PEYTO Energy Trust

President's Monthly Report

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

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails."
William A. Ward

I've heard this quote a lot lately, especially when it comes to the natural gas business and the future price of North American natural gas. The analogy being, that shale gas deposits and the horizontal multi-stage frac technology used to develop them (and other unconventional gas reserves) have "changed the game" and therefore the gas price going forward. As one of many North American natural gas explorers, developers and producers, we will admit to having been the pessimist and complained about the price. We've been the optimist and expected it to change. And fortunately, with a low cost structure, we can be a realist and adjust our sails if necessary.

Many are not so lucky. Adjusting cost structure is not easy. Perhaps as competition increases or activity levels drop, service costs will come down and if the technology has improved recoveries, then overall finding and development costs will be less. But reducing operating costs, transportation costs, G&A, and interest costs are much harder. The ability to be a low cost supplier (finder and developer) as well as a low cost producer is what really allows one to "adjust the sails."

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	Q1
Land & Seismic	0	0	4	0	1	1	2	5.5	0	0		0
Drilling	7	3	18	3	6	8	17	44.2	10	9		19
Completions	4	0	8	4	2	4	11	22.7	4	7		11
Tie ins	2	0	3	3	2	1	5	9.8	4	2		5
Facilities	1	1	0	0	0	0	0	2.0	1	0		1
Drilling Credit Used	0	0	-3	-1	-1	-2	-3	-6	-1	-1		-2
Sub Total	**13**	**5**	**29**	**10**	**9**	**12**	**32**	**78**	**18**	**17**		**34**
Rem. Drilling Credit								-5	-3	-1		**-4**
Total								**73**	**15**	**16**		**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. Tables may not add due to rounding.

Production

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

	Oct	Nov	Dec	Q4 09	2009	Jan	Feb	Mar	Q1 10
Sundance	16.0	16.0	15.8	15.9	15.6	15.9	16.5	17.1	
Kakwa	1.8	2.7	2.6	2.4	1.8	2.5	2.9	3.0	
Other	1.1	1.2	1.2	1.1	1.1	1.2	1.4	1.3	
Total	**18.8**	**19.9**	**19.5**	**19.4**	18.5	**19.5**	**20.8**	**21.4**	**-**

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.

The Lemonade Stand

My daughter asked me the other day what it was that I did for a living. I said I run an oil and gas company that drills holes in the earth looking for natural gas that we can produce and sell to people to heat their homes; maybe one day run their cars. She asked how do we make our money? I said it was simply because we sell our gas for more than it costs us to make it and that's how we make money. Similar to a lemonade stand, I said, we sell each glass of lemonade for, say, 25 cents and it costs us 15 cents to make it, so we get to keep the 10 cents for ourselves (or our unitholders).

Sure, this was an oversimplification of what we do, but in reality our business is not much more complicated than that. Sell it for more than it costs you to make, and you will make money. What a concept. But somewhere in there, the business has managed to become overcomplicated so that it seems far more difficult to determine if you're making money than perhaps it should be. Of course, it doesn't help when the going price for lemonade is always changing. Some days it's 25 cents, other days it can be as high as 50 or as low as 10. It makes it tough if your cost to make it is 15 to 20 cents. Some days then, you're making money, other days you're not. In that way, securing the 25 cents when you know your cost is 15, just makes sense; so long as you can keep your cost at 15. And if you're better at it than all the other lemonade stands, then yours should be the last one still open with the biggest line-up in front.

So in those simple terms *how does* our business stack up? Take this straightforward cost analysis: compare what it cost us to build it (all in Finding, Development & Acquisition cost of proved production), with what we sold it for lately (cash netback). The difference is what we keep as profit (before taxes). We should look at it over time; last quarter, last year, last 3 years, last 10 years, to see if we are maintaining that profitability. The following table shows exactly that comparison for Peyto over several snapshots in time.

($/mcfe)	Q4 2009	2009	2007-2009	1999-2009
What you sold it for lately (net of costs)	$5.05	$5.01	$5.91	$5.11
What you paid to build it	$2.27	$2.27	$2.42	$1.75
What you keep	$2.75	$2.74	$3.49	$3.36

What this analysis also illustrates is the strong margins that Peyto is able to generate, keeping somewhere between 55% and 65% of what we sell each mcfe of production for.

Now let's see how that stacks up against the rest of the industry, including one of the big shale players in the US that supposedly has cheaper costs than we do.

