

**PEYTO ENERGY TRUST**

**RENEWAL ANNUAL INFORMATION FORM**

**2004**

**March 30, 2005**

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## GLOSSARY OF TERMS

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**Administration Agreement**" means the administration agreement dated May 22, 2003 between Peyto and the Trustee, on behalf of the Trust;

"**ARTC**" means credits or rebates in respect of Crown royalties which are paid or credited by the Crown, including those paid or credited under the Alberta Corporate Tax Act which are commonly known as "Alberta ARTC Credits";

"**Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among Peyto, Peyto Acquisition Corp. and the Trust which was completed on July 1, 2003 and pursuant to which former holders of common shares of Peyto received Trust Units, and Peyto became an indirect subsidiary of the Trust;

"**Business Day**" means a day, which is not a Saturday, Sunday or statutory holiday, when banks in the place at which any action is required to be taken hereunder are generally open for the transaction of commercial banking business;

"**Capital Fund**" means the cash flow retained by the Trust from cash otherwise available for distribution which shall be advanced to the Corporation, as the case may be, to finance future acquisitions and development of the Properties;

"**Direct Royalties**" means royalty interests in petroleum and natural gas rights acquired by the Trust from time to time;

"**Distributable Cash**" means all amounts available for distribution during any applicable period to holders of Trust Units;

"**Final Trust Structure**" means the Trust's organizational structure as set out under the heading "Peyto Energy Trust – Organization Structure of the Trust";

"**Non-Residents**" means non-residents of Canada within the meaning of the *Tax Act*;

"**Notes**" means the unsecured subordinated promissory notes of Peyto;

"**NPI**" means the 50% interest in Peyto's Petroleum Substances within, upon or under certain of its Oil and Natural Gas Properties granted pursuant to the NPI Agreement;

"**NPI Agreement**" means the net profit interest agreement entered into between Peyto and the Trust dated as of July 1, 2003 and providing for the creation of the NPI;

"**Oil and Natural Gas Properties**" or "**Properties**" means the working, royalty or other interests of the Corporation from time to time in any petroleum and natural gas rights, tangibles and miscellaneous interests, including the properties in which the Corporation have an interest as at the date hereof, and properties which may be acquired by the Corporation at a future date, and including the Direct Royalties acquired by the Trust from time to time;

"**Paddock**" means Paddock Lindstrom & Associates Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

"**Paddock Report**" means the independent engineering evaluation of the Trust's oil, NGL and natural gas interests prepared by Paddock dated February 24, 2005 and effective December 31, 2004, a summary of which is contained herein;

"**Permitted Investments**" means: (a) loan advances to POT and to Peyto including loans made in connection with the Capital Fund; (b) interest bearing accounts of certain financial institutions, including Canadian chartered banks and the Trustee; (c) obligations issued or guaranteed by the Government of Canada or any province of Canada or any agency or instrumentality thereof; (d) term deposits, guaranteed investment certificates of deposit or bankers' acceptances of or guaranteed or accepted by any Canadian chartered bank or other financial institution (including the Trustee and any Affiliate of the Trustee), the short term debt or deposits of which have been rated at least A by Standard & Poor's Corporation, or the equivalent by Moody's Investors Service, Inc. or Dominion Bond Rating Service Limited; (e) commercial paper rated at least A by Standard & Poor's Corporation, or the equivalent by Canadian Bond Rating Service Inc. or Dominion Bond Rating Service Limited; and (f) investments in bodies corporate, partnerships or trusts engaged in the oil and natural gas business, including securities of POT;

"**Petroleum Substances**" means petroleum, natural gas and related hydrocarbons (including condensate and natural gas liquids), and all other substances (including sulphur and its compounds), whether liquid, solid or gaseous and whether hydrocarbon or not, produced in association therewith;

"**Peyto**" or the "**Corporation**" means Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA;

"**Peyto Securities**" means the common shares of Peyto and the Notes;

"**POT**" means Peyto Operating Trust, a trust established under the laws of Alberta pursuant to the POT Indenture;

"**POT Administration Agreement**" means the administration agreement dated June 30, 2003 between Peyto and the Trustee, on behalf of POT;

"**POT Indenture**" means the trust indenture dated June 30, 2003 between Valiant Trust Company and the Trust;

"**POT Notes**" means the unsecured, subordinated promissory notes issuable by POT to the Trust in connection with the POT Transaction;

"**POT Securities**" means, collectively, the POT Notes and POT Units;

"**POT Transaction**" means the series of transactions that resulted in the Final Trust Structure;

"**POT Unit**" means a trust unit of POT;

"**Proved Reserves**", "**Probable Reserves**", "**Producing Reserves**", "**Non-Producing Reserves**" and "**Total Proved Reserves**" have the meanings given to those terms in the Paddock Report;

"**Redemption Notes**" means notes issued in certain circumstances including by the Trust on a redemption of Trust Units;

"**Special Resolution**" means a resolution proposed to be passed at a meeting of Unitholders (including an adjourned meeting) duly convened for the purpose and held in accordance with the provisions of the Trust Indenture at which two or more holders of at least 5% of the aggregate number of Trust Units then outstanding are present in person or by proxy and passed by the affirmative votes of the holders of not less than 66 ⅔% of the Trust Units represented at the meeting and polled and voted on a poll upon such resolution. For the purposes of determining such percentage, the holder of any Special Voting Right who is present at the meeting shall be regarded as representing outstanding Units equivalent in number to the votes attaching to such Special Voting Right;

"**Special Voting Right**" means the Special Voting Right of the Trust, issued and certified under the Trust Indenture for the time being outstanding and entitled to the benefits and subject to the limitations set forth therein;

"**Special Voting Unit**" means special voting units which may be issued by the Trust from time to time entitling the holders thereof to such number of votes at meetings of Unitholders as may be prescribed by the Board of Directors of the Corporation in the resolution authorizing the issuance of any such Special Voting Units;

"**Subsequent Investment**" includes: (a) investing in securities of POT, Peyto, or any other subsidiary of the Trust and acquiring POT Securities, which investments shall be for the purpose of funding the acquisition, development, exploitation and disposition of all types of petroleum and natural gas and energy related assets, including without limitation, facilities of any kind, oil sands interests, electricity or power generating assets and pipeline, gathering, processing and transportation assets (hereinafter referred to as "Energy Assets") and whether effected by Peyto or any other subsidiary of the Trust through an acquisition of assets or an acquisition of shares or other form of ownership interest in any entity the substantial majority of the assets of which are comprised of like assets; (b) acquiring or investing in the securities of any other entity, including without limitation bodies corporate, partnerships or trusts, and borrowing funds or otherwise obtaining credit, including the granting guarantees, for that purpose, for the purpose of directly or indirectly acquiring Energy Assets; (c) acquiring Direct Royalties; (d) making loans or other advances to POT or Peyto in connection with the Capital Fund; and (e) acquiring royalties in respect of Canadian resource properties as defined in the Tax Act and making any deferred royalty purchase payments which may be required with respect to such royalties; provided however that in no event shall the Trust invest in any royalties which constitute an interest in land or a covenant running with the properties with respect to which such royalties relate;

"**Tax Act**" means the *Income Tax Act* (Canada), as amended;

**"Trust Indenture"** means the trust indenture between the Trustee and Peyto made as of May 22, 2003;

**"Trust"** means Peyto Energy Trust, a trust established under the laws of Alberta pursuant to the Trust Indenture. All references to the "Trust", unless the context otherwise requires, are references to Peyto Energy Trust, its predecessors, and its subsidiaries;

**"Trust Unit"** means a unit of the Trust, each unit representing an equal undivided beneficial interest therein;

**"Trustee"** means Valiant Trust Company, or such other trustee, as may be appointed, from time to time, of the Trust;

**"TSX"** means the Toronto Stock Exchange;

**"Undeveloped Properties"** means the raw undeveloped land of Peyto that was transferred to POT pursuant to the POT Transaction and includes any raw undeveloped land acquired subsequent to the POT Transaction;

**"United States"** or **"U.S."** means the United States of America; and

**"Unitholders"** or **"Trust Unitholders"** means the holders from time to time of the Trust Units.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

## ABBREVIATIONS

### Oil and Natural Gas Liquids

bbls	barrels
Mbbls	thousand barrels
MMbbls	million barrels
NGLs	natural gas liquids
stb	stock tank barrels of oil
Mstb	thousand stock tank barrels of oil
MMboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls/d	barrels of oil per day

### Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m <sup>3</sup>	cubic metres
MMbtu	million British Thermal Units
GJ	Gigajoule

### Other

BOE or boe	means barrel of oil equivalent, using the conversion factor of 6 mcf of natural gas being equivalent to one bbl of oil. <b>BOEs may be misleading, particularly if used in isolation. A BOE conversion ration of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.</b>
WTI	means West Texas Intermediate.
°API	means the measure of the density or gravity of liquid petroleum products derived from a specific gravity.
psi	means pounds per square inch.

## CONVERSION

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
gigajoules	mmbtu	0.950

**YOU SHOULD NOT RELY ON FORWARD-LOOKING STATEMENTS  
BECAUSE THEY ARE INHERENTLY UNCERTAIN**

Certain statements contained in this Annual Information Form, and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. These statements relate to future events or the Trust's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Trust and Peyto believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be.

In particular, this Annual Information Form, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- the performance characteristics of the oil and natural gas assets of the Trust;
- oil and natural gas production levels;
- the size of the oil and natural gas reserves;
- projections of market prices and costs and the related sensitivities of distributions;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through exploration and development and, if applicable, acquisitions;
- treatment under governmental regulatory regimes;
- capital expenditures programs;
- the existence, operation and strategy of the Trust's commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed by the Trust;
- the impact of Canadian federal and provincial governmental regulation on the Trust relative to other oil and gas issuers of similar size; and
- the goal to grow or sustain production and reserves through prudent management and acquisitions.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form, and in certain documents incorporated by reference into this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- uncertainties associated with its oil and natural gas exploration and development program;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- uncertainties associated with changes in legislation; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on current estimates and assumptions, that the resources and reserves described can be profitably produced in the future. The foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Neither the Trust nor Peyto undertakes any obligation to publicly update or revise any forward-looking statements.

## PEYTO ENERGY TRUST

### General

The Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture. The head and principal office of the Trust is located at Suite 2900, 450 – 1<sup>st</sup> Street S.W., Calgary, Alberta, T2P 5H1.

The Trust was formed on May 22, 2003 and commenced operations on July 1, 2003 as a result of the completion of the Arrangement. Pursuant to the Arrangement, former holders of common shares of Peyto received Trust Units, and Peyto became an indirect subsidiary of the Trust.

Subsequent to the completion of the Arrangement, the POT Transaction occurred, which resulted in the Trust holding, directly all of the POT Securities and indirectly through POT, the Peyto Securities and the NPI.

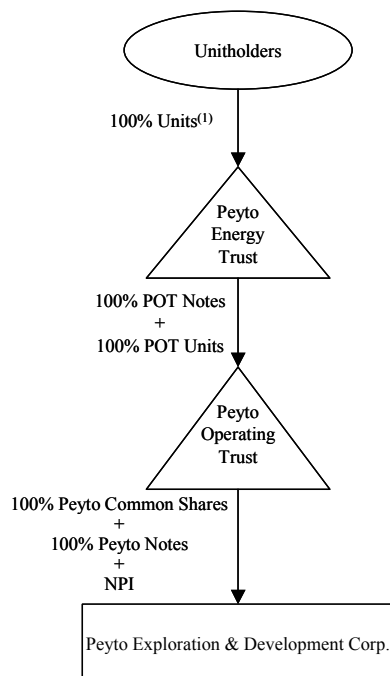
### Inter-Corporate Relationships

The following table provides the name, the percentage of voting securities owned by the Trust and the jurisdiction of incorporation, continuance or formation of the Trust's subsidiaries either, direct and indirect, as at the date hereof.

	<u>Percentage of voting securities (directly or indirectly)</u>	<u>Jurisdiction of Incorporation/ Formation</u>
Peyto Operating Trust	100%	Alberta
Peyto Exploration & Development Corp.	100%	Alberta

### Organizational Structure of the Trust

The following diagram describes the inter-corporate relationships among the Trust and its material subsidiaries.



Notes:

- (1) The Unitholders own 100% of the equity of the Trust.
- (2) Distributable Cash will be derived from payments made by POT to the Trust in respect of interest, principal repayments, if any, and income from the POT Securities and interest and income received indirectly from the Peyto Securities and under the NPI Agreement.



## Summary Description of the Business

### *Peyto Energy Trust*

The principal undertaking of the Trust is to issue Trust Units and to indirectly explore for, acquire and hold interests in petroleum and natural gas properties and assets related thereto. The direct and indirect subsidiaries of the Trust carry on the business of the Trust.

The Trustee may declare payable to the Unitholders all or any part of the income of the Trust. It is currently anticipated that the Trust will make cash distributions to holders of Trust Units from the interest and principal repayments, if any, and income received, directly or indirectly, as applicable, from the POT Securities, Peyto Securities and the NPI. See "*Selected Consolidated Financial Information – Cash Distributions*".

Cash distributions are made on or about the 15<sup>th</sup> day of each month to Unitholders of record on or about the last calendar day of the immediately preceding month.

### *Peyto Operating Trust*

POT is an open-end, unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the POT Indenture. POT was established for the purposes of conducting exploration and development activities in respect of Peyto's Undeveloped Properties as well as investing in the securities of Peyto or any other subsidiary of POT.

The Trust is the sole beneficiary of POT. Valiant Trust Company is the trustee of POT. POT is administered by the management of Peyto.

The head and principal office of POT is located at 2900, 450 – 1<sup>st</sup> Street S.W., Calgary, Alberta, T2P 5H1.

### *Peyto Exploration & Development Corp.*

Peyto is a corporation amalgamated and subsisting pursuant to the provisions of the ABCA. Peyto is actively engaged in the exploration for, and the acquisition, development and production of, oil and natural gas in the Province of Alberta. On July 1, 2003, Peyto was amalgamated with Peyto Acquisition Corp. pursuant to the Arrangement.

POT is the sole common shareholder of Peyto. Peyto continues to carry on an oil and natural gas business similar to that carried on by Peyto prior to the Arrangement becoming effective. Peyto owns, directly or indirectly, all of the assets that were owned by Peyto prior to the Arrangement becoming effective, other than the Undeveloped Properties and exploration assets that were transferred to POT in accordance with the POT Transaction or subsequently acquired by POT.

Peyto is the administrator of both the Trust and POT pursuant to the Administration Agreement and the POT Administration Agreement, respectively.

Peyto's registered office is at 1400, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9, and its head and principal office is at 2900, 450 – 1<sup>st</sup> Street S.W., Calgary, Alberta, T2P 5H1.

## GENERAL DEVELOPMENT OF THE BUSINESS

### General

The Trust is a Calgary, Alberta based energy trust engaged, through its direct and indirect subsidiaries, in the acquisition, exploration, development and production of oil and natural gas in Western Canada. The Trust's strategy is to enhance Unitholder value through the exploration, discovery and low cost development of oil and natural gas in the Western Canadian sedimentary basin. The Trust's portfolio of assets includes good quality exploitation and low risk exploration and development opportunities located primarily in the Deep Basin of Alberta. Management's current philosophy is to fund its growth and ongoing activities from a conservative mix of internally generated cash flow, bank financing and, in certain circumstances, equity financings.

