

PEYTO Energy Trust

President's Monthly Report

July 2008

From the desk of Darren Gee, President & CEO

The term "LNG" or "Liquefied Natural Gas" has only been on the tip of the tongue of North American gas producers for the past couple of years. Before that, natural gas prices in North America were determined by domestic supply and demand, with the most influencing factor being weather. In the span of just a few years, LNG has globalized natural gas pricing so that weather in Europe and supply outages in Algeria are directly affecting prices here. Natural gas futures prices in Europe for Q1 2009 are now over \$21/MMBTu (\$19/GJ), more than \$7/MMBTu greater than North American (Henry Hub). Since North American demand exceeds supply, the price of natural gas here has been rising dramatically (and needs to rise further) in an attempt to attract some of those European bound LNG cargos. This has also caused the longer term price for natural gas (5 yrs out) to rise to record levels, over \$9.50/GJ.

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

2008 Capital Summary (millions\$ CND)*

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Land & Seismic	0	0	0	1	0	0		
Drilling	6	5	6	17	1	1		
Completions	2	3	4	9	2	0		
Tie ins	1	2	3	5	1	0		
Facilities	0	0	0	0	0	0		
Other	0	0	0	0	0	0		
Total	10	10	13	33	3	2		

*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

2007/2008 Production ('000 boe/d)*

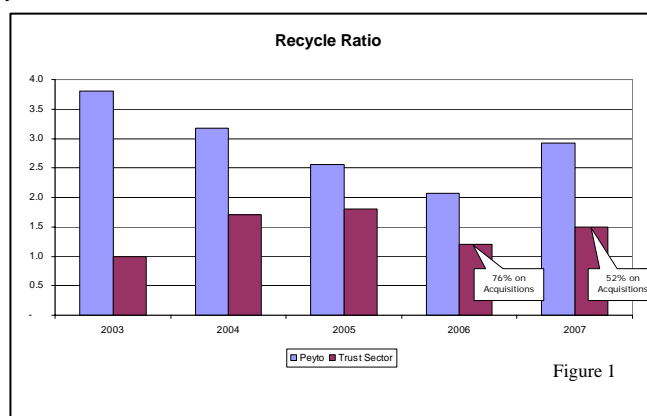
	Apr	May	June	Q2 07	Q3 07	Q4 07	Q1 08	Apr	May	June
Sundance	16.9	16.3	15.8	16.3	16.0	16.8	16.4	16.3	16.0	15.6
Kakwa	2.3	2.2	2.1	2.2	2.0	2.7	2.6	2.5	2.3	2.2
Other	2.2	2.1	2.0	2.1	1.8	1.4	1.4	1.4	1.2	1.2
Total	21.3	20.5	19.9	20.5	19.8	20.9	20.4	20.2	19.5	19.0

*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.

Acquire or Build?

An industry analyst recently asked me – "why not consider investing excess cashflow into acquisitions if additional drilling prospects are not ready to go or need to wait on refinement?" My response was that acquisitions have historically cost much more and delivered far less return than organic exploration and development. Just compare Peyto's "all organic" profitability to that of the trust sector average

which focuses primarily on acquisitions. Recycle ratio, as a measure of that profitability, is the cash generated from the sale of a barrel of reserves over the cost to find, develop and/or acquire that same barrel. Figure 1, compares Peyto's recycle ratio for Proved Producing reserves over the last five years with that of the trust sector.



Peyto has averaged a recycle ratio of 2.9 times while the rest of the trust sector, primarily involved in acquisitions, has averaged 1.4 times.

Coincidentally, at current trust unit prices, we could buy back our units, and in effect acquire our own reserves, at a proved producing "investor recycle ratio" of 1.4 times.

That exercise is illustrated below.

a. Units Outstanding, millions	105.9
b. Unit Price	\$21.50
c. Net Debt, \$ millions (Q1 2008)	\$460
d. Enterprise Value, \$millions (a*b+c)	\$2,737
e. PDP Reserves, mmoes (YE 2007)	99,226
f. Market F&D cost, \$/boe (d/e)	\$27.58
g. Q1 2008 Cash Netback, \$/boe	\$38.33
Investor Recycle Ratio (g/f)	1.4

Considering that the quality of Peyto's low risk reserves, with their low costs, high heat content and long life are far superior than the average acquired barrel, makes this prospect very attractive. Surprisingly, this investor recycle ratio of 1.4 is just as good as the average recycle ratio of the trust sector and far better than 1.0 times, which is what the typical trust's reserves are going for in the market (Figure 2 shows the investor recycle ratio as at December 31, 2007 using then current reserves, enterprise value, and q4 2007 netbacks).

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2007 Investor Recycle Ratio

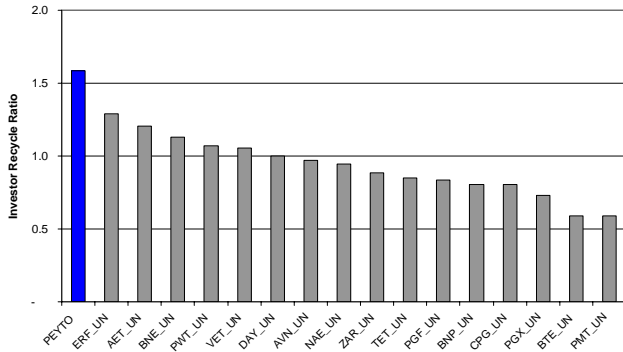


Figure 2

What makes this buy back argument even more compelling is that the cash netback of \$38/boe in Q1 2008 doesn't reflect the recent improvement in natural gas prices. The average monthly AECO price for the first quarter of 2008 was \$6.76/GJ while the average for the second quarter of 2008 was \$8.86/GJ, up a whopping 31%. That means current netbacks could be as much as \$10-\$12 more, driving the investor recycle ratio closer to 2.0 times.

