PEYTO Energy Trust

President's Monthly Report

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

With only a couple months left in the year, 2010 is quickly rushing to a close with a flurry of activity. We currently have 8 rigs running (a couple of rigs on a one-well window) to catch us up and finish on schedule. Expansions/compressor modifications to our facilities at Nosehill and Oldman are just in time to accept the new production from this last batch of horizontal wells. The weather is starting to cool off in preparation for winter, which, much to the annual surprise of gas traders, always comes. And I've just finished off several weeks of travel, meeting with investors both North and South of the border.

One of the common messages I left with those I met, was that Peyto is in an enviable position right now; able to generate a profit on its capital investments, even at current gas prices, and aggressively taking advantage of that fact. Our low cost producer status means we are still delivering strong cashflow from our production, despite its gassy nature; cashflow that we can use to fund our current and future opportunities. Generally, our proposed new balance of income and per unit growth going forward, has been met with strong support by investors.

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

*2010 Capital Summary (millions$ CND)**

	2009	Q1 '10	Apr	May	Jun	Q2 '10	July	Aug	Sept	Q3 '10
Land & Seismic	6	0	0	0	0	0	0	4	1	5
Drilling	44	31	3	4	11	18	12	12	11	34
Completions	23	16	6	0	4	10	4	5	4	13
Tie ins	10	8	1	1	3	4	3	5	2	10
Facilities	2	2	1	5	1	6	1	1	3	5
Drilling Credit Used	-6	-3	-1	0	0	-2	0	0	-3	-4
Sub Total	**78**	55	**10**	**9**	**19**	37	**20**	**26**	**17**	63
Rem. Drilling Credit	-5	**-5**	0	0	0	**0**	1	1	0	**2**
Total	**73**	**50**	**10**	**9**	**19**	**37**	**21**	**26**	**17**	**64**

**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

*2010 Production ('000 boe/d)**

	Q1 10	Q2 10	Jul	Aug	Sept	Q3 10	Oct	Nov	Dec	Q4 09
Sundance	16.5	18.5	19.2	20.1	21.0	20.1	22.9			
Kakwa	2.8	2.7	2.8	2.6	2.5	2.6	2.5			
Other	1.3	1.1	1.0	1.0	1.0	1.0	1.0			
Total	**20.6**	**22.3**	**23.0**	**23.7**	**24.5**	**23.8**	**26.4**	-	-	-

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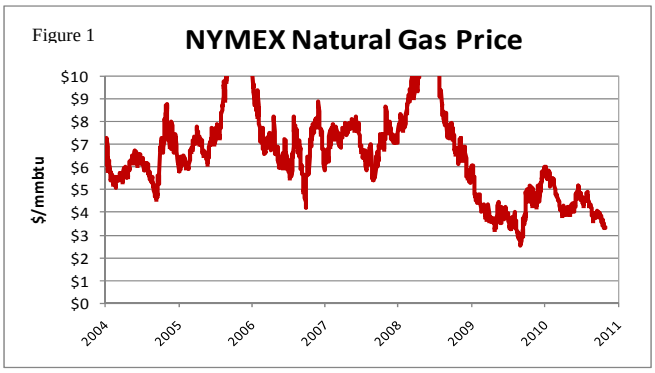
The Immunity Idol

Most investors that I meet these days are surprised by the activity level in our industry. "Why is everyone still drilling?" they ask incredulously. "How can people be making money at these levels?" The honest answer is, most gas companies can't. A quick look at the NYMEX gas price and we know why they are asking. Figure 1 shows the NYMEX gas price trend over the last several years.

Figure 1



Normally, at these levels we would be reading about all the producers that have announced they are shutting in production. They would be claiming that there is no point selling it today for US$3/MMBTU when it's at a temporary low in the commodity price cycle. It can't be replaced at this price so why give it away?

Usually the forward curve suggests the price will recover to some higher level in the near future which further justifies the move to temporarily shut in production.

That is not what is currently happening though. The problem today is twofold. For one, the forward curve shows very little contango, with prices one, two and three years out very similar to today's price. So it becomes hard to argue that shutting it in today is because there is a better price to be had tomorrow. Secondly, there seems to be a misconception of what it really costs to replace that production. A false belief perhaps, that it can be replaced at such a low price that we can practically give it away today.

In reality, there is a hard floor for gas prices. And it may not be the price to add new production that defines it. Instead I think we should just simply look at the basic costs to produce it. The cash costs, if you will.

Typically, cash costs are defined by the operating costs, transportation costs, royalty costs and the corporate costs, including G&A, interest and taxes.

At Peyto, for instance, those cash costs add up to around $1.82/mcfe, as illustrated in the Q2 2010 table below: Going forward, new production that is being built has cash costs that are even lower at $1.33/mcfe, reflective of the enhanced royalty incentives in Alberta.

