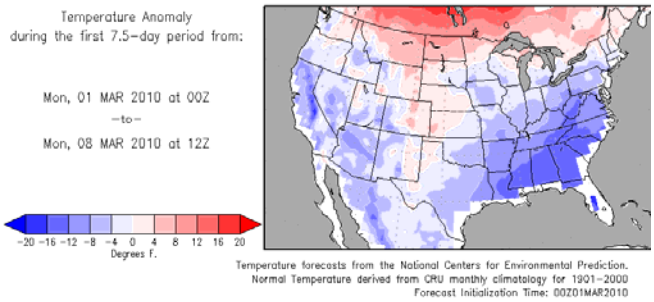
PEYTO Energy Trust

President's Monthly Report

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

A lack of winter weather was making it difficult for Vancouver to host a winter Olympic games but elsewhere in North America, winter showed up in full force. So much so, that the US storage bubble of last fall has been completely erased. Canadian storage is still a bit full as US shale gas drilling has picked up to meet increased demand which has also kept a lid on rising natural gas prices. There is a perception that winter is almost over and can't have much more impact on summer gas prices, but the temperature map is saying something different. Below is the temperature prediction for the period March 1 to March 8, 2010 which still shows unseasonably cold weather across much of the US (and unseasonably warm in Western Canada). With any luck the tank will continue to empty faster than predicted and natural gas prices will remain strong throughout the shoulder season.



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	Q3	Oct	Nov	Dec	Q4	2009	Jan	Feb	Mar
Land & Seismic	0	0	4	0	1	1	2	5.5	0		
Drilling	7	3	18	3	6	8	17	44.2	10		
Completions	4	0	8	4	2	4	11	22.7	4		
Tie ins	2	0	3	3	2	1	5	9.8	4		
Facilities	1	1	0	0	0	0	0	2.0	1		
Drilling Credit Used	0	0	-3	-1	-1	-2	-3	-6	-4		
Sub Total	**13**	**5**	**29**	**10**	**9**	**12**	**32**	**78**	**15**		
Rem. Drilling Credit								-5			
Total								**73**			

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

*2009/10 Production ('000 boe/d)**

	Q1 09	Q2 09	Q3 09	Oct	Nov	Dec	Q4 09	2009	Jan	Feb	Mar	Q1 10
Sundance	15.9	15.2	14.8	16.0	16.0	15.8	15.9	15.6	15.9	16.5		
Kakwa	2.0	1.7	1.8	1.8	2.7	2.6	2.4	1.8	2.5	2.9		
Other	1.3	1.1	1.2	1.1	1.2	1.2	1.1	1.1	1.2	1.4		
Total	**19.1**	**18.1**	**17.8**	**18.8**	**19.9**	**19.5**	**19.4**	**18.5**	**19.5**	**20.8**	-	-

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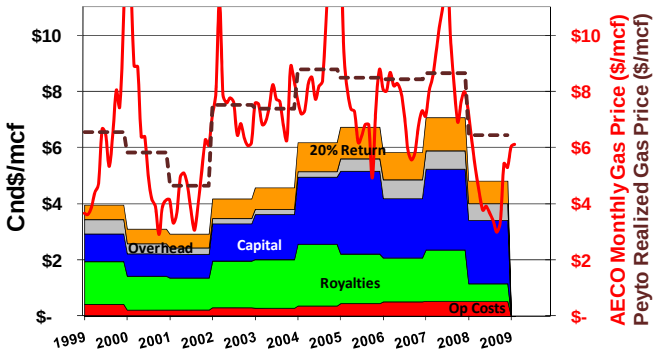
More Supply Cost Discussion

The many Year End press releases out these days are providing ample data to evaluate the claims of lower supply cost for natural gas in North America. Looking south across the 49th parallel to the many shale basins in the US, and the main players in those basins, we are seeing some pretty low numbers reported for finding and development costs which make up a big component of total supply cost. You will recall the following Ziff graphic that I showed in my March 2009 report which illustrates the various components of the total supply cost for Peyto.

Peyto Full-cycle Gas Supply Cost



With Peyto's 2009 FD&A cost for Proved Producing at $2.26/mcfe and combined with operating costs, royalties, and overhead, our supply cost sits at just over $4/mcf (The FD&A making up over half of the cost).

But how does that compare when we hear claims of $1/mcf from producers like Chesapeake, Southwestern Energy, Range Resources and others? Well for one thing, they are calculating things differently. Whereas in Canada we tend to report our volumes inclusive of royalties, down south they report net of royalties. They also tend to focus on metrics for Total Proved reserves, which include a component (sometimes very large) of undeveloped reserves. They do not, however, factor in the capital or change in future capital required to develop that undeveloped component. So in the case of a producer adding a significant amount of Proved Undeveloped reserves, their annual Proved FD&A can look artificially low. That is why we have always focused investors' attention to the Proved Producing or Proved Developed FD&A.

