PEYTO Energy Trust

President's Monthly Report

December 2010  From the desk of Darren Gee, President & CEO

The USA was enjoying turkey and football this past week, while we in Western Canada were finally given a reprieve from the first official blast of winter. -20C for a couple weeks was enough to steel anyone's resolve when it comes to the need for a healthy supply of natural gas (we play our football at that temperature too, by the way!). Right now though, that supply is a little too healthy. But not to worry. If mankind has shown anything, it's an ability to turn a cheap and plentiful energy source into something in high demand. Just look at oil's history.

As a consumer, fighting off old man winter with cheap natural gas is welcome, as a producer dealing with an over abundance of supply it's entirely the other side of that coin. Good thing at Peyto, we know how to pinch our pennies.

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)**

	Q1 '10	Q2 '10	July	Aug	Sept	Q3 '10	Oct	Nov	Dec	Q4
Land & Seismic	0	0	0	4	1	5	1			
Drilling	31	18	12	12	11	34	19			
Completions	16	10	4	5	4	13	4			
Tie ins	8	4	3	5	2	10	3			
Facilities	2	6	1	1	3	5	2			
Drilling Credit Used	-3	-2	0	0	-3	-4	-1			
Sub Total	55	37	**20**	**26**	**17**	63	**28**			
Rem. Drilling Credit	**-5**	**0**	1	1	0	**2**	0			
Total	**50**	**37**	**21**	**26**	**17**	**64**	**28**			

**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

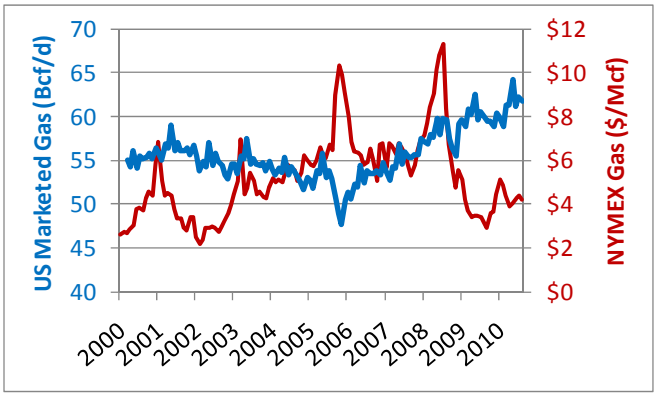
*2010 Production ('000 boe/d)**

	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	24.4		
Kakwa	2.8	2.7	2.8	2.6	2.5	2.6	2.5	2.6		
Other	1.3	1.1	1.0	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**	**28.0**	-	-

**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.*

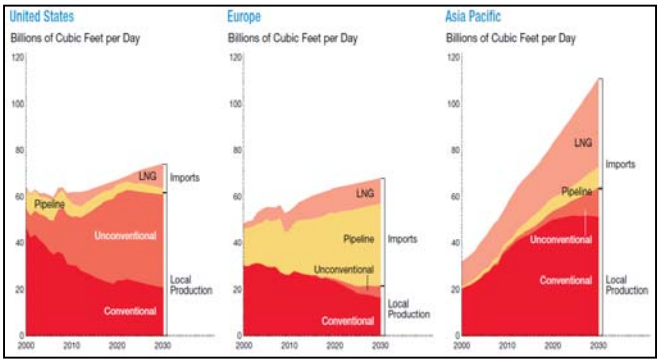
The Relief Valve

Too much gas is a line I usually reserve for my eleven year old son, but for the past few years it is a phenomenon we in North America are becoming accustomed to. Of course, the obvious culprit has been the shale gas drilling in the US, which has more than offset both US conventional and Gulf of Mexico production declines. Considering that the US is now producing record volumes, and at levels not seen in the last 35 years, it really is quite amazing. Even with the recent softness in NYMEX natural gas prices, the growth in production doesn't seem to be slowing. See Figure 1 for both prices and production levels over the last decade.



US domestic production is growing so much that there has been recent discussion of a long term North American natural gas supply bubble, like the one we used to have a couple of decades ago. Only those seasoned veterans of the oil patch will remember the days of regulated gas production and take-or pay contracts when there was far more reserves and production than there was take-away pipeline capacity or demand. That was back when you were required to have over 7 Bcf of proven reserves behind every 1 MMcf/d of production. These days it's the opposite. We have 7 MMcf/d of flush production for every Bcf of reserves, thanks in most part to drilling and completion techniques that make the most of low quality reservoirs.

