

PEYTO Energy Trust

President's Monthly Report

September 2009

From the desk of Darren Gee, President & CEO

The lobby groups for "nature's" gas are beginning to gain some traction in the environmentally driven debate to rebalance America's energy portfolio, most recently with the forming this spring of America's Natural Gas Alliance (www.ANGA.us). Although, admittedly they were late to the game for the Obama Administration's Clean Energy and Security act, they are now gearing up to make their voices heard and are calling for clean burning natural gas to play a much larger part in America's energy future. They are joining a growing list of natural gas advocates promoting "The Abundant, American Alternative" (see cleanskies.org or ngsa.org as examples).

Canadian counterparts are following suit, with producers, pipelines and the Canadian Gas Association joining forces to inform and educate the public and policy makers here.

The battle for influencing government legislation regarding energy consumption and the environment is underway. As if worldwide supply, demand and weather didn't create enough volatility in the price of natural gas already!

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

2009 Capital Summary (millions\$ CND)*

	Q1	Apr	May	Jun	Q2	July	Aug	Sept	Q3
Land & Seismic	0	0	0	0	0	1			
Drilling	7	1	1	2	3	6			
Completions	4	0	0	0	0	2			
Tie ins	2	0	0	0	0	0			
Facilities	1	0	1	1	1	0			
Other	0	0	0	0	0	0			
Total	13	1	1	3	5	9			

*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

2009 Production ('000 boe/d)*

	Q1 09	Apr	May	June	Q2 09	Jul	Aug	Sept	Q3 09
Sundance	15.9	15.6	15.1	15.0	15.2	15.1	14.5		
Kakwa	2.0	1.9	1.7	1.6	1.7	1.7	1.9		
Other	1.3	1.1	1.2	1.0	1.1	1.2	1.2		
Total	19.1	18.6	18.0	17.6	18.1	18.0	17.6		

*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.

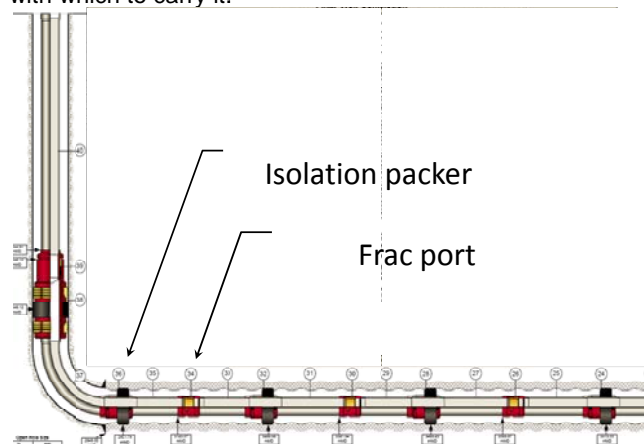
Sideways

What may have been a very funny movie about wine, has now become the development practice of choice for much of the unconventional natural gas world in North America (and

some tight oil for that matter). Horizontal drilling is being combined with completions that involve multiple fracture stimulations along the horizontal leg in an effort to increase the contact area with the reservoir and thus increase both the productivity and ultimate reserve capture from a single wellbore.

In many cases, the depths to which these horizontal wells are being drilled create significant technical challenges. In other words, these are not simple or "cookie cutter" type wells. Take Peyto's first horizontal well, for example:

The first well was drilled to the Wilrich formation, a Spirit River aged formation that exists approximately 2.7 km down True Vertical Depth (TVD) in Sundance, and included a 1.5 km horizontal section for a combined total depth of 4.36 km. Had this been a vertical well, at that depth it would have likely been deep enough to penetrate Precambrian aged rock that is over 500 million years old. Once the hole is drilled, a casing string is run with multiple isolation packers on the outside of the pipe to seal off sections of the wellbore for fracture stimulation. In this particular configuration, eight – 100 tonne fracture stimulations are planned, requiring not only 800 tonnes of ceramic man-made proppant (to "prop" open the cracks in the rock created by pumping a viscous fluid at high pressure), but over 4,000 cubic meters of water with which to carry it.



If 4,000 cubic meters of water sounds like a lot, it is. That's nearly a third of the water in the wave pool at West Edmonton Mall Waterpark, the largest in the world.

These slick water fracs have proven to work well in many Deep Basin reservoirs and so this "slurry" of water and sand is pumped at high rates and pressures to extend cracks created at each frac port for hundreds of meters away from the wellbore, thus increasing the wellbore's contact area with the gas charged reservoir.