### Background of the Trust

The following is a summary of the business operations of the Trust for the periods shown. Prior to the completion of the Arrangement on July 1, 2003, the business operations were conducted by Peyto.

**2002**

In June 2002, Peyto's Sundance gas plant was expanded to a refrigeration capacity of 100 mmcf/d and raw inlet compression capacity of 74 mmcf/d. In October, 12 mmcf/d of additional compression was added bringing total raw inlet compression capacity at the plant to 86 mmcf/d.

During 2002, Peyto drilled and re-entered 64 gross (55.9 net) natural gas wells. Capital expenditures for 2002 totalled \$112.5 million. The exit production rate for 2002 was 11,421 boe per day.

**2003**

In January and October 2003, additional compression was added to the Sundance gas plant which raised raw inlet capacity to 110 mmcf/d. In December 2003, construction was started on the Smoky/Kakwa gas plant. Design capacity of this 100% Peyto owned and operated gas plant is 25 mmcf/d.

During 2003, Peyto drilled and re-entered 77 gross (62.7 net) natural gas wells. Capital expenditures for 2003 totalled \$139.4 million. The exit production rate for 2003 was 15,500 boe per day.

**2004**

In February 2004, Peyto commissioned its second gas plant located in the Smoky/Kakwa area, with initial design capacity of 25 mmcf/d. In December of 2004, the Kakwa plant underwent its first expansion to 40 mmcf/d of total capacity. This expansion was completed in January 2005. An expansion of the Sundance gas gathering system allowed access to the exploration discoveries in the nearby Wildhay field.

During 2004 Peyto drilled and re-entered 103 gross (78.3 net) natural gas wells. Capital expenditures for 2004 totalled \$230.8 million. The exit production rate for 2004 was 21,000 boed.

## **DESCRIPTION OF THE BUSINESS AND OPERATIONS**

**Peyto Energy Trust**

The Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture. The Trust was established for the following purposes:

- (a) to participate in the Arrangement and the POT Transaction;
- (b) investing in securities of POT, Peyto or any other subsidiary of the Trust and acquiring the POT Units and the POT Notes pursuant to the POT Transaction, which investments shall be for the purpose of funding the acquisition, development, exploitation and disposition of all types of petroleum and natural gas and energy related assets, including without limitation, facilities of any kind, oil sands interests, electricity or power generating assets and pipeline, gathering, processing and transportation assets (hereinafter referred to as "Energy Assets") and whether effected by POT, or any other subsidiary of the Trust through an acquisition of assets or an acquisition of shares or other form of ownership interest in any entity the substantial majority of the assets of which are comprised of like assets;
- (c) acquiring or investing in the securities of any other entity, including without limitation bodies corporate, partnerships or trusts, and borrowing funds or otherwise obtaining credit, including granting guarantees, for that purpose, for the purpose of directly or indirectly acquiring Energy Assets;
- (d) acquiring royalty interests in petroleum and natural gas rights;
- (e) making loans or other advances to POT and/or Peyto to finance future acquisitions and development of Canadian resource properties;
- (f) acquiring royalties in respect of Canadian resource properties as defined in the Tax Act and making any deferred royalty purchase payments which may be required with respect to such royalties; provided however that in no event shall the Trust invest in any royalties which constitute an interest in land or a covenant running with the properties with respect to which such royalties relate;

- (g) disposing of any part of the property of the Trust, including, without limitation, any securities of Peyto and POT;
- (h) temporarily holding cash and investments for the purposes of paying the expenses and the liabilities of the Trust, making other Permitted Investments as contemplated by the Trust Indenture, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions to Unitholders;
- (i) paying costs, fees and expenses associated with the foregoing purposes or incidental thereto; and
- (j) engaging in all activities ancillary or incidental to any of those activities set forth in paragraphs (a) through (i), inclusive.

The Trustee is prohibited from acquiring any investment which (a) would result in the cost amount to the Trust of all "foreign property" (as defined in the Tax Act) which is held by the Trust to exceed the amount prescribed by section 5000 of the Tax Regulations or (b) would result in the Trust not being considered either a "unit trust" or a "mutual fund trust" for purposes of the Tax Act.

### **Peyto Operating Trust**

POT is an open-ended unincorporated trust governed by the laws of the Province of Alberta and created pursuant to the POT Indenture. POT was established for the following purposes:

- (a) the direct or indirect conduct and pursuit of, and the participation in, the holding of the Undeveloped Properties, the development of exploration of its oil and gas properties and any additional oil and gas properties that are acquired by POT in the future (collectively, the "Oil and Gas Exploration Business") including entering into all of the transactions contemplated by, and all reorganizational steps in relation or ancillary to, the POT Transaction, including the issuance of the POT Notes and the acquisition of the NPI;
- (b) acquiring, holding, transferring, disposing of, investing in, operating and otherwise dealing with assets, securities (whether debt or equity) and other interests or properties of whatever nature or kind of or issued by affiliates, associates or other persons involved, directly or indirectly, in the Oil and Gas Exploration Business and, for greater certainty, POT is expressly authorized to achieve the foregoing purposes to invest, directly or indirectly, in one or more partnerships (whether limited or general) as a partner thereof and to acquire and hold royalty interests and securities of Peyto;
- (c) borrowing at any time and from time to time such sum of money or otherwise incurring such indebtedness, upon such terms and subject to such conditions, for such length of time and for the purposes set forth in paragraphs (a) and (b) above and, in order to secure the repayment of any sum so borrowed or indebtedness so incurred, executing and delivering, under seal and otherwise, such notes, bonds or other obligations as may be required, including promissory notes, mortgages, pledges, hypothecations and/or charges upon the assets of POT;
- (d) the guaranteeing of any debts or liabilities, present or future, direct or indirect, absolute or contingent, matured or not of any affiliate of POT pursuant to any credit facility, note indenture, swap, or other instrument for the purposes set forth in paragraphs (a) and (b) above;
- (e) without limiting the generality of paragraphs (a) and (b) above, the transfer of any direct or indirect ownership or working interest in, or any asset or property used in connection with, the Oil and Gas Exploration Business to one or more affiliates and the retention of royalty interests in such working interest, asset or property;
- (f) without limiting the generality of paragraphs (a) and (b) above, the acquisition, creation or retention of any other royalty interests related to the Oil and Gas Exploration Business;
- (g) temporarily holding cash and other short term investments in connection with and for the purposes of POT's activities, including paying administration and trust expenses, paying any amounts required in connection with the redemption of POT Units and making distributions to the Trust;

- (h) issuing POT Units and other securities of POT (including securities convertible into or exchangeable for POT Units or other securities of POT, or warrants, special warrants, options or other rights to acquire POT Units or other securities of POT), for the purposes of:
  - (i) obtaining funds to conduct the activities described in paragraphs (a) and (b) above, including raising funds for further acquisitions;
  - (ii) repayment of any indebtedness or borrowings of POT;
  - (iii) establishing and implementing rights plans, distribution reinvestment plans, POT Unit purchase plans, and incentive option and other compensation plans, if any, established by POT;
  - (iv) carrying out any of the transactions contemplated by the POT Transaction; and
  - (v) making non-cash distributions as contemplated by the POT Indenture, including distributions pursuant to distribution reinvestment plans, if any, established by POT;
- (i) repurchasing, redeeming, transferring, consolidating or canceling POT Units or other securities of POT, subject to the provisions of the POT Indenture and applicable law; and
- (j) engaging in all activities ancillary or incidental to any of those activities set forth in the preceding paragraphs.

#### **Peyto Exploration & Development Corp.**

Peyto is actively engaged in the business of oil and gas exploration, development, acquisition and production primarily in the province of Alberta. Peyto also acts as the administrator of the Trust and POT pursuant to the Administration Agreement and the POT Administration Agreement, respectively.

#### **Principal Properties**

See "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties*".

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the "Statement") is dated December 31, 2004. The effective date of the Statement is December 31, 2004 and the preparation date of the Statement is March 30, 2005. The Report of Management and Directors on Reserves Data and Other Information on Form 51-101F3 and the Report on Reserves Data by Paddock on Form 51-101F2 are attached at Schedules A and B, respectively, to this Annual Information Form.

### Disclosure of Reserves Data

The reserves data set forth below (the "Reserves Data") is based upon an evaluation by Paddock Lindstrom & Associates Ltd. ("Paddock") with an effective date of December 31, 2004 contained in a report entitled "Evaluation of the Oil and Gas Properties of Peyto Energy Trust" dated February 24, 2005 (the "Paddock Report"). The Reserves Data summarizes the oil, liquids and natural gas reserves of the Trust and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The Reserves Data conforms with the requirements of National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. Peyto Energy Trust engaged Paddock to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of the Trust's reserves are in Canada and, specifically, in the province of Alberta and British Columbia.

Some values set forth below may not add due to rounding.

**It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the constant prices and costs assumptions and forecast prices and costs assumptions will be attained and variances could be material.**

### Reserves Data (Constant Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2004  
CONSTANT PRICES AND COSTS

Reserves Category	RESERVES									
	Light and Medium Oil		Heavy Oil		Solution Gas		Natural Gas		Natural Gas Liquids	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcft)	Net (MMcft)	Gross (MMcft)	Net (MMcft)	Gross (Mbbbl)	Net (Mbbbl)
<b>Proved</b>										
Developed Producing	23	21	-	-	4	4	333,668	270,717	15,075	10,409
Developed Non-Producing	-	-	-	-	-	-	26,839	21,329	1,143	769
Undeveloped	-	-	-	-	-	-	74,691	61,890	2,851	1,986
Total Proved	23	21	-	-	4	4	435,197	353,936	19,069	13,163
<b>Probable</b>	6	5	-	-	2	1	180,248	141,538	7,294	4,958
Total Proved Plus Probable	29	26	-	-	6	5	615,445	495,473	26,363	18,122

Reserves Category	NET PRESENT VALUES OF FUTURE NET REVENUE									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)
<b>Proved</b>										
Developed Producing	2,407,970	1,507,929	1,115,551	899,572	762,590	1,672,416	1,058,068	788,253	638,739	543,406
Developed Non-Producing	150,583	80,607	52,623	38,339	29,698	99,455	51,859	32,567	22,588	16,488
Undeveloped	433,022	240,740	154,772	107,582	78,085	288,435	157,349	98,013	65,085	44,331
Total Proved	2,991,575	1,829,276	1,322,946	1,045,493	870,373	2,060,306	1,267,276	918,833	726,412	604,224

## NET PRESENT VALUES OF FUTURE NET REVENUE

Reserves Category	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
<b>Probable</b>	1,094,022	534,229	330,994	232,067	174,112	727,412	350,400	212,418	144,696	104,765
Total Proved Plus Probable	4,085,597	2,363,505	1,653,940	1,277,560	1,044,485	2,787,718	1,617,676	1,131,251	871,108	708,989

## TOTAL FUTURE NET REVENUE (UNDISCOUNTED) AS OF DECEMBER 31, 2004

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	4,434,205	802,552	520,682	105,051	14,346	2,991,575	931,269	2,060,306
Proved Plus Probable Reserves	6,241,954	1,174,494	743,995	219,924	17,944	4,085,597	1,297,879	2,787,718

## FUTURE NET REVENUE BY PRODUCTION GROUP AS OF DECEMBER 31, 2004

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (Discounted At 10%/Year) (M\$)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	279
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	1,290,076
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	347
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	1,608,426

Note: Net revenue does not include other income (i.e. processing income) and ARTC.

**Reserves Data (Forecast Prices and Costs)**SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2004  
FORECAST PRICES AND COSTS

Reserves Category	RESERVES									
	Light and Medium Oil		Heavy Oil		Solution Gas		Natural Gas		Natural Gas Liquids	
	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
<b>Proved</b>										
Developed Producing	23	21	-	-	4	4	334,977	268,038	15,143	10,628
Developed Non-Producing	-	-	-	-	-	-	27,009	21,365	1,152	788
Undeveloped	-	-	-	-	-	-	75,089	61,452	2,865	2,030
Total Proved	23	21	-	-	4	4	437,074	350,855	19,160	13,446
<b>Probable</b>	6	5	-	-	2	1	180,905	142,246	7,320	5,071
Total Proved Plus Probable	29	26	-	-	6	5	617,979	493,100	26,480	18,517

## NET PRESENT VALUES OF FUTURE NET REVENUE

Reserves Category	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
<b>Proved</b>										
Developed Producing	2,147,024	1,281,445	934,216	752,466	640,294	1,497,546	906,804	667,112	540,392	461,571
Developed Non-Producing	131,084	64,736	40,003	28,090	21,152	86,490	41,346	24,221	15,821	10,853
Undeveloped	364,006	187,203	113,239	74,404	50,804	242,193	121,480	70,156	42,804	25,986
Total Proved	2,642,114	1,533,384	1,087,458	854,960	712,250	1,826,229	1,069,630	761,489	599,017	498,410
<b>Probable</b>	1,034,846	449,480	285,691	173,028	125,354	688,306	293,882	164,189	105,317	72,242
Total Proved Plus Probable	3,676,961	1,982,864	1,346,149	1,027,988	837,604	2,514,535	1,363,512	925,678	704,334	570,652

## TOTAL FUTURE NET REVENUE (UNDISCOUNTED) AS OF DECEMBER 31, 2004

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	4,344,801	779,001	788,030	105,427	30,230	2,642,114	815,885	1,826,229
Proved Plus Probable Reserves	6,247,764	1,148,581	1,157,916	224,293	40,013	3,676,961	1,162,426	2,514,534

## FUTURE NET REVENUE BY PRODUCTION GROUP AS OF DECEMBER 31, 2004

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (Discounted At 10%/Year) (M\$)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	267
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas and by-products from oil wells)	1,054,596
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	323
	Heavy Oil (including solution gas and other by-products)	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	1,300,659

Note: Net revenue does not include other income (i.e. processing income) and ARTC.

**Definitions and Other Notes**

In the tables set forth above in "Disclosure of Reserves Data" and elsewhere in this Annual Information Form the following definitions and other notes are applicable:

1. "Gross" means:
  - (a) in relation to the Trust's interest in production and reserves, its "Trust gross reserves", which are the Trust's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Trust;
  - (b) in relation to wells, the total number of wells in which the Trust has an interest; and
  - (c) in relation to properties, the total area of properties in which the Trust has an interest.

2. "Net" means:
- (a) in relation to the Trust's interest in production and reserves, its "Trust gross reserves", which are the Trust's interest (operating and non-operating) share after deduction of royalties obligations, plus the Trust's royalty interest in production or reserves;
  - (b) in relation to wells, the number of wells obtained by aggregating the Trust's working interest in each of its gross wells; and
  - (c) in relation to the Trust's interest in a property, the total area in which the Trust has an interest multiplied by the working interest owned by the Trust.
3. Definitions used for reserve categories are as follows:

The following definitions apply to both estimates of individual reserves entities and the aggregate of reserves for multiple entities.