But what about the upside? Most acquisitions are motivated by the upside drilling potential, or at least that's what we're told. That upside should show up if we look at the recycle ratio for proved plus probable additional; the probable additional being the upside. The average P+P recycle ratio for the trust sector in 2007 was 2.3 times including the "acquired upside", whereas Peyto was 4.0 times including our "organic upside". The P+P *investor recycle ratio* for Peyto units, by comparison, is currently 2.3 times (\$2.7B Enterprise value divided by 165 mmoes P+P, against \$38/boe netbacks), just as attractive for the investor as what the average trust's business is delivering.

Paying too much for a developed asset just to get your hands on some drilling inventory doesn't seem logical to me. It ties up significant capital and doesn't create any incremental reserves or production. Whereas patiently pursuing the upside and development of undrilled resources thereby creating incremental production and reserves delivers much greater returns. Failing that, one can buy back into the existing producing reserves and upside of Peyto for an equivalent efficiency of most trusts with all the upside of high quality, long life natural gas assets.

Activity Levels and Commodity Prices

Spring breakup is over and we are back in the field with all 5 scheduled drilling rigs at work. Connection of the new wells by the end of July should offset the production decline over breakup.

There have been numerous industry announcements of increased capital spending, however, we have yet to see drilling utilization in western Canada increase dramatically; especially in Alberta, with the hangover of increased royalties (see Figure 3). The result is that service costs are remaining at levels that support our investment criteria.

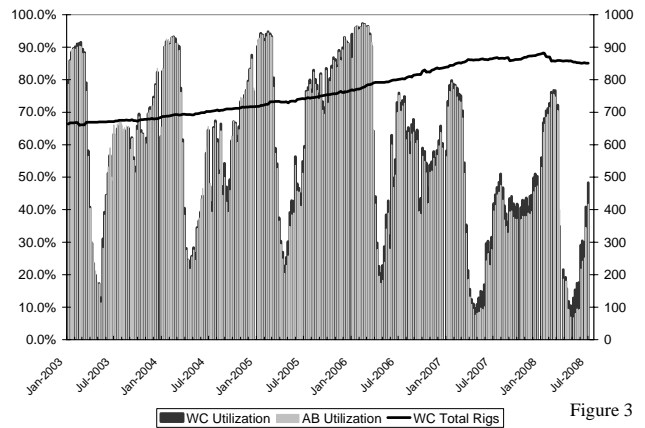


Figure 3

Natural gas prices for this summer and next winter look very good and yet are still trading at half of the equivalent of oil. More importantly, the longer term price offered for natural gas (5 yrs out Nov12-Oct13) is now 25% higher at \$9.70/GJ.

FIXED PRICE & BASIS SWAPS				NYMEX & Basis in US/mmbtu, AECO flat in CAD/GJ			
	NYMEX	AECO	Basis	NYMEX	AECO	Basis	
Aug08-Oct08	\$13.57	\$11.52	(1.66)	Nov08-Oct09	\$12.07	\$11.26	(1.25)
Nov08-Mar09	\$14.21	\$12.35	(1.45)	Nov09-Oct10	\$11.51	\$10.27	(0.93)
Apr09-Oct09	\$11.90	\$10.47	(1.10)	Nov10-Oct11	\$10.86	\$9.71	(0.84)
Nov09-Mar10	\$12.64	\$11.29	(1.00)	Nov11-Oct12	\$10.74	\$9.60	(0.78)
Apr10-Oct10	\$10.68	\$9.52	(0.87)	Nov12-Oct13	\$10.85	\$9.70	(0.76)

This is very interesting as the long term price is not nearly as volatile as the short term price (see Figure 4). For the last 3 years or so, the longer term price has traded within the \$7 to \$8 range, despite short term swings from \$4.50 to \$12.

AECO Long vs Short Term Gas Prices

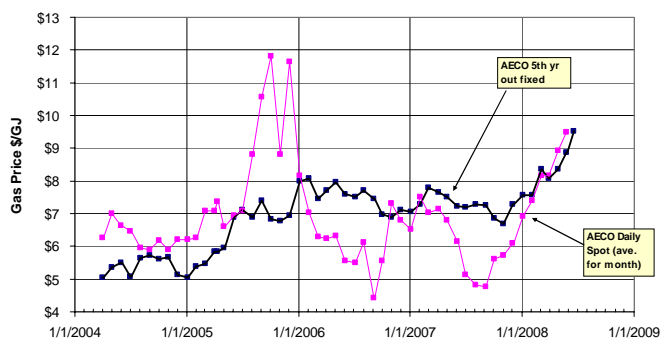


Figure 4

This evidence leads me to believe we may be moving to a new floor for natural gas in North America.