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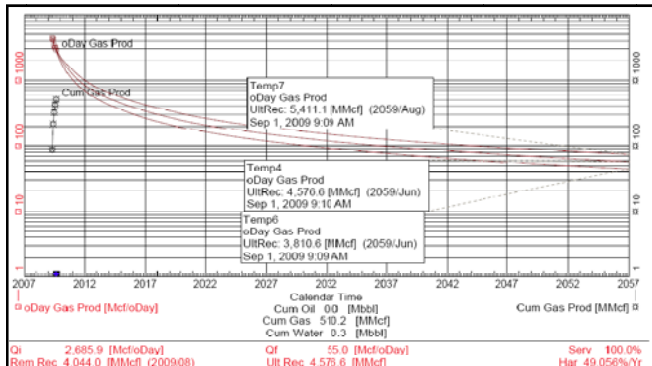
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Ultimately however, as many of the shale gas players are undoubtedly finding out, it will be the matrix permeability, or tendency for the natural gas to flow through the porous rock to these man-made cracks, that will determine how much of the resource can be turned into producing reserves by each well.

In theory, if each of the frac stages is equivalent to a vertical well, then the total combined rate should equate, in this case, to eight vertical wells. Fortunately, that doesn't have to be the case, since the combined cost for the horizontal well and Multi Stage Fracture (MSF) completion should be much less than the cost of eight vertical wells. Most likely there will be other technical reasons why an equivalent eight well result is unattainable, including: inter-frac interference, uneven frac spacing, reservoir heterogeneity, inefficient drawdown, etc. However, if rates and reserves can approach eight times a vertical, then you can see how the profitability of such a development strategy, relative to vertical wells, can be improved.

I know what you're saying to yourself about now. "That seems a lot more complex than drilling a single vertical well and putting one frac into it." And you're right, it is. This is why Peyto has been studying the technology and its application for a few years now. Watching and analyzing as other operators have both technical successes and failures attempting to execute such operations. Furthermore, a technical success doesn't necessarily mean an economic success. Even after the operation has been successfully executed, it has to be done at the right cost and achieve the desired result to be an economic success.

And what is the desired result? It is more than just a big initial test rate, as I've discussed before. It is the recovery of significantly more reserves, in hopefully a shorter period of time, which in turn generates significantly more cashflow beyond the capital investment, to yield a handsome profit.



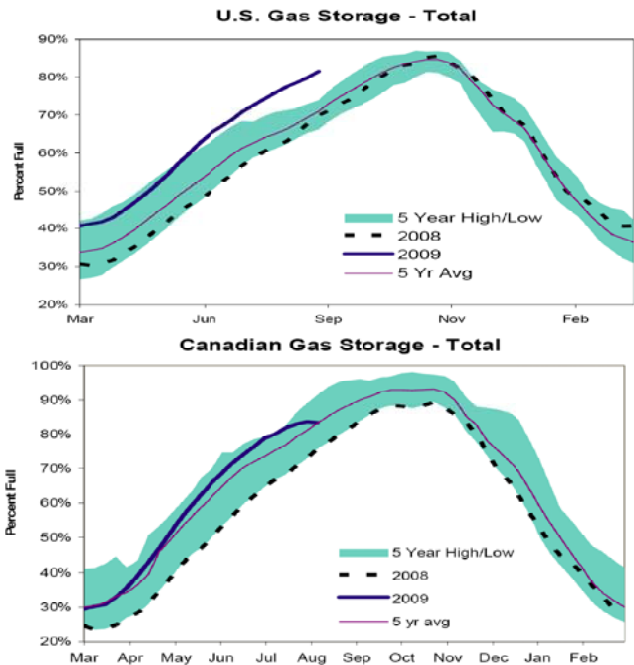
An offsetting horizontal well to Peyto's well has shown early indications that may be possible. The decline plot above,

with only a few months of data used to create a forecast over the next 50 years could potentially yield the desired result of 3.8 to 5.4 bcf for the \$5.5 million of capital investment. Volumetrically, that result is reasonable as it represents a drainage area of a few hundred meters around the horizontal wellbore and captures approximately a third of the resource contained in one section of area.

As is the case with many of these resource plays though, it is less about identifying the resource and telling the story of how it can be done, and more about executing the operations successfully and profitably in order to "get 'er done" that matters.

Activity Levels and Commodity Prices

Natural gas prices are not good. The spot price in Alberta dipped below \$2/GJ twice in August, while the average price for the month was \$2.60/GJ. September looks to be no better with AECO monthly prices of \$2.56CND/GJ. Both US and Canadian storage are also still forecast to fill to record levels.



(Figures 2 & 3 - source CIBC)

At \$2.50 gas, expect a significant amount of gas to be shut in. Even at Peyto's operating costs, we are barely making positive cash flow. Imagine what other gas companies with double or triple our operating costs are making (or not making). In my experience, the longer prices stay this low, the more erosion we'll see on the supply side and the higher they'll go when that fact is ultimately realized.