*Reserve Categories*

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- (a) analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions (see the discussion of "*Economic Assumptions*" below).

Reserves are classified according to the degree of certainty associated with the estimates.

- (d) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (e) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

"Economic Assumptions" will be the prices and costs used in the estimate, namely:

- (f) constant prices and costs as at the last day of the Trust's financial year; and
- (g) forecast prices and costs.

*Development and Production Status*

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
  - (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
  - (ii) Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.



- (b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

#### *Levels of Certainty for Reported Reserves*

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

#### 2. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which the Trust is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table under "Pricing Assumptions" identifies benchmark reference pricing that apply to the Trust.

#### 3. Constant prices and costs

Prices and costs used in an estimate that are:

- (a) the Trust's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies; and
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the Trust is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

For the purposes of paragraph (a), the Trust's prices are the posted prices for oil and the spot price for gas, after historical adjustments for transportation, gravity and other factors.

- 4. The Alberta royalty tax credit (ARTC) is included in the cumulative cash flow amounts. ARTC is based on the program announced November 1989 by the Alberta government with modifications effective January 1, 1995. The Trust qualifies for the maximum ARTC.

5. Future income tax expenses estimate:
  - (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes;
  - (b) without deducting estimated future costs that are not deductible in computing taxable income;
  - (c) taking into account estimated tax credits and allowances;
  - (d) applying to the future pre-tax net cash flows relating to the Trust's oil and gas activities the appropriate year-end statutory rates, taking into account future tax rates already legislated.
  
6. "Development costs" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
  - (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
  - (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
  - (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
  - (d) provide improved recovery systems.
  
7. "Development well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
  
8. "Exploration costs" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:
  - (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
  - (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
  - (c) dry hole contributions and bottom hole contributions;
  - (d) costs of drilling and equipping exploratory wells; and
  - (e) costs of drilling exploratory type stratigraphic test wells.
  
9. "Exploration well" means a well that is not a development well, a service well or a stratigraphic test well.
  
10. "Service well" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

11. Numbers may not add due to rounding.
12. The estimates of future net revenue presented in the tables above do not represent fair market value.

### Pricing Assumptions

The following sets forth the benchmark reference prices, as at December 31, 2004, reflected in the Reserves Data. These price assumptions were provided to the Trust by Paddock, the Trust's independent qualified reserves evaluator.

#### SUMMARY OF PRICING ASSUMPTIONS AS OF DECEMBER 31, 2004 CONSTANT PRICES AND COSTS

Year <sup>(2)</sup>	OIL					Natural Gas	Exchange Rate <sup>(1)</sup> (\$US/\$Cdn)
	WTI Cushing Oklahoma (\$US/Bbl)	Edmonton Par Price 40° API (\$Cdn/Bbl)	Hardisty Heavy 12° API (\$Cdn/Bbl)	Cromer Medium 29.3° API (\$Cdn/Bbl)	Natural Gas Aeco Gas Price (\$Cdn/MMBtu)	Liquids FOB Field Gate (\$Cdn/BBL)	
2002	40.00	38.96	27.96	36.23	5.79	48.87	1.538
2003	38.67	37.61	22.61	34.97	6.50	40.37	1.333
2004	43.27	45.12	26.31	38.38	7.31	44.83	1.217

Notes:

- (1) The exchange rate used to generate the benchmark reference prices in this table.  
(2) As at December 31.

#### SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS AS OF DECEMBER 31, 2004 FORECAST PRICES AND COSTS

Year	OIL				NATURAL GAS LIQUIDS					Inflation Rates <sup>(1)</sup> %/Year	Exchange Rate <sup>(2)</sup> (\$US/\$Cdn)
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40° API (\$Cdn/bbl)	Hardisty Heavy 12° API (\$Cdn/bbl)	Cromer Medium 29.3° API (\$Cdn/bbl)	Natural Gas Aeco Gas Price (\$Cdn/MMBtu)	Condensate (\$Cdn/BBL)	Butane (\$Cdn/BBL)	Propane (\$Cdn/BBL)	Ethane (\$Cdn/BBL)		
Forecast											
2005	42.00	50.22	30.72	46.70	6.78	50.22	37.16	30.13	21.27	2	1.22
2006	40.00	47.76	29.76	44.42	6.52	47.76	34.87	28.66	20.61	2	1.22
2007	37.50	44.69	28.69	41.56	6.26	44.69	32.18	26.81	19.74	2	1.22
2008	35.00	41.62	27.62	38.71	6.00	41.62	29.14	24.97	18.88	2	1.22
2009	33.00	39.16	25.00	36.42	5.73	39.16	27.41	23.50	18.01	2	1.22
2010	33.50	39.75	25.43	36.97	5.85	39.75	27.82	23.85	18.37	2	1.22
2011	34.00	40.34	25.85	37.51	5.96	40.34	28.24	24.20	18.74	2	1.22
2012	34.50	40.92	26.27	38.06	6.08	40.92	28.65	24.55	19.11	2	1.22
2013	35.00	41.51	26.68	38.61	6.21	41.51	29.06	24.91	19.49	2	1.22
2014	35.50	42.10	27.09	39.15	6.33	42.10	29.47	25.26	19.88	2	1.22
2015	36.00	42.68	27.49	39.70	6.46	42.68	29.88	25.61	20.28	2	1.22
2016	36.50	43.27	27.90	40.24	6.59	43.27	30.29	25.96	20.69	2	1.22
Thereafter	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	+ 2%	1.22

Notes:

- (1) Inflation rates for forecasting prices and costs.  
(2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized by the Trust for the year ended December 31, 2004, were \$7.38/mcf for natural gas, \$42.66/bbl for crude oil and natural gas liquids.

## Reconciliations of Changes in Reserves and Future Net Revenue

### RECONCILIATION OF TRUST NET RESERVES BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

Factors	Light and Medium Oil			Heavy Oil			Associated and Non-Associated Gas			Natural Gas Liquids		
	Net Proved	Net Probable	Net Proved Plus Probable	Net Proved	Net Probable	Net Proved Plus Probable	Net Proved	Net Probable	Net Proved Plus Probable	Net Proved	Net Probable	Net Proved Plus Probable
	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(MMcf)	(MMcf)	(MMcf)	(Mbbbl)	(Mbbbl)	(Mbbbl)
December 31, 2003	24.9	0.4	25.4	-	-	-	266,380	135,598	401,977	11,522	5,536	17,058
Extensions	-	-	-	-	-	-	70,648	25,224	95,872	2,392	711	3,103
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revision	2.1	5.2	7.2	-	-	-	(7,658)	(25,845)	(33,503)	(1,230)	(1,119)	(2,349)
Discoveries	-	-	-	-	-	-	44,850	7,372	52,223	1,837	(26)	1,811
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	1,639	(62)	1,577	38	(30)	8
Production	(6.2)	-	(6.2)	-	-	-	(25,004)	(41)	(25,045)	(1,113)	(1)	(1,114)
December 31, 2004	<u>20.8</u>	<u>5.6</u>	<u>26.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,855</u>	<u>142,246</u>	<u>493,100</u>	<u>13,446</u>	<u>5,071</u>	<u>18,517</u>

### RECONCILIATION OF CHANGES IN NET PRESENT VALUES OF FUTURE NET REVENUE DISCOUNTED AT 10% PER YEAR PROVED RESERVES CONSTANT PRICES AND COSTS

Period And Factor	2004 (M\$)
Estimated Future Net Revenue at Beginning of Year	<u>921,538</u>
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(217,435)
Net Change in Prices, Production Costs and Royalties Related to Future Production	136,372
Changes in Previously Estimated Development Costs Incurred During the Period	-
Changes in Estimated Future Development Costs	(32,404)
Extensions and Improved Recovery	-
Discoveries	425,225
Acquisitions of Reserves	-
Dispositions of Reserves	-
Net Change Resulting from Revisions in Quantity Estimates	(12,870)
Accretion of Discount	92,154
Net Change in Royalty Credits	478
Net Change in Income Taxes	-
Timing and Miscellaneous Changes	(9,888)
	<u>401,408</u>
Estimated Future Net Revenue at End of Year	<u>1,322,946</u>

## Additional Information Relating to Reserves Data

### Undeveloped Reserves

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to the Trust in the most recent five financial years and, in the aggregate, before that time.

## Proved Undeveloped Reserves

Year	Light and Medium Oil (Mbbbl)		Heavy Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)	
	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>
	2000	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	40,252	40,252	1,793	1,793
2004	-	-	-	-	41,422	61,452	1,256	2,030

Note:

(1) Cumulative at Year End = Residual Cumulative of Previous Year plus 1<sup>st</sup> Attributed.

## Probable Undeveloped Reserves

Year	Light and Medium Oil (Mbbbl)		Heavy Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)	
	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>	1 <sup>st</sup> Attributed	Cumulative at Year End <sup>(1)</sup>
	2000	-	-	-	-	45,551	51,083	1,320
2001	-	-	-	-	77,476	105,839	3,391	4,528
2002	-	-	-	-	110,278	138,757	4,175	5,094
2003	-	-	-	-	70,500	92,339	2,912	3,764
2004	-	-	-	-	52,608	93,837	1,836	3,264

Note:

(1) Cumulative at Year End = Residual Cumulative of Previous Year plus 1<sup>st</sup> Attributed.

Peyto typically assigns probable reserves to undrilled locations that are scheduled to be drilled in the next 18 months. The Trust has historically been highly successful converting these probable assignments to proven producing entities.

**Future Development Costs**

The following table sets forth development costs deducted in the estimation of the Trust's future net revenue attributable to the reserve categories noted below.

Year	Forecast Prices and Costs				Constant Prices and Costs	
	Proved Reserves		Proved Plus Probable Reserves		Proved Reserves	
	0%	10%	0%	10%	0%	10%
2005	96,185	92,118	182,195	174,128	96,185	92,118
2006	7,876	7,073	29,017	26,081	7,850	7,050
2007	-	-	156	123	-	-
2008	-	-	-	-	-	-
2009	-	-	-	-	-	-
Thereafter	1,366	406	12,925	2,266	1,016	342
Total	105,427	99,599	224,293	202,597	105,051	99,510

The Trust anticipates that funding for the future development costs will include internally generated cash flow, debt and equity financing.

**Other Oil and Gas Information****Oil and Gas Properties**

The following is a description of the Trust's principal oil and natural gas properties on production or under development as at January 1, 2005. The term "net", when used to describe the Trust's share of production, means the total of the Trust's working

interest share before deduction of royalties owned by others. Reserve amounts are stated, before deduction of royalties, at January 1, 2005, based on escalating cost and price assumptions (gross) as evaluated in the Paddock Report (see "*Description of the Business and Operations – Oil and Natural Gas Reserves*"). Unless otherwise specified, gross and net acres and well count information are as at January 1, 2005. Information in respect of current production is average production, net to the Trust, for the month of March 2005, except where otherwise indicated.

## **General**

Peyto operates in three core areas, namely the Sundance, Smoky/Kakwa and Cutbank areas of Alberta.

## **Sundance**

The Sundance area is located 50 kilometers west of Edson, Alberta, from Township 53–56 and Range 20-23 west of the fifth meridian. Peyto began its operations in this area in the spring of 1999.

Peyto has an average 78% working interest in 105,855 gross (82,487 net) acres of land and operates 98% of its production in the area.

The geology of the area indicates multi-zone potential for liquid-rich natural gas. Peyto currently produces gas from the Belly River, Cardium, Viking, Notikewin, Bluesky and Cadomin formations. The majority of Peyto's current production comes from the Cardium formation, which is characterized by low permeability blanket sand.

During 2004, Peyto conducted its most active exploration and development program in this area totalling \$135 million in capital expenditures. Peyto drilled and re-entered 55 net wells in Sundance. Peyto is currently producing approximately 16,000 boe per day of natural gas and natural gas liquids from this area. The Sundance area includes several properties that collectively account for:

- 59% of 2004 capital expenditures
- 82% of 2004 production volume
- 79% of proved and probable reserves at December 31, 2004
- 31% of undeveloped land holding at December 31, 2004

Peyto plans to spend approximately \$120 million of the 2005 capital program in this area. Peyto is planning to drill another 50-60 wells in the Sundance area over the 2005 calendar year. The majority of these wells are anticipated to be Cardium and Cadomin producers.

The low permeability in the Cardium and Cadomin sands typically limits the drainage area for a well to less than 320 acres. The Alberta Energy and Utilities Board has approved a reduced well spacing of 160 acres per well along the trend and in the Sundance area. This allows Peyto to conduct additional low risk development infill drilling of up to 4 wells per section.

Peyto owns a 100% working interest and operates a gas processing plant located in the Sundance area. The majority of the Trust's production is processed through this plant, with 303 gross (254 net) producing zones being tied in. Gross natural gas production at the facility is approximately 96 million cubic feet per day, with natural gas liquids production being approximately 3,400 barrels per day.

## **Smoky/Kakwa**

The Smoky/Kakwa area is located 40 km northeast of Grande Cache in Township 58-61 and Range 3-5 west of the sixth meridian. Peyto began operations in the area in the winter of 2002/2003.

Peyto has an average 71% working interest in 35,200 gross (24,904 net) acres of land and operates 96% of its production in the area.

The geology of the area indicates multi-zone potential for liquid-rich natural gas. Peyto currently produces gas from the Belly River and Cardium formation. The majority of Peyto's current production comes from the Cardium formation, which is characterized by a low permeability blanket sand.

During the 2004, Peyto constructed a 25 mmcf/d gas plant in the area which became operational in February 2004 and was subsequently expanded in January 2005 to 40 mmcf/d. Prior to year end Peyto had drilled and completed 24 wells (16 net) in

Smoky/Kakwa. Peyto is currently producing approximately 5,500 boe per day of natural gas and natural gas liquids from this area. The Smoky/Kakwa area account for:

23% of 2004 capital expenditures  
 17% of 2004 production volume  
 11% of proved and probable reserves at December 31, 2004  
 16% of undeveloped land holding at December 31, 2004

Peyto plans to spend approximately \$50 million of the 2005 capital program in this area. Peyto is planning to drill another 15-20 wells in the Smoky/Kakwa area over the 2005 calendar year. The majority of these wells are anticipated to be Cardium gas wells that exhibit similar characteristics to the existing Kakwa Cardium wells.

Peyto owns 100% working interest and operates its gas processing plant in Smoky/Kakwa. The majority of the production from the area is processed through this plant with 21 wells currently tied in. Gross production from this facility is approximately 25 mmcf/d of natural gas with approximately 1,500 bbls/d of natural gas liquids.

### **Cutbank**

The Cutbank area is located 90 km southwest of Grande Prairie, Alberta in Townships 62-64 and Ranges 8-11 west of the sixth meridian. Peyto began operations in this area in early 2004.

Peyto has an average 81% working interest in 30,080 gross (24,277 net) acres of land and operates 100% of its production in the area.

The geology of the area indicates multi-zone potential for liquid-rich natural gas. Peyto currently produces gas from the Belly River, Cardium and Dunvegan formations. The majority of Peyto's current production comes from the Cardium formation, which is characterized by a low permeability blanket sand.

