PEYTO Energy Trust

President's Monthly Report

January 2010 — From the desk of Darren Gee, President & CEO

Well folks, I guess that was 2009. The year of the Great Recession. I'm sure most economies are glad to be rid of it, but in some ways, it is surprising how little damage it left behind. One has to wonder if that is all there is. For the local economy here in Alberta, it wasn't much more than a bump in the road. Not enough to change spending habits or severely reset overly inflated prices. Maybe that's because our economy is so closely tied to oil and gas, and energy demand and prices have more or less recovered to pre-recession levels (gas still has a ways to go).

Heck, even the oilfield services weren't prepared to work over the holidays. That just goes to show you, people didn't get that hungry during this downturn. It makes me curious where the extra unemployment in Alberta is coming from? Alberta labour statistics state that the largest unemployment (8.5%) is in the NW portion of the province where a good percentage of the oil and gas activity lies. Perhaps, it is because the only portion of our basin that is competitive anymore has become very specialized, with the rest of the industry on the sidelines waiting for higher gas prices. In some ways, the big US producer Chesapeake might be right with their claim that you either ***"have or have-not"*** the right unconventional gas plays or you're out of the game. Fortunately for Peyto and its unitholders, we ***have*** the right play.

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	Q2	July	Aug	Sept	Q3	Oct	Nov	Dec	Q4
Land & Seismic	0	0	1	0	3	4	0	1		
Drilling	7	3	6	7	5	18	3	6		
Completions	4	0	2	3	3	8	4	2		
Tie ins	2	0	0	1	2	3	3	2		
Facilities	1	1	0	0	0	0	0	0		
Drilling Credit	0	0	0	0	-3	-3	-1	-1		
Total	**13**	**5**	**9**	**10**	**9**	**29**	**10**	**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	Q2 09	Jul	Aug	Sept	Q3 09	Oct	Nov	Dec	Q4 09
Sundance	15.9	15.2	15.1	14.5	14.9	14.8	16.0	16.0	15.8	15.9
Kakwa	2.0	1.7	1.7	1.9	1.8	1.8	1.8	2.7	2.6	2.4
Other	1.3	1.1	1.2	1.2	1.2	1.2	1.1	1.2	1.2	1.1
Total	**19.1**	**18.1**	**18.0**	**17.6**	**17.9**	**17.8**	**18.8**	**19.9**	**19.5**	**19.4**

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Can't Beat The Heat

I managed to escape the northern winter for a week in Arizona over the holidays, and while the desert temperature in December of 21C is a far cry from that in July of 42C, it was still warm for those of us with thickened blood. They say that the dry heat is more bearable, but I think it is the wet heat that makes all the difference.

The Natural Gas industry is all about heat too. Even though much of the data we report is measured in volumes, what we are really building, producing and selling, is heat. And heat, or heat energy, is measured in either British Thermal Units (BTUs) or Giga Joules (GJs).

Typical buyers of natural gas, either for residential or for industrial/power consumption, use a natural gas stream that is primarily made up of methane (93% CH4) with some small percentages of ethane (3% C2H6), propane (1% C3H8) and butane (C4H10) such that the combined gas has approximately 1,000 BTUs of heat energy in one standard cubic foot of volume (measured at a standard temperature and pressure of 20C and 101 KPaa or 68 F and 15 psia).

For example, the EIA reports that in 2008, US average dry natural gas production contained 1,028 BTU/standard cubic foot while the electrical power sector consumed gas that contained 1,027 BTU/scf and residential and industrial sectors consumed gas that contained 1,029 BTU/scf. Trans Canada Pipeline's gas stream is similar at around 1,035 BTU/scf. However, that is not necessarily the case for parts of Europe or Japan for instance. There, the residential gas might be the same as North America, but the industrial/power sector consumes liquefied natural gas that has higher heat content.

Bottom line: if we're selling BTUs (heat energy), and you're buying BTUs (heat energy), then why does the natural gas industry report its financial information relative to volumes (cubic feet) and not heat (BTUs)? Probably because production and reserves are measured in volume but it definitely makes it harder to differentiate.

> *As an aside, crude oil has approximately 5.8 million BTU per barrel, which is where we get the barrel of oil equivalent conversion for gas of 6,000 cubic feet (6 mcf) equals 1 bbl of oil.*

The following table compares the average gas stream, by component, in Trans Canada's pipeline versus Peyto's sales gas stream and that of typical coal bed methane gas in Eastern Alberta to provide some perspective. It is apparent that Peyto's gas has more of the "heavier hydrocarbons" in it which accounts for the greater amount of heat energy, and this is even after we have met TCPL's requirements and removed much of the C5+, C4 and C3. Removing the

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heavier ends makes the gas less volatile and easier for you to burn in your furnace without blowing yourself up.

