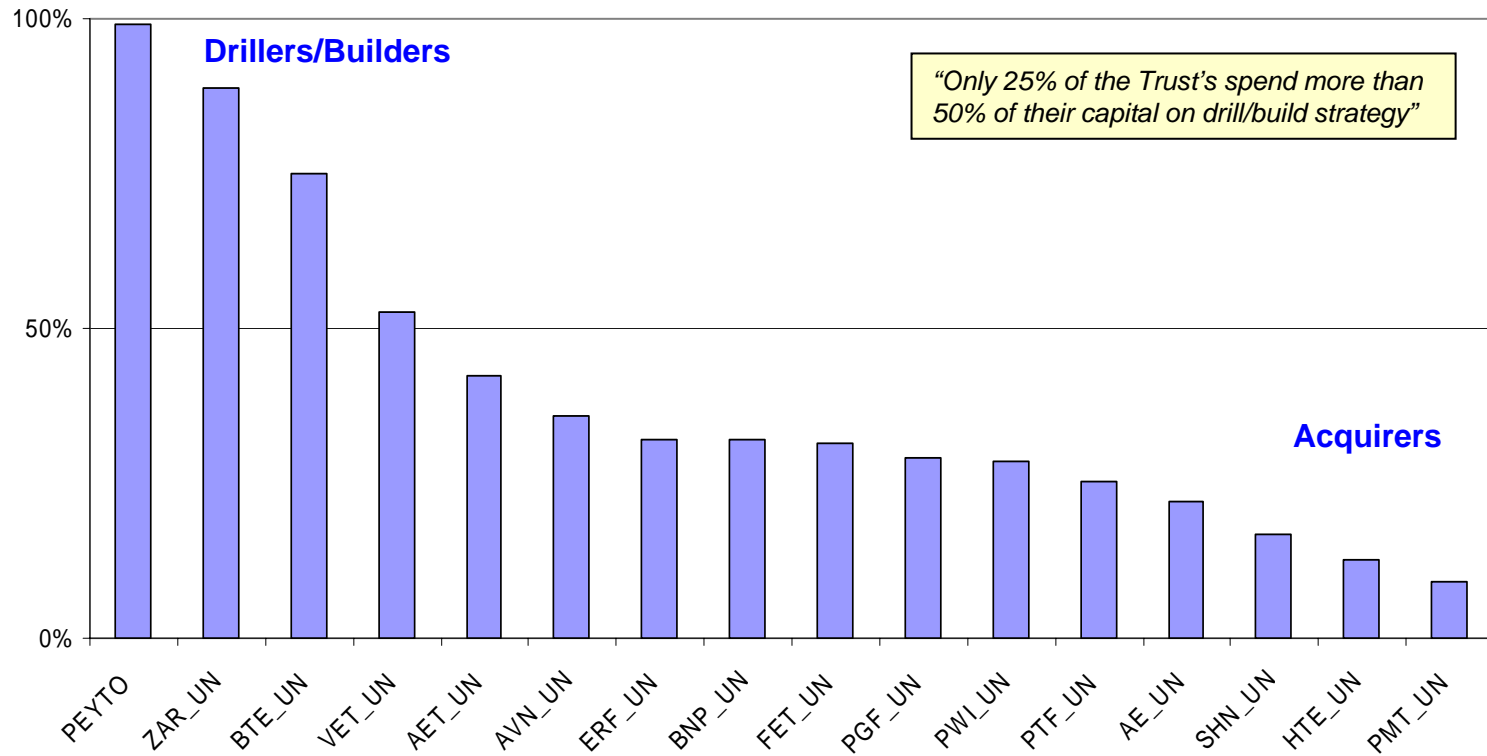
Expansion requires tight alignment with performance and compensation and also requires responsibility for investment decisions to be de-centralized from the upper management.

Peyto is proof that this strategy works. We have built a long reserve life asset with very low operating costs, while delivering one of the highest long term returns in the energy sector. Our growth has never relied on acquisitions.

