

PEYTO Energy Trust

President's Monthly Report

December 2006

From the desk of Darren Gee, President

Welcome! This is the first of many monthly reports to update Unitholders on the ongoing execution of Peyto's business strategy. That strategy is quite simple: profitably "design, drill and build" our own producing gas assets to further increase per unit value. The goal of this report is to provide greater understanding of our assets as well as "real time" insight into the management of the business throughout the year.

We will provide an estimate of monthly capital spending starting with October 2006 as well as our field estimate of production for the most recent month of November. We will base these estimates on real field data, not forecasts; however the actual numbers when reported will vary from these estimates due to accruals and adjustments. In addition, comments on commodity outlook, industry activity and our ongoing operation should help to frame our discussion of where Peyto is today and where we are going.

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	22
Drilling	67	30	8	9	12	29	7			7	133
Completions	34	22	11	6	6	23	4			4	83
Tie ins	16	7	3	2	4	9	2			2	34
Facilities	12	4	5	3	1	9	1			1	25
Other	0	0	0	0	0	0	0			0	0
Total	145	67	27	22	22	71	14			14	298

*This is an estimate based on real field data, not a forecast, however the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material.

Production

2006 Production ('000 boe/d)

	Q1	Q2	Jul	Aug	Sept	Q3	Oct	Nov	Dec	Q4
Sundance	17.7	17.8	18.7	18.4	18.0	18.4	18.5	17.8		18.1
Kakwa	3.3	3.0	2.9	2.7	2.5	2.7	2.3	2.3		2.3
Other	1.6	2.1	2.2	2.1	2.2	2.2	2.1	2.4		2.2
Total	22.6	22.9	23.8	23.3	22.7	23.3	22.9	22.5		22.7

*This is an estimate based on real field data, not a forecast, however the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material.

Tight Gas Valuation, Understanding the Difference

As any oil and gas evaluation engineer will tell you there are a few specific pieces of information that are required to value an oil or gas asset. These include: reserves (and a forecast of their production), costs (both royalty and operating expenses), and prices. Obviously, different types of assets have varying attributes and much different values.

Figure 1 demonstrates the compound annual growth rate (CAGR) and ongoing performance of each year of tight gas

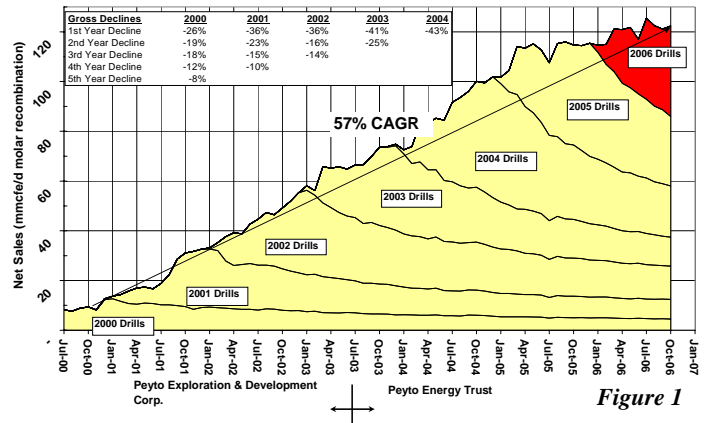


Figure 1

assets that have been built at Peyto. These yearly wedges of tight gas production can then be normalized, Figure 2, by on stream date in order to display the consistency and predictability of the production performance. As this display

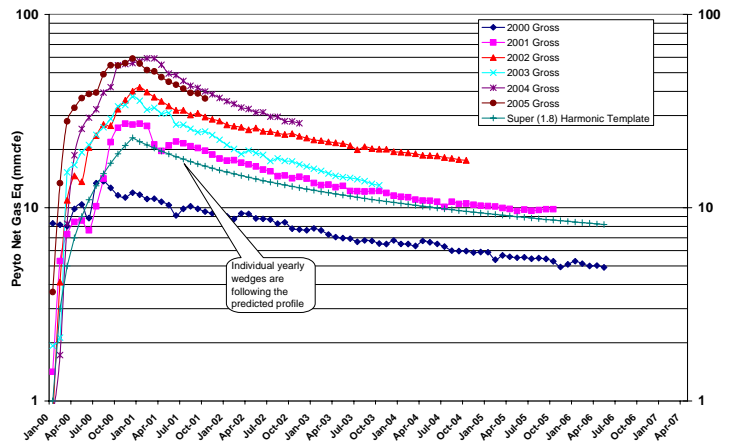


Figure 2

clearly demonstrates, each year of tight gas production is following the predictable template characterized by an ever shallowing decline or "super-harmonic" decline.

This decline, typical of tight gas reservoirs with very low matrix permeability, results in extremely long producing life and a significantly greater than average Reserve Life Index (RLI). Since Peyto is a 100% tight gas company, all of our assets exhibit this characteristic. We have no other asset in our basket to average this RLI down.

Figures 3 and 4 below compare the economic impact of this "super-harmonic" producing profile to a more conventional,

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higher permeability reservoir with exponential decline and shorter RLI.