During 2004, Peyto began plans for the construction of a new gas plant in the Cutbank area. This plant became operational in March of 2005. Prior to year end Peyto had drilled and completed 6 gross (6 net) gas wells in Cutbank. Peyto is currently producing approximately 1,000 boe per day of natural gas and natural gas liquids from this area. The Cutbank area accounts for:

6% of 2004 capital expenditures  
 1% of 2004 production volume  
 4% of proved and probable reserves at December 31, 2004  
 12% of undeveloped land holding at December 31, 2004

Peyto plans to spend approximately \$50 million of the 2005 capital program in this area. Peyto is planning to drill/re-enter 15-20 wells in the Cutbank area over the 2005 calendar year. The majority of these wells are anticipated to be Cardium gas wells that exhibit similar characteristics to the Sundance Cardium wells.

Peyto owns 100% working interest and operates its gas processing plant in Cutbank. The majority of the production from the area is processed through this plant with 6 wells currently tied in. Gross production from this facility is approximately 5 mmcf/d of natural gas with approximately 150 bbls/d of natural gas liquids.

### **New Areas**

Peyto is also active in two exploration areas with significant land bases and drilling opportunities. Land holdings in these two areas were, as of December 31, 2004, 65,600 gross (37,691 net) acres. Exploration activity is ongoing to determine the potential for future development.

### **Miscellaneous**

The Corporation has a number of minor working interests in non-operated wells throughout Alberta. These properties account for less than 1% of the Trust's current production. The Trust does not intend to focus a material amount of time on these properties in 2005.

### Oil And Gas Wells

The following table sets forth the number and status of wells in which the Trust has a working interest as at December 31, 2004.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	40	4.3	26	1.2	275	217	27	12.9
British Columbia	29	0.3	21	0.3	4	0.1	5	0.2
Total	69	4.6	47	1.5	279	217.1	32	13.2

### Properties with no Attributable Reserves

The following table sets out the Trust's developed and undeveloped land holdings as at December 31, 2004.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	87,839	57,977	182,804	115,710	270,643	173,687
British Columbia	4,094	178	4,793	265	8,887	443
Total	91,933	58,155	187,597	115,975	279,530	174,130

The Trust expects that rights to explore, develop and exploit 18,701 net acres of its undeveloped land holdings will expire by December 31, 2005 unless the rights are proven eligible for continuation due to production and/or drilling.

### Forward Contracts

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these 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.

A summary of contracts outstanding, as at the date hereof, in respect of the hedging activities are as follows:

#### Oil:

Period Hedged	Type	Daily Volume	Price (CAD)
January 1 to March 31, 2005	Fixed price	500 bbl	\$50.85/bbl
January 1 to March 31, 2005	Fixed price	200 bbl	\$50.65/bbl
January 1 to March 31, 2005	Fixed price	200 bbl	\$53.25/bbl
January 1 to March 31, 2005	Fixed price	300 bbl	\$57.50/bbl
April 1 to June 30, 2005	Fixed price	500 bbl	\$48.85/bbl
April 1 to June 30, 2005	Fixed price	200 bbl	\$49.25/bbl
April 1 to June 30, 2005	Fixed price	200 bbl	\$51.85/bbl
April 1 to June 30, 2005	Fixed price	300 bbl	\$57.35/bbl
April 1 to June 30, 2005	Fixed price	200 bbl	\$63.70/bbl
July 1 to September 30, 2005	Fixed price	250 bbl	\$54.08/bbl
July 1 to September 30, 2005	Fixed price	350 bbl	\$56.08/bbl
July 1 to September 30, 2005	Fixed price	200 bbl	\$59.02/bbl
July 1 to September 30, 2005	Fixed price	200 bbl	\$53.12/bbl
July 1 to September 30, 2005	Fixed price	100 bbl	\$54.35/bbl
July 1 to September 30, 2005	Fixed price	200 bbl	\$62.22/bbl
October 1 to December 31, 2005	Fixed price	300 bbl	\$54.35/bbl
October 1 to December 31, 2005	Fixed price	250 bbl	\$57.52/bbl
October 1 to December 31, 2005	Fixed price	200 bbl	\$52.07/bbl
October 1 to December 31, 2005	Fixed price	200 bbl	\$53.15/bbl
October 1 to December 31, 2005	Fixed price	200 bbl	\$55.20/bbl
October 1 to December 31, 2005	Fixed price	200 bbl	\$60.50/bbl
January 1 to March 31, 2006	Fixed price	300 bbl	\$53.85/bbl
January 1 to March 31, 2006	Fixed price	200 bbl	\$54.58/bbl
January 1 to March 31, 2006	Fixed price	200 bbl	\$57.65/bbl
January 1 to March 31, 2006	Fixed price	200 bbl	\$58.90/bbl
April 1 to June 30, 2006	Fixed price	200 bbl	\$64.75/bbl



## Natural Gas:

Period Hedged	Type	Daily Volume	Floor (CAD)	Ceiling (CAD)
Nov. 1, 2004 to March 31, 2005	Costless collar	10,000 GJ	\$5.50/GJ	\$8.00/GJ
Nov. 1, 2004 to March 31, 2005	Costless collar	10,000 GJ	\$6.00/GJ	\$7.65/GJ
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$6.65/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	10,000 GJ	\$6.97/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$6.95/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$7.08/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$7.14/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$7.56/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$7.75/GJ	-
Nov. 1, 2004 to March 31, 2005	Fixed price	5,000 GJ	\$7.50/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.71/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.70/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.80/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.45/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.55/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.70/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$7.00/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$7.27/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.42/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.65/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.80/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$6.90/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$7.01/GJ	-
April 1 to October 31, 2005	Fixed price	5,000 GJ	\$7.11/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$7.40/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$7.50/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$7.60/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$7.70/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$7.80/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$7.91/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$8.01/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$8.15/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$8.22/GJ	-
November 1, 2005 to March 31, 2006	Fixed price	5,000 GJ	\$8.32/GJ	-

**Additional Information Concerning Abandonment and Reclamation Costs**

The Trust bases its estimates for the costs of abandonment and reclamation of surface leases, wells, facilities and pipelines on previous experience of management with similar well sites and facility locations. As at December 31, 2004, management expected to incur such costs on 235.4 net wells. The total of such costs, net of estimated salvage value, expected to be incurred is \$14.3 million (undiscounted) and \$1.3 million (discounted at 10%). Future net revenue figures set forth in this report only include abandonment liabilities for wells assigned reserves. Within the next three financial years, it is expected such costs will total approximately \$419,000 (undiscounted) in aggregate.

**Tax Horizon**

As a result of the structure of the Trust and its affiliated entities, any taxable income that would otherwise arise in Peyto or the other affiliated entities will accrue in the Trust and will be allocated by the Trust to its unitholders. This is primarily accomplished through the payment and deduction of interest on debt or royalties on underlying oil and gas properties held by the Trust. Therefore, no tax is anticipated to be incurred or paid by Peyto.

**Capital Expenditures**

The following table summarize capital expenditures (net of incentives and net of certain proceeds and including capitalized general and administrative expenses) related to the Trust's activities for the year ended December 31, 2004:

Property acquisition costs	
Proved properties	\$ -
Unproved properties	7.3
Exploration costs	90.8
Development costs	132.7
Total	<u>\$ 230.8</u>

### Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells in which the Trust participated during the year ended December 31, 2004:

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Oil	-	-	-	-
Natural Gas	45	37.0	59	42.5
Service	-	-	-	-
Dry	-	-	-	-
Total:	45	37.0	59	42.5

For a description of the Trust's most important current and likely exploration and development activities, see "Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties".

### Production Estimates

The following table sets out the volume of the Trust's production estimated for the year ended December 31, 2005 which is reflected in the estimate of future net revenue disclosed in the tables contained under " - Disclosure of Reserves Data".

	Light and Medium Oil (Bbls/d)	Heavy Oil (Bbls/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbls/d)	BOE (BOE/d)
<b>Proved</b>					
Sundance	-	-	77,427	3,301	16,206
Kakwa	-	-	16,823	1,248	4,051
Other	16	-	6,197	280	1,330
Total Proved 2005	16	-	100,447	4,829	21,587
<b>Proved Plus Probable</b>					
Sundance	-	-	84,971	3,575	17,737
Kakwa	-	-	23,509	1,624	5,542
Other	17	-	9,828	449	2,104
Total P+P 2005	17	-	118,308	5,648	25,383

### Production History and Prices Received

The following tables summarize certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

	2004			
	Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Daily Production <sup>(1)</sup>				
Light and Medium Crude Oil (Bbls/d)	-	-	-	-
Heavy Oil (Bbls/d)	-	-	-	-
Gas (Mcf/d)	97,968	91,782	87,753	78,597
NGLs (Bbls/d)	4,360	3,967	3,918	3,315
Combined (BOE/d)	20,688	19,264	18,544	16,414
Average Price Received				
Light and Medium Crude Oil (\$/Bbl)	-	-	-	-
Heavy Oil (\$/Bbl)	-	-	-	-
Gas (\$/Mcf)	7.58	7.00	7.32	7.63
NGLs (\$/Bbl)	46.82	43.13	40.06	39.59
Combined (\$/BOE)	45.78	42.24	43.12	44.51
Royalties Paid (\$/BOE)	11.08	8.76	11.20	10.53
Production Costs including transportation (\$/BOE)	1.80	1.76	1.78	1.66
Netback Received (\$/BOE)	32.89	31.72	30.14	32.32

Note:

- (1) Before deduction of royalties.

The following table indicates the Trust's average daily production from its important fields, and in total, for the year ended December 31, 2004:

	Light and Medium Crude Oil (Bbls/d)	Heavy Oil (Bbls/d)	Gas (Mcf/d)	NGLS (Bbls/d)	BOE (BOE/d)
Sundance	-	-	74,749.9	2,910.8	15,369.1
Kakwa	-	-	13,297.0	923.0	3,139.1
Other Properties	21.3	-	795.2	27.1	181.0
Total Alberta	21.3	-	88,842.1	3,860.9	18,689.3
Total	21.3	-	88,842.1	3,860.9	18,689.3

### ADDITIONAL INFORMATION RESPECTING PEYTO ENERGY TRUST

#### Trust Units

An unlimited number of Trust Units may be created and issued pursuant to the Trust Indenture. As of the date hereof, there are 48,395,272 Trust Units issued and outstanding. Each Trust Unit shall entitle the holder thereof to one vote at any meeting of the holders of Trust Units and represents an equal fractional undivided beneficial interest in any distribution from the Trust (whether of Distributable Cash, net realized capital gains or other amounts) and in any net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units outstanding from time to time shall be entitled to equal shares of any distributions by the Trust, and in the event of termination or winding-up of the Trust, in any net assets of the Trust. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority. Each Trust Unit is transferable, subject to compliance with applicable Canadian securities laws, is not subject to any conversion or pre-emptive rights and entitles the holder thereof to require the Trust to redeem any or all of the Trust Units held by such holder (see "*Redemption Right*").

The Trust Units do not represent a traditional investment and should not be viewed by investors as "shares" in either POT, Peyto or the Trust. As holders of Trust Units in the Trust, the Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The price per Trust Unit will be a function of anticipated distributable income from POT and Peyto and the ability of POT and Peyto to effect long term growth in the value of the Trust. The market price of the Trust Units will be sensitive to a variety of market conditions including, but not limited to, interest rates, commodity prices and the ability of the Trust to acquire additional assets. Changes in market conditions may adversely affect the trading price of the Trust Units.

**The Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act (Canada)* and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.**

#### Special Voting Rights

In order to allow the Trust flexibility in pursuing corporate acquisitions, the Trust Indenture allows for the creation of Special Voting Rights which will enable the Trust to provide voting rights to holders of exchangeable shares that may be issued by Peyto or other direct or indirect subsidiaries of the Trust in connection with exchangeable share transactions.

An unlimited number of Special Voting Rights may be created and issued pursuant to the Trust Indenture. Holders of Special Voting Rights shall not be entitled to any distributions of any nature whatsoever from the Trust and shall be entitled to attend at meetings of Unitholders and to such number of votes at meetings of Unitholders as may be prescribed by the board of directors of Peyto in the resolution authorizing the issuance of any Special Voting Rights. Except for the right to attend and vote at meetings of the Unitholders, the Special Voting Rights shall not confer upon the holders thereof any other rights.

#### Unitholders Limited Liability

The Trust Indenture provides that no Unitholder, in its capacity as such, shall incur or be subject to any liability in contract or in tort or of any other kind whatsoever to any person in connection with the Trust Fund (as defined in the Trust Indenture) or the obligations or the affairs of the Trust or with respect to any act performed by the Trustee or by any other person pursuant to the Trust Indenture or with respect to any act or omission of the Trustee or any other person in the performance or exercise, or purported performance or exercise, of any obligation, power, discretion or authority conferred upon the Trustee or such other person hereunder or with respect to any transaction entered into by the Trustee or by any other person pursuant to the Trust Indenture. The Trust Indenture also provides that no Unitholder shall be liable to indemnify the Trustee or any such other person

with respect to any such liability or liabilities incurred by the Trustee or by any such other person or persons or with respect to any taxes payable by the Trust or by the Trustee or by any other person on behalf of or in connection with the Trust. Notwithstanding the foregoing, to the extent that any Unitholders are found by a court of competent jurisdiction to be subject to any such liability, such liability shall be enforceable only against, and shall be satisfied only out of, the Trust Fund and the Trust (to the extent of the Trust Fund) is liable to, and shall indemnify and save harmless any Unitholder against any costs, damages, liabilities, expenses, charges or losses suffered by any Unitholder from or arising as a result of such Unitholder not having any such limited liability.

The Trust Indenture provides that all contracts signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Notwithstanding the terms of the Trust Indenture, Unitholders may not be protected from liabilities of the Trust to the same extent a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Trust (to the extent that claims are not satisfied by the Trust) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability to Unitholders of this nature arising is considered unlikely in view of the fact that the sole activity of the Trust is to hold securities, and all of the business operations currently carried on by Peyto will be carried on by POT and Peyto, directly or indirectly.

The activities of the Trust and its direct and indirect wholly-owned subsidiaries, POT and Peyto, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the Unitholders for claims against the Trust including by obtaining appropriate insurance, where available, for the operations of POT and Peyto and having contracts signed by or on behalf of the Trust include a provision that such obligations are not binding upon Unitholders personally.

On July 1, 2004, the *Income Trusts Liability Act* (Alberta) came into force. This act created a statutory limitation of the liability of unitholders of Alberta income trusts such as the Trust. The legislation provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the legislation came into force.

### **Issuance of Trust Units**

The Trust Indenture provides that Trust Units, including rights, warrants, special warrants and other securities to purchase, to convert into or to exchange into Trust Units, may be created, issued, sold and delivered on such terms and conditions and at such time or times as the board of directors of Peyto may determine. The Trust Indenture also provides that Peyto may authorize the creation and issuance of debentures, notes and other evidences of indebtedness of the Trust which debentures, notes or other evidences of indebtedness may be created and issued from time to time on such terms and conditions, to such persons and for such consideration as Peyto may determine.

