

## **NOTICE TO READER**

This Notice accompanies, and should be read in conjunction with the (Amended) Interim Financial Statements of Peyto Energy Trust for the period ending March 31, 2010 which were filed on May 12, 2010 under SEDAR Project No. 01580135

The refilled Interim Financial Statements are being filed to amend:

(a) the “Consolidated Statements of Cash Flows” in the “Financing Activities” section “Change in non-cash working capital related to financing activities” was originally reported as 2,124 and total for the section as (21,254) for 2010. “Change in non-cash working capital related to financing activities” should be 2,839 and the total should be (20,539). In summary “Change in non-cash working capital related to financing activities” was understated by 715 and total funds used in Financing Activities was overstated by the same amount. All numbers in thousands of dollars.

# PEYTO

Energy Trust

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*Interim Report  
for the three months ended March 31, 2010*

# Highlights

	3 Months Ended Mar. 31		%
	2010	2009	Change
<b>Operations</b>			
Production			
Natural gas (mcf/d)	103,934	95,998	8%
Oil & NGLs (bbl/d)	3,330	3,022	10%
Thousand cubic feet equivalent (mcf/d @ 1:6)	123,916	114,128	9%
Barrels of oil equivalent (boe/d @ 6:1)	20,653	19,021	9%
Product prices			
Natural gas (\$/mcf)	6.34	7.68	(17)%
Oil & NGLs (\$/bbl)	68.93	44.46	55%
Operating expenses (\$/mcfe)	0.41	0.44	(7)%
Transportation (\$/mcfe)	0.13	0.11	18%
Field netback (\$/mcfe)	5.81	6.27	(7)%
General & administrative expenses (\$/mcfe)	0.16	0.22	(27)%
Interest expense (\$/mcfe)	0.40	0.35	14%
<b>Financial (\$000, except per unit)</b>			
Revenue	79,974	78,423	2%
Royalties	9,173	8,290	11%
Funds from operations	58,559	58,607	-
Funds from operations per unit	0.51	0.55	(7)%
Total distributions	41,470	41,309	-
Total distributions per unit	0.36	0.39	(8)%
Payout ratio	71	70	1%
Earnings	36,874	63,574	(42)%
Earnings per diluted unit	0.32	0.60	(47)%
Capital expenditures	49,361	13,036	279%
Weighted average trust units outstanding	115,153,667	105,920,194	9%
<b>As at March 31</b>			
Net debt (before future compensation expense and unrealized hedging gains)	467,368	490,570	(5)%
Unitholders' equity	643,798	580,221	11%
Total assets	1,320,721	1,271,770	4%

(\$000)	Three Months ended Mar. 31	
	2010	2009
Cash flows from operating activities	52,384	52,101
Change in non-cash working capital	4,041	5,356
Change in provision for performance based compensation	2,134	1,150
Funds from operations	58,559	58,607
Funds from operations per unit	0.51	0.55

(1) Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. Management believes that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Funds from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, funds from operations, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that funds from operations should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations cannot be assured and future distributions may vary.

## Report from the president

Peyto Energy Trust ("Peyto" or the "Trust") is pleased to present the operating and financial results for the first quarter of the 2010 fiscal year. The Trust generated industry leading operating margins of 73%<sup>(1)</sup> and profit margins of 46%<sup>(2)</sup> in the quarter, along with 9% growth in production. First quarter 2010 highlights were as follows:

- Production grew from 114 MMcfe/d in Q1 2009 to 124 MMcfe/d (20,653 boe/d) in Q1 2010, largely as a result of horizontal drilling success in Peyto's Cardium, Notikewin and Wilrich Deep Basin plays. This equates to a 9% year over year increase or a 22% increase in production per unit, debt adjusted<sup>(3)</sup>.
- Funds from operations ("FFO") were unchanged from Q1 2009 at \$58.6 million with increased production volumes contributing to offset the 17% decline in realized natural gas prices. FFO per unit were down 7% to \$0.51/unit due to an increase in trust units outstanding.
- Operating costs, including transportation, were maintained at \$0.54/Mcfe (\$3.22/boe) which contributed to corporate netbacks of \$5.25/Mcfe (\$31.50/boe) or 73% of revenue.
- Capital of \$49.4 million (net of \$8.4 million in Drilling Royalty Credits) was invested in the drilling of 6 net vertical and 7.6 net horizontal wells.
- Earnings of \$36.9 million (\$0.32/unit) were generated in the quarter and \$41.5 million (\$0.36/unit) was distributed to unitholders.

### First Quarter 2010 in Review

Peyto finished three pilot projects in the first quarter which helped to prove the application of horizontal multi-stage fracture technology in the Alberta Deep Basin. Since Q3 2009, five Cardium, four Notikewin and four Wilrich horizontal wells have now been drilled, completed and put on production. Over the next several months, the performance of these wells will help the Trust determine which exploitation strategies will be most profitable in the ongoing development of its many Deep Basin resource plays. Approximately 27 MMcfe/d (4,500 boe/d) of new production was brought on in the quarter with horizontal wells contributing 70% of this increase. Alberta spot natural gas prices, which averaged \$4.70/GJ, declined throughout the quarter, similar to the same period last year. Peyto's low cost structure, combined with liquids rich, high heat content natural gas production, ensures profitability is achieved even during the lowest part of the gas price cycle with positive funds flow generated at AECO prices above \$1.50/GJ and positive earnings at prices above \$3.00/GJ. Although Alberta drilling activity is up from this time last year, service and material costs are still low, and when combined with Alberta royalty incentives, create an attractive environment for continued natural gas investment. As a result, the capital program for 2010 has been increased to range from \$225 to \$250 million (before drilling royalty credits).

(1) Operating Margin is defined as Funds from Operations divided by Revenue before Royalties but including realized hedging gains (losses).

(2) Profit Margin is defined as Net Earnings for the quarter divided by Revenue before Royalties but including realized hedging gains (losses).

(3) Per unit results are adjusted for changes in net debt and equity. Net debt is converted to equity using the Mar 31 unit price of \$13.51 for 2010 and \$7.79 for 2009.

Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (mcf) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

## **Capital Expenditures**

Peyto invested \$57.8 million in the first quarter of 2010 and recovered \$8.4 million in drilling royalty credits for net capital spending of \$49.4 million. Drilling and completions accounted for \$47.5 million or 82% of the total before credits, with wellsite equipment, pipelines and facilities accounting for \$10 million. Land and seismic accounted for \$0.3 million.

14 gross (13.6 net) wells were spud in the quarter, with 6 drilled vertically and 8 horizontally, while 14 gross (13.6 net) zones were completed and 13 gross (12.6 net) zones brought on stream. Also during the quarter, Peyto expanded its Nosehill gas plant from 20 MMcf/d to 30 MMcf/d of processing capacity with the installation of a third compressor unit.

## **Financial Results**

The Trust realized natural gas prices of \$6.34/mcf in Q1 2010, benefiting from its high heat content natural gas and a \$0.63/mcf hedging gain. Oil and natural gas liquids combined for a realized liquids price of \$68.93/bbl. On a blended basis, Peyto's natural gas and liquid sales effectively realized a price of \$6.64/mcfe, before hedging, compared to AECO daily spot prices that averaged \$4.70/GJ and Edmonton par oil prices of \$80/bbl.

Cash costs, which include royalties, operating costs, transportation, G&A, and interest, were \$1.92/mcfe (\$11.52/boe) in Q1 2010, essentially unchanged from the \$1.93/mcfe in Q1 2009. When combined with total revenues of \$7.17/mcfe (\$43.02/boe), a cash netback of \$5.25/mcfe (\$31.50/boe) was realized which equates to a 73% operating margin. Depletion, depreciation and accretion as well as a provision for future performance based compensation and future income tax reduced the 73% operating margin to a 46% profit margin or earnings of \$3.31/mcfe (\$19.84/boe).

Subsequent to the quarter, Peyto's financial flexibility and balance sheet were strengthened by the April 1, 2010 expansion of the Trust's credit facility from \$550 to \$625 million and the April 27, 2010 issuance of 5.566 million units at \$13.45/unit, for net proceeds of \$71 million. Net debt of \$467 million at the end of Q1 2010 was further reduced to \$396 million, leaving \$229 million in available bank lines.

## **Marketing**

Alberta natural gas prices fell throughout the quarter, similar to Q1 2009, amid fears the North American market is oversupplied. Peyto's marketing strategy of layering in forward sales continued to smooth out much of this volatility. A first quarter 2010 hedging gain of \$5.9 million was realized, as compared to a \$13.3 million gain for the first quarter 2009.

As at March 31, 2010, the Trust had committed to the future sale of 29,535,000 gigajoules (GJ) of natural gas at an average price of \$5.71 per GJ or \$6.68 per mcf. Had these contracts been closed on March 31, 2010, the Trust would have realized a gain in the amount of \$45.0 million. A detailed summary of contracts outstanding in respect of the hedging activity is available in the MD&A.