# Sustainability, Business Strategy, Drill/Build % of Capital Expenditures



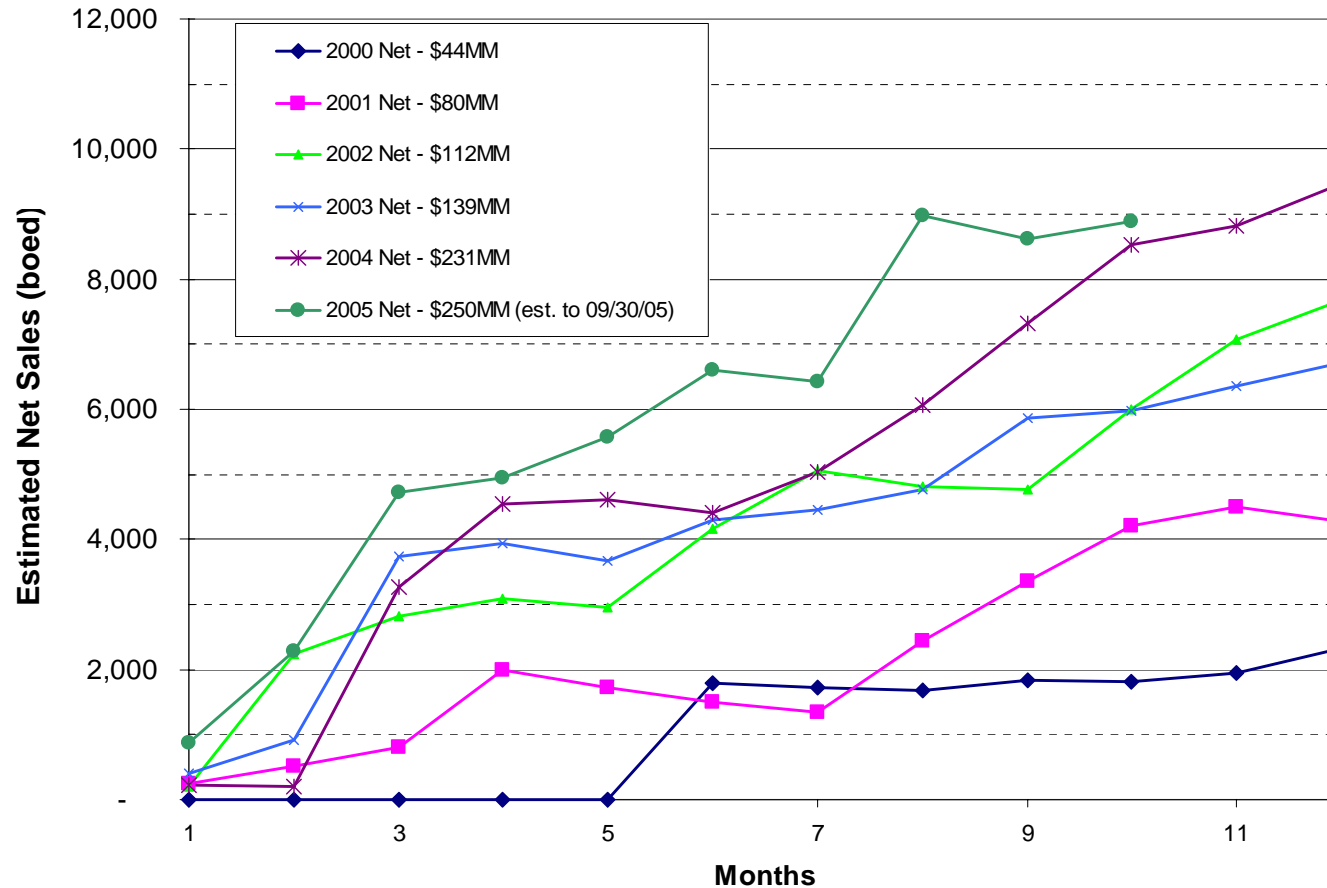
Drill/Build % of Capital Expenditures  
Q1 2003 to Q3 2005



# Sustainability, Business Strategy, A History of Building Value



Yearly Production Profiles



*"Since we founded Peyto in 1998, we have been a consistent leader in the Canadian energy sector in profitability, growth and return on investment. Our track record of finding and developing high quality reserves is proof that our business strategy works."*

# Sustainability, *Business Strategy, Acquire*



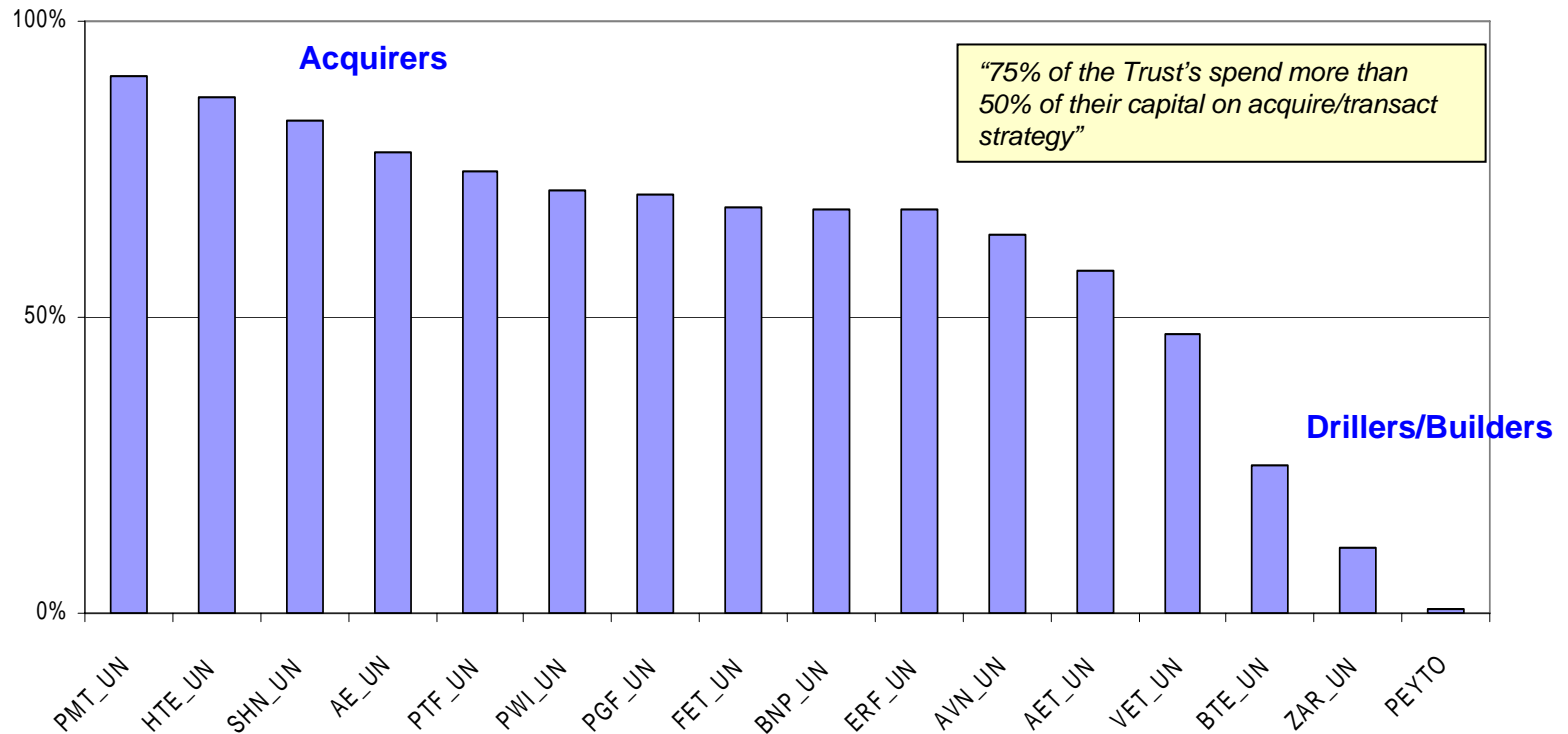
Acquire/Transact – In most cases, utilize financial engineering to purchase a developed oil and gas asset. In general shorter reserve life trusts will trade at the greatest premium and thus, will have the lowest cost of capital and a financial advantage utilizing this strategy. The drawback is that you can't make a banquet out of someone else's leftovers.