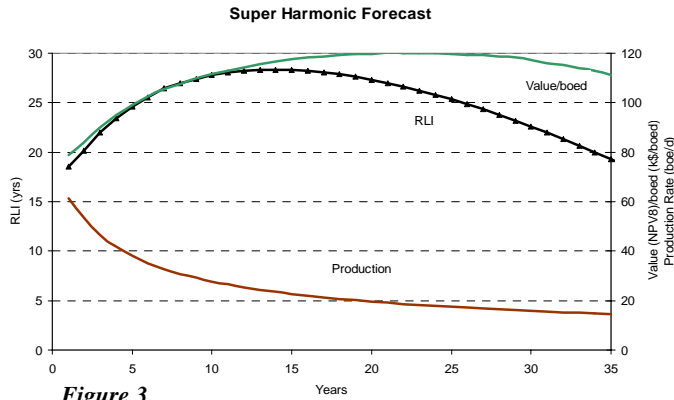


Figure 3

Applying a constant price forecast and operating cost profile to each case we can clearly see that not only does the tight gas asset exhibit a very long reserve life (up to 28 years), it also commands a "premium valuation" on a metric such as \$/flowing boe (\$120,000/boe/d vs \$75,000/boe/d at \$6/GJ constant gas price, AB royalties).

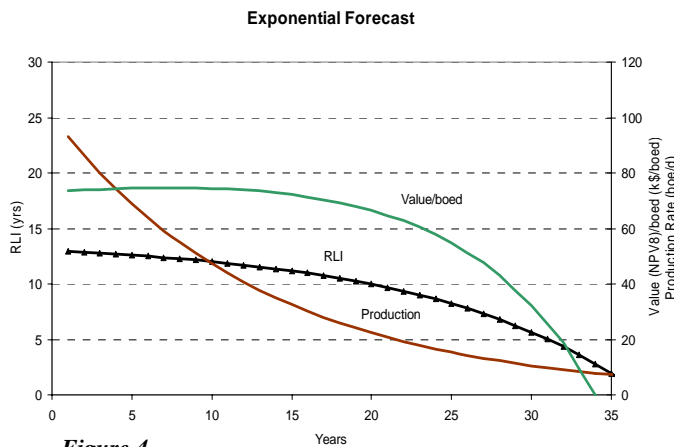


Figure 4

What is also unique about tight gas is that the Reserve Life Index and "value/flowing boe" increases for the first 20-30% of the life of a well. This is a result of both the unique production profile as well as the associated cost profiles (ie. royalty and operating costs). Early on, the tight gas well would be valued at 1.2 times the conventional gas well. While 20 years later, the tight gas well would be valued at close to twice that of the conventional well. This increasing value/flowing boe demonstrates how by holding production constant with additional development, the total asset value grows, or "flat production equals growing value."

Comparisons are often drawn between assets or companies using this \$/flowing boe metric. As illustrated here, without understanding the nature of the asset that is being measured, that parameter can vary significantly and can become more a case of comparing "gold to fool's gold."

Commodity Prices and Activity Levels

Shown below are two figures that indicate the current commodity prices and activity levels. Figure 5 shows the Edmonton Par price for crude oil and the AECO Monthly natural gas price as well as the ratio of the two.

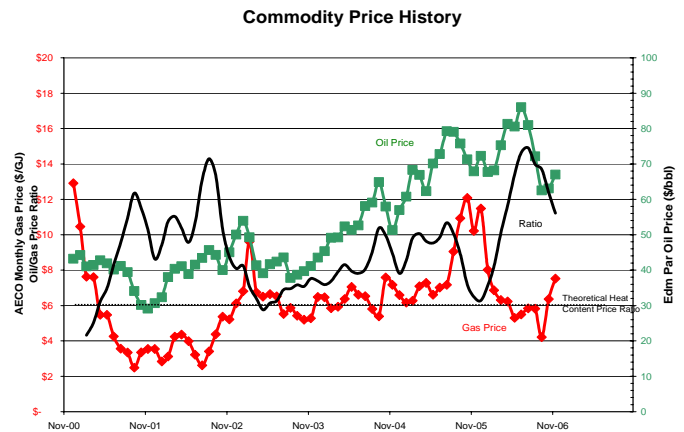


Figure 5

You can see from this comparison that natural gas prices have been more stable over the last couple of years (apart from a few short term weather related spikes) at approximately \$6-\$8/GJ while oil prices have climbed substantially from \$40/bbl to peak at \$85/bbl. I believe this \$6/GJ gas price is the new floor while significant upside exists as natural gas becomes a more competitive energy source long term.

I also believe that conventional oil production revenues, driven by this high oil price, have been predominantly re-invested into gas projects lately and that has contributed to service costs rising beyond practical levels for natural gas development. The most recent reduction in drilling rig utilization, as seen in Figure 6, is partly in response to that phenomenon.

Peyto's activity has slowed while we await the benefits of reduced industry activity levels in the form of reduced service costs.

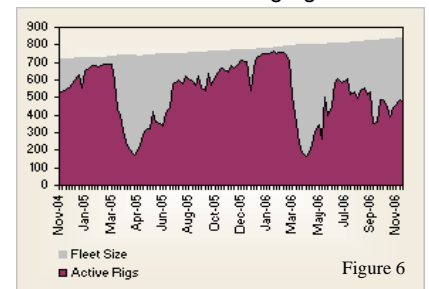


Figure 6