## **Activity Update**

The last wells of the winter drilling program are now tied-in and current production stands at 141 MMcfe/d (23,500 boe/d). Field operations are anticipated to recommence mid-May with 5 drilling rigs capable of either vertical or horizontal drilling. Initially the program will focus on the greater Sundance area following up on the success of the existing horizontal wells in the Cardium, Notikewin and Wilrich formations along with a number of vertical wells targeting the various formations. The Trust plans to initiate two additional horizontal pilot projects later in the year testing other prospective zones, as well as branching out along trend in the Cardium formation.

A turnaround of the Oldman gas plant in the Sundance field is planned during the second quarter, as well as facility modifications and expansion of the Kakwa and Nosehill gas plants that will ultimately see the doubling of capacity at Nosehill to 60 mmcf/d.

## **Corporate Conversion**

Peyto remains on track with plans for the conversion of the Trust into a corporate form on December 31, 2010. The new corporate structure will retain the ability to return profits to shareholders in the form of monthly dividends rather than monthly distributions. Details of the conversion will be communicated in the coming months and a unitholder meeting is planned for December 8, 2010. For the remainder of 2010, the Trust plans on maintaining distributions at \$0.12/unit/month.

## **2010 Outlook**

With the successful horizontal pilot projects now complete, the stage is set for an exciting year of growth in 2010. Since Peyto's first horizontal well came on production in August 2009, production has grown from 105 MMcfe/d (17,600 boe/d) to 141 MMcfe/d (23,500 boe/d). This 34% increase in the past ten months has all come from internally generated drilling ideas. With Peyto's low cost structure, these and future drilling ideas will continue to rank at the top of the industry in profitability, much as they have over the past 11 years. The success of recent activity has led to a 25% expansion of the 2010 capital program. This capital program, ranging from \$225 to \$250 million, will be three times greater than what was invested in 2009.

Peyto has now begun the transition from a sustainable energy trust model back to a growth oriented exploration and production company; one that continues to deliver superior total returns to its unitholders. The focus on profitability, as the fundamental driver of investment decisions, remains firmly intact.

## **Annual General Meeting**

The Trust's Annual General Meeting of Unitholders is scheduled for 3:00 p.m. on Wednesday, May 19, 2010 at Livingston Place Conference Centre, +15 level, 222-3rd Avenue SW, Calgary, Alberta. A webcast of the AGM, questions and presentation will be made live at <http://www.gowebcasting.com/1672> and later archived on the Peyto website at [www.peyto.com](http://www.peyto.com).



Darren Gee  
President and CEO  
May 12, 2010

## Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2010 and the audited consolidated financial statements of Peyto Energy Trust (the "Trust" or "Peyto") for the year ended December 31, 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 11, 2010. Additional information about Peyto, including the most recently filed annual information form is available at [www.sedar.com](http://www.sedar.com).

Certain information set forth in this MD&A, including management's assessment of the Trust's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive there from.

All references are to Canadian dollars unless otherwise indicated. Natural gas liquids ("NGL") and oil volumes are recorded in barrels of oil (bbl) and are converted to one thousand cubic feet equivalent (mcf) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl).

Peyto is a Canadian energy trust involved in the development and production of natural gas in Alberta's deep basin. As at December 31, 2009, the total Proved plus Probable reserves were 1,199.3 billion cubic feet equivalent (199.9 million barrels of oil equivalent) as evaluated by the independent petroleum engineers. Production is weighted approximately 85% natural gas and 15% natural gas liquids and oil.

The Peyto model is designed to deliver a superior total return and, over time, growth in value, assets, production and income, all on a debt adjusted per unit basis. The model is built around three key principles:

- Use technical expertise to achieve the best return on capital employed, through the development of internally generated drilling projects.
- Maintain a payout ratio designed to efficiently fund a growing inventory of drilling projects.
- Build an asset base which is made up of high quality long life natural gas reserves.

Operating results over the last eleven years indicate that these principles have been successfully implemented. This business model makes Peyto a truly unique energy trust.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per unit amounts)	2010		2009		2008			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue (net of royalties)	<b>70,801</b>	64,761	56,353	56,598	70,133	79,612	86,607	87,682
Funds from operations	<b>58,559</b>	53,302	45,263	45,527	58,607	67,354	74,485	74,113
Per unit – basic and diluted	<b>0.51</b>	0.46	0.39	0.43	0.55	0.64	0.70	0.70
Earnings	<b>36,874</b>	33,035	26,976	29,189	63,574	50,711	64,834	31,412
Per unit – basic and diluted	<b>0.32</b>	0.28	0.24	0.28	0.60	0.48	0.61	0.30
Distributions	<b>41,470</b>	41,371	41,371	39,211	41,309	47,664	47,664	46,605
Per unit – diluted	<b>0.36</b>	0.36	0.36	0.37	0.39	0.45	0.45	0.44

## RESULTS OF OPERATIONS

### Production

	Three Months ended Mar. 31	
	2010	2009
Natural gas (mmcf/d)	<b>103.9</b>	96.0
Oil & natural gas liquids (bbl/d)	<b>3,330</b>	3,022
Barrels of oil equivalent (boe/d)	<b>20,653</b>	19,021
Thousand cubic feet equivalent (mmcfe/d)	<b>123.9</b>	114.1

Natural gas production averaged 103.9 mmcf/d in the first quarter of 2010, 8 percent higher than the 96.0 mmcf/d reported for the same period in 2009. Oil and natural gas liquids production averaged 3,330 bbl/d, an increase of 10 percent from 3,022 bbl/d reported in the prior year. First quarter production increased 9 percent from 114.1 mmcfe/d to 123.9 mmcfe/d. The production increases are attributable to Peyto's increased capital program and higher levels of drilling activity in the fourth quarter of 2009 and the first quarter of 2010.

### Commodity Prices

	Three Months ended Mar. 31	
	2010	2009
Natural gas (\$/mcf)	<b>5.71</b>	6.15
Hedging – gas (\$/mcf)	<b>0.63</b>	1.53
Natural gas – after hedging (\$/mcf)	<b>6.34</b>	7.68
Oil and natural gas liquids(\$/bbl)	<b>68.93</b>	44.46
Total Hedging (\$/mcf)	<b>0.53</b>	1.29
Total Hedging (\$/boe)	<b>3.17</b>	7.75

Peyto's natural gas price, before hedging gains, averaged \$5.71/mcf during the first quarter of 2010, a decrease of 7 percent from \$6.15/mcf reported for the equivalent period in 2009. Oil and natural gas liquids prices averaged \$68.93/bbl, an increase of 55 percent from \$44.46/bbl a year earlier. Hedging activity for the first quarter of 2010 accounted for \$0.53/mcfe of Peyto's achieved price.

### Revenue

(\$000)	Three Months ended Mar. 31	
	2010	2009
Natural gas	<b>53,430</b>	53,071
Oil and natural gas liquids	<b>20,660</b>	12,092
Hedging gain (loss)	<b>5,884</b>	13,260
Total revenue	<b>79,974</b>	78,423

For the three months ended March 31, 2010, revenue increased 2 percent to \$80.0 million from \$78.4 million for the same period in 2009. The increase in revenue for the period was a result of increased production volumes and higher oil and NGL prices as detailed in the following table:



	Three Months ended Mar. 31		
	2010	2009	\$million
Total Revenue, Mar. 31, 2009			<b>78.4</b>
Revenue change due to:			
<b>Natural gas</b>			
Volume (mmcf)	9,354	8,640	<b>5.5</b>
Price (\$/mcf)	\$6.34	\$7.68	<b>(12.5)</b>
<b>Oil &amp; NGL</b>			
Volume (mdbl)	300	272	<b>1.2</b>
Price (\$/bbl)	\$68.93	\$44.46	<b>7.4</b>
Total Revenue, Mar. 31, 2010			<b>80.0</b>

### Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta gas crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances.

(\$000 except per unit amounts)	Three Months ended Mar. 31	
	2010	2009
Royalties	<b>9,173</b>	8,290
% of sales before hedging	<b>12.4</b>	12.7
% of sales after hedging	<b>11.5</b>	10.6
\$/mcf	<b>0.82</b>	0.81
\$/boe	<b>4.93</b>	4.84

For the first quarter of 2010, royalties averaged \$0.82/mcfe or approximately 11.5 percent of Peyto's total petroleum and natural gas sales, consistent with the first quarter of 2009. Under the Alberta Government new royalty framework the crown royalty rate fluctuates with production rates and commodity prices. The royalty rate expressed as a percentage of sales will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices obtained by the Trust and that hedging gains and losses are not subject to royalties. In its 11 year history, Peyto has invested over \$1.6 billion in capital projects and has found and developed gas reserves that have paid over \$511 million in royalties.