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Netbacks

	Three Months ended June 30		Six Months ended June 30	
($/mcfe)	2010	2009	2010	2009
Sale Price	6.14	6.32	6.63	6.99
Less: Royalties	0.81	0.55	0.81	0.68
Operating costs	0.38	0.43	0.39	0.44
Transportation	0.13	0.11	0.13	0.11
Field netback	4.82	5.23	5.30	5.76
General and administrative	0.09	0.19	0.13	0.21
Interest on long-term debt	0.41	0.39	0.40	0.37
Cash netback ($/mcfe)	4.32	4.65	4.77	5.18
Cash netback ($/boe)	25.94	27.82	28.61	31.1

To make these costs comparable to our US counterparts we need to remove the royalty volume and royalty cost component. This would reduce Peyto's cash costs to $1.16/mcfe for our net of royalty volumes.

Unfortunately, for the rest of the natural gas industry in North America, those cash costs are not nearly so attractive. The following chart shows a collection of gas producers both North and South of the border. All indicate that their average cash costs of $2.90/mcfe are getting close to the current gas price of $3.40/MMBTU. And these are the *average cash costs*, which means that some of their production is even higher cost and some is lower.

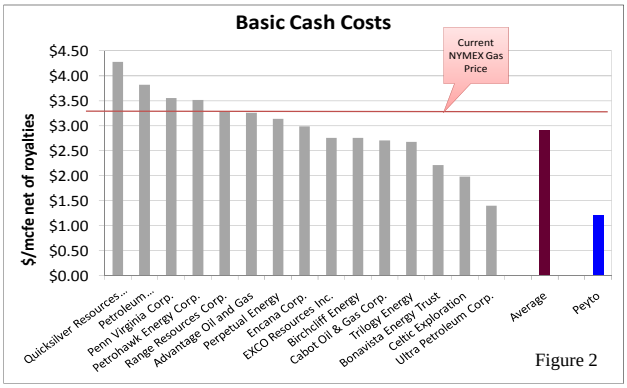


Figure 2

So why are they not shutting in the high cost production? At current gas prices they must be losing money on a good portion of it, let alone justifying any new capital investments.

I believe the reason lies in a survival instinct. Because, the problem with shutting in production, when the future price of natural gas is just as low as it is today, is that it implies that production should stay shut in. Permanently. Which means those reserves should be wiped off the books. Permanently. And many of those producers are just not willing to admit that much of their asset base has been rendered worthless. Because if they admit it to themselves, then they have to admit it to their bankers, who have lent them money based on a now worthless asset.

And so it becomes a dangerous game of chicken, where producers are just praying that someone else gives way first, thus reducing production and causing gas prices to rise. What do they say about out-running a bear? You don't have to be faster than the bear, just faster than your fellow hiker.

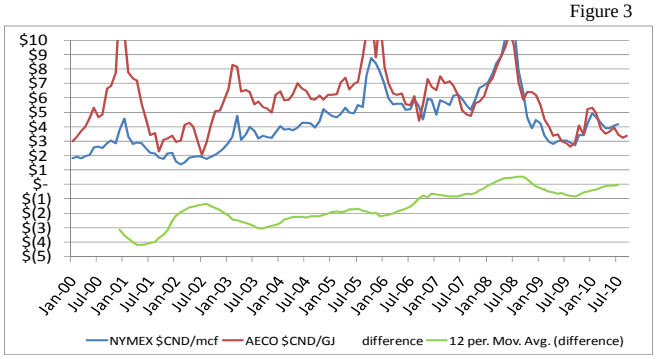
This situation is only further aggravated by the continued drilling in the shale plays to validate lands. And it is by these same players that have cash costs close to the current gas prices!

Really, the only immunity from this situation is low cash costs. Only then can you be assured that you are still making money today and can really justify spending capital for tomorrow. Not unlike the reality show Survivor, the immunity idol is carried by the fittest of the group. And it is through immunity, that you win the game.

Activity Levels and Commodity Prices

What is currently interesting about natural gas prices is the basis differential between NYMEX and AECO prices (prices in the US versus Canada). Normally, this difference is derived from currency exchange rates and pipeline tariffs to move gas from AECO to Louisiana or Chicago. As a result, with a par dollar, the difference should generally be the pipeline toll. Lately though, we've seen a lot of volatility there. If we convert the NYMEX monthly price over the last few years to CND$ and compare it to AECO, we see the difference has been slowly shrinking (Figure 3).

Figure 3



I think it is generally explained by the shrinking volumes in the pipelines from Canada to the US. And while interesting, it is a hard thing to take advantage of. It is possible to lock in the differential, but you are also then, speculating on currency markets. A business we try to avoid.

Instead we'll just have to let it ride, confident in the fact that we are investing in Canadian dollars and selling our product in Canadian dollars. And because of our low cost advantage, we are able to overcome the cost to ship it all the way to market in the Deep South. Perhaps the day will come that we will have access to the world natural gas market, through outlets like the Kitamat LNG terminal. But that is still a ways off yet.