Typically implemented where investment decisions have been concentrated at the upper management level.

# Sustainability, Business Strategy, Acquire/Transact % of Capital Expenditures



Acquire/Transact % of Capital Expenditures  
Q1 2003 to Q3 2005



# Sustainability,

*Why say you are sustainable?*

A growing or sustainable business is worth more than a depleting business.

As with the early 80's in the U.S., many Canadian energy trusts try to create the illusion of sustainability in order to increase their valuation

Describing the distributions as “yield” would be like telling bank customers that all cash withdrawals from their own account were interest payments. It was simply false.

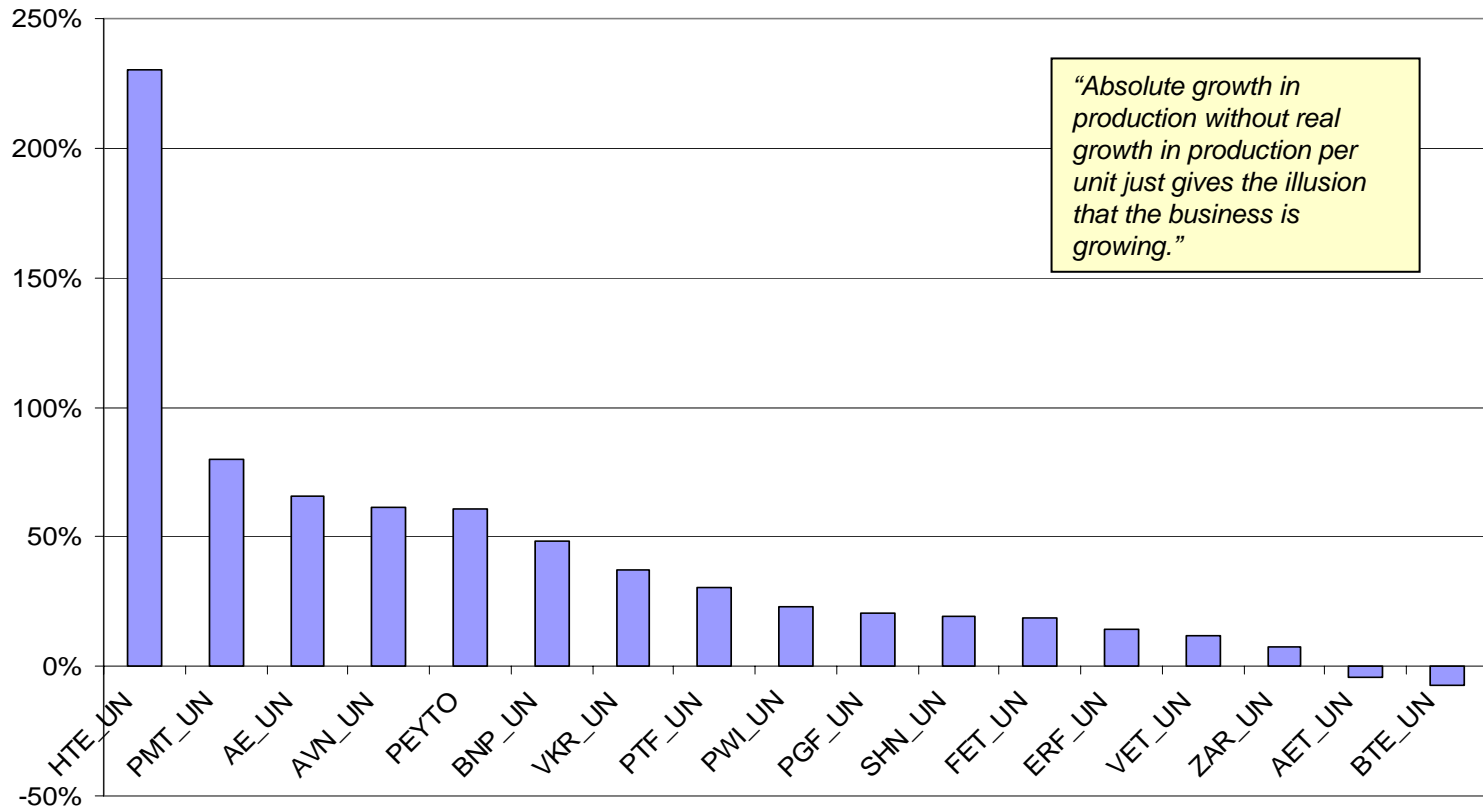
“Calling this ‘yield’ does not tell the whole story,” Gilman answered. “It would be very misleading.”