### **Cash Distributions**

The Trustee may, upon the recommendation of Peyto, as administrator, declare payable to the Unitholders all or any part of the net income of the Trust earned from interest income on the POT Notes and from any distributions paid on the POT Units, less all expenses and liabilities of the Trust due and accrued and which are chargeable to the net income of the Trust. In addition, Unitholders may, at the discretion of the board of directors of Peyto, receive distributions in respect of repayments of principal on the POT Notes made by POT to the Trust before the maturity of the POT Notes.

The initial cash distribution was paid to Unitholders of record on July 31, 2003 and was paid on August 15, 2003. It is expected that cash distributions will be made on the 15<sup>th</sup> day of each month to Unitholders of record on the immediately preceding Distribution Record Date.

### **Distribution Reinvestment Plan**

A plan has been established to provide Unitholders who are residents of Canada (within the meaning of the Tax Act) with a method to reinvest cash distributions by purchasing additional Trust Units. For further information, please see [www.peyto.com](http://www.peyto.com).

### **Redemption Right**

Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requiring redemption. Upon receipt of the notice to redeem Trust Units by the Trust, the holder thereof shall only be entitled to receive a price per Trust Unit (the "Market Redemption Price") equal to the lesser of: (a) 90% of the "market price" of the Trust Units on the principal

market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units are tendered to the Trust for redemption; and (b) the closing market price on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are so tendered for redemption.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Trust Units for each of the trading days on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the market price shall be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the market price shall be the simple average of the following prices established for each of the 10 trading days: the average of the last bid and last ask prices for each day on which there was no trading; the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The closing market price shall be: an amount equal to the closing price of the Trust Units if there was a trade on the date; an amount equal to the average of the highest and lowest prices of the Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; and the average of the last bid and last ask prices if there was no trading on the date.

The Market Redemption Price payable by the Trust in respect of any Trust Units tendered for redemption during any calendar month shall be satisfied by way of cheque payable on the last day of the calendar month following the month in which the Trust Units were tendered for redemption. The entitlement of Unitholders to receive a cheque upon the redemption of their Trust Units is subject to the limitation that the total amount payable by the Trust in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month shall not exceed \$100,000 provided that, Peyto may, in its sole discretion, waive such limitation in respect of any calendar month. If this limitation is not so waived, the Market Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in such calendar month shall be paid on the last day of the calendar month following such month as follows: (a) firstly, by the Trust distributing POT Notes, or such other series of promissory notes of POT as POT may issue to the Trust in payment of the POT Notes (the "Other POT Notes"), having an aggregate principal amount equal to the aggregate Market Redemption Price of the Trust Units tendered for redemption, and (b) secondly, to the extent that the Trust does not hold POT Notes and/or Other POT Notes having a sufficient principal amount outstanding to effect such payment, by the Trust issuing Redemption Notes to the Unitholders who exercised the right of redemption having an aggregate principal amount equal to any such shortfall, which Redemption Notes shall have terms and conditions substantially identical to those of the POT Notes and/or Other POT Notes.

If at the time Trust Units are tendered for redemption by a Unitholder, the outstanding Trust Units are not listed for trading on the TSX or the TSX Venture Exchange and are not traded or quoted on any other stock exchange or market which Peyto considers, in its sole discretion, provides representative fair market value price for the Trust Units or the normal trading of the outstanding Trust Units is suspended or halted on any stock exchange on which the Trust Units are listed for trading or, if not so listed, on any market on which the Trust Units are quoted for trading, on the date that such Trust Units tendered for redemption are tendered for redemption or for more than five trading days during the 10 trading day period, commencing immediately after the date on which such Trust Units tendered for redemption were tendered for redemption then such Unitholders shall, instead of the Market Redemption Price, be entitled to receive a price per Trust Unit (the "Appraised Redemption Price") equal to 90% of the fair market value thereof as determined by Peyto as at the date on which such Trust Units were tendered for redemption. The aggregate Appraised Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in any calendar month shall be paid on the last day of the third following month following the month in which such Trust Units were tendered for redemption by, at the option of the Trust: (a) a cash payment; or (b) a distribution of POT Notes and/or Other POT Notes and/or Redemption Notes as described above.

It is anticipated that this redemption right will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. POT Notes, Other POT Notes or Redemption Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such POT Notes, Other POT Notes or Redemption Notes. POT Notes, Other POT Notes and Redemption Notes may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

### **Non-Resident Ownership Constraint**

At no time may non-residents of Canada (within the meaning of the Tax Act) be the beneficial owners of more than 49 percent of the Trust Units then outstanding. The Trustee or Transfer Agent (as defined herein) may require declarations as to the jurisdictions in which beneficial owners of Trust Units are resident. If the Transfer Agent or Peyto becomes aware that the

beneficial owners of 49 percent or more of the Trust Units then outstanding are, or may be, non-residents or that such a situation is imminent, the Transfer Agent or Peyto (as applicable) will advise the Trustee and the Trustee may, or upon receiving a direction from the Trustee the Transfer Agent may, make a public announcement thereof and neither the Trustee nor the Transfer Agent shall accept a subscription for Trust Units from or issue or register a transfer of Trust Units to a person unless the person provides a declaration that the person is not a non-resident of Canada. If, notwithstanding the foregoing, the Trustee or Transfer Agent determines that 49 percent or more of the Trust Units are held by non-residents, the Trustee may, or the Transfer Agent may upon receiving a direction from the Trustee and suitable indemnity from the Trust, send a notice to non-resident holders of Trust Units, as applicable, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustee or Transfer Agent (as the case may be) may consider equitable and practicable, requiring such non-resident holders to sell their Trust Units or a specified portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents of Canada within such period, the Trustee (or the Transfer Agent on the direction of the Trustee) may on behalf of such Unitholders sell such Trust Units and, in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale the Unitholders thereby affected shall cease to be holders of Trust Units and their rights shall be limited to receiving the net proceeds of sale of such Trust Units. No liability shall accrue to the Trust or the Trustee if the Trust Units of non-resident Unitholders are sold at a loss to such Unitholder.

### **Meetings of Unitholders**

The Trust Indenture provides that meetings of Unitholders must be called and held for, among other matters, the election or removal of the Trustee, the appointment or removal of the auditors of the Trust, the approval of amendments to the Trust Indenture (except as described under "Amendments to the Trust Indenture"), the sale of the property of the Trust as an entirety or substantially as an entirety, and the commencement of winding-up the affairs of the Trust. Meetings of Unitholders will be called and held annually for, among other things, the election of the directors of Peyto and the appointment of the auditors of the Trust. At every third meeting of Unitholders, Unitholders will be asked to re-appoint, or appoint the successor to, the Trustee of the Trust.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustee and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 20% of the Trust Units then outstanding by a written requisition. A requisition must, among other things, state in reasonable detail the business purpose for which the meeting is to be called.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 5% of the votes attaching to all outstanding Trust Units shall constitute a quorum for the transaction of business at all such meetings. For the purposes of determining such quorum, the holders of any issued Special Voting Rights who are present at the meeting shall be regarded as representing outstanding Trust Units equivalent in number to the votes attaching to such Special Voting Rights.

The Trust Indenture contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders in accordance with the requirements of applicable laws.

### **Exercise of Voting Rights Attached to POT Units of POT and Shares of Peyto**

The Trust Indenture prohibits the Trustee from voting, or causing to be voted, as the case may be, the POT Units or the shares of Peyto with respect to (a) the election of a trustee or directors of POT or Peyto, respectively, (b) the appointment of auditors of POT or Peyto, or (c) the approval of POT's or Peyto's financial statements (if required by applicable legislation), except in accordance with an Ordinary Resolution adopted at an annual meeting of Unitholders (provided, however, that the election of a trustee of POT shall be approved at every third annual meeting of Unitholders) .

The Trustee is also prohibited from voting, or causing to be voted, as the case may be, the POT Units or the shares of Peyto to authorize:

- (a) any sale, lease or other disposition of, or any interest in, all or substantially all of the assets of POT or Peyto, except in conjunction with an internal reorganization of the direct or indirect assets of POT or Peyto as a result of which either POT or Peyto or the Trust has the same, or substantially similar interest, whether direct or indirect, in the assets as the interest, whether direct or indirect, that it had prior to the reorganization;

- (b) any statutory amalgamation of Peyto with any other corporation or any amalgamation, merger or other transaction, as the case may be, of POT with any other entity, except in conjunction with an internal reorganization as referred to in paragraph (a) above;
- (c) any statutory arrangement involving Peyto or any arrangement involving POT, except in conjunction with an internal reorganization as referred to in paragraph (a) above;
- (d) any amendment to the articles of Peyto to increase or decrease the minimum or maximum number of directors;
- (e) any material amendment to the articles of Peyto to change the authorized share capital or amend the rights, privileges, restrictions and conditions attaching to any class of Peyto's shares in a manner which may be prejudicial to the Trust, provided, however, that the Trustee shall have the authority to take such steps as may be necessary to amend the articles of the Corporation to create a class or classes of exchangeable shares; or
- (f) any material amendment to the trust indenture of POT to change the authorized capital or amend the rights, privileges, restrictions and conditions attaching to the POT Units or any other class of POT's securities in a manner which may be prejudicial to the Trust;

without the approval of the Unitholders by Special Resolution at a meeting of Unitholders called for that purpose.

### **Trustee**

Valiant Trust Company is the initial trustee of the Trust. The Trustee is responsible for, among other things, accepting subscriptions for Trust Units and issuing Trust Units pursuant thereto and maintaining the books and records of the Trust and providing timely reports to holders of Trust Units. The Trust Indenture provides that the Trustee shall exercise its powers and carry out its functions thereunder as Trustee honestly, in good faith and in the best interests of the Trust and the Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The initial term of the Trustee's appointment is until the third annual meeting of Unitholders. The Unitholders shall, at the third annual meeting of the Unitholders, re-appoint, or appoint a successor to the Trustee for an additional three year term, and thereafter, the Unitholders shall reappoint or appoint a successor to the Trustee at the annual meeting of Unitholders three years following the reappointment or appointment of the successor to the Trustee. The Trustee may resign on giving not less than 60 days' notice in writing to the Corporation. The Trustee may also be removed by Special Resolution of the Unitholders. Such resignation or removal shall not become effective until (a) the appointment of, and acceptance of such appointment by, a new Trustee in the place of the resigning Trustee or the Trustee to be removed, and (b) a legal and valid assumption by the new Trustee of all obligations of the Trustee related thereto in the same capacities as the resigning Trustee or the Trustee to be removed.

### **Delegation of Authority, Administration and Trust Governance**

The Trust is not managed by a third party manager. The Trust is managed by the management of Peyto. The Trustee, on behalf of the Trust, has entered into the Administration Agreement pursuant to which Peyto will provide certain administrative services and facilities to the Trust.

The board of directors of Peyto has generally been delegated the significant management decisions of the Trust. In particular, the Trustee has delegated to Peyto responsibility for any and all matters relating to the following: (a) an offering of securities of the Trust; (b) ensuring compliance with all applicable laws, including in relation to an offering of securities of the Trust; (c) all matters relating to the content of any documents relating to an offering of securities of the Trust, the accuracy of the disclosure contained therein, and the certification thereof; (d) all matters concerning the terms of, and amendment from time to time of, the material contracts of the Trust; (e) all matters concerning any subscription agreement or underwriting or agency agreement providing for the sale or issue of Trust Units or securities convertible for or exchangeable into Trust Units or rights to Trust Units; (f) all matters concerning the Arrangement; (g) all matters relating to the redemption of Trust Units; (h) all matters relating to the voting rights on any investments of the Trust; (i) all matters relating to the specific powers and authorities as set forth in the Trust Indenture; (j) the adoption of a Unitholder rights plan and other miscellaneous matters relating to the maximization of Unitholder value; and (k) all matters relating to amending the Corporation's articles to create a class or classes of exchangeable shares.

### **Liability of the Trustee**

The Trustee, its directors, officers, employees, shareholders and agents shall not be liable to any Unitholders or any other person, in tort, contract or otherwise, in connection with any matter pertaining to the Trust or the property of the Trust, arising from the exercise by the Trustee of any powers, authorities or discretion conferred under the Trust Indenture, including, without limitation, any action taken or not taken in good faith in reliance on any documents that are, prima facie, properly executed, any depreciation of, or loss to, the property of the Trust incurred by reason of the sale of any asset, any inaccuracy in any evaluation provided by any appropriately qualified person, any reliance on any such evaluation, any action or failure to act of Peyto, or any other person to whom the Trustee has, with the consent of Peyto, delegated any of its duties hereunder, or any other action or failure to act (including failure to compel in any way any former trustee to redress any breach of trust or any failure by Peyto to perform its duties under or delegated to it under the Trust Indenture or any other contract), unless such liabilities arise out of the negligence, willful default or fraud of the Trustee or any of its directors, officers, employees, shareholders or agents. If the Trustee has retained an appropriate expert, adviser or legal counsel with respect to any matter connected with its duties under the Trust Indenture or any other contract, the Trustee may act or refuse to act based on the advice of such expert, adviser or legal counsel, and the Trustee shall not be liable for and shall be fully protected from any loss or liability occasioned by any action or refusal to act based on the advice of any such expert, adviser or legal counsel. In the exercise of the powers, authorities or discretion conferred upon the Trustee under the Trust Indenture, the Trustee is and shall be conclusively deemed to be acting as Trustee of the assets of the Trust and shall not be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgments, costs, charges or expenses against or with respect to the Trust or the property of the Trust. In addition, the Trust Indenture contains other customary provisions limiting the liability of the Trustee.

### **Amendments to the Trust Indenture**

The Trust Indenture may be amended or altered from time to time by Special Resolution.

The Trustee may, without the approval of any of the Unitholders or any other person, amend the Trust Indenture for the purpose of:

- (a) ensuring the Trust's continuing compliance with applicable laws or requirements of any governmental agency or authority of Canada or of any province;
- (b) ensuring that the Trust will satisfy the provisions of each of subsections 108(2) and 132(6) of the Tax Act as from time to time amended or replaced;
- (c) ensuring that such additional protection is provided for the interests of Unitholders as the Trustee may consider expedient;
- (d) removing or curing any conflicts or inconsistencies between the provisions of the Trust Indenture or any supplemental indenture, any direct royalties sale agreement and any other agreement of the Trust or any offering document pursuant to which securities of the Trust are issued with respect to the Trust, or any applicable law or regulation of any jurisdiction, provided that in the opinion of the Trustee the rights of the Trustee and of the Unitholders are not prejudiced thereby;
- (e) providing for the electronic delivery by the Trust to Unitholders of documents relating to the Trust (including annual and quarterly reports, including financial statements, notices of Unitholder meetings and information circulars and proxy related materials) at such time as applicable securities laws have been amended to permit such electronic delivery in place of normal delivery procedures, provided that such amendments to the Trust Indenture are not contrary to or do not conflict with such laws;
- (f) curing, correcting or rectifying any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions, provided that in the opinion of the Trustee the rights of the Trustee and of the Unitholders are not prejudiced thereby; and
- (g) making any modification in the form of Trust Unit certificate to conform with the provisions of the Trust Indenture, or any other modifications, provided the rights of the Trustee and of the Unitholders are not prejudiced thereby.