The solution back then was deregulation of natural gas and a free market that encouraged building new competitive pipeline systems to make natural gas available to all. It almost appears like the solution presenting itself today is very similar; increase the capacity of the distribution system to deliver that energy to a market that wants it. Just look at the projections of demand increases in the Asia Pacific area by one of the largest producers in the world, Exxonmobil.



Unfortunately, the biggest and fastest growing market isn't on this continent. But there is a solution there too. Cold temperatures and boats. By cold temperature, I don't mean

at the football game, I mean cold enough to convert natural gas into liquid form or LNG (Liquefied Natural Gas) that can be shipped by tanker.

Recent announcements have been appearing in the news that suggests this trend may be the relief we're looking for from the current over supply situation. For instance, in Freeport, Texas, a large LNG re-gasification facility designed to import LNG, has recently received approval to liquefy natural gas for export as well. In Louisiana, the Sabine pass LNG import facility also has plans to turn the gas around and send it out rather than bring it in.

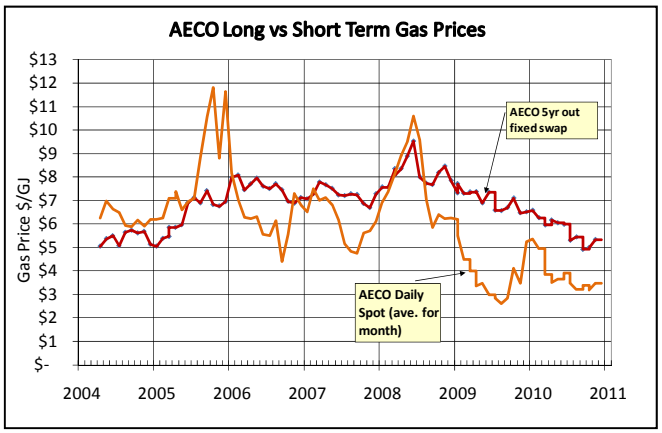
Here in Canada, the Kitimat LNG facility, which was originally planned for import, has also been approved for export (see the map in Figure below).

As you would expect, all of these projects will take time to build before they will start to affect the supply-demand situation in North America, likely around 2015, but they could have a meaningful impact. In total, these three projects would equate to 4.1 Bcf/d of export or around 5% of North American production. With the current $4/mcf price difference between North American and Europe, there is a market for these projects to make money, so you can bet more will follow.

So regardless of whether you believe shale gas is being profitably developed or they are losing money in the process, the fact remains there is more gas than there is demand. And there are really only two relief valves; access additional markets or increase our domestic demand.

Perhaps we will never successfully achieve active sales to international markets but I suspect it will be just as difficult to displace coal from our domestic market and absorb all this extra supply. I'm pretty sure they won't be going gently into that good night. One way or another, though, that relief valve has to pop.

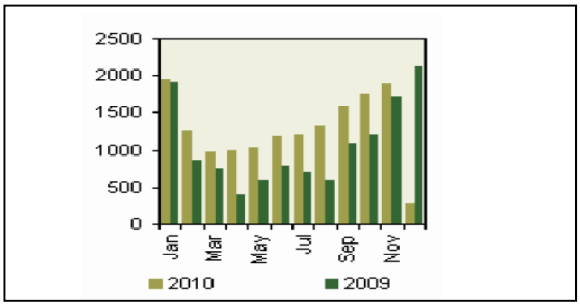
Activity Levels and Commodity Prices



Long dated gas prices (5 yr out swaps in above graph) continue to trend downward on the expectation or belief that "real" supply cost for natural gas is lower. Perhaps they are right. Definitely for Peyto, our supply costs are way less. But there are still those pundits, like Aurthur Berman, that cite big shale company profitability as evidence that supply costs for them are much higher than the $5/mcf that long term swaps suggest. If that truly is the case, then long term prices will eventually have to rise or supply will drop off. Arthur's most recent presentation suggest producers like Chesapeake, who are aggressively shifting their capital to oil and liquids rich plays, have basically admitted their cost is north of $6.

Maybe there will be a day of reckoning for these types of companies and their reckless spending behavior that has caused this supply bubble, but the rest of the industry still has to figure out how to survive and prosper in the meantime. Fortunately for us at Peyto, we don't have to learn how to make money at $3 and $4 gas prices, we already do.

Other Canadian energy producers, who are generally more conservative and fiscally responsible than their US counterparts, may also be figuring it out. Rig activity in Western Canada is up this year over last year and since spring of 2010, licenses this year have outpaced last year in



every month (see below).