Taken from the book “Serpent on the Rock” by Kurt Eichenwald

# Sustainability, Two Year Production Growth, Absolute

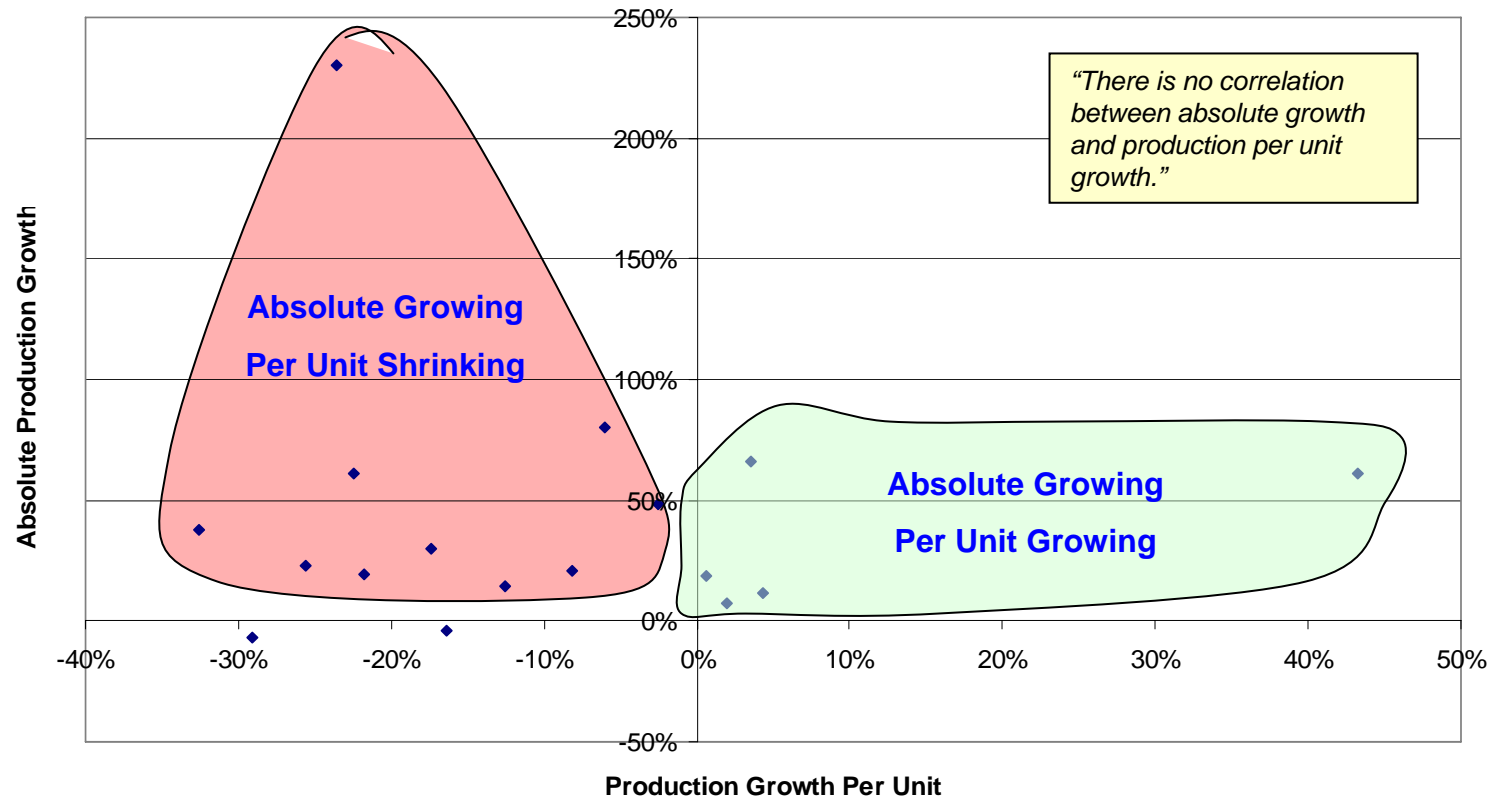


Q3 2003 to Q3 2005 Production Growth, Absolute



# Sustainability, Absolute Production Growth vs Per Unit Growth?

Q3 2003 to Q3 2005 Production Growth, Absolute vs Per Unit



# Sustainability, *What to look for?*



Present Value growth per unit, independent of commodity prices, preferably proven producing value.