### **Takeover Bid**

The Trust Indenture contains provisions to the effect that if a takeover bid is made for the Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the takeover bid, on the terms offered by the offeror.

### **Termination of the Trust**

The Unitholders may vote to terminate the Trust at any meeting of the Unitholders duly called for that purpose, subject to the following: (a) a vote may only be held if requested in writing by the holders of not less than 20% of the outstanding Trust Units; (b) a quorum of holders of not less than 50% of the issued and outstanding Trust Units is present in person or represented by proxy; and (c) the termination must be approved by Special Resolution of Unitholders.

Unless the Trust is earlier terminated or extended by vote of the Unitholders, the Trustee shall commence to wind-up the affairs of the Trust on December 31, 2099. In the event that the Trust is wound-up, the Trustee will sell and convert into money the property of the Trust in one transaction or in a series of transactions at public or private sale and do all other acts appropriate to liquidate the property of the Trust, and shall in all respects act in accordance with the directions, if any, of the Unitholders in respect of a termination authorized pursuant to the Special Resolution authorizing the termination of the Trust. Notwithstanding anything herein contained, in no event shall the Trust be wound up until any direct royalties shall have been disposed of, and under no circumstances shall any Unitholder come into any possession of any interest in any royalty. After paying, retiring or discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Trust and providing for indemnity against any other outstanding liabilities and obligations, the Trustee shall distribute the remaining part of the proceeds of the sale of the assets together with any cash forming part of the property of the Trust among the Unitholders in accordance with their pro rata share.

### **Reporting to Unitholders**

The financial statements of the Trust will be audited annually by an independent recognized firm of chartered accountants. The audited financial statements of the Trust, together with the report of such chartered accountants, will be mailed by the Trustee to Unitholders and the unaudited interim financial statements of the Trust will be mailed to Unitholders within the periods prescribed by securities legislation. The year end of the Trust shall be December 31.

The Trust will be subject to the continuous disclosure obligations under all applicable securities legislation.

## **ADDITIONAL INFORMATION RESPECTING PEYTO OPERATING TRUST**

### **POT Units**

The POT Indenture provides that an unlimited number of POT Units may be created and issued pursuant to the POT Indenture. The holders of POT Units ("POT Unitholders") are entitled to receive distributions on the POT Units in accordance with the terms of the POT Indenture and such other distributions as may be made pursuant to the POT Indenture. In the event of the liquidation, dissolution or winding up of POT or other distribution of assets of POT among POT Unitholders for the purpose of winding up its affairs, the POT Unitholders will be entitled to participate in the distribution in equal amounts per POT Unit on all of the POT Units at the time outstanding without preference or distinction. The POT Unitholders are entitled to receive notice of and to attend all annual and special meetings of the POT Unitholders and to one (1) vote in respect of each POT Unit held at all such meetings. Each POT Unitholder is entitled to require POT to redeem at the demand of the POT Unitholder all or any part of the POT Units registered in the name of the POT Unitholder at a price determined in accordance with the terms of the POT Indenture. In addition, POT is able to call for redemption all or any part of the outstanding POT Units registered in the name of POT Unitholders at a price determined in accordance with the terms of the POT Indenture.

### **POT Unitholders Limited Liability**

The POT Indenture provides that no POT Unitholder, in its capacity as such, shall incur or be subject to any liability in contract or in tort or of any other kind whatsoever to any person in connection with the Trust Property (as defined in the POT Indenture) or the obligations or the affairs of POT or with respect to any act performed by Valiant Trust Company (the "POT Trustee") or by any other person pursuant to the POT Indenture or with respect to any act or omission of the POT Trustee or any other person in the performance or exercise, or purported performance or exercise, of any obligation, power, discretion or authority conferred upon the POT Trustee or such other person or with respect to any transaction entered into by the POT Trustee or by any other

person pursuant to the POT Indenture. The POT Indenture also provides that no POT Unitholder shall be liable to indemnify the POT Trustee or any such other person with respect to any such liability or liabilities incurred by the POT Trustee or by any such other person or persons or with respect to any taxes payable by POT or by the POT Trustee or by any other person on behalf of or in connection with POT; provided, however, to the extent that, notwithstanding the foregoing, any such liabilities are determined by a court of competent jurisdiction to be liabilities of POT Unitholders, such liabilities shall only be enforceable against, and shall be satisfied only out of, the Trust Property. If any POT Unitholder shall be held personally liable as such to any other person in respect of any debt, liability or obligation incurred by or on behalf of POT, or any action taken on behalf of POT, such POT Unitholder shall be entitled to indemnity and reimbursement out of the Trust Property to the full extent of such liability and to the costs of any litigation or any other proceedings in which such liability shall have been determined, including, without limitation, the reasonable fees and disbursements of counsel.

The POT Indenture provides that all contracts signed by or on behalf of POT must contain a provision to the effect that such obligation will not be binding upon POT Unitholders personally. Notwithstanding the terms of the POT Indenture, POT Unitholders may not be protected from liabilities of POT to the same extent a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against POT (to the extent that claims are not satisfied by POT) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities.

The activities of POT and its wholly-owned subsidiary, Peyto, are and will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the POT Unitholders for claims against POT including by obtaining appropriate insurance, where available, for the operations of POT and Peyto and having contracts signed by or on behalf of POT include a provision that such obligations are not binding upon POT Unitholders personally.

#### **Cash Distributions**

POT makes monthly cash distributions to the Trust (as the sole POT Unitholder) to coincide with the making of distributions by the Trust to the Trust Unitholders. The administrator will have discretion as to the amount of income of POT which will be paid or declared payable to POT Unitholders and a portion of said income may be retained by POT and used to conduct exploration and development activities. Accordingly, POT may be taxable if less than its net income is paid or payable to POT Unitholders.

#### **Meetings of POT Unitholders**

The POT Indenture provides that meetings of POT Unitholders (being the Trust) must be called and held for, among other matters, electing the POT Trustee, appointing or changing the auditors of POT, any matter under which applicable law or applicable stock exchange rules would require the approval of the POT Unitholders had POT been a reporting issuer in the jurisdictions in which the Trust is a reporting issuer and had the POT Units been listed for trading on the exchanges where the Trust Units are listed for trading, the approval of amendments to the POT Indenture (except as described under "Amendments to the POT Indenture"), the sale, lease or exchange of all or substantially all of the property of POT, except in certain circumstances, the authorization of the termination, liquidation or winding up of POT, except in certain circumstances, and the approval of a combination or merger or similar transaction between POT and any other person that is not an affiliate or associate of POT, in certain circumstances.

#### **POT Notes**

The following summary of the material attributes and characteristics of the POT Notes does not purport to be complete and is qualified in its entirety by reference to the provisions of a note indenture (the "Note Indenture") dated July 1, 2003 and made between POT and Valiant Trust Company, as trustee (the "Note Trustee"), which will contain a complete statement of such attributes and characteristics. The POT Notes will be issued under the Note Indenture.

#### **Terms and Issue of POT Notes**

Pursuant to the POT Transaction, POT Notes were issued by POT to the Trust pursuant to the Note Indenture as partial consideration for the transfer of all of the outstanding securities of Peyto from the Trust to POT. The Note Indenture provides that initially only one global POT Note certificate will be issued which will represent all POT Notes issued under the POT Transaction. The global POT Note certificate was issued to the Note Trustee in trust for the Trust.

The POT Notes are unsecured and bear interest from the date of issue at a rate which is expected to be approximately 5% per annum. Interest is payable for each month during the term on the 10<sup>th</sup> day of the month following such month, or the next business day if such day is not a business day. The first interest payment was paid on August 10, 2003 for the period commencing on the effective date of the POT Transaction and ending on July 31, 2003.

In contemplation of the possibility that POT Notes may be distributed to Trust Unitholders upon the redemption of their Trust Units, the Note Indenture will provide that if persons other than the Trust (the "Non-Fund Holders") own POT Notes having an aggregate principal amount in excess of \$1,000,000, either the Trust or the Non-Fund Holders shall be entitled, among other things, to require the Note Trustee to exercise the powers and remedies available under the Note Indenture upon an event of default and, with the Trust, the Non-Fund Holders may provide consents, waivers or directions relating generally to the variance of the Note Indenture and the rights of noteholders. The Note Indenture allows the Trust flexibility to delay payments of interest or principal otherwise due to it while payment is made to other noteholders, and to allow other noteholders to be paid out before the Trust. Any delayed payments will be due 5 days after demand.

### **Ranking**

The POT Notes are unsecured debt obligations of POT and will rank *pari passu* with all other unsecured indebtedness of POT, but subordinate to all secured debt.

### **Events of Default**

The Note Indenture provides that any of the following shall constitute an Event of Default: (i) default in payment of the principal of the POT Notes when required; (ii) the failure to pay all of the interest obligations on the POT Notes for a period of 90 days; (iii) if POT has defaulted and a demand for payment has been made under any material instrument, indenture or document evidencing indebtedness of more than \$5 million in the aggregate and POT has failed to remedy such default within applicable curative periods; (iv) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership or seizure; (v) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Note Trustee to POT specifying such default and requiring POT to rectify the same; (vi) POT ceasing to carry on its business other than as contemplated in this Information Circular; and (vii) material default by POT under material agreements if property having a fair market value in excess of \$5 million in the aggregate is liable to forfeiture or termination.

### **Trustee**

Valiant Trust Company is the initial POT Trustee. The POT Trustee, subject only to the specific limitations contained in the POT Indenture, has, free from any power of control on the part of the Trust, full, absolute and exclusive power, control and authority over the Trust Property and over the affairs of POT to the same extent as if the POT Trustee was the sole and absolute beneficial owner of such property in its own right, to do all such acts and things as in its sole judgment and discretion are necessary or incidental to, or desirable for, carrying out the purposes of POT set forth in the POT Indenture. The POT Indenture provides that the POT Trustee shall exercise its powers and carry out its functions thereunder as POT Trustee honestly, in good faith and in the best interests of POT and the POT Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The initial term of the POT Trustee's appointment will be until the third annual meeting of the Trust Unitholders. The Trust Unitholders shall, at the third annual meeting of the Trust Unitholders, direct the Trust to reappoint, or appoint a successor to, the POT Trustee for an additional three year term, and thereafter, the Trust Unitholders shall direct the Trust to reappoint, or appoint a successor to, the POT Trustee at the annual meeting of the Trust Unitholders three years following the reappointment or appointment of the successor to the POT Trustee. The POT Trustee may resign on giving not less than 60 days' notice in writing to Peyto.

### **Delegation of Authority, Administration and Trust Governance**

POT is not managed by a third party manager. POT is managed by Peyto. The POT Trustee, on behalf of POT, has entered into the POT Administration Agreement.

Pursuant to the POT Indenture and the POT Administration Agreement, the POT Trustee will grant broad discretion to Peyto to administer and manage the day-to-day operations of POT, to act as agent for POT, to execute documents on behalf of POT, and to make executive decisions for and on behalf of POT.

### **Liability of the POT Trustee and Peyto**

The POT Trustee, Peyto, and their respective directors, officers, employees and agents shall not be liable to any POT Unitholder or annuitant for any action taken in good faith in reliance on any documents that are, prima facie, properly executed, for any depreciation of, or loss to, POT incurred by reason of the retention or sale of any property, for any inaccuracy or omission in any

evaluation provided by Peyto or any other appropriately qualified person, for relying on any such evaluation, for any action or failure to act of Peyto, or for any other action or failure to act (including, without limitation, the failure to compel in any way any former trustee to redress any breach of trust or any failure by Peyto to perform its duties under the POT Indenture or any material contract), unless such liabilities arise principally and directly from a breach of the POT Trustee's standard of care as set out in the POT Indenture or the POT Trustee's or such director's, officer's, employee's or agent's gross negligence, willful default or fraud.

The POT Trustee shall not be liable to any POT Unitholder or annuitant for any action or failure to act which is taken in good faith in relation to any matter arising from or relating to the POT Indenture or any material contract where such action or failure to act is based upon the opinion or advice of or information obtained from any expert, provided that the POT Trustee has satisfied its standard of care in the POT Indenture in selecting such expert. In addition, the POT Indenture contains other customary provisions limiting the liability of the POT Trustee and of Peyto and indemnifying the POT Trustee and Peyto from and against any such liabilities.

### **Amendments to the POT Indenture**

The POT Indenture may be amended or altered from time to time by special resolution.

The POT Trustee is able to, without the approval of any of the POT Unitholders (being the Trust) or any other person, amend the POT Indenture for the purpose of:

- (a) prior to Closing, for any purpose in the sole discretion of the POT Trustee or Peyto; or
- (b) at any time for the purpose of:
  - (i) ensuring continuing compliance, by POT, with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the POT Trustee or POT;
  - (ii) providing, in the bona fide opinion of the POT Trustee, additional protection for the POT Unitholders;
  - (iii) making minor corrections, or removing or curing any conflicts or inconsistencies between the provisions of the POT Indenture or any supplemental indenture and any other agreement of POT or any applicable law or regulation of any jurisdiction or any prospectus filed with any regulatory or governmental body with respect to POT, provided that, in the opinion of counsel to POT and the POT Trustee in each case, the rights of the POT Unitholders are not materially prejudiced thereby;
  - (iv) making amendments which, in the opinion of counsel to POT and the POT Trustee, are necessary or desirable in the interests of the POT Unitholders as a result of changes in taxation laws or in their interpretation or administration; and
  - (v) making amendments provided that, in the opinion of the POT Trustee, the rights of the POT Unitholders are not materially prejudiced thereby.

### **Termination of POT**

The POT Unitholders (being the Trust) are able to pass a special resolution requiring the POT Trustee to distribute to POT Unitholders all Trust Property.

Unless POT is earlier terminated or extended by vote of the POT Unitholders, the POT Trustee shall commence to wind-up the affairs of POT on December 31, 2099.