On March 3, 2009, the Alberta Government announced a "Three Point Incentive Program" to stimulate new and continued economic activity. The program provides for the earning of certain royalty credits and royalty relief for wells drilled during the period April 1, 2009 to March 31, 2010. The key aspects of the program are (1) a drilling depth based credit applicable against corporate royalties and (2) a flat 5percent royalty rate applicable for a one year period commencing with the on stream date for each new well drilled.

On June 25, 2009 the Alberta Government modified the "Three Point Incentive Program" in response to the continued lack of industry activity. The drilling depth based credit program was extended by one year from the original expiry date of March 31, 2010 until a new expiry date of March 31, 2011. In addition the one year flat 5percent royalty rate benefit was also extended by one year. Originally, only new wells brought on stream after April 1, 2009 but before March 31, 2010 qualified for the one year flat 5 percent royalty rate. This program was also extended to March 31, 2011 such that new wells brought on stream before that date will qualify for the one year flat 5 percent royalty rate. For the quarter ending March 31, 2010 \$8.4 million in Alberta drilling credits have been recognized as a reduction to capital spending.

On March 11, 2010, the Alberta Government released "Energizing Investment – A Framework to Improve Alberta's Natural Gas and Conventional Oil Competitiveness". The document outlines some changes to Alberta's royalty structure including:

1. A permanent front end royalty reduction - a maximum 5% royalty for a one year period up to a maximum production level of 500,000 MMcf for gas wells and 50,000 Bbl oil for oil wells. This is an extension of the same feature under the "Three Point Incentive Program" and will effectively continue it beyond the original expiry of March 31, 2011.

2. A change to the price and production rate dependent royalty rate curves to reset maximums to 36% for gas and 40% for oil. The details of the curves have yet to be released and are expected by the end of May, 2010.

### Operating Costs & Transportation

The Trust's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering income related to joint venture and third party production reduces operating expenses.

	Three Months ended Mar. 31	
	2010	2009
Operating costs (\$000)		
Field expenses	7,132	7,395
Processing and gathering income	(2,573)	(2,835)
Total operating costs	4,559	4,560
\$/mcf	0.41	0.44
\$/boe	2.45	2.66
Transportation	1,435	1,178
\$/mcf	0.13	0.11
\$/boe	0.77	0.69

Operating costs were \$4.6 million in the first quarter of 2010 consistent with \$4.6 million during the same period a year earlier. On a unit-of-production basis, operating costs averaged \$0.41/mcf in the first quarter of 2010 compared to \$0.44/mcf for the equivalent period in 2009. Transportation expense increased due to an increase in pipeline tariffs effective January 1, 2010.

### General and Administrative Expenses

	Three Months ended Mar. 31	
	2010	2009
G&A expenses (\$000)	2,718	2,739
Overhead recoveries	(882)	(501)
Net G&A expenses	1,836	2,238
\$/mcf	0.16	0.22
\$/boe	0.99	1.32

General and administrative expenses before overhead recoveries remained constant quarter over quarter. Capital overhead recoveries increased 76 percent for the first quarter from \$0.5 million to \$0.9 million as a result of the increased capital program in 2010. General and administrative expenses averaged \$0.16/mcf in the first quarter of 2010 compared to \$0.22/mcf for the equivalent period in 2009.

### Interest Expense

	Three Months ended Mar. 31	
	2010	2009
Interest expense (\$000)	4,412	3,550
\$/mcf	0.40	0.35
\$/boe	2.37	2.07
Average interest rate	4.0%	2.8%

First quarter 2010 interest expense was \$4.4 million or \$0.40/mcf compared to \$3.6 million or \$0.35/mcf a year earlier due to an increase in the interest rates.

### Netbacks

	Three Months ended Mar. 31	
	2010	2009
(\$/mcf)		
Sale Price	7.17	7.63
Less: Royalties	0.82	0.81
Operating costs	0.41	0.44

Transportation	<b>0.13</b>	0.11
Field netback	<b>5.81</b>	6.27
General and administrative	<b>0.16</b>	0.22
Interest on long-term debt	<b>0.40</b>	0.35
Cash netback (\$/mcf)	<b>5.25</b>	5.70
Cash netback (\$/boe)	<b>31.50</b>	34.23

Netbacks are a non-GAAP measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per-unit of production measures used to assess the Trust's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.

### **Depletion, Depreciation and Accretion**

The 2010 first quarter provision for depletion, depreciation and accretion totaled \$20.4 million as compared to \$18.6 million in 2009 due to higher levels of production and a larger asset base. On a unit-of-production basis, depletion, depreciation and accretion costs averaged \$1.83/mcf as compared to \$1.81/mcf in 2009.

### **Income Taxes**

The current recovery for future income tax was \$0.9 million (2009 – \$24.7 million). Peyto's trust structure is unique and was designed to provide for discretion at the operating trust level to distribute taxable income to the Trust. Resource pools are generated from the capital program, which are available to offset current and future income tax liabilities. Unitholders benefit as the Trust may use these resource pools to increase the tax free return of capital component of the cash distributions. As a result of the internal reorganization that took place January 1, 2008, the tax rate applied to differences between the accounting basis and tax basis of the Trust's assets increased by approximately 3 percent (the difference between future corporate income tax rates and future tax rates applicable to trusts) for 2008. Changes to the SIFT rules proposed in the 2008 Federal Budget were substantively enacted in the first quarter of 2009, resulting in a large future income tax recovery.

On June 12, 2007, Bill C-52 (the "SIFT Rules") enacted the October 31, 2006 proposal to impose a new tax on distributions from flow-through entities, including publicly traded income trusts. Under the SIFT Rules, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. In simplified terms, under the proposed tax plan, income distributions will first be taxed at the trust level at a special rate estimated to be the Federal Corporate rate and applicable provincial corporate rate. Income distributions to unitholders will then be treated as dividends from a Canadian corporation. Individual unitholders will be eligible for the dividend tax credit. Tax-deferred accounts (RRSPs, RRIFs, TFSAs and Pension Plans) will continue to pay no tax on distributions but will not be eligible to use the dividend tax credit. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on individual Canadian taxable investors is expected to be minimal because they can take advantage of the dividend tax credit. However, as a result of the tax at the trust level, distributions to tax-deferred accounts and non-residents will be reduced.

Recent amendments to the Income Tax Act (Canada) facilitate the conversion of existing income trusts into corporations. In general, the amendments permit alternative transactions which allow a conversion to be tax deferred for both the unitholders and the income trust. Peyto has now met with its advisors and determined that, barring any unforeseen legislative changes and pending unitholder and regulatory approval, the conversion of the Trust into a corporate form will likely occur effective December 31, 2010. At the present time, Peyto believes that if structural or other similar changes are not made, the relative after-tax distribution amount in 2011 to taxable Canadian investors will remain approximately the same, however, will decline for both tax-deferred Canadian investors (RRSPs, RRIFs, TFSAs and pension plans, etc.) and foreign investors.

Canada Revenue Agency ("CRA") has conducted an audit of restructuring costs claimed as a result of the trust conversion in 2003 that has resulted in the reclassification of \$41.0 million dollars in employment related costs as eligible capital. In October, 2008, the Trust has received a notice of reassessment from the CRA and paid an amount of \$7.3 million related to this audit. Based upon consultation with legal counsel, management's view is that CRA's position has no merit. A notice of appeal was filed May 19, 2009 and the appeal has been denied. Examinations for discovery have been scheduled for June 2010.

## MARKETING

### Commodity Price Risk Management

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these forward contracts with well established counter-parties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. During the first quarter of 2010, a realized hedging gain of \$5.9 million was recorded as compared to \$13.3 million for the equivalent period in 2009. A summary of contracts outstanding in respect of the hedging activities are as follows:

<b>Natural Gas Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (CAD)</b>
November 1 , 2009 to October 31, 2010	Fixed price	5,000 GJ	\$5.20/GJ
November 1 , 2009 to October 31, 2010	Fixed price	5,000 GJ	\$5.00/GJ
November 1, 2009 to March 31, 2011	Fixed Price	5,000 GJ	\$6.20/GJ
November 1 , 2009 to March 31, 2011	Fixed price	5,000 GJ	\$5.81/GJ
April 1, 2010 to October 31, 2010	Fixed Price	5,000 GJ	\$6.10/GJ
April 1, 2010 to October 31, 2010	Fixed Price	5,000 GJ	\$5.50/GJ
April 1, 2010 to October 31, 2010	Fixed Price	5,000 GJ	\$4.50/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.28/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.29/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.555/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.70/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$4.55/GJ
April 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$5.67/GJ
April 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$5.82/GJ
November 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$8.91/GJ
November 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$9.15/GJ
April 1 , 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$6.20/GJ
November 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$4.50/GJ

As at March 31, 2010, the Trust had committed to the future sale of 29,535,000 gigajoules (GJ) of natural gas at an average price of \$5.71 per GJ or \$6.68 per mcf. Had these contracts been closed on March 31, 2010, the Trust would have realized a gain in the amount of \$45.0 million.