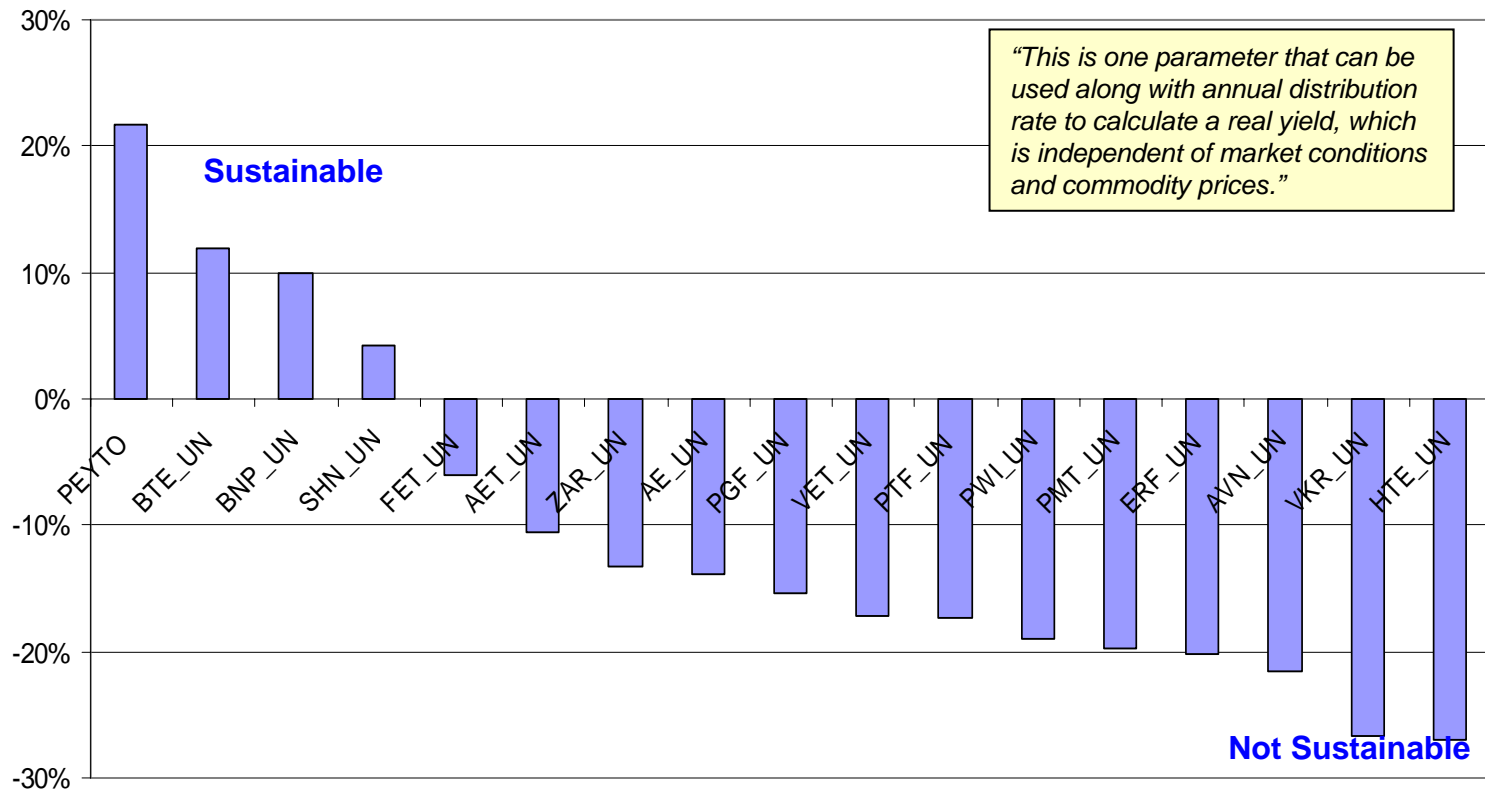
Value growth per unit can result from a combination of production and reserve growth and cost reductions.

Long term trends. Change in leverage. Change in operating costs. A few quarters will not tell the whole story.