Take Range Resources for instance; who has big positions in the Barnett and Marcellus shale plays. They recently reported an all-in finding and development cost for 2009 of $1.00/mcfe. If one digs deeper into their financial reports (10-K filings), we find that their Proved Developed FD&A cost for 2009 was actually $1.87/mcfe, as compared to $5.00/mcfe

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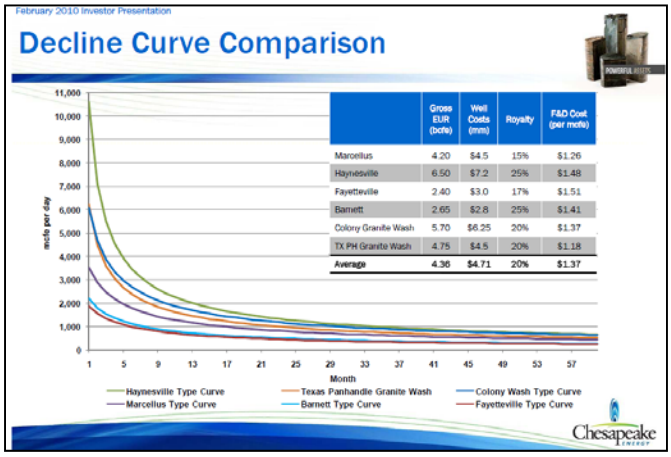
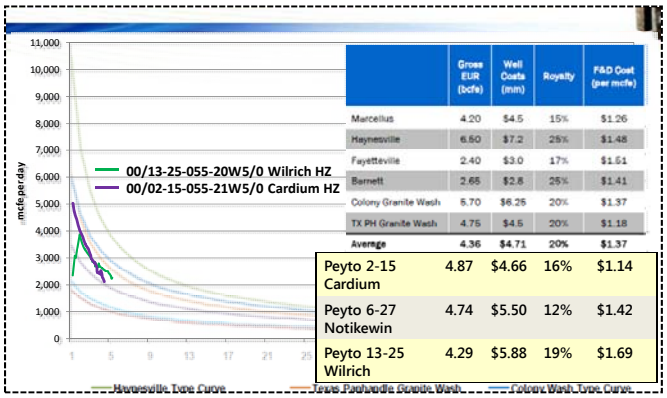
for 2008 and $2.30/mcfe for 2007. That gives them a 3 yr volume weighted average of $3.09/mcfe. Add in $0.92/mcfe for operating costs, $0.66/mcfe G&A and $0.71/mcfe interest expense (3 yr averages) and we're quickly at a full cycle gas supply cost of close to $5.50/mcfe. It doesn't appear like their "low numbers" are really that low after all.

Or how about on a well specific comparison? Here is a graph that Chesapeake has in their latest presentation showing the F&D cost (established or 2P reserves) of their "Big 6" shale plays in the US that supposedly have the lowest supply costs in North America. The average F&D cost per well type is quoted at $1.37/mcfe.



If we overlay it with the production curves from Peyto's first 2 horizontal wells and compare the respective F&D costs (net of royalties), we see that our "net F&D Cost" is just as competitive as theirs at around $1.42/mcfe average and our production curves, at least initially, look very similar.

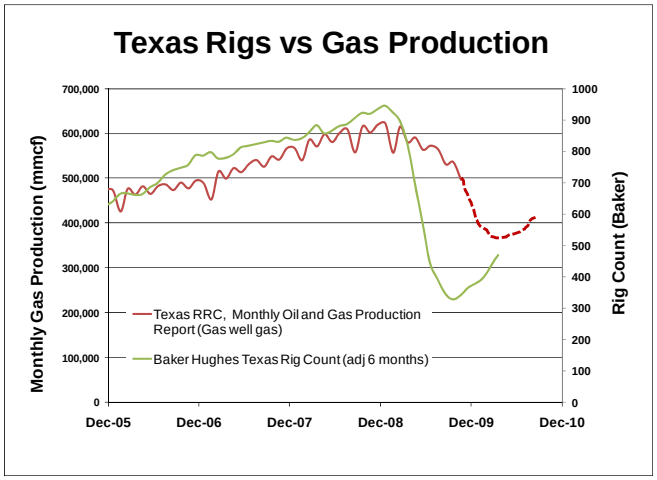


Of course, F&D costs are only half of the equation, as I illustrated in Figure 1. The other half of the supply cost is the cash cost component. With industry leading operating costs and what looks to be an even more attractive royalty environment, Peyto is well positioned to keep that half competitive too.

Activity Levels and Commodity Prices

Natural gas prices have recently started sliding on the expectation that an increased horizontal rig count in the US will add production and easily fill up storage over the summer. To quote BENTEK's Managing Director Rusty Braziel ""The historic correlation between rig count and gas production rates began to fail midway through 2008 and completely broke down in 2009. We saw the rig count fall more than half in less than six months -- from a peak of 2,569 rigs in October 2008 to a low of 1,146 rigs in May 2009, as measured by RigData. Yet natural gas production has been up nearly 4%, or 2.1 billion cubic feet per day in 2009….efficiency gains have enabled the industry to do much more with far less, rendering the historic rig count correlation virtually meaningless in today's environment."

They are not the only ones who believe the correlation has failed; or perhaps it still holds partially true but the data is not accurate. Most people rely on the EIA 914 data for natural gas production (which is a grossed up sampling of company reports). If we ignore the EIA and just look at Texas RR data for instance (which is actual reported well production), the rig versus production correlation is better. It also suggests we may be in for a free fall in Texas gas production, but then we've heard this song before.



Hopefully over time, as the species of wells moves more from vertical to horizontal and from conventional to unconventional, the link between the number of wells the industry drills and the gas we bring on will be re-established. Until then we will have to take a wait and see approach to determine if we are truly oversupplied or just keeping up.