Subsequent to March 31, 2010 the Trust entered into the following contracts:

<b>Natural Gas Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (CAD)</b>
April 1 , 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$5.00/GJ
April 1 , 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$5.12/GJ

### Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings over which the Trust has no control. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

### Currency Risk Management

The Trust is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of a commodity hedging strategy that is conducted in a Canadian dollar currency. Over the long term, the Canadian dollar tends to rise as commodity prices rise. There is a similar correlation between oil and gas prices. Currently Peyto has not entered into any agreements to further manage its currency risks.

### Interest Rate Risk Management

The Trust is exposed to interest rate risk in relation to interest expense on its revolving demand facility. Currently there are no agreements to manage this risk. At March 31, 2010, the increase or decrease in earnings for each 100 bps (1%) change in interest rate paid on the outstanding revolving demand loan amounts to approximately \$1.1 million per quarter or \$4.4 million per annum. Average debt outstanding for the first quarter of 2010 was \$448.0 million.

## LIQUIDITY AND CAPITAL RESOURCES

### Funds from Operations

“Funds from operations” is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance based compensation. Management considers funds from operations and per unit calculations of funds from operations to be key measures as they demonstrate the Trust’s ability to generate the cash necessary to pay distributions, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of the Trust’s ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities. Funds from operations is reconciled to cash flows from operating activities below:

(\$000)	Three Months ended March 31	
	2010	2009
Cash flows from operating activities	52,384	52,101
Change in non-cash working capital	4,041	5,356
Provision for performance based compensation	2,134	1,150
Funds from operations	58,559	58,607
Funds from operations per unit	0.51	0.55

For the first quarter ended March 31, 2010, funds from operations totaled \$58.6 million or \$0.51 per unit, as compared to \$58.6 million, or \$0.55 per unit during the same period in 2009. Peyto’s policy is to balance distributions to unitholders and funding for a capital program with cash flow and available bank lines. Earnings and cash flow are highly sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto’s control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

### Bank Debt

The Trust has a syndicated \$550 million extendible revolving credit facility with a stated term date of April 30, 2010. The facility is made up of a \$20 million working capital sub-tranche and a \$530 million production line. The facilities are available on a revolving basis for a period of at least 364 days and upon the term out date may be extended for a further 364 day period at the request of the Trust, subject to approval by the lenders. In the event that the revolving period is not extended, the facility is available on a non-revolving basis for a one year term, at the end of which time the facility would be due and payable. The loan has therefore been classified as long-term on the balance sheet. The average borrowing rate for the three months ended March 31, 2010 was 4.0% (2008 – 2.8%). Subsequent to March 31, 2010, the Trust’s banking syndicate has agreed to increase the credit facilities to \$625 million and extend the stated term date to April 30, 2011. Outstanding amounts on this facility will bear interest at rates determined by the Trust’s debt to cash flow ratio that range from prime plus 1.25% to prime plus 2.75% for debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1.

Outstanding amounts on this facility bear interest at rates determined by the Trust’s debt to cash flow ratio that range from prime plus 1.5% to prime plus 3.0% for debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank.

At March 31, 2010, \$450 million was drawn under the facility. Working capital liquidity is maintained by drawing from and repaying the unutilized credit facility as needed. At March 31, 2010, the working capital surplus was \$18.8 million (including a non-cash current asset for an unrealized mark to market future hedging gain of \$40.0 million).

Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to finance current operations and the planned capital expenditure program. The total amount of capital invested in 2010 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Trust. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scaleable business model has the flexibility to match planned capital expenditures to actual cash flow.

### Net Debt

"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance based compensation. It is used by management to analyze the financial position and leverage of the Trust. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

(\$000)	As at March 31, 2010	As at December 31, 2009	As at March 31, 2009
Long-term debt	450,000	435,000	510,000
Current liabilities	89,224	71,681	40,852
Current assets	(108,013)	(73,503)	(94,429)
Financial derivative instruments	40,039	8,683	35,297
Provision for future performance based compensation	(3,882)	(2,001)	(1,150)
<b>Net Debt</b>	<b>467,368</b>	<b>439,860</b>	<b>490,570</b>

### Capital

**Authorized:** Unlimited number of voting trust units

#### Issued and Outstanding

Trust Units (no par value) (\$000)	Number of Units	Amount
<b>Balance, December 31, 2008</b>	<b>105,920,194</b>	<b>410,233</b>
Trust units issued	9,000,000	94,500
Trust units issuance costs (net of tax)	-	(4,326)
<b>Balance, December 31, 2009</b>	<b>114,920,194</b>	<b>500,407</b>
Trust units issued by private placement	196,420	2,728
Trust units issued pursuant to DRIP	115,139	1,505
Trust units issued pursuant to OTUPP	68,922	872
<b>Balance, March 31, 2010</b>	<b>115,300,675</b>	<b>505,512</b>

On June 26, 2009, Peyto closed an offering of 9,000,000 trust units at a price of \$10.50 per trust unit, receiving net proceeds of \$89.4 million (net of issuance costs).

On December 31, 2009 the Trust completed a private placement of 196,420 trust units to employees and consultants for net proceeds of \$2.7 million (\$13.89 per unit). These trust units were issued on January 6, 2010.

Peyto reinstated its amended distribution reinvestment and optional trust unit purchase plan (the "Amended DRIP Plan") effective with the January 2010 distribution whereby eligible unitholders may elect to reinvest their monthly cash distributions in additional trust units at a 5 percent discount to market price. The DRIP plan incorporates an Optional Trust Unit Purchase Plan ("OTUPP") which provides unitholders enrolled in the DRIP with the opportunity to purchase additional trust units from treasury using the same pricing as the DRIP.

Subsequent to March 31, 2010 115,927 trust units (55,371 pursuant to the DRIP and 60,556 pursuant to the OTUPP) were issued for net proceeds of \$1.5 million. Subsequent to the issuance of these units, 115,416,602 trust units were outstanding.

On April 27, 2010, Peyto closed an offering of 5,566,000 trust units at a price of \$13.45 per trust unit, receiving net proceeds of \$71 million (net of issuance costs).

### Performance Based Compensation

The Trust awards performance based compensation to employees and key consultants annually. The performance based compensation is comprised of market and reserve value based components.

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity and distributions, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. This methodology can generate interim results which vary significantly from the final compensation paid. A provision for compensation expense of \$1.2 million was recorded for the first quarter of 2010.

Under the market based component, rights vest which over a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of trust units outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (market price over the price at the date of grant and associated distributions).

Based on the weighted average trading price of the trust units for the period ended March 31, 2010, compensation costs related to 4.5 million non-vested rights (4% of the total number of trust units outstanding), with an average grant price of \$13.48, are \$0.9 million. The Trust records a non-cash provision for future compensation expense over the life of the rights. The cumulative provision totals \$5.2 million.

### Capital Expenditures

Net capital expenditures for the first quarter of 2010 totaled \$49.4 million (net of drilling royalty credits). Exploration and development related activity represented \$39.4 million or 80% of the total, while expenditures on facilities, gathering systems and equipment totaled \$10.0 million or 20% of the total. The following table summarizes capital expenditures for the quarter.

(\$000)	Three Months ended Mar. 31	
	2010	2009
Land	244	109
Seismic	26	141
Drilling – Exploratory & Development	39,090	10,531
Production Equipment, Facilities & Pipelines	10,001	2,255
<b>Total Capital Expenditures</b>	<b>49,361</b>	<b>13,036</b>

### Distributions

	Three Months ended Mar. 31	
	2010	2009
Funds from operations (\$000)	58,599	58,607
Total distributions (\$000)	41,470	41,309
Total distributions per unit (\$)	0.36	0.39
Payout ratio (%)	71	70

Peyto's policy is to balance distributions to unitholders and funding for a capital program with cash flow and available bank lines. The Board of Directors is prepared to adjust the payout ratio levels (distributions declared divided by funds from operations) to achieve the desired distributions while maintaining an appropriate capital structure. For Canadian income tax purposes, distributions made are considered a combination of income and return of capital. The portion that is return of capital reduces the adjusted cost base of the units.