# Sustainability, Trends, Value Growth Per Unit



2004 Change in Debt Adjusted Proven NPV Per Unit



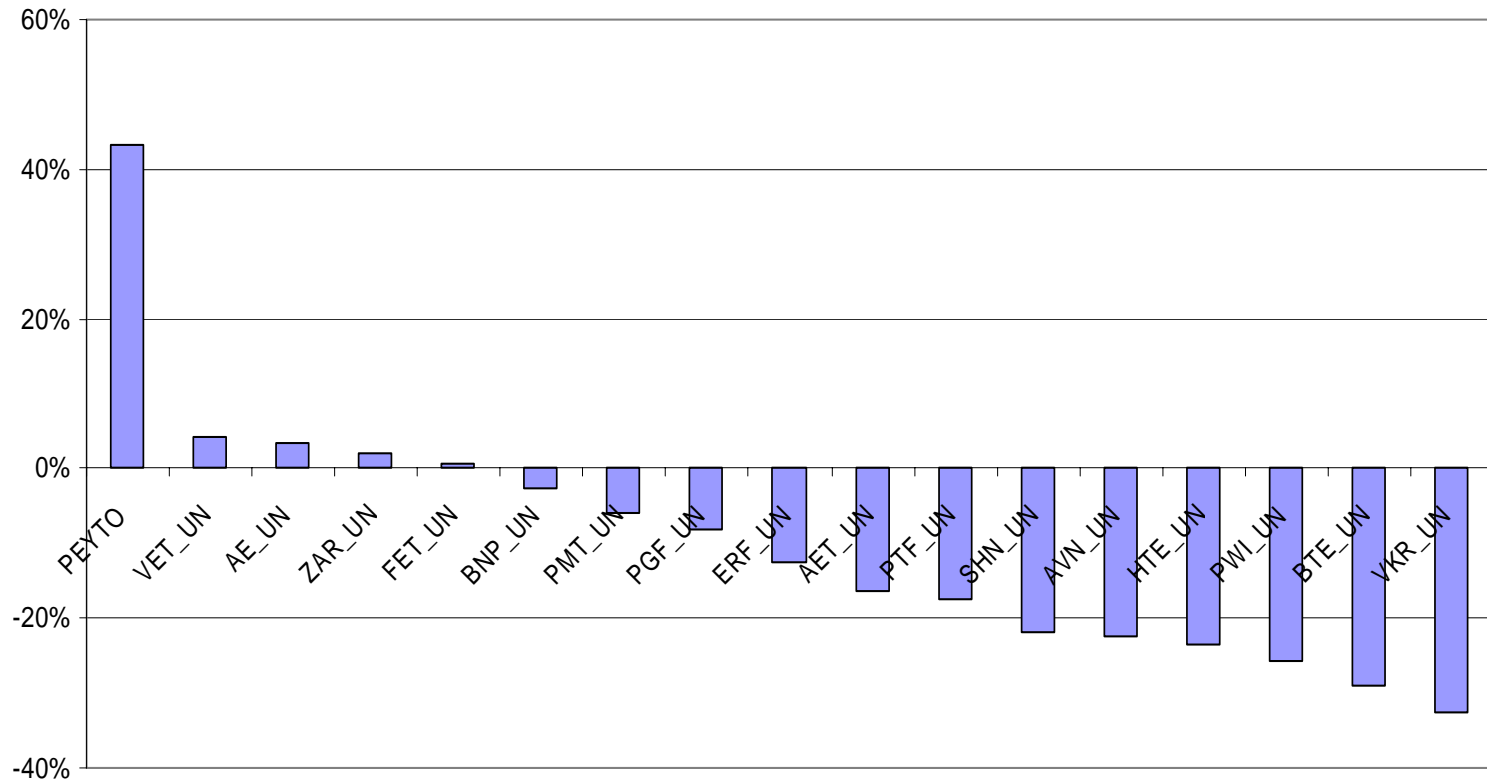
Change in Proven NPV is calculated using the change in Proven NPV discounted at 10% after adjusting for debt and changes in commodity prices and costs

