PEYTO Energy Trust

President's Monthly Report

April 2008 — From the desk of Darren Gee, President & CEO

There has been a very strong run in natural gas prices of late and as a result our hedges don't look so good today. Yet, the prices we secured for both this summer and next winter are second only to the great hurricane year of 2005. At that time, the longer term price (5 years out) was close to $8/GJ. Today we are basically at the same price, except for the exchange rate. This long term price improvement has a dramatic effect on the value of our reserves and, equally as important, would provides us with additional cash flow to fund an expanded capital program and deliver even greater future growth in the production and reserves that define our asset base. This new price movement begins to beg the question: "Are we moving to a new floor for natural gas price and are gas prices finally getting recognition for $100 oil?"

As far as hedging goes, in general, you should only forward sell what you know you'll be producing. It becomes very dangerous to commit short reserve life, unpredictable reserves to a future sale. What if they're gone by the time you get there? It is only with such a strong and predictable production base that we can continue to layer in future sales as prices rise. That being said, we've still only sold approximately 5% of our reserves, while the remainder is exposed to the future upside in natural gas prices.

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

2007/08 Capital Summary (millions$ CND)*

	Oct	Nov	Dec	Q4	2007	Jan	Feb	Mar	Q1
Land & Seismic	0	0	0	0	3	0	0		
Drilling	8	7	2	18	60	6	5		
Completions	3	5	4	12	37	2	3		
Tie ins	1	1	3	5	20	1	2		
Facilities	0	0	0	0	2	0	0		
Other	0	0	0	0	0	0	0		
Total	**13**	**14**	**10**	**36**	**122**	**10**	**10**		

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

2007/08 Production ('000 boe/d)*

	Oct	Nov	Dec	Q4	2007	Jan	Feb	Mar	Q1
Sundance	16.7	16.7	16.9	16.8	16.5	16.6	16.3	16.2	16.4
Kakwa	2.9	2.9	2.5	2.7	2.3	2.7	2.7	2.5	2.6
Other	1.5	1.4	1.3	1.4	1.9	1.3	1.4	1.4	1.4
Total	**21.0**	**21.0**	**20.7**	**20.9**	20.7	**20.6**	**20.4**	**20.1**	**20.4**

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Discount Factors – What's the Net Asset Value?

Now that our reserves have been independently evaluated and reported, I thought I would look at the sensitivity in the value of our assets relative to various pricing scenarios and from different perspectives. For instance, there are at least three different perspectives, which require different "cost of capital" assumptions, to determine "what's an asset's price?"

1. What you could get for it if you wanted to sell it?
2. What would you have to pay to buy it?
3. What is it worth if you hold the whole thing and have no intention to sell?

Assets for Sale

In many ways, what you can sell something for is the ultimate determinant of what it is worth. The only problem is, if the market is not in the buying mood, prices can understate values, while conversely, if the market is overheated, prices can overstate values. Often times there is also a difference between the price you can sell a small amount of assets for, versus the price you can sell a large amount of assets for.

If we look at the most recent sales of Energy Trusts with significant gas weightings (Focus, Primewest, Shinningbank) it appears that you can sell the entire asset base for a price in excess of the Net Present Value, debt adjusted, discounted at 5%. This implies the buyers are enjoying a very low cost of capital, or that there is somehow intrinsic value in the entire enterprise over the individual pieces. That's a tough argument considering that the people in those organizations who are responsible for the idea generation rarely go along with the sale.

Assets Wanted

What if you wanted to buy those same assets, in whole or in part? What would you have to pay? This consideration for "discount factors" has, perhaps, more to do with your investment choices than with the relative value of money over time. If you want to invest in hydrocarbon energy, either oil or natural gas or maybe coal, perhaps you do so as a hedge against your own energy cost. For that, very little inflation needs to be considered. Also, if you are making an investment, the discount factor might try to capture the relative risk of the investment by comparing, for example, the risk in a government bond versus a stock. Perhaps even, the investment is with borrowed money, which means there is a cost of capital that has to be overcome.

For someone wanting to buy oil and gas assets or shares/units in a company with oil and gas assets, the relative risk between producers should definitely be considered. A producer with more predictable recovery should deserve a lower "discount rate" than one with a higher

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risk of recovery. The recovery risk of reserves that are produced out of a tight gas reservoir, for instance, that will "bleed out" for more than 50 years, is significantly different from the risk of some high deliverability reservoir that is of unknown size and could water out tomorrow. Also, a producer with a lower and more controlled cost structure should deserve a lower discount factor than one with a higher uncontrolled cost structure.

Say, for example, you had valued shorter reserve life assets, 5 years ago, with a lower discount factor because the immediate commodity price was more predictable. There would be no reserves left to capture the recent run in commodity prices that we are experiencing today. Perhaps there is a risk one will undervalue the future cost of energy and over-discount long reserve life assets?

I believe it would be very misleading to suggest that all energy producers should be evaluated at the same discount factor if trying to incorporate all of these risks and yet often times, that is what is done in the investment community.

Bankers, when evaluating borrowing bases for oil and gas producers, have engineers on staff to assess the relative recovery risks, apply their own "conservative" commodity forecasts and look at individual company operating cost performance, all independent of discounting future cash flow for the time value of money. I would say this is a more prudent use of discount factors.

If you are buying a share of someone's assets, ultimately, the rate of interest for which an investor feels adequately compensated for trading money now for money in the future is the appropriate rate for use in converting future sums to present equivalent sums.

Milk Money

If you were to hold a producing asset and simply "milk" the cash flow from that asset over time, with no intention of ever crystallizing the value in one single transaction, what would it be worth? Then the exercise would merely be to bring future cash back to today and that should be reasonably straightforward. Simply adjust for inflation and the fact that a dollar today may not go as far in the future. Strictly speaking, this is the correct way to level the field of all future cash. So what is "inflation?" The US Department of Commerce, for example, suggests the implied long term average rate of inflation is 1.6%. As well, most of the inflation we are experiencing today is a result of the cost of energy. Should that be factored in when looking at the future value of energy?

When we at Peyto value the future cash flow that will come from our developed reserves as they are produced and sold, we do so simply from the perspective of how many loaves of bread and jugs of milk they will buy in the future.

That is one of the reasons we also focus on the value of our proved producing reserves. These are the reserves that are on production today and generating cash flow. There is no question as to when they will be developed, for how much or what will be the result. That is already known. Our independent evaluators have also adjusted the production forecast for recovery risk, are applying actual operating costs and a commodity price forecast. The commodity price forecast even carries forward the relative disconnection in heating value between natural gas and oil.

What are Peyto's assets worth?

At Peyto, we have tried to present both the basic present value of our reserve assets and, as a separate exercise, broken out the annual efficiency of our capital investments. In looking at the basic value, a simple 5% discount factor covers both an expectation of inflation (net of energy cost) and the minimum interest rate on borrowed money. Beyond that, it is up to the individual investor to decide whether it is better to adjust for risks before or as part of the "discount factor."

Shown below is a graph of the Net Present Value of the Proven Producing reserve assets, adjusted for outstanding debt and the number of units as at December 31, 2007. Sensitivity to this NAV at various discount factors and for three different pricing scenarios should help investors when sorting out the "asset value."