### Sustainability of Distributions

(\$000)	Three months ended March 31, 2010	Year ended December 31, 2009
Cash flows from operating activities	52,384	198,688
Earnings for the period	36,874	152,774
Distribution declared	(41,470)	(163,263)
Excess of cash flows from operating activities over distributions declared	10,914	35,425
Excess (shortfall) of earnings over distributions declared	(4,596)	(10,489)

Shortfalls of earnings over distributions paid are a result of non-cash charges such as depletion, depreciation and accretion which have no immediate impact on distribution sustainability.

### Accumulated Earnings and Distributions

(\$000)	Three Months ended Mar. 31	
	2010	2009
Opening accumulated earnings	1,072,209	919,435
Earnings for the period	36,874	63,574
Total accumulated earnings	1,109,083	983,009
Total accumulated distributions	(1,013,930)	(850,506)
Accumulated earnings per Balance Sheet	95,153	132,503

Since inception, Peyto has accumulated earnings of \$1.1 billion and distributed \$1.0 billion to unitholders.

### Contractual Obligations

The Trust is committed to payments under operating leases for office space as follows:

(\$000)	March 31, 2010
2010	777
2011	1,036
2012	1,036
2013	1,036
2014	1,036
	4,921

### RELATED PARTY TRANSACTIONS

An officer and director of the Trust is a partner of a law firm that provides legal services to the Trust. The fees charged are based on standard rates and time spent on matters pertaining to the Trust and its subsidiaries.

### INCOME TAXES

The following sets out a general discussion of the Canadian and US tax consequences of holding Peyto units as capital property. The summary is not exhaustive in nature and is not intended to provide legal or tax advice. Unitholders or potential Unitholders should consult their own legal or tax advisors as to their particular tax consequences.

#### Canadian Taxpayers

The Trust qualifies as a mutual fund trust under the *Income Tax Act* (Canada) and, accordingly, Trust units are qualified investments for RRSPs, RRIFs, RESPs, TFSAs and DPSPs. Each year, the Trust is required to file an income tax return and any taxable income of the Trust is allocated to unitholders.

Unitholders are required to include in computing income their pro-rata share of any taxable income earned by the Trust in that year. An investor's adjusted cost base (ACB) in a trust unit equals the purchase price of the unit less any non-taxable cash distributions received from the date of acquisition. To the extent the unitholders' ACB is reduced below zero, such amount will be deemed to be a capital gain to the unitholder and the unitholders' ACB will be brought to nil.

During the first quarter of 2010, the Trust paid distributions to the unitholders in the amount of \$41.5 million (2009 - \$41.3 million) in accordance with the following schedule:

Production Period	Record Date	Distribution Date	Per Unit <sup>(1)</sup>
January 2010	January 31, 2010	February 15, 2010	\$0.12
February 2010	February 28, 2010	March 15, 2010	\$0.12
March 2010	March 31, 2010	April 15, 2010	\$0.12

<sup>(1)</sup> Distributions per trust unit reflect the sum of the per trust unit amounts declared monthly to unitholders.



## **US Taxpayers**

US unitholders who receive cash distributions are subject to a 15% Canadian withholding tax. US taxpayers may be eligible for a foreign tax credit with respect to Canadian withholding taxes paid.

The taxable portion of the cash distributions, if any, is determined by the Trust in relation to its current and accumulated earnings and profit using US tax principles. The taxable portion so determined, is considered to be a dividend for US tax purposes.

The non-taxable portion of the cash distributions is a return of the cost (or other basis). The cost (or other basis) is reduced by this amount for computing any gain or loss from disposition. However, if the full amount of the cost (or other basis) has been recovered, any further non-taxable distributions should be reported as a gain.

US unitholders are advised to seek legal or tax advice from their professional advisors.

## **RISK MANAGEMENT**

Investors who purchase units are participating in the net funds from operations from a portfolio of western Canadian natural gas producing properties. As such, the funds from operations paid to investors and the value of the units are subject to numerous risks inherent in the oil and natural gas industry.

Expected funds from operations depends largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is primarily dependent on current Alberta market prices. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect distributions to unitholders and the value of the units. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the unitholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect the Trust against certain potential losses.

The value of Peyto's units is based on among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost efficient counter-parties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. The Trust operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations, and looks to both Alberta provincial authorities and Canada's federal authorities for direction and regulation regarding environmental and climate change legislation.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, the Trust must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Trust's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Trust is made known to the Trust's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Trust in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Trust's disclosure controls and procedures at the interim period end of the Trust and have concluded that the Trust's disclosure controls and procedures are effective at the financial period end of the Trust for the foregoing purposes.

### **Internal Control over Financial Reporting**

The Trust's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Trust's internal control over financial reporting at the financial period end of the Trust and concluded that the Trust's internal control over financial reporting is effective, at the financial period end of the Trust, for the foregoing purpose.

The Trust is required to disclose herein any change in the Trust's internal control over financial reporting that occurred during the period beginning on January 1, 2010 and ended on March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting. No material changes in the Trust's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

It should be noted that a control system, including the Trust's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Reserve Estimates**

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable

quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Trust's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to the Trust's reserves will likely vary from estimates, and such variances may be material.

The Trust's estimated quantities of proved and probable reserves at December 31, 2009 were audited by independent petroleum engineers Paddock Lindstrom & Associates Ltd. Paddock has been evaluating reserves in this area and for Peyto for 11 consecutive years.

#### **Depletion and Depreciation Estimate**

The full cost method of accounting for petroleum and natural gas operations is followed whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated on the unit-of-production method based on estimated gross proven reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil).

Costs of acquiring unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

#### **Full Cost Accounting Ceiling Test**

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The ceiling test is based on estimates of proved reserves, production rates, estimated future petroleum and natural gas prices and costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

#### **Asset Retirement Obligation**

The asset retirement obligation is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

#### **Future Market Performance Based Compensation**

The provision for future market based compensation is estimated based on current market conditions, distribution history and on the assumption that all outstanding rights will be paid out according to the vesting schedule. The conditions at the time of vesting could vary significantly from the current conditions and may have a material effect on the calculation.

#### **Reserve Value Performance Based Compensation**

The reserve value based compensation is calculated using the year end independent reserves evaluation which was completed in January 2010. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and distributions. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

#### **Income Taxes**

The determination of the Trust's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential

reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

### **Accounting Changes**

Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Trust has not applied a new primary source of GAAP that has been issued, but is not effective, the Trust will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

## **CHANGES IN ACCOUNTING POLICIES**

### **International Financial Reporting Standards**

The Accounting Standards Board (AcSB) confirmed in February 2008 that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Trust's reporting for the first quarter of 2011 for which current and comparative information will be prepared under IFRS.

Peyto's project consists of three key phases:

- Scoping and diagnostic phase – this phase involves performing a high level impact analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis are priority ranked according to complexity and the amount of time required to assess the impact of changes in transitioning to IFRS.
- Impact analysis and evaluation phase – during this phase, items identified in the diagnostic phase are addressed according to the priority levels assigned to them. This phase involves analysis of policy choices allowed under IFRS and their impact on the financial statements. In addition, certain potential differences are further investigated to assess whether there may be a broader impact to Peyto's debt agreements, compensation arrangements or management reporting systems. The conclusion of the impact analysis and evaluation phase will require the audit committee of the Board of Directors to review all accounting policy choices as proposed by management.
- Financial implementation phase – involves implementation of all changes approved in the impact analysis phase and will include changes to information systems, business processes, modification of agreements and training of all staff who are impacted by the conversion.

Peyto has completed the scoping and diagnostic phase and has prepared draft analysis for the impact analysis and evaluation phase. Management has not yet finalized its accounting policies and as such is unable to quantify the impact of adopting IFRS on the financial statements. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to the Trust's adoption of IFRS, management's plan is subject to change based on new facts and circumstances that arise after the date of this MD&A.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect the Trust's reported financial position and results of operations. At this time, Peyto has identified key differences that will impact the financial statements as follows:

- Re-classification of Exploration and Evaluation ("E&E") expenditures from PP&E – Upon transition to IFRS, Peyto will reclassify all E&E expenditures that are currently included in PP&E on the Consolidated Balance Sheet. E&E assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.
- Calculation of depletion expense for PP&E assets – Upon transition to IFRS, Peyto has the option to calculate depletion using a reserve base of proved reserves or both proved and probable reserves, as compared to the Canadian GAAP method of calculating depletion using only proved reserves. Peyto has not concluded at this time which method for calculating depletion will be used.

- Impairment of PP&E assets – Under IFRS, impairment of PP&E must be calculated at a more granular level than what is currently required under Canadian GAAP. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves.
- Provisions for asset retirement costs – Under IFRS, Peyto is required to revalue its entire liability for asset retirement costs at each balance sheet date using a current liability-specific discount rate. Under Canadian GAAP, once recorded, asset retirement obligations are not adjusted for future changes in discount rates.
- Provision for future market based compensation - the Trust issues stock-based compensation awards which are valued at intrinsic value under Canadian GAAP. Upon the adoption of IFRS, this liability will be restated to fair value.

