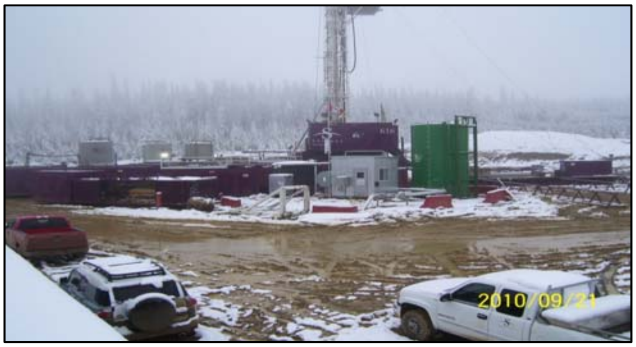
PEYTO Energy Trust

President's Monthly Report

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

Considering the wet spring we had out West, I had thought there was a good chance we might have a nice warm fall. An "Indian Summer", to use a now politically incorrect term. If that last round of weather is any indication, I'm not so certain. As you can see from the picture of Sept. 21 below, our rainy, wet summer has been followed by an even wetter, snowy fall.



Needless to say, this weather is not helping us execute our drilling program. Rig moves and completions have been delayed and road repairs have increased. Soft conditions and soft gas prices aside though, activity levels and service costs are still relatively attractive, so this is the time to build. Not when everyone else is profitable and demand for every oilfield service is through the roof. At Calgary's recent hosting of T.Boone Pickens he suggested natural gas drillers "stand down" and wait for better prices. I'm fine with everybody else waiting. With our cost structure, we don't have to.

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

Capital Investment

*2010 Capital Summary (millions$ CND)**

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

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

Production

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

	Q1 10	Apr	May	Jun	Q2 10	Jul	Aug	Sept	Q3 10
Sundance	16.5	18.3	18.9	18.2	18.5	19.2	20.1	21.0	20.1
Kakwa	2.8	2.9	2.7	2.6	2.7	2.8	2.6	2.5	2.6
Other	1.3	1.1	1.1	1.0	1.1	1.0	1.0	1.0	1.0
Total	**20.6**	**22.3**	**22.7**	**21.8**	**22.3**	**23.0**	**23.7**	**24.5**	**23.8**

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Land ho!

Undeveloped lands and the drilling potential they hold have taken center stage for the last few years. Whether it's thousands of acres of Montney, or Bakken, or Marcellus shale land, the industry has been promoting the potential hidden beneath. To the point where assessment of the risks seems to have been completely forgotten. We all know, not all barrels are created equal, and not all lands hold the same potential. None of the producers want to admit it, but anyone who's been around the industry long enough knows, there is a lot of moose pasture out there.

At the end of the day, or at least until its proven productive, land is a cost burden. So having more than you need isn't necessarily a good thing. Especially if the clock is ticking! Take Alberta mineral leases for instance. In Alberta, each acre of minerals that is leased costs $1.40/ac/year for mineral lease rental. "Just a buck forty, but that's nothing!!" you say. Well, consider the cost of carrying 1,000,000 acres of undeveloped lands each year. All of a sudden, it's not "nuttin'". $1.4 million would be the same as our transportation costs for an entire quarter. Not to mention the original cost of the lease which in many cases is hundreds, if not thousands, of dollars an acre.

There is also the term to consider. Mineral leases expire. Typically, within 5 years if they can't be proven productive. So monies spent proving or disproving them have to factor in to their ultimate cost. Figure 1 below shows the undeveloped land holdings of a few of Peyto's competitors and the expiry challenges that face them each year. For every 100,000 ac of land in Alberta, for instance, there is a drilling requirement of approximately 150 wells to validate that land.

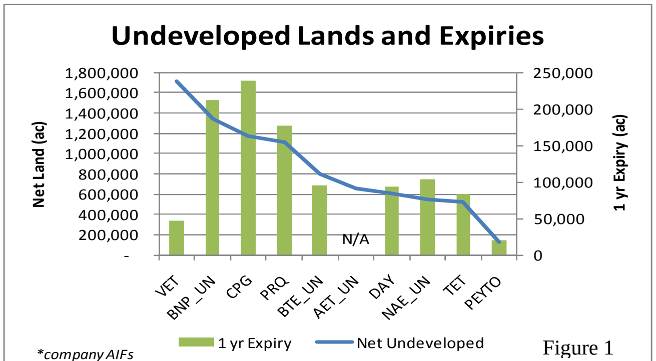

Figure 1

At Peyto, we've deployed more of a "just in time" land strategy. One that focuses on "drilling islands" located in the sweet spots of the play. So rather than run out and try to mop up all the land across a given play, we try to use our geotechnical expertise to identify the best parts of the play and then target only those lands. In doing so, we have less land maintenance costs than many of our competitors and

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carry a lot less "moose pasture" in inventory. Even the big shale players will admit that every play has its sweet spot. And the "shoot, ready, aim" approach that many have employed, is not as good as aiming first.