Per Unit numbers include exchangeable shares and convertible debentures

# Sustainability, Trends, Production Growth Per Unit



Q3 2003 to Q3 2005 Production Growth Per Unit



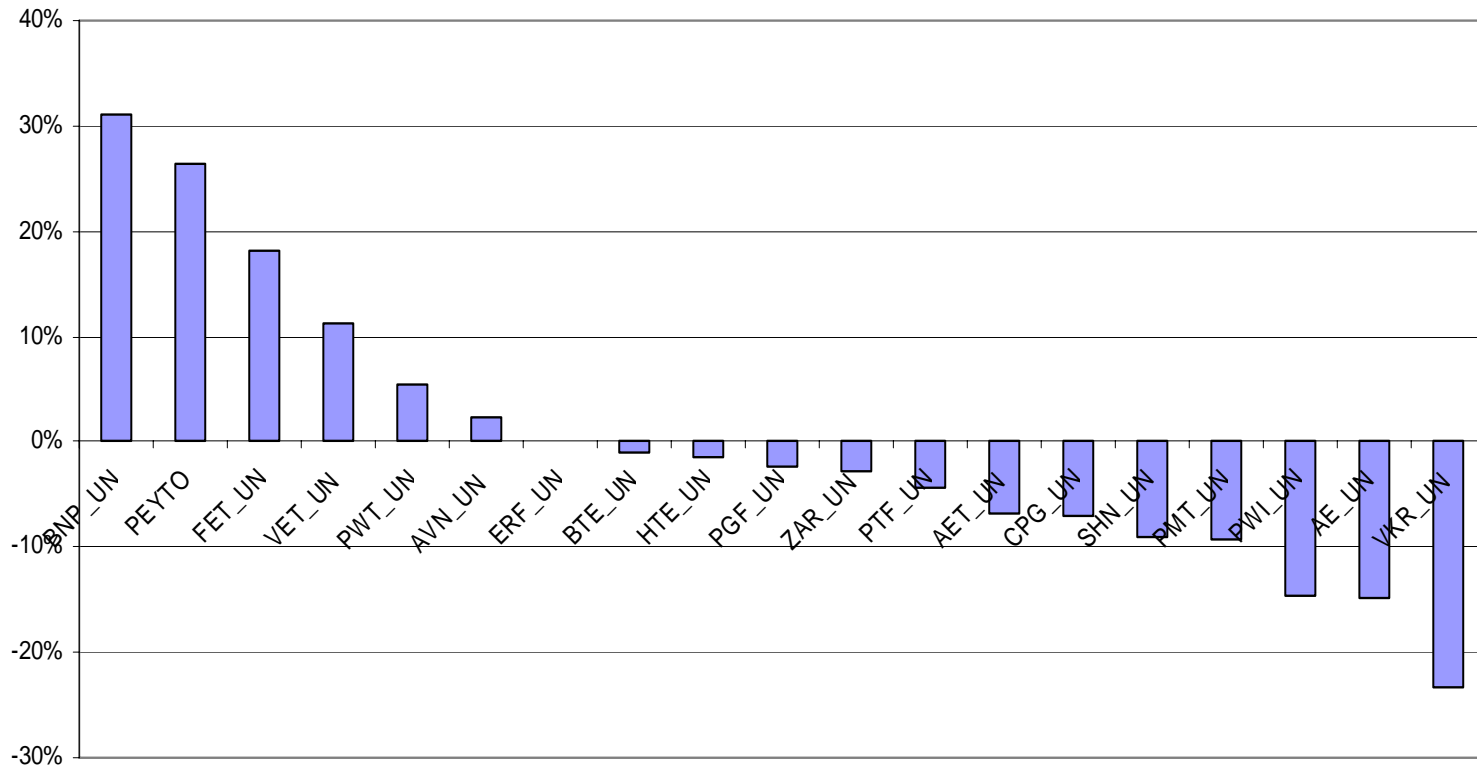
Per Unit numbers include exchangeable shares and convertible debentures

