PEYTO Energy Trust

President's Monthly Report

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

It's the middle of winter and the drilling program is going great guns at Peyto with two horizontal rigs and two vertical rigs busy across our asset base. New completions of wells spud prior to Christmas and early in the New Year are now occurring and those results will start to be reflected in corporate production volumes as they are connected and come on-line. Natural gas prices have continued to firm up as storage depletes with cold weather. So far, 2010 is off to a great start relative to last year. Let's keep it going!

As in the past, this report includes an estimate of monthly capital spending, as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below).

Capital Investment

2009 Capital Summary (millions$ CND)*

	Q1	Q2	July	Aug	Sept	Q3	Oct	Nov	Dec	Q4	2009
Land & Seismic	0	0	1	0	3	4	0	1	1	2	6
Drilling	7	3	6	7	5	18	3	6	8	17	44
Completions	4	0	2	3	3	8	4	2	4	11	23
Tie ins	2	0	0	1	2	3	3	2	1	5	10
Facilities	1	1	0	0	0	0	0	0	0	0	2
Drilling Credit Used	0	0	0	0	-3	-3	-1	-1	-2	-3	-6
Sub Total	**13**	**5**	**9**	**10**	**9**	**29**	**10**	**9**	**12**	**32**	**78**
Rem. Drilling Credit											-5
Total											**73**

This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Production

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

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

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The Biggest Bull

The debate over the future price of natural gas in North America rages on with both the bulls and bears offering up compelling data to support their respective positions. At Peyto, we have obviously taken a long term bullish position with our focus and commitment to the development of long life natural gas reserves.

We would, however, be doing our unitholders a disservice by not considering how the value of our assets today, and moving forward, could change with the changing price of the commodity. Are they worth more today than in the future, for if they are, perhaps we should sell them? This doesn't necessarily mean that our business is finished. Hell, we've been able to profitably develop natural gas in this basin when gas prices were $1.50/GJ. If that is what the future price became, I'm sure we could figure out how to do it again. But it would mean that our producing assets are at their highest value today and not tomorrow.

Personally, I'm still a bull with respect to gas price and not just because I'm stubbornly vested in the natural gas business. More so because I'm a bull with respect to growing energy demand on this third planet from the Sun. It is a simple fact that as human population grows, so does our collective need for energy. And for the foreseeable future, the bulk of that energy comes from hydrocarbons. Have a look at the following, very clear correlation between world population and total energy consumption (Figure 1).

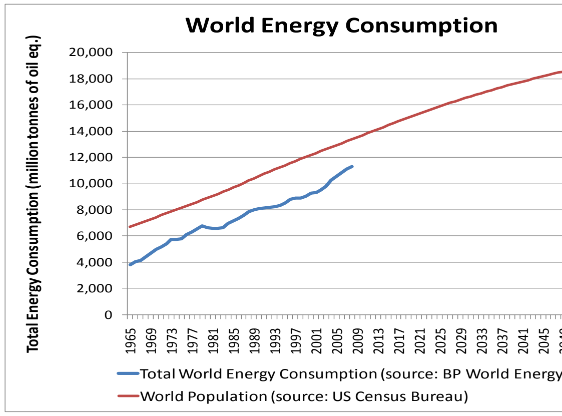


Figure 1

The bears might argue that we will collectively curb our energy consumption and move to more renewable energy sources. I just don't buy it. Figure 2 shows the breakdown of how the world gets its energy. Clearly, fossil fuels are the dominant source and have been for some time.

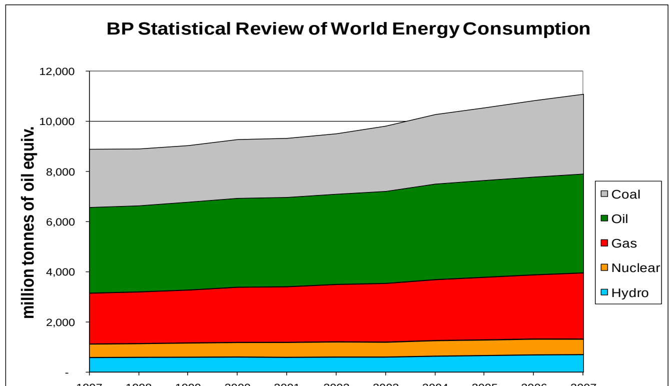


Figure 2

Perhaps the better question then on the future of natural gas is "can it beat out the competition so that the future price is driven by increasing demand rather than an overabundance of supply?"

It's definitely a structural question as opposed to a cyclical one. We already know that the short term, cyclical price of natural gas is driven by the weather and the economy in North America (and even the world). Lately, that cycle seems to oscillate somewhere above $6/mmbtu (Figure 3). But the long term price has to do with the ultimate supply cost and the choice of energy on the demand side.