## **ADDITIONAL INFORMATION RESPECTING PEYTO EXPLORATION & DEVELOPMENT CORP.**

### **Management of the Trust**

The name, municipality of residence, principal occupation for the prior five years of each of the directors and officers of Peyto are as follows:

Name and Municipality of Residence	Position with Peyto	Principal Occupation
<b>Rick Braund</b> Calgary, Alberta	Director since 1998	Chairman of Buck Oil Ltd., a private oil and gas company, since 1999
<b>Brian Craig</b> <sup>(1)(2)(3)</sup> Calgary, Alberta	Director since 1998	President and Chief Executive Officer of Solium Capital Inc., a publicly traded technology company since May 2002; prior thereto, Mr. Craig was President and Chief Executive Officer of StormWorks Inc. from January 2000 to May 2002; prior thereto, Mr. Craig was the President of Radiant Energy, a private consulting firm, from January 1998 to January 2002
<b>John Boyd</b> <sup>(2)</sup> Hillarys, Western Australia	Director since 2002	Private Investor
<b>C. Ian Mottershead</b> <sup>(1)(2)(3)</sup> Vancouver, British Columbia	Chairman of the Board and Director since 2003	Private Investor since June, 2003; prior thereto, Mr. Mottershead was an officer of Phillips, Hager & North Investment Management Ltd., a Canadian investment manager, from June 1980 to June 2003
<b>Michael MacBean</b> <sup>(1)(2)(3)</sup> Swift Current, Saskatchewan	Director since 2003	Chief Executive Officer of Diamond Energy Services Inc., an oil services company since October 1998
<b>Donald Gray</b> Calgary, Alberta	President, Chief Executive Officer and Director since 1998	President, Chief Executive Officer of Peyto since October 1998
<b>Roberto Bosdachin</b> Calgary, Alberta	Vice-President, Exploration	Vice-President, Exploration of Peyto since April 2000; prior thereto, Mr. Bosdachin was a Senior Staff Geologist with Calihou Petroleum from October 1998 to April 2000
<b>Darren Gee</b> Calgary, Alberta	Vice-President, Engineering	Vice-President, Engineering of Peyto since March 2001; prior thereto, Mr. Gee was a Manager of Exploitation Engineering for Husky Energy Inc.'s northwest plains business unit from April 2000 to April 2001; prior thereto, Mr. Gee was Chief Exploitation Engineer with Renaissance Energy Ltd. from 1997 until its takeover by Husky Energy Inc. in August 2000
<b>Sandra Brick</b> Calgary, Alberta	Vice-President, Finance	Vice-President, Finance of Peyto since May 2001; prior thereto, Ms. Brick was the Controller of Peyto from 1998 to 2001
<b>Scott Robinson</b> Calgary, Alberta	Vice-President, Operations	Vice-President, Operations of Peyto since January 2004; prior thereto, Vice-President, Engineering and Operations of Taurus Exploration Canada Ltd.
<b>Stephen J. Chetner</b> Calgary, Alberta	Secretary and Director since 2000	Partner of Burnet, Duckworth & Palmer LLP, since 2002; prior thereto, Associate of Burnet, Duckworth & Palmer LLP

## Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Reserves Committee.
- (4) The Corporation does not have an executive committee.
- (5) Peyto's directors shall hold office until the next annual general meeting of the Corporation's shareholders or until each director's successor is appointed or elected pursuant to the ABCA.
- (6) The period of time served as a director or officer of Peyto includes the period of time served as a director of Peyto prior to the Arrangement, where applicable.

As at March 30, 2005, the directors and executive officers of Peyto, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 10,148,352 Trust Units, or approximately 21% of the issued and outstanding Trust Units.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or officer of the Corporation, or a unitholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust is, as at the date hereof, or has been within the 10 years before the date hereof, a director, or executive officer of any company that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company any exemption under securities legislation, for a period of more than 30 consecutive day; or (iii) within a year of such person ceasing to act in that capacity become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or officer of the Corporation, or a unitholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust (or any personal holding company of such person), has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Personal Bankruptcies**

No director or officer of the Corporation, or a unitholder holding sufficient securities of the Trust to affect materially the control of the Trust, or a personal holding company of any such persons, has, within the 10 years preceding the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors and officers of Peyto will be subject in connection with the operations of Peyto. In particular, certain of the directors and officers of Peyto are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of Peyto and the Trust or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Peyto and the Trust. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided in the ABCA. As at the date hereof, the Corporation is not aware of any existing or potential material conflicts of interest between the Trust or a subsidiary of the Trust and any director or officer of the Trust or a subsidiary of the Trust.

### **Personnel**

As at December 31, 2004, Peyto employed 17 head office employees. Contract operators are retained for all field operations.

## **PEYTO SHARE CAPITAL**

Peyto is authorized to issue an unlimited number of common shares. POT is the sole holder of the issued and outstanding common shares of Peyto. POT is also the sole holder of the Notes.

### **Common Shares**

Each common share entitles its holder to receive notice of and to attend all meetings of the shareholders of Peyto and to one vote at such meetings. The holders of common shares will be, at the discretion of the board of directors of Peyto and subject to applicable legal restrictions, entitled to receive any dividends declared by the board of directors on the common shares. The holders of common shares are entitled to share equally in any distribution of the assets of Peyto upon the liquidation, dissolution,

bankruptcy or winding-up of Peyto or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

## **NOTES**

The following summary of the material attributes and characteristics of the Notes.

### **Terms and Issue of Notes**

Pursuant to the Arrangement, Notes were issued to the Trust in return for Trust Units and, subsequent to the POT Transaction, are now held by POT. The Notes are unsecured, payable on demand and bear interest from the date of issue at an interest rate equal to 12% per annum. Interest is payable for each month during the term on the 10th day of the month following such month.

Peyto is permitted to make payments against the principal amount of the Notes outstanding from time to time without notice or bonus. The Note is payable on demand.

### **Ranking**

The Notes are unsecured debt obligations of Peyto and rank pari passu with all other unsecured indebtedness of Peyto, but subordinate to all secured debt.

## **NPI AGREEMENT**

Pursuant to the POT Transaction, Peyto and POT entered into the NPI Agreement, pursuant to which Peyto granted and set over to POT the right to receive the NPI.

The NPI will consist of the right to receive a monthly payment from Peyto equal to the "NPI Income", which in respect of any period for which NPI Income is calculated, means a significant portion of the production revenues from the Properties (as defined in the NPI Agreement), less an equivalent portion of the amount of all deductions permitted under the NPI Agreement (the "NPI Deductions"), withdrawals from the reserve fund or reclamation fund established pursuant to the NPI Agreement to fund the payment of NPI Deductions, and advances made pursuant to Peyto's credit facilities to fund the payment of NPI Deductions.

Pursuant to the NPI Agreement a portion of the economic benefit derived from the assets of Peyto accrues to the benefit of POT and ultimately to the Trust and its Unitholders. The term of the NPI Agreement will be for so long as there are Properties to which the NPI Agreement applies.

The residual share of gross proceeds from the sale of production from the Properties which does not form part of NPI Income and is retained by Peyto, together with any income of Peyto derived from Properties that are not working interests in Canadian resource properties, will be used to defray certain expenses and capital expenditures of Peyto.

Pursuant to the NPI Agreement, Peyto will be required to pay to POT, NPI Income received by Peyto from the Properties during the month on or before the 15<sup>th</sup> day of the next calendar month. In calculating the NPI Income, Peyto will deduct, among other costs and expenses, any amounts paid into the reserve fund and the reclamation fund established pursuant to the NPI Agreement.

If Peyto wishes to dispose of any Properties which will result in proceeds in excess of \$5 million, Peyto's board of directors is required to approve such disposition, however, if the disposition represents all or substantially all of the Properties, such disposition must be approved by a special resolution of the POT Unitholders (being the Trust and in turn the Unitholders).

The Properties include working interests in a number of oil treating, natural gas gathering, natural gas compression and natural gas processing facilities. There may be opportunities for Peyto to provide services to third parties with regard to Peyto's available capacity in those facilities. Any income from providing any of these processing, gathering, disposal or treating services will be used to defray certain expenses and capital expenditures of Peyto.

POT will reimburse Peyto for Crown royalties and other Crown charges payable by Peyto in respect of production from or ownership of the Properties. Peyto will at all times be entitled to set off its right to be so reimbursed against its obligation to pay the NPI.

### CASH DISTRIBUTIONS

The Trust makes cash distributions on the 15<sup>th</sup> day of each month (or the first Business Day thereafter) to holders of Trust Units of record on the immediately preceding record date.

The Board of Directors of Peyto on behalf of the Trust reviews the distribution policy from time to time. The actual amount distributed is dependent on the commodity price environment and is at the discretion of the Board of Directors. The current distribution policy targets the use of approximately 50% of cash available for distribution for capital expenditures. Depending upon commodity prices and the size of the capital budget, it is expected that 50% of the cash available for distribution will fund a portion of the Trust's annual capital expenditure program, including both exploitation expenditures and minor property acquisitions, but excluding major acquisitions.

Pursuant to various agreements with Peyto's lender, the Trust is restricted from making distributions to its Unitholders where the distribution would or could have a material adverse effect on the Trust or on the Trust's or its subsidiaries' ability to fulfill its obligations under Peyto's facilities or upon a material borrowing base shortfall or default.

The following is a summary of the distribution made by the Trust from its inception in July 2003 to February 2005.

<u>For the Month Ended</u>	<u>Distributions per Unit</u>	<u>Payment Date</u>
<u>2003</u>		
July 31, 2003 <sup>(1)</sup>	\$0.15	August 15, 2003
August 31, 2003	\$0.15	September 15, 2003
September 30, 2003	\$0.15	October 15, 2003
October 31, 2003	\$0.15	November 14, 2003
November 30, 2003	\$0.15	December 15, 2003
December 31, 2003	\$0.15	January 15, 2004
<u>2004</u>		
January 31, 2004	\$0.15	February 16, 2004
February 29, 2004	\$0.15	March 15, 2004
March 31, 2004	\$0.15	April 15, 2004
April 30, 2004	\$0.17	May 14, 2004
May 31, 2004	\$0.17	June 15, 2004
June 30, 2004	\$0.17	July 15, 2004
July 31, 2004	\$0.17	August 16, 2004
August 31, 2004	\$0.17	September 15, 2004
September 30, 2004	\$0.17	October 15, 2004
October 31, 2004	\$0.19	November 15, 2004
November 30, 2004	\$0.19	December 15, 2004
December 31, 2004	\$0.19	January 14, 2005
<u>2005</u>		
January 31, 2005	\$0.19	February 15, 2005
February 28, 2005	\$0.22	March 15, 2005
<b>Total:</b>	<b>\$3.35</b>	

Note:

- (1) This distribution was the first cash distribution of the Trust following the completion of the Arrangement.

### MARKET FOR SECURITIES

The Trust Units are listed for trading on the TSX under the symbol "PEY.UN". The following table sets forth the high and low closing trading prices and the aggregate volume of trading of the Trust Units as reported by the TSX for the periods indicated.



The Trust Units commenced trading on the TSX on July 4, 2003 (data prior thereto reflects the history of Peyto Exploration & Development Corp. common shares which commenced trading on the Toronto Stock Exchange on May 28, 2001).

	High (\$)	Price Range Low (\$)	Volume
<u>2002</u>			
First Quarter.....	5.92	3.80	24,559,289
Second Quarter .....	8.17	5.05	17,571,461
Third Quarter .....	8.75	5.32	13,125,421
Fourth Quarter .....	11.33	8.01	8,902,805
<u>2003</u>			
First Quarter.....	14.35	10.15	11,249,891
Second Quarter .....	17.10	11.60	22,225,405
Third Quarter .....	21.62	15.45	9,774,101
Fourth Quarter .....	27.58	21.13	7,343,755
<u>2004</u>			
January.....	29.15	26.05	2,837,277
February.....	28.08	23.40	3,905,446
March.....	31.22	27.30	2,128,413
April.....	31.50	28.55	1,967,223
May.....	31.85	28.55	1,794,580
June.....	31.00	29.41	1,642,727
July .....	35.00	29.70	1,845,225
August .....	34.90	33.00	1,422,788
September .....	38.25	33.04	2,465,188
October .....	44.69	37.75	2,243,010
November .....	44.52	37.51	2,203,232
December.....	48.44	39.00	2,792,164
<u>2005</u>			
January.....	49.50	45.55	1,680,000
February.....	55.00	48.66	2,242,527
March (1 - 29).....	56.00	48.10	2,165,255

#### **LEGAL PROCEEDINGS**

There are no outstanding legal proceedings involving claims for damages where the amount involved, exclusive of interest and costs, is in excess of ten percent (10%) of the current assets of the Trust, to which the Trust is a party or of which any of its properties are the subject, nor are there any such proceedings known to be contemplated.

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of directors and senior officers of the Trust, any Unitholder who directly or indirectly beneficially owns, or exercises control or direction over, more than 10% of the Trust Units or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or will materially affect the Trust.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Trust are Deloitte & Touche LLP, Chartered Accountants, Calgary, Alberta.

Valiant Trust Company, at its principal office in Calgary, Alberta and through its co-agent, Equity Transfer Services Inc., at its principal office in Toronto, Ontario is the transfer agent and registrar for the Trust Units.

### **MATERIAL CONTRACTS**

Except for contracts entered into by the Trust in the ordinary course of business, the only contracts entered into within the most recently completed financial year or before the most recently completed financial year, but still in effect, which can reasonably be regarded as presently material are the (i) Trust Indenture described under "Additional Information Respecting Peyto Energy Trust"; (ii) the note indenture creating the POT Notes described under "Additional Information Respecting Peyto Operating Trust"; and (iii) the promissory note evidencing the Notes described under "Additional Information Respecting Peyto Exploration & Development Corp.". Copies of each of the foregoing have been filed on SEDAR.

### **INTEREST OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Trust during, or related to, the Trust's most recently completed financial year other than Paddock, the Trust's independent engineering evaluators and Deloitte & Touche LLP, the Trust's auditors. To the knowledge of the Trust, none of the aforementioned persons or companies had any registered or beneficial interests, direct or indirect, in any securities or other property of the Trust or of the Trust's associates or affiliates either at the time they prepared the statement, report or valuation prepared by them, at any time thereafter or to be received by them.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation, except for Stephen J. Chetner, a director of the Corporation, who is a partner of Burnet, Duckworth & Palmer LLP, which law firm renders legal services to the Corporation.

### **RISK FACTORS**

The following is a summary of certain risk factors relating to the business of Peyto and the Trust. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form.

#### ***Dependence on Peyto***

The Trust is an open-ended, limited purpose trust which will be entirely dependent upon the operations and assets of its direct and indirect subsidiaries. Accordingly, the cash distributions to the Trust Unitholders will be dependent upon the ability of POT and Peyto to meet their interest and principal repayment obligations, to declare and pay distributions or dividends on their units or common shares, as applicable, and to pay the NPI. Income will be received from the production of oil and natural gas from the existing Canadian resource properties and will be susceptible to the risks and uncertainties associated with the oil and natural gas industry generally. The Trust, through Peyto, currently conducts oil and natural gas exploration and development activities. If Peyto is unsuccessful in these activities, the ability of Peyto and POT to meet their obligations, as the case may be, to the Trust may be adversely affected.

#### ***Exploration and Development***

Exploration and development risks are due to the uncertain results of searching for and producing oil and natural gas using imperfect scientific methods. These risks are mitigated by using skilled staff, focusing exploration efforts in areas in which Peyto has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods, and controlling costs to maximize returns. Advanced oil and natural gas related technologies such as three-dimensional seismography and reservoir simulation studies have been used by Peyto and may, if deemed appropriate, be used by Peyto to improve its ability to find, develop and produce oil and natural gas.

#### ***Operations***

Peyto's operations are subject to all of the risks normally incident to the operation and development of Oil and Natural Gas Properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs, craterings and fires, all of which could result in personal injuries, loss of life and damage to the property of Peyto and others. Peyto has both safety and environmental policies in place to protect its operators and employees, as well as to meet the regulatory

requirements in those areas where it operates. In addition, Peyto has liability insurance policies in place, in such amounts as it considers adequate. Peyto will not be fully insured against all of these risks, nor are all such risks insurable.

Continuing production from a property, and, to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Peyto to certain Properties. A reduction of the income from the NPI could result in such circumstances.

