

PEYTO Energy Trust

President's Monthly Report

May 2007

From the desk of Darren Gee, President & CEO

Break up is now here and our activity is literally "stuck in the mud." Although, the first quarter's pace of activity was light in comparison to previous years, our investment success continues to improve. Service companies are beginning to recognize a sustained downturn in activity and are adjusting their prices accordingly to encourage increased investment. As a result, we are able to do more with the same level of capital spending. Although we are not anticipating that we will increase our capital spending in the second quarter, we expect that our dollars will go further, drilling more wells, completing more zones and connecting more production.

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

2006/2007 Capital Summary (millions\$ CND)*

	Oct	Nov	Dec	Q4	2006	Jan	Feb	Mar	Q1
Land & Seismic	0	0	0	1	22	0	0	0	1
Drilling	7	4	3	15	140	5	5	6	16
Completions	4	3	2	8	87	3	3	4	10
Tie ins	2	0	1	4	36	2	0	1	3
Facilities	1	0	1	1	26	0	1	0	1
Other	0	0	0	0	0	0	0	0	0
Total	14	8	7	29	312	10	9	11	30

*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			
Kakwa	2.4	2.1	2.2	2.2	2.3			
Other	2.4	2.3	2.1	2.3	2.2			
Total	21.7	21.5	21.2	21.4	21.3	-	-	-

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Understanding Cost Structure – The Real Deal

I often get asked, "Why are Peyto's barrels worth so much more in comparison to the rest of the energy trust sector?" Although the answer is multi faceted, it is critical to understanding Peyto's value and uniqueness. Much of the answer has to do with cost structure, or those costs that are subtracted from the revenue. These costs include, in relative importance, royalties, operating costs (inclusive of transportation), interest expense (plus all capital financing costs), and G&A or general and administrative expenses.

Alberta royalty advantage

Royalties in Alberta are paid on oil, gas and natural gas liquids production to either the Crown or Freehold royalty

owner. In Peyto's case, all of our royalties are paid to the Crown or Alberta Energy as we have no Freehold mineral leases. Gas royalties are paid on gas production and NGL or Natural Gas Liquid royalties are paid on the respective components (condensate, propane, butane, pentanes). Peyto takes advantage, with our deep basin gas wells, of incentives that exist to encourage both deeper gas exploration and low rate gas production. The deep gas royalty incentive, which was cancelled for leases sold after Sept 1, 2006, was replaced with a Deep Marginal Gas Well royalty incentive. Basically, wells drilled and produced from zones deeper than 2500m may be eligible for a period of reduced royalty as part of either program.

Low productivity royalty incentive exists to encourage lower rate wells to remain on production and prevent the premature shut in of these gas wells due to rising operating costs per unit. Figure 1 shows the sliding scale relationship between production and royalty rates. You can see that above 600 mcf/d the low productivity incentive no longer applies.

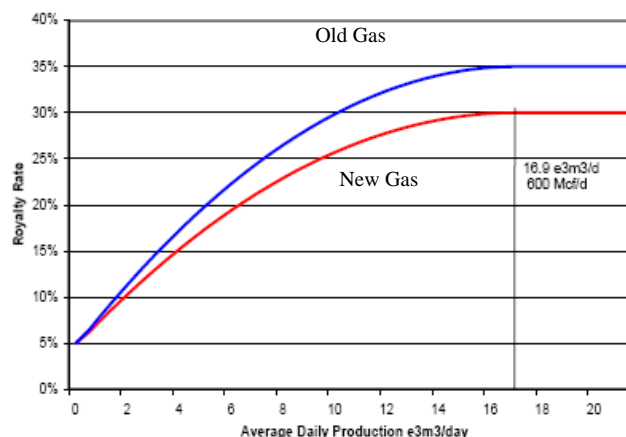


Figure 1

For a typical Peyto tight gas well, much of the producing life of the well is eligible for this lower royalty rate. In fact, because of the sharp initial decline in production, the royalty rate falls faster for the first 20 or so years of producing life than the operating costs climb. This has the unique effect of increasing the remaining NPV per flowing boe.