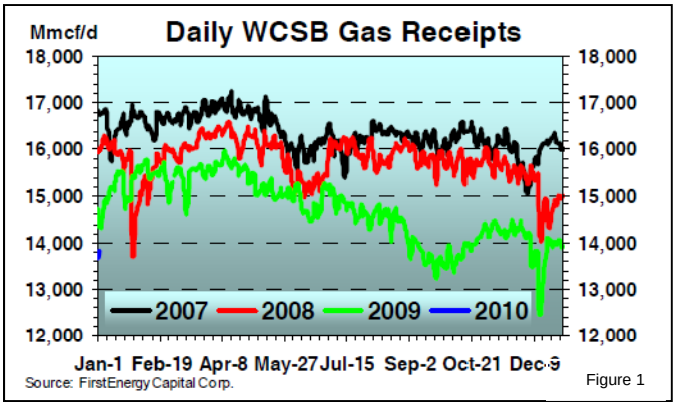
Extended Gas Analysis	Ave Peyto Sales	Ave TCPL	Ave Coal Bed Methane
Component			
Nitrogen	0.25%	1.71%	2.10%
Carbon Dioxide	0.83%	0.78%	0.12%
Hydrogen Sulfide	0.00%	0.00%	0.00%
Methane	87.71%	92.79%	97.30%
Ethane	8.07%	3.20%	0.35%
Propane	2.50%	1.06%	0.03%
Isobutane	0.20%	0.15%	0.00%
n-Butane	0.28%	0.19%	0.00%
Isopentane	0.03%	0.04%	0.00%
n-Pentane	0.02%	0.03%	0.00%
Hexanes	0.01%	0.02%	0.00%
Heptanes+	0.09%	0.03%	0.00%
Totals	100.00%	100.00%	100.00%
GHV (GJ/e3m3)	41.8	38.7	37.0
MMbtu/scf	1116	1035	989
	108%	100%	96%

Considering that not all gas streams are equal in heat content, it might actually be easier to relate prices, revenues and costs to heat energy rather than volume. By doing so it would definitely help to explain why Peyto's production generates approximately 8% more revenue than the average. Conversely, if we normalize the price per volume, then Peyto would effectively be producing 8% more volume than traditionally reported or even 13% more as compared to a coal bed methane producer.

Obviously, if you have to choose what to produce, you would elect for the gas stream with the most heat content since that is what generates the most revenue. A lot of investors miss the fact that not all barrels of oil are created equal and neither are all mcfs of natural gas. It all boils down to energy, and the more of it, the better.

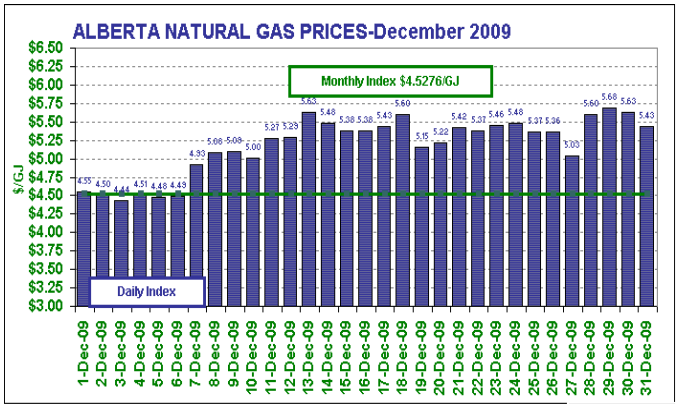
Activity Levels and Commodity Prices

December delivered two bitterly cold weeks in Western Canada that took their toll on production volumes as natural gas field receipts dipped 1.5 bcf/d. At Peyto we went through the same pain, trying to keep volumes flowing at -40C. Not only does manpower move slower in those temperatures, water freezes much quicker and power companies experience difficulties delivering service to industrial users (like our gas plants). Figure 1 shows the production outages seen in the field receipts in the Western Canadian Sedimentary Basin.



Source: FirstEnergy Capital Corp. Figure 1

That same weather caused a couple of decent draws in North American natural gas storage that have firmed up spot prices and even pushed some of the future prices higher.



Source: GasAlberta Figure 2

Figure 2 shows the Alberta spot natural gas price response in early December to the colder weather while figure 3 shows how the long term price has held up relative to the short term price.

Source: Peyto, CIBC AECO Long vs Short Term Gas Prices Figure 3