### ***Oil and Natural Gas Prices***

The price of oil and natural gas will fluctuate and price and demand are factors beyond Peyto's control. These factors include demand for oil and natural gas, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas. Fluctuations in price will have a positive or negative effect on the revenue to be received by it. Such fluctuations will also have an effect on the acquisition costs of any future oil and natural gas properties that Peyto may acquire. As well, cash distributions from the Trust will be highly sensitive to the prevailing price of crude oil and natural gas.

### ***Marketing***

From time to time the Trust may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Trust will not benefit from such increases. Similarly, from time to time the Trust may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Trust will not benefit from the fluctuating exchange rate.

### ***Capital Investment***

The timing and amount of capital expenditures will directly affect the amount of income for distribution to Trust Unitholders. Distributions may be reduced, or even eliminated, at times when significant capital or other expenditures are made.

### ***Debt Service***

Peyto has credit facilities in the amount of \$300 million. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment of any amounts to the Trust. Although it is believed that the bank line of credit is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Peyto or that additional funds can be obtained.

The lenders have been provided with security over substantially all of the direct and indirect assets of the Trust. If Peyto becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, the lenders may foreclose on or sell the Properties free from or together with the NPI.

### ***Reserves***

Although Paddock and Peyto have carefully prepared the reserve figures included herein and believe that the methods of estimating reserves have been verified by operating experience, such figures are estimates and no assurance can be given that the indicated levels of reserves will be produced. Probable reserves estimated for properties may require revision based on the actual development strategies employed to prove such reserves. Declines in the reserves of Peyto which are not offset by the acquisition or development of additional reserves may reduce the underlying value of Trust Units to Trust Unitholders.

### ***Competition***

The industry is highly competitive in the acquisition of exploration prospects and the development of new sources of production and the sale of oil and natural gas. The Trust's competitors include oil and natural gas companies and trusts that have substantially greater financial resources, staff and facilities than those of the Trust. The Trust's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire

suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery

### ***Environmental Concerns***

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of Peyto or the Properties. Such legislation may be changed to impose higher standards and potentially more costly obligations on Peyto. There can be no assurance that the Trust will be able to satisfy its actual future environmental and reclamation obligations.

### ***Insurance***

The Trust's involvement in the exploration for and development of oil and natural gas properties may result in the Trust or its subsidiaries, as the case may be, becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling, the Trust or its subsidiaries, as the case may be, will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Trust or its subsidiaries, as the case may be, may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The Trust currently does not possess business interruption insurance. The payment of such uninsured liabilities would reduce the funds available to the Trust. The occurrence of a significant event that the Trust is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Trust's financial position, including, but not limited to, Distributable Cash, results of operations or prospects.

### ***Delay in Cash Distributions***

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the Properties, and by the operator to Peyto, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the Properties, or the establishment by the operator of reserves for such expenses.

### ***Depletion of Reserves***

The Trust has certain unique attributes that differentiate it from other oil and gas industry participants. Distributions of Distributable Cash in respect of Properties, absent commodity price increases or cost effective acquisition and development activities will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Although Peyto currently reinvests approximately 50% of its cash flow to fund its exploration and development program, there can be no assurances that this will prevent a reduction in production and reserve levels.

Peyto's future oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on Peyto's success in its exploration and development projects, exploiting its reserve base and, if applicable, acquiring additional reserves. Without reserve additions through development or acquisition activities, Peyto's reserves and production will decline over time as reserves are depleted.

To the extent that external sources of capital, including the issuance of additional Trust Units, become limited or unavailable, Peyto's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves will be impaired. To the extent that Peyto is required to use cash flow to finance capital expenditures or property acquisitions, the level of Distributable Cash will be reduced.

There can be no assurance that Peyto will be successful in developing or acquiring additional reserves on terms that meet the Trust's investment objectives.

### ***Return of Capital***

Units will have no value when oil and gas reserves from the Trust and its subsidiaries' properties can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense as they represent both return of capital and return on investment.

### ***Variations in Interest Rates and Foreign Exchange Rates***

Variations in interest rates could result in a significant change in the amount the Trust pays to service debt, potentially impacting distributions to Unitholders.

In addition, the exchange rate for the Canadian dollar versus the U.S. dollar has increased significantly over the last 12 months, resulting in the receipt by the Trust of fewer Canadian dollars for its production which may affect future distributions. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates may impact future distributions and the future value of the Trust's reserves as determined by independent evaluators.

### ***Distributions***

Historical distribution payments of the Trust may not be reflective of future distribution payments, which will be subject to review by the board of directors of Peyto taking into account the prevailing financial circumstances of Peyto at the relevant time. The actual amount distributed, if any, is dependent on the commodity price environment and is at the discretion of the Board of Directors.

Distributable cash available for distribution is not an earnings measure recognized by generally accepted accounting principles and is not necessarily comparable to the measurement of distributable cash available for distribution in other similar trust entities.

### ***Variability of Cash Distributions***

Peyto retains a portion of the cash flows from the Properties to facilitate future exploration and development. Peyto believes this will assist in maintaining distributions for a longer period than would otherwise be the case if all cash flows were paid to the Trust and subsequently distributed to the Unitholders. Future cash flows generated by such additional exploration and development activities may not be similar to those of the current Properties and may not generate sufficient cash flows to maintain consistent distributions from the Trust over a long period of time. The board of directors of the Corporation, in its capacity as the administrator of the Trust, retains the discretion to amend the Trust's distribution policy from current practices.

### ***Mutual Fund Trust Status***

It is intended that the Trust continue to qualify as a mutual fund trust for the purposes of the Tax Act. The Trust may not, however, always be able to satisfy any future requirement for the maintenance of mutual fund trust status. Should the status of the Trust as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for the Trust and Unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Where at the end of any month a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP") or deferred profit sharing plan ("DPSP") (collectively, "Exempt Plans") holds Trust Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI. 1 of the Tax Act equal to 1 percent of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan. An RRSP or RRIF holding Trust Units that are not qualified investments would become taxable on income attributable to the Trust Units while they are not qualified investments (including the entire amount of any capital gain arising on a disposition of the non-qualified investment). RESPs which hold Trust Units that are not qualified investments may have their registration revoked by the Canada Revenue Agency.
- Trust Units would become foreign property for Exempt Plans upon the Trust ceasing to be a mutual fund trust.
- The Trust would be taxed on certain types of income distributed to Unitholders, including income generated by the royalty held by the Trust. Payment of this tax may have adverse consequences for some Unitholders, particularly Unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- The Trust would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws.
- Trust Units would become taxable Canadian property. As a result, non-resident Unitholders would be subject to Canadian income tax on any gains realized on a disposition of Trust Units held by them.

In addition, the Trust may take certain measures in the future to the extent the Trust believes such measures are necessary to ensure the Trust maintains its status as a mutual fund trust. These measures could be adverse to certain holders of Trust Units.

### ***Non-resident Ownership of Trust Units***

In order for the Trust to maintain its status as a mutual fund trust under the Tax Act, the Trust must not be established or maintained primarily for the benefit of non-residents of Canada ("non-residents") within the meaning of the Tax Act. Proposed amendments to the Tax Act originally published by the Minister of Finance on March 22, 2004 were to provide that after December 31, 2004, the Trust must continuously ensure that not more than 50% of its issued Trust Units are held by non-residents of Canada or partnerships (other than "Canadian partnerships" as defined in the Tax Act). These proposals were not included in the Notice of Ways and Means Motion tabled by the Minister of Finance on December 6, 2004 and the Minister of Finance has indicated that further discussions are to be held with the private sector on the appropriate tax treatment for non-residents investing in resource property through mutual funds. In the Budget Statement dated February 25, 2005, the Minister of Finance indicated that a consultation paper on these issues would be released shortly. The Trust Indenture provides that if at any time the Trust or Peyto becomes aware that the beneficial owners of 50% or more of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Trust, by or through Peyto on the Trust's behalf, shall take such action as may be necessary to carry out the foregoing intention.

### ***Income Tax Matters***

Generally, oil and gas income trusts including the Trust involve significant amounts of inter-company debt, royalties or similar instruments, generating substantial interest expense or other deductions which serve to reduce taxable income and income tax payable. There can be no assurance that the taxation authorities will not seek to challenge the amount of interest expense and other deductions. If such a challenge were to succeed against the Trust, it could materially adversely affect the amount of distributions available to the Trust. The Trust and Peyto believe that the interest expense inherent in the structure of the Trust is supportable and reasonable in light of the terms of the Notes.

### ***Accounting Write Downs as a Result of GAAP***

GAAP require that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in the consolidated financial statements of the Trust. The accounting policies may result in non cash charges to net income and write downs of assets in the financial statements. Such non cash charges and write downs may be viewed unfavourably by the market and result in an inability to borrow funds and/or may result in a decline in the Trust Unit price.

Under GAAP, the net amounts at which crude oil and natural gas properties are carried are subject to a ceiling test, which is based in part upon estimated future net cash flows from reserves. If net capitalized costs exceed the estimated recoverable amounts, the Corporation will have to charge the amounts of the excess to earnings. A decline in the net value of oil and natural gas properties could cause capitalized costs to exceed the cost ceiling limit, resulting in a charge against earnings. The net value of oil and gas properties are highly dependent upon the prices of oil and natural gas.

### ***Nature of Trust Units***

The Trust Units do not represent a traditional investment in the oil and natural gas sector and should not be viewed by investors as shares in Peyto. The Trust Units represent a fractional interest in the Trust. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Trust's primary assets will be the POT Securities, the Peyto Securities, the NPI and other investments in securities. The price per Trust Unit is a function of anticipated Distributable Cash, the Properties developed or acquired by Peyto, and Peyto's ability to effect long-term growth in the value of the Trust. The market price of the Trust Units will be sensitive to a variety of market conditions including, but not limited to, interest rates and the ability of the Trust to develop or acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the Trust Units.

**The Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act (Canada)* and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.**

### ***Redemption Right***

It is anticipated that the redemption right will not be the primary mechanism for Trust Unitholders to liquidate their investments. Notes or Redemption Notes which may be distributed *in specie* to Trust Unitholders in connection with a redemption will not be listed on any stock exchange and no established market is expected to develop for such Notes or Redemption Notes. Cash redemptions are subject to limitations. See "*Additional Information Respecting Peyto Energy Trust - Redemption Right*".

### ***Unitholder Limited Liability***

The Trust Indenture provides that no Trust Unitholder will be subject to any liability in connection with the Trust or its affairs or obligations and, in the event that a court determines that Trust Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Trust's assets.

The Trust Indenture provides that all written instruments signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Personal liability may also arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The operations of the Trust will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Trust Unitholders for claims against the Trust.

The *Income Trusts Liability Act (Alberta)* came into force on July 1, 2004. The legislation provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustee that arises after the legislation came into force. However, this legislation has not yet been ruled on by the courts.

### ***Permitted Investments***

An investment in the Trust should be made with the understanding that the value of any Permitted Investments may fluctuate in accordance with changes in the financial condition of the issuers of the Permitted Investments, the value of similar securities, and other factors. For example, the prices of Canadian government securities, bankers' acceptances and commercial paper react to economic developments and changes in interest rates. Commercial paper is also subject to issuer credit risk. Other Permitted Investments in energy-related income trusts, companies and partnerships will be subject to the general risks of investing in equity securities. These include the risk that the financial condition of issuers may become impaired, or that the energy sector may suffer a market downturn. Securities markets in general are affected by a variety of factors, including governmental, environmental, and regulatory policies, inflation and interest rates, economic cycles, and global, regional and national events. The value of Trust Units could be affected by adverse changes in the market values of Permitted Investments.

### ***Regulatory Matters***

The Corporation's operations are subject to a variety of federal and provincial laws and regulations, including income tax laws and laws and regulations relating to the protection of the environment.

### ***Kyoto Protocol***

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol which will require, upon ratification, nations to reduce their emissions of carbon dioxide and other greenhouse gases. In December 2002, the Government of Canada ratified and signed the Kyoto Protocol. As a result of the ratification of the Kyoto Protocol and the adoption of legislation or other regulatory initiatives designed to implement its objectives by the federal or provincial governments, reductions in greenhouse gases from crude oil and natural gas producers may be required which could result in, among other things, increased operating and capital expenditures for those producers (including the Trust) which may make certain production of crude oil and natural gas by those producers uneconomic resulting in reductions in such production. Until such legislation or other regulatory initiatives are finalized, the impact of the Kyoto Protocol and any such legislation adopted as a result of its ratification remains uncertain.

***Conflicts of Interest***

The directors and officers of Peyto are engaged in and will continue to engage in other activities in the oil and natural gas industry and, as a result of these and other activities, the directors and officers of the Corporation may become subject to conflicts of interest. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

As at the date hereof, neither the Trust nor Peyto is aware of any existing or potential material conflicts of interest between the Trust and Peyto and a director or officer of Peyto.

**ADDITIONAL INFORMATION**

Additional information relating to the Trust may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Trust's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Information Circular of the Trust for its most recent annual meeting of unitholders that involved the election of directors of the Corporation. Additional financial information is contained in the Trust's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2004.



**SCHEDULE A – FORM 51-101F3**  
**REPORT ON MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION**

Management of Peyto, on behalf of the Trust, are responsible for the preparation and disclosure of information with respect to the oil and gas activities of the Trust in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2004 using forecast prices and costs; and
- (a) (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2004 using constant prices and costs; and
- (b) (ii) the related estimated future net revenue.

An independent qualified reserves evaluator has evaluated the Trust's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors of the Peyto, on behalf of the Trust, has

- (a) reviewed the Trust's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors of the Peyto, on behalf of the Trust, has reviewed the Trust's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserve Committee, approved

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (b) the filing of the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "*Donald Gray*"  
Donald Gray  
President and Chief Executive Officer

(signed) "*Darren Gee*"  
Darren Gee  
Vice-President, Engineering

(signed) "*Brian Craig*"  
Brian Craig  
Director and Chairman of the Reserves Committee

(signed) "*Michael MacBean*"  
Michael MacBean  
Director and Member of the Reserves Committee

March 30, 2005

**SCHEDULE B – FORM 51-101F2  
REPORT ON RESERVES DATA**

To the board of directors of Peyto Exploration & Development Corp. ("Peyto"), on behalf of Peyto Energy Trust (the "Trust"):

1. We have evaluated the reserves data of the Trust as at December 31, 2004. The reserves data consist of the following:
  - (a)
    - (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2004 using forecast prices and costs; and
    - (ii) the related estimated future net revenue; and
  - (b)
    - (i) proved oil and gas reserves estimated as at December 31, 2004 using constant prices and costs; and
    - (ii) the related estimated future net revenue.
2. The reserves data are the responsibility of Peyto's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Trust evaluated by us for the year ended December 31, 2004, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to Peyto's board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (County or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
Paddock Lindstrom & Associates Ltd.	February 24, 2005	Canada	-	\$1,346,149,400	-	\$1,346,149,400

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after their respective preparation dates.
8. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

(signed) "Paddock Lindstrom & Associates Ltd."  
Paddock Lindstrom & Associates Ltd.  