Despite the fact that Peyto has continued to add new flush production every year, the aggregate royalty rate has steadily declined. Figure 2 shows the gas royalties, as a percentage of volume, continuously declining at a rate of approximately 0.75%/year.

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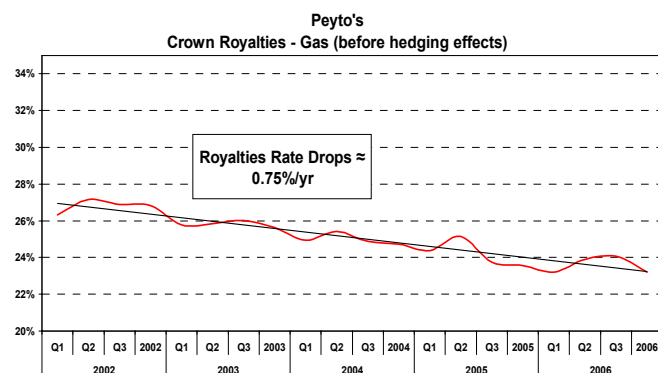


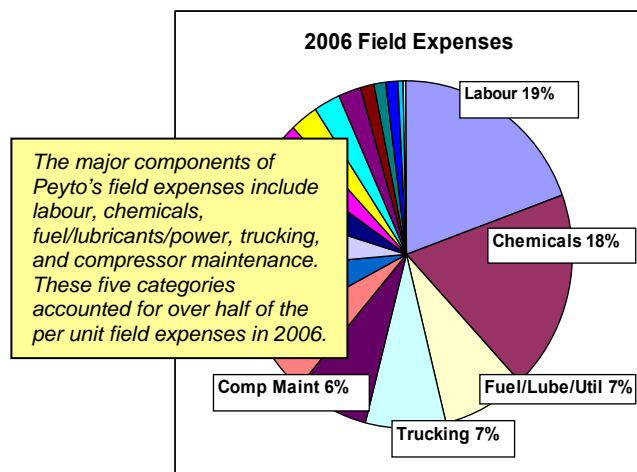
Figure 2

Operating costs – how low is low

Operating costs are typically those expenses incurred with respect to day to day well and facility related operations.

Year	Field Expenses (\$/boe)	Transportation (\$/boe)	Processing Income (\$/boe)	Operating Costs (\$/boe)
2002	\$ 1.45	\$ 0.58	\$ (0.66)	\$ 1.37
2003	\$ 1.99	\$ 0.56	\$ (0.69)	\$ 1.86
2004	\$ 1.78	\$ 0.70	\$ (0.73)	\$ 1.75
2005	\$ 2.17	\$ 0.68	\$ (0.62)	\$ 2.23
2006	\$ 3.08	\$ 0.58	\$ (0.92)	\$ 2.74

At Peyto, we have always included the offsetting processing revenue (generated with our facilities or pipelines) and sales transportation in our total operating costs.



By any comparison, Peyto's operating costs are extremely low. "But why?" you ask. As we have stated in the past, it is due to:

1. High level of ownership and operatorship.
2. Production is processed through Peyto owned and operated facilities.
3. New production with relatively high production per well.

But some companies have high working interest. Some maintain a high level of ownership and control of their production. Others still, own their own facilities and process their own production. And there are even those that have developed new production with relatively high production per well. So how does Peyto still achieve such incredibly low operating costs?