### **First Time Adoption of IFRS**

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Trust which are summarized as follows:

- Property Plant and Equipment (“PP&E”) – IFRS 1 provides the option to retrospectively restate PP&E assets at their deemed cost being the Canadian GAAP net book value assigned to these assets as at the date of transition, January 1, 2010 rather than restating historical cost. The Trust is currently evaluating whether to apply this exemption.
- Asset Retirement Obligation (“ARO”) – Where the above PP&E IFRS 1 exemption is taken any change in the liability for ARO will be charged to Retained Earnings. Otherwise, the change will be allocated between PP&E and Retained Earnings.

In addition to accounting policy differences, Peyto’s transition to IFRS is expected to impact its internal controls over financial reporting, disclosure controls and procedures and certain of the Trust’s business activities as follows:

Internal controls over financial reporting (“ICFR”) – As the review of Peytos’s accounting policies is completed, an assessment will be made to determine changes required for ICFR. As an example, additional controls may be implemented for the IFRS 1 changes such as the potential allocation of Peyto’s PP&E as well as the process for reclassifying Peyto’s E&E expenditures from PP&E. This will be an ongoing process throughout 2010 to ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

Disclosure controls and procedures – Throughout the transition process, Peyto will be assessing its stakeholders’ information requirements and will ensure that adequate and timely information is provided to meet these needs.

Business activities – Management has been cognizant of the upcoming transition to IFRS and as such has worked with its counterparties and lenders to ensure that any agreements that contain references to Canadian GAAP financial statements are modified to allow for IFRS statements. Based on the expected changes to Peyto’s accounting policies at this time, no issues are expected with the existing wording of debt covenants and related agreements as a result of the conversion to IFRS. Management will continue to monitor these areas closely as final policy choices are made.

### **ADDITIONAL INFORMATION**

Additional information relating to Peyto Energy Trust can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.peyto.com](http://www.peyto.com).

## Quarterly information

	2010	2009			
	Q1	Q4	Q3	Q2	Q1
<b>Operations</b>					
Production					
Natural gas (mcf/d)	103,934	95,467	89,259	90,191	95,998
Oil & NGLs (bbl/d)	3,330	3,222	2,916	2,950	3,022
Barrels of oil equivalent (boe/d @ 6:1)	20,653	19,133	17,792	17,982	19,021
Thousand cubic feet equivalent (mcf/d @ 6:1)	123,916	114,798	106,755	107,892	114,128
Average product prices					
Natural gas (\$/mcf)	6.34	6.17	5.74	6.14	7.68
Oil & natural gas liquids (\$/bbl)	68.93	60.77	51.06	43.42	44.46
\$/MCFE					
Average sale price (\$/mcf)	7.17	6.84	6.20	6.32	7.63
Average royalties paid (\$/mcf)	0.82	0.71	0.46	0.55	0.81
Average operating expenses (\$/mcf)	0.41	0.38	0.41	0.43	0.44
Average transportation costs (\$/mcf)	0.13	0.11	0.11	0.11	0.11
Field netback (\$/mcf)	5.81	5.64	5.22	5.23	6.27
General & administrative expense (\$/mcf)	0.16	0.15	0.15	0.19	0.22
Interest expense (\$/mcf)	0.40	0.44	0.46	0.39	0.35
Cash netback (\$/mcf)	5.25	5.05	4.61	4.65	5.70
<b>Financial (\$000 except per unit)</b>					
Revenue	79,974	72,218	60,860	62,016	78,423
Royalties	9,173	7,457	4,507	5,417	8,290
Funds from operations	58,559	53,302	45,263	45,527	58,607
Funds from operations per unit	0.51	0.46	0.39	0.43	0.55
Total distributions	41,470	41,371	41,371	39,211	41,309
Total distributions per unit	0.36	0.36	0.36	0.37	0.39
Payout ratio	71%	78%	91%	86%	70%
Earnings	36,874	33,035	26,976	29,189	63,574
Earnings per diluted unit	0.32	0.28	0.24	0.28	0.60
Capital expenditures	49,361	26,307	28,725	4,671	13,036
Weighted average trust units outstanding	115,153,667	114,920,194	114,920,194	106,315,798	105,920,194

## Peyto Energy Trust

### Consolidated Balance Sheets

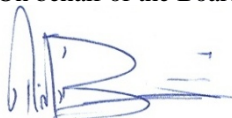
(\$000)

(unaudited)

	March 31, 2010	December 31, 2009
<b>Assets</b>		
<b>Current</b>		
Accounts receivable (Note 3)	64,910	58,305
Due from private placement (Note 6)	-	2,728
Financial derivative instruments (Note 10)	40,039	8,683
Prepaid expenses and deposits	3,064	3,787
	<b>108,013</b>	<b>73,503</b>
Financial derivative instruments (Note 10)	4,974	1,253
Prepaid capital	-	955
Property, plant and equipment (Note 4)	1,207,734	1,178,402
	<b>1,212,708</b>	<b>1,180,610</b>
	<b>1,320,721</b>	<b>1,254,113</b>
<b>Liabilities and Unitholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	72,222	55,890
Distributions payable	13,120	13,790
Provision for future performance based compensation	3,882	2,001
	<b>89,224</b>	<b>71,681</b>
Long-term debt (Note 5)	450,000	435,000
Provision for future performance based compensation	1,294	1,041
Asset retirement obligations	10,806	10,487
Future income taxes	125,598	123,421
	<b>587,698</b>	<b>569,949</b>
<b>Unitholders' equity</b>		
Unitholders' capital (Note 6)	505,512	500,407
Units to be issued (Note 6)	1,498	2,728
Accumulated earnings (Note 7)	95,153	99,749
Accumulated other comprehensive income	41,636	9,599
	<b>136,789</b>	<b>109,348</b>
	<b>643,799</b>	<b>612,483</b>
	<b>1,320,721</b>	<b>1,254,113</b>

See accompanying notes

On behalf of the Board:



(signed) "Michael MacBean"  
Director



(signed) "Darren Gee"  
Director

## Peyto Energy Trust

### Consolidated Statements of Earnings

(\$000 except per unit amounts)

(unaudited)

For the three months ended March 31,

	2010	2009
<b>Revenue</b>		
Oil and gas sales	74,090	65,163
Realized gain on hedges	5,884	13,260
Royalties	(9,173)	(8,290)
Petroleum and natural gas sales, net	70,801	70,133
<b>Expenses</b>		
Operating (Note 8)	4,559	4,560
Transportation	1,435	1,178
General and administrative (Note 9)	1,836	2,238
Future performance based compensation	2,134	1,150
Interest on long term debt	4,412	3,550
Depletion, depreciation and accretion (Note 4)	20,414	18,577
	34,790	31,253
Earnings before taxes	36,011	38,880
<b>Taxes</b>		
Future income tax (recovery) expense	(863)	(24,694)
<b>Earnings for the period</b>	<b>36,874</b>	<b>63,574</b>
Earnings per unit (Note 6)		
Basic and diluted	0.32	0.60

See accompanying notes



**Peyto Energy Trust**

**Consolidated Statements of Comprehensive Income**

(\$000 except per unit amounts)

(unaudited)

For the three months ended March 31,

	<b>2010</b>	<b>2009</b>
<b>Earnings for the period</b>	<b>36,874</b>	63,574
<b>Other comprehensive income (loss)</b>		
Change in unrealized gain on cash flow hedges	<b>37,921</b>	20,499
Realized (gain) on cash flow hedges	<b>(5,884)</b>	(13,260)
<b>Comprehensive income</b>	<b>68,911</b>	70,813

*See accompanying notes*

**Peyto Energy Trust**

**Consolidated Statements of Accumulated Earnings and Accumulated Other Comprehensive Income**  
(\$000)

(unaudited)

For the three months ended March 31,

	2010	2009
Accumulated earnings, beginning of period	99,749	110,238
Earnings for the period	36,874	63,574
Distributions ( <i>Note 7</i> )	(41,470)	(41,309)
<b>Accumulated earnings, end of period</b>	<b>95,153</b>	<b>132,503</b>
Accumulated other comprehensive income, beginning of period	9,599	30,246
Other comprehensive income	32,037	7,239
<b>Accumulated other comprehensive income, end of period</b>	<b>41,636</b>	<b>37,485</b>

*See accompanying notes*

**Peyto Energy Trust****Consolidated Statements of Cash Flows**

(\$000)

(unaudited)

For the three months ended March 31,

	2010	2009
<b>Cash provided by (used in)</b>		
<b>Operating Activities</b>		
Earnings for the period	36,874	63,574
Items not requiring cash:		
Future income tax (recovery) expense	(863)	(24,694)
Depletion, depreciation and accretion	20,414	18,577
Change in non-cash working capital related to operating activities	(4,041)	(5,355)
	<b>52,384</b>	<b>52,102</b>
<b>Financing Activities</b>		
Issue of trust units, net of costs ( <i>Note 6</i> )	872	-
Cash distribution paid (net of DRIP)	(39,250)	(41,309)
Increase in bank debt	15,000	10,000
Change in non-cash working capital related to financing activities	2,839	(3,178)
	<b>(20,539)</b>	<b>(34,487)</b>
<b>Investing Activities</b>		
Additions to property, plant and equipment	(48,473)	(13,036)
Change in non-cash working capital related to investing activities	16,628	(4,579)
	<b>(31,845)</b>	<b>(17,615)</b>
<b>Net decrease in cash</b>	-	-
Cash, beginning of period	-	-
<b>Cash, end of period</b>	-	-

*See accompanying notes*

# Peyto Energy Trust

## Notes to Consolidated Financial Statements

(unaudited)

March 31, 2010 and 2009

### 1. Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements of Peyto Energy Trust (the "Trust" or "Peyto") follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles ("GAAP") applicable for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the 2009 audited consolidated financial statements.