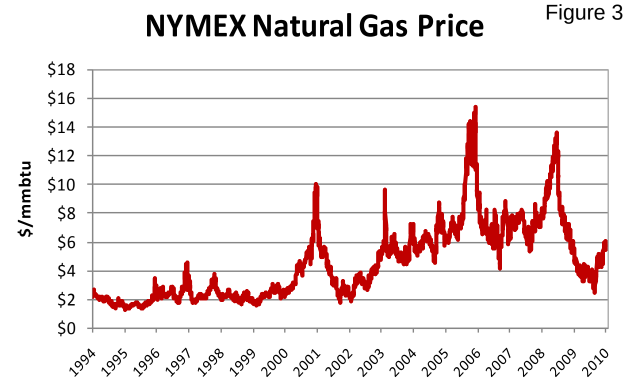


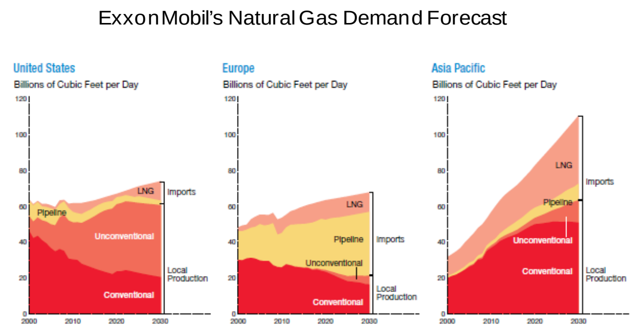
Figure 3

There have been numerous attempts lately to peg current supply cost, which is difficult with changing technology and emerging resource plays, but consensus seems to fall around the $5-$7 mark, at least for North America. Choices on the demand side may take longer and be influenced by the environmental arguments but could ultimately have an even greater influence on price.

Perhaps one of the most interesting events to date comes from the largest independent producer of energy in the world. ExxonMobil's recent activity shows which fuel it believes will win the day; natural gas. Their $40B purchase of US shale gas producer XTO is also not their first commitment to this strategy.

Exxon believes that power generation will be the largest growing sector of energy demand in the world and that natural gas will be the primary source for that energy (Figure 4). They have put their money where their mouth is with their growing global gas portfolio that includes Asia Pacific and Middle East LNG projects, European LNG projects and of course North American unconventional gas projects. They should also have a pretty good feel for worldwide supply cost. And if the metrics for XTO are any indication, they believe it to be greater than $3.50-$4/mcf, otherwise they paid too much for XTO (if you extrapolate XTO's reserve to production ratio to this year's production I would estimate their 2009 PD reserves at 11.2 TCFe for which XOM paid $41B or $3.67/mcfe).

In some ways, if the suppliers of energy are only prepared to offer you natural gas because that's all they're developing, then I guess you're using natural gas. The choice has already been made for you.



*Source: XOM Outlook for Energy 2009

Figure 4

But I think there's more to it than that. I think what Exxon is saying by their actions is that natural gas is the fuel of the future. The more abundant, more affordable, more environmentally acceptable, and now more American energy supply of tomorrow. And they believe they can turn a profit delivering it to you, the end user, because you're going to demand it. In this belief, I'm with them.

Activity Levels and Commodity Prices

As I mentioned earlier, the short term AECO daily spot price has finally recovered back in line with longer term prices, even though that longer term price has drifted some (Figure 5). Perhaps that drift is in response to a belief that future supply costs are coming down somewhat. Or perhaps just in response to short term cyclical pressures. Either way, $6 gas going forward is more than sufficient for us to make a nice return at Peyto. $6/GJ drives close to $7/mcf and when you combine that with our cash costs of approx. $1.75/mcf, it leaves more than $5/mcf on the table. With supply costs that are half of that, it leaves a lot of room for profit. It's a much brighter looking beginning to this year than last.

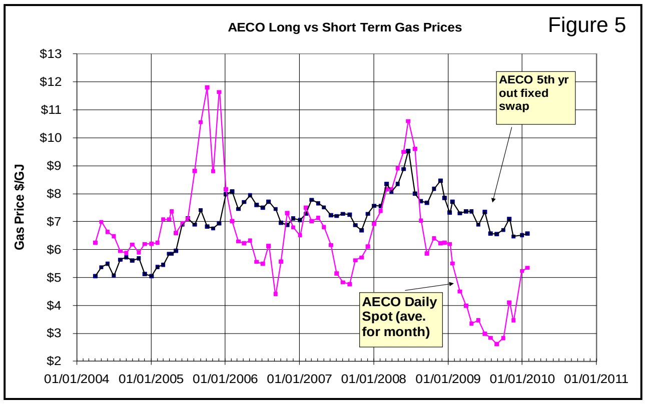


Figure 5

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