Q4 2006 Operating Costs

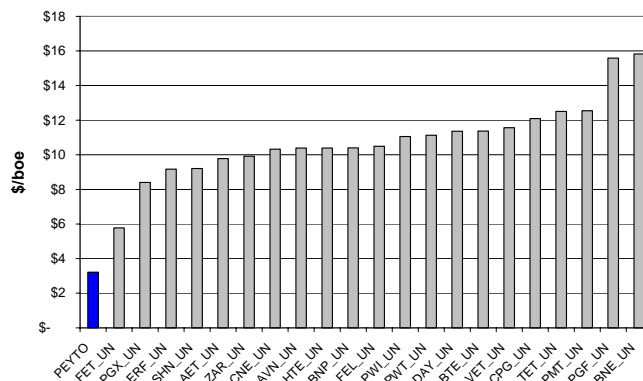


Figure 3

Part of the answer is because we have endeavored to combine all of the above attributes. It is the natural result of building your assets from scratch as opposed to buying them. It is also, quite simply, because we only produce natural gas. Natural gas, generally, has lower lifting costs than oil and much lower than heavy oil (especially when you consider the upgrading costs). Lastly, it is the type of natural gas that we produce. We produce sweet gas which has no hydrogen sulfide and low carbon dioxide content which does not require extensive processing prior to sale. This sweet gas also comes from such low permeability reservoirs that water cannot physically flow through them. As a result there is little to no risk or costs associated with producing, handling and disposing produced water.

Result is a premium netback

When combining the declining royalty, due to the low productivity and deep gas incentives, with these low operating costs, a premium netback results. Despite that

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operating costs on a per unit basis are rising as a result of declining production, and more recent inflationary pressure, the netback improves because the royalty rate is falling faster. As you can see in Figure 4, if we assume constant revenue of \$50/boe and using Peyto's actual royalty (before hedging) and operating cost percentages, the netback improves over time.

Revenue Breakdown

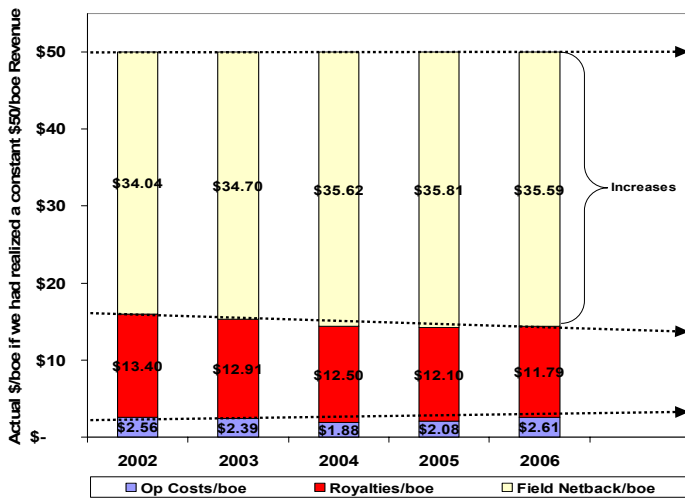


Figure 4

*The above figures only represent the Royalties, Operating Costs and Netbacks that would have been realized if the Revenue was a constant \$50/boe. These are not the actual reported figures.

Understanding these cost components and their respective impact on value is important in understanding Peyto's assets and uniqueness.

Commodity Prices and Activity Levels

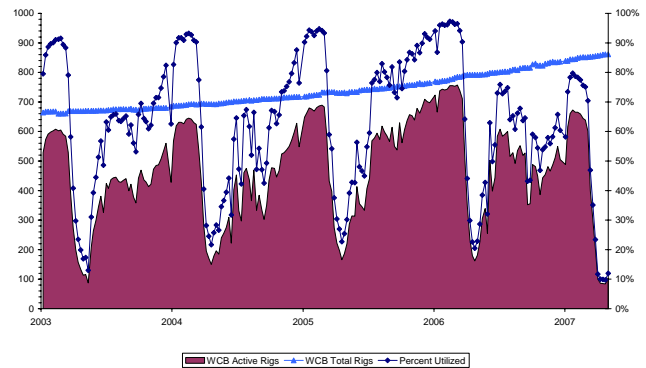
Natural gas prices are looking much firmer as we head into the shoulder season between winter heating and summer cooling.

Commodity Price History
8:1



Although a stronger Canadian dollar is not helping near term prices, the longer term continues to strengthen. We have continued to forward sell small portions of next winter's production, achieving prices above \$9/GJ.

Western Canada Drilling Rig Utilization



Activity levels continue to remain tempered, even for this time of year. Drilling rig utilization during breakup has not been this low since 2002. Speculation of continued reduced activity is bringing rig rates and all other associated costs down. We expect to see improved economics in the second quarter.