These consolidated financial statements include the accounts of Peyto Energy Trust and its wholly owned subsidiaries, Peyto Exploration & Development Corp., Peyto Operating Trust, Peyto Energy Limited Partnership and Peyto Energy Administration Corp.

### 2. Accounting Pronouncements

#### Pending Accounting Pronouncements

##### International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("ASCB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by 2011.

### 3. Accounts Receivable

(\$000)	March 31, 2010	December 31, 2009
Accounts receivable – general	57,755	51,150
Accounts receivable – income taxes	7,155	7,155
	<b>64,910</b>	58,305

Canada Revenue Agency ("CRA") has conducted an audit of restructuring costs claimed as a result of the trust conversion in 2003 that has resulted in the reclassification of \$41.0 million dollars in employment related costs as eligible capital. In October, 2008, the Trust has received a notice of reassessment from the CRA and paid an amount of \$7.2 million related to this audit. Based upon consultation with legal counsel, management's view is that CRA's position has no merit. A notice of appeal was filed May 19, 2009 and the appeal has been denied. Examinations for discovery have been scheduled for June 2010.

### 4. Property, Plant and Equipment

(\$000)	March 31, 2010 \$	December 31, 2009 \$
Property, plant and equipment	1,674,220	1,624,655
Accumulated depletion and depreciation	(466,486)	(446,253)
	<b>1,207,734</b>	1,178,402

At March 31, 2010, costs of \$25.9 million (December 31, 2009 - \$26.6 million) related to undeveloped land have been excluded from the depletion and depreciation calculation.

## 5. Long-Term Debt

The Trust has a syndicated \$550 million extendible revolving credit facility with a stated term date of April 30, 2010. The facility is made up of a \$20 million working capital sub-tranche and a \$530 million production line. The facilities are available on a revolving basis for a period of at least 364 days and upon the term out date may be extended for a further 364 day period at the request of the Trust, subject to approval by the lenders. In the event that the revolving period is not extended, the facility is available on a non-revolving basis for a one year term, at the end of which time the facility would be due and payable. Outstanding amounts on this facility bear interest at rates determined by the Trust's debt to cash flow ratio that range from prime plus 1.50% to prime plus 3.00% for debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank. The Trust's revolving credit facility is not subject to any external financial covenants. The average borrowing rate for the three months ended March 31, 2010 was 4.0% (2009 – 2.8%). See Note 14 – Subsequent Events.

## 6. Unitholders' Capital

**Authorized:** Unlimited number of voting trust units

### Issued and Outstanding

<b>Trust Units (no par value) (\$000)</b>	<b>Number of Units</b>	<b>Amount</b>
<b>Balance, December 31, 2008</b>	<b>105,920,194</b>	<b>410,233</b>
Trust units issued by private placement	-	-
Trust units issued	9,000,000	94,500
Trust unit issuance costs (net of tax)	-	(4,326)
<b>Balance, December 31, 2009</b>	<b>114,920,194</b>	<b>500,407</b>
Trust units issued by private placement	196,420	2,728
Trust units issued pursuant to DRIP	115,139	1,505
Trust units issued pursuant to OTUPP	68,922	872
<b>Balance, March 31, 2010</b>	<b>115,300,675</b>	<b>505,512</b>

### Units Issued

On June 26, 2009, Peyto closed an offering of 9,000,000 trust units at a price of \$10.50 per trust unit, receiving net proceeds of \$89.4 million (net of issuance costs).

On December 31, 2009 the Trust completed a private placement of 196,420 trust units to employees and consultants for net proceeds of \$2.7 million (\$13.89 per unit). These trust units were issued on January 6, 2010.

Peyto reinstated its amended distribution reinvestment and optional trust unit purchase plan (the "Amended DRIP Plan") effective with the January 2010 distribution whereby eligible unitholders may elect to reinvest their monthly cash distributions in additional trust units at a 5% discount to market price. The DRIP plan incorporates an Optional Trust Unit Purchase Plan ("OTUPP") which provides unitholders enrolled in the DRIP with the opportunity to purchase additional trust units from treasury using the same pricing as the DRIP.

### Units to be Issued

Subsequent to March 31, 2010 115,927 trust units (55,371 pursuant to the DRIP and 60,556 pursuant to the OTUPP) were issued for net proceeds of \$1.5 million. Subsequent to the issuance of these units, 115,416,602 trust units were outstanding.

### Per Unit Amounts

Earnings per unit have been calculated based upon the weighted average number of units outstanding for the three months ended March 31, 2010 of 115,153,667 (2009 – 105,920,194). There are no dilutive instruments outstanding.

## 7. Accumulated Distributions

The Trust paid total distributions to the unitholders in the aggregate amount of \$41.5 million in the three months ended March 31, 2010 of which all was settled in cash (2009 – total \$41.3 million) in accordance with the following schedule:

<b>Production Period</b>	<b>Record Date</b>	<b>Distribution Date</b>	<b>Per Unit <sup>(1)</sup></b>
January 2010	January 31, 2010	February 15, 2010	\$0.12
February 2010	February 28, 2010	March 15, 2010	\$0.12
March 2010	March 31, 2010	April 15, 2010	\$0.12

<sup>(1)</sup> Distributions per trust unit reflect the sum of the per trust unit amounts declared monthly to unitholders.

## Accumulated Earnings and Distributions

<b>(\$000)</b>	<b>March 31, 2009</b>	<b>December 31, 2009</b>
<b>Accumulated earnings, beginning of period</b>	<b>1,072,209</b>	919,435
Earnings for the period	<b>36,874</b>	152,774
Total accumulated earnings	<b>1,109,083</b>	1,072,209
Total accumulated distributions	<b>(1,013,930)</b>	(972,460)
<b>Accumulated earnings, end of period</b>	<b>95,153</b>	99,749

## 8. Operating Expenses

The Trust's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering income related to joint venture and third party natural gas reduces operating expenses.

<b>(\$000)</b>	<b>Three Months Ended March 31</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Field expenses	<b>7,132</b>	7,395
Processing and gathering income	<b>(2,573)</b>	(2,835)
<b>Operating expenses</b>	<b>4,559</b>	4,560

## 9. General and Administrative Expenses (G & A)

General and administrative expenses are reduced by operating and capital overhead recoveries on operated properties.

<b>(\$000)</b>	<b>Three Months Ended March 31</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
General and administrative expenses	<b>2,718</b>	2,739
Overhead recoveries	<b>(882)</b>	(501)
<b>Net general and administrative expenses</b>	<b>1,836</b>	2,238

## 10. Financial Instruments and Risk Management

### Financial Instrument Classification and Measurement

Financial instruments of the Trust carried on the Consolidated Balance Sheet are carried at amortized cost with the exception of cash and cash equivalents and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at March 31, 2010.

The fair value of the Trust's cash and cash equivalents and financial derivative instruments are quoted in active markets. The Trust classifies the fair value of these transactions according to the following hierarchy.

- *Level 1* – quoted prices in active markets for identical financial instruments.
- *Level 2* – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- *Level 3* – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Trust's cash and cash equivalents and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

#### **Fair Values of Financial Assets and Liabilities**

The Trust's financial instruments include cash and cash equivalents, accounts receivable, financial derivative instruments, due from private placement, current liabilities (excluding future income tax), provision for future performance based compensation and long term debt. At March 31, 2010, the carrying value of cash and cash equivalents and financial derivative instruments are carried at fair value. Accounts receivable, due from private placement, current liabilities (excluding future income tax) and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

#### **Market Risk**

Market risk is the risk that changes in market prices will affect the Trust's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk, currency risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Trust's objectives, processes and policies for managing market risks have not changed from the previous year.