# Sustainability,

## *Trends, Proven Producing Reserve Growth Per Unit*



**2004 Proved Producing Reserve Growth Per Unit**

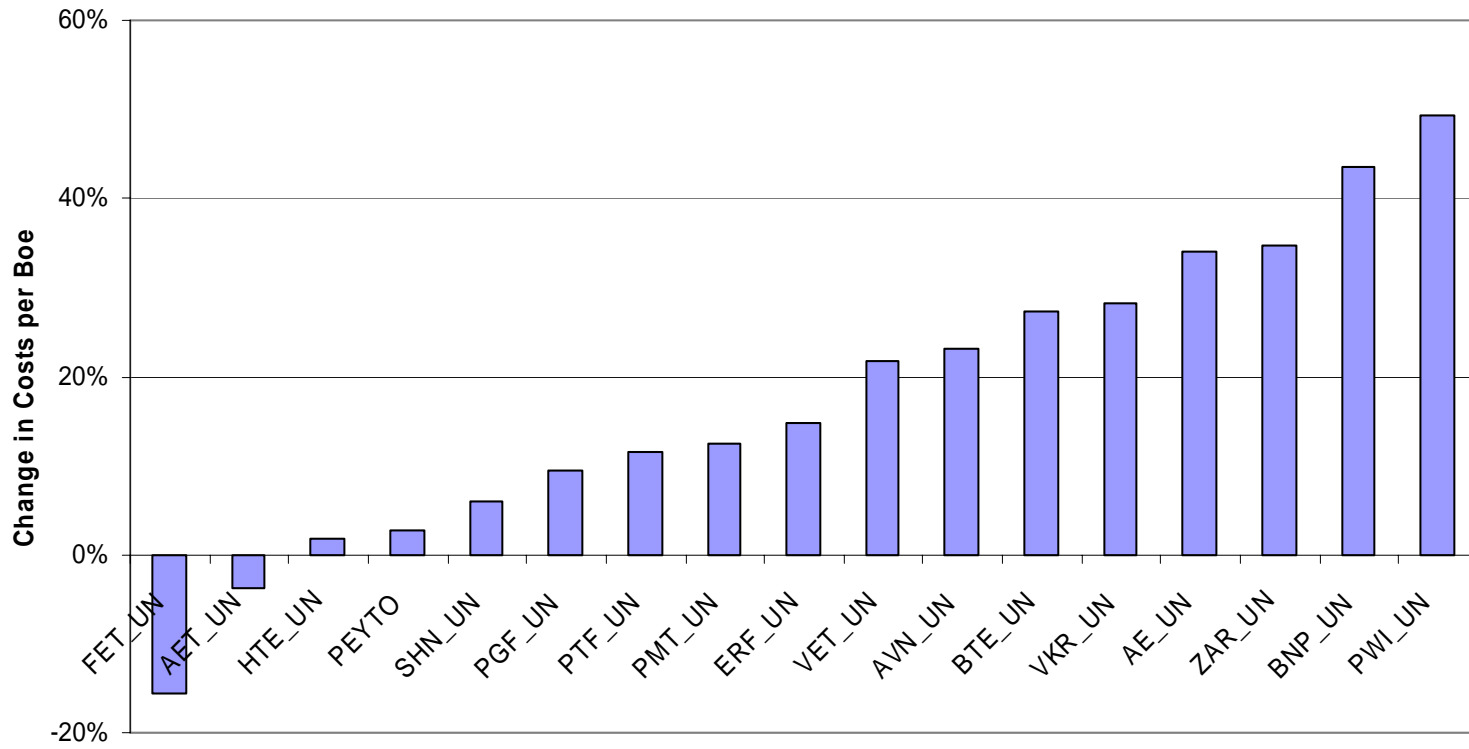


*Per Unit numbers include exchangeable shares and convertible debentures*

# Sustainability, Trends, Operating Costs



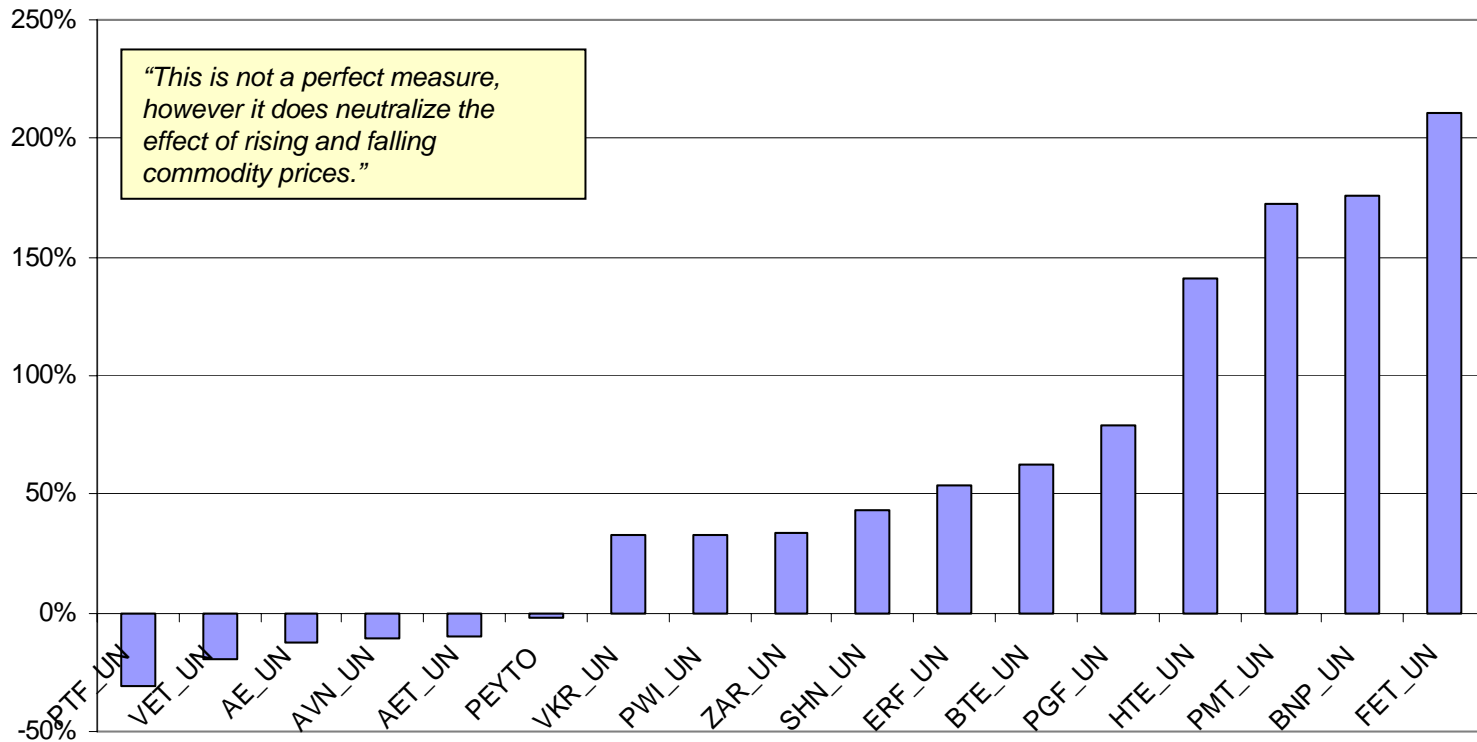
Change in Operating Cost per Boe  
Q3 2003 to Q3 2005



# Sustainability, Trend, Change in Leverage



**Change in Debt per Flowing Boe  
Q3 2003 to Q3 2005**



Debt per flowing boe is calculated by dividing the net debt (excluding hedging liabilities and future compensation) by the average production for the stated period

# Sustainability, *Payout Ratio*



If payout ratio was based on what was required to keep the value flat, than it would be a meaningful parameter to compare.

Companies which lose money on their investments would be more sustainable with a higher payout ratio.

Companies that make money on their investments would be more sustainable with a lower payout ratio.

For some trusts a higher payout ratio might in fact be the right strategy for maximizing value.

# Sustainability



- Strong Asset = More Sustainable
- Successful Business Strategy = More Sustainable
- At Peyto We Believe We Have Both