Of course, our strategy comes at a price. As plays become more competitive, or as Peyto's success becomes more well-known in a given play, the lands can be harder to come by. Sometimes, one of the only ways around those issues is patience. Either waiting for the lands to eventually turn over, or waiting for someone to eventually do a deal on the lands.

That's why it's important to keep track of the opportunities and stay focused on the prize. Surprisingly, many companies don't. They either get caught up in the "play of the day" and follow the rest of the industry around bidding it up, or shuffle up their technical staff, always bringing in fresh eyes who fail to keep watch on the existing opportunities. Partly that is driven by their corporate strategy. If your corporate strategy is to amass, promote and then liquidate, you approach things differently than if it's to invest, develop and profit.

Perhaps then, it's not *how much* land you have in inventory, so much as it is what you *do with it*. Figure 2 below shows the ratio of Peyto's total land to Proved Producing, Total Proved and P+P reserves. You can see that as total land has increased over time, so has total reserves - the ratio of reserves developed remaining relatively the same, averaging 850 boe/acre of total net land. Looking just at the undeveloped land and undeveloped reserves, the ratio is not much different at 720 boe/ac.

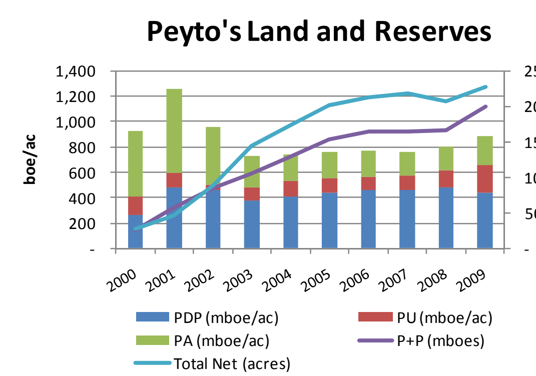
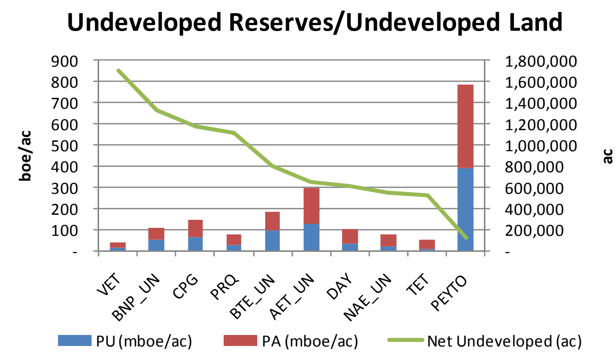


Figure 2

This ratio of undeveloped reserves to undeveloped land is in stark contrast to many of Peyto's peers (see Figure 3). As is typical in the industry, many companies carry a significantly larger base of undeveloped land, but one that doesn't have the same potential, or that they never do anything with.

Again, part of this difference is because their strategies don't involve ultimately developing the resource (remember amass, promote and liquidate).



*company AIFs

Figure 3

But part of this big difference is also because of the multi zone area that Peyto is positioned in. The Deep Basin of Alberta offers many producing horizons under a section of undeveloped land. Much more than other parts of the Western Canadian Basin. A lot of those other areas offer only one or two producing horizons, and the reserves potential is much smaller. To really compare apples to apples, we'd have to break apart our lands for each producing horizon. Then add the land up and see how that compares.

For instance, if we assumed there was even just 4 main, stacked horizons in the Deep Basin; Cardium, Upper Spirit River (Notikewin/Falher) Lower Spirit River (Wilrich), and the Bluesky-Bullhead Group (Bluesky, Gething, Cadomin), then Peyto's undeveloped land position would likely increase 3 or 4 fold from the 130,000 acres. But not with the same expiry concerns because the zones are stacked.

Our industry has a notorious history of getting caught in the "land rush" that never amounts to much. As investors, we need to look past all the land talk and unrisked potential to see what's happening with the drill bit. It's the guy with his pan in the water that finds the gold, not the one yelling "gold rush" from the hilltops.

Activity Levels and Commodity Prices

We are officially in the fall shoulder season where demand for natural gas to cool is gone and demand to heat hasn't yet arrived. NOAA (National Oceanic and Atmospheric Administration) is predicting a warmer than normal winter in the SE and colder than normal winter in the NW. There's a surprise. And since weather is still one of the biggest influences on the price of natural gas in North America that probably means no big surprises on the demand side.

It's just as well. A big run up in the price of gas might be good for the revenue side of the business but it will cause a big spike in the cost side as well, so that our profitability will likely be exactly the same; only with much more competition.