Suite 1500, 250 – 2nd St. SW
Calgary, AB T2P 0C1
Fax: 403 451 4100

TSX Symbol: PEY.UN
E-mail: info@peyto.com

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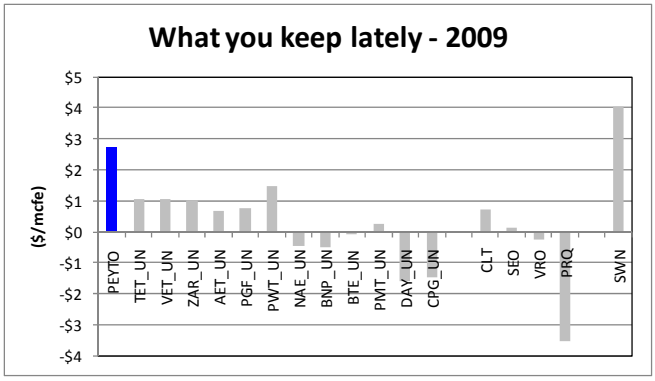
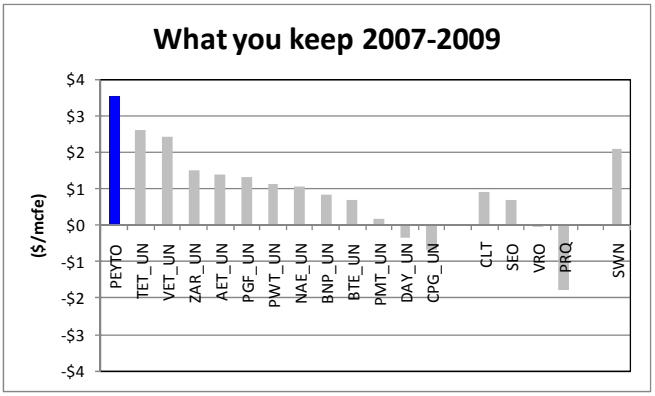


This first graph shows the difference between the 2009 netback and the 2009 FD&A cost for proved producing reserves. In other words what each company got to keep after covering their total supply cost. Not surprising, those that acquired production this year spent more for it, than what they were selling it for. And in a year of soft gas prices, those gassy companies without hedges didn't have much left over. (Oily companies have been converted at 6:1 but the analysis still holds).

Okay, then how about over a 3 year time frame? That should allow for the absorption of an anomalous year. In addition, the longer timeframe should account for any undeveloped that was bought or found in the first year but developed in subsequent years.



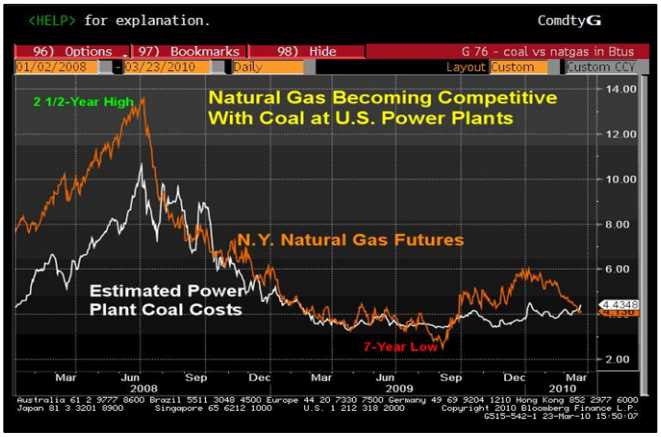
Maybe it's not surprising that the distribution of companies doesn't change too much. The low cost producers and the low cost finders stand out over time. Where some investors get confused is when the company is advertising a low cost but only has one or the other. So they either have low finding cost but high production cost or the reverse, low production cost but high finding cost. And there are many out there that have exactly that.

So it is probably prudent for us to be wary of the claims that just low finding costs will ultimately translate into low gas prices, as we've heard so often lately.

Profit margins, at the end of the day, are very important. If what companies are keeping is only a small fraction of what they are selling it for, even after low finding costs, then they are making very little money. Sooner or later, those types of lemonade stands, collapse.

Activity Levels and Commodity Prices

Horizontal rig activity in the US has continued to pick up while all other gas drilling is slowing down. But it is not enough yet to get gas prices moving in the other direction. At this point, gas is now cheaper than coal. Actually, when you compare the future gas price to the adjusted price of coal for power generation, gas has been just as cheap since mid 2008.



It's no wonder the coal companies, like Consol Energy, are starting to buy up the gas reserves. With the added risk of environmental cost, coal is looking less and less attractive, especially for any new or expanding power generation.

There were comments coming out of winter, on the backs of $5-$6 gas prices, that frac equipment and frac sand was getting tight. This is the most obvious bottleneck to everyone drilling horizontal multi-stage frac wells. I suspect that with AECO gas now in the $3-$4 range, those supply pressures will be easing quickly. Any thoughts that service companies might be able to increase their rates will be gone as quickly as the frost in spring.

At Peyto, we're looking to take advantage of lower summer costs, especially for completion operations. It's much easier (and cheaper) to work with the large volumes of water required in these new fracturing techniques when it isn't constantly freezing!

Suite 1500, 250 – 2nd St. SW
Calgary, AB T2P 0C1
Fax: 403 451 4100

TSX Symbol: PEY.UN
E-mail: info@peyto.com