#### **Commodity Price Risk Management**

The Trust is a party to certain derivative financial instruments, including fixed price contracts. The Trust enters into these contracts with companies the Trust considers to be well established counterparties for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of commodity prices. The Trust believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term and notional amount do not exceed the Trust's firm commitment or forecasted transaction and the underlying basis of the instrument correlates highly with the Trust's exposure. A summary of contracts outstanding in respect of the hedging activities at March 31, 2010 are as follows:

<b>Description</b>	<b>Notional <sup>(1)</sup></b>	<b>Term</b>	<b>Effective Rate</b>	<b>Fair Value Level</b>	<b>Asset (Liability) as at March 31, 2010</b>	<b>Asset (Liability) as at December 31, 2009</b>
Natural gas financial swaps - AECO	29.54GJ <sup>(2)</sup>	2010- 2012	\$5.71/GJ	Level 1	45,013	9,936

<sup>(1)</sup> Notional values as at March 31, 2010 <sup>(2)</sup> Millions of gigajoules

<b>Natural Gas Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (CAD)</b>
November 1, 2009 to October 31, 2010	Fixed Price	5,000 GJ	\$5.20/GJ
November 1, 2009 to October 31, 2010	Fixed Price	5,000 GJ	\$5.00/GJ
November 1, 2009 to March 31, 2011	Fixed Price	5,000 GJ	\$6.20/GJ
November 1, 2009 to March 31, 2011	Fixed Price	5,000 GJ	\$5.81/GJ
April 1, 2010 to October 31, 2010	Fixed Price	5,000 GJ	\$6.10/GJ

April 1, 2010 to October 31, 2010	Fixed Price	5,000 GJ	\$5.50/GJ
April 1, 2010 to October 31, 2010	Fixed Price	5,000 GJ	\$4.50/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.28/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.29/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.55/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.70/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$4.55/GJ
April 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$5.67/GJ
April 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$5.82/GJ
November 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$8.91/GJ
November 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$9.15/GJ
April 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$6.20/GJ
November 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$4.50/GJ

As at March 31, 2010, the Trust had committed to the future sale of 29,535,000 gigajoules (GJ) of natural gas at an average price of \$5.71 per GJ or \$6.68 per mcf based on the historical heating value of the Trust's natural gas. Had these contracts been closed on March 31, 2010, the Trust would have realized a gain in the amount of \$45.0 million. If the AECO gas price on March 31, 2010 were to increase by \$1/GJ, the unrealized gain on these closed contracts would change by approximately \$29.5 million. An opposite change in commodity prices rates will result in an opposite impact on earnings which would have been reflected in the other comprehensive income of the Trust.

Subsequent to March 31, 2010 the Trust entered into the following contracts:

<b>Natural Gas Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (CAD)</b>
April 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$5.00/GJ
April 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$5.12/GJ

#### **Interest rate risk**

The Trust is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently, the Trust has not entered into any agreements to manage this risk. If interest rates applicable to floating rate debt were to have increased by 100 bps (1%) it is estimated that the Trust's earnings for the period ended March 31, 2010 would decrease by \$1.1 million. An opposite change in interest rates will result in an opposite impact on earnings.

#### **Credit Risk**

A substantial portion of the Trust's accounts receivable is with petroleum and natural gas marketing entities.

Industry standards dictate that commodity sales are settled on the 25<sup>th</sup> day of the month following the month of production. The Trust generally extends unsecured credit to these companies, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Trust's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. The Trust has not previously experienced any material credit losses on the collection of accounts receivable. Of the Trust's revenue for the period ended March 31, 2010, approximately 87% was received from six companies (23%, 17%, 14%, 11%, 11%, 11%) (March 31, 2009 – 82%, four companies (30%, 24%, 14%, 14%)). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Trust considers past due and no accounts have been written off.

The Trust may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Trust mitigates this risk by entering into transactions with counterparties that have investment grade credit ratings, in accordance with policy as established by the Board of Directors. Counterparties for derivative instrument transactions are limited to financial institutions which are all members of the syndicated credit facility.

The Trust assesses quarterly if there should be any impairment of financial assets. At March 31, 2010, there was no impairment of any of the financial assets of the Trust.



## Liquidity Risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Trust will not have sufficient funds to settle a transaction on the due date;
- The Trust will be forced to sell financial assets at a value which is less than what they are worth; or
- The Trust may be unable to settle or recover a financial asset at all.

The Trust's operating cash requirements, including amounts projected to complete our existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Trust to conduct equity issues or obtain project debt financing.

The following are the contractual maturities of financial liabilities as at March 31, 2010:

(\$000s)	<1 Year	1-2 Years	2-5 Years	Thereafter
Accounts payable and accrued liabilities	72,222			
Provision for future performance based compensation	3,882	1,294		
Distributions payable	13,120			
Long-term debt <sup>(1)</sup>		450,000		

<sup>(1)</sup>Revolving credit facility renewed annually (see Note 5)

## 11. Capital Disclosures

The Trust's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Trust considers its capital structure to include unitholders' equity, debt and working capital. To maintain or adjust the capital structure, the Trust may from time to time, issue trust units, raise debt and/or adjust its capital spending to manage its current and projected debt levels. The Trust monitors capital based on the following non-GAAP measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and amortization ("EBITDA") ratios, payout ratios and net debt levels. To facilitate the management of these ratios, the Trust prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. Currently, all ratios are within acceptable parameters. The annual budget is approved by the Board of Directors. The Trust's unitholders' capital is not subject to any external financial covenants.

There were no changes in the Trust's approach to capital management from the previous year.

(\$000s)	March 31, 2010	December 31, 2009
Unitholders' equity	643,799	612,483
Long-term debt	450,000	435,000
Working capital (surplus) deficit <sup>(1)</sup>	(18,789)	(1,822)
	<b>1,075,010</b>	<b>1,045,661</b>

<sup>(1)</sup>Current liabilities less current assets (includes unrealized financial derivative instrument assets of \$40.0 million (2009 - \$8.7 million))

## 12. Supplemental Cash Flow Information

Changes in non-cash working capital balances

(\$000)	Three Months Ended March 31	
	2010	2009
Cash interest paid during the period	4,412	3,550

## 13. Contingencies and Commitments

Following is a summary of the Trust's commitments related to operating leases as at March 31, 2010. The Trust has no other contractual obligations or commitments as at March 31, 2010.

(\$000)	March 31, 2010
2010	777
2011	1,036
2012	1,036
2013	1,036
2014	1,036
	<b>4,921</b>

### Contingent Liability

From time to time, Peyto is the subject of litigation arising out of its day-to-day operations. Damages claimed pursuant to such litigation, may be material or may be indeterminate and the outcome of such litigation may materially impact Peyto's financial position or results of operations in the period of settlement. While Peyto assesses the merits of each lawsuit and defends itself accordingly, Peyto may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on Peyto's financial position or results of operations.

## 14. Subsequent Events

### Long-Term Debt

On April 1, 2010, an amendment to the Trust's credit agreement was signed increasing the credit facilities to \$625 million. Outstanding amounts on this facility will bear interest at rates determined by the Trust's debt to cash flow ratio that range from prime plus 1.25% to prime plus 2.75% for debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1. Effective April 1, 2010, the extendible revolving credit facility has a stated term date of April 30, 2011.

### Unitholders' Capital

On April 27, 2010, Peyto closed an offering of 5,566,000 trust units at a price of \$13.45 per trust unit, receiving proceeds of \$71 million (net of issuance costs).

# **Peyto Energy Trust Information**

## **Officers**

Darren Gee  
President and Chief Executive Officer

Glenn Booth  
Vice President, Land

Scott Robinson  
Executive Vice-President and Chief Operating Officer

Stephen Chetner  
Corporate Secretary

Kathy Turgeon  
Vice President, Finance and Chief Financial Officer

## **Directors**

Don Gray, Chairman  
Rick Braund  
Stephen Chetner  
Brian Davis  
Michael MacBean, Lead Independent Director  
Darren Gee  
Gregory Fletcher

## **Auditors**

Deloitte & Touche LLP

## **Solicitors**

Burnet, Duckworth & Palmer LLP

## **Bankers**

Bank of Montreal  
Union Bank, Canada Branch  
BNP Paribas (Canada)  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
Alberta Treasury Branches  
Société Générale (Canada Branch)  
HSBC Bank Canada  
Canadian Western Bank

## **Transfer Agent**

Valiant Trust Company

## **Head Office**

1500, 250 – 2<sup>nd</sup> Street SW  
Calgary, AB  
T2P 0C1

Phone: 403.261.6081

Fax: 403.451.4100

Web: [www.peyto.com](http://www.peyto.com)

Stock Listing Symbol: PEY.un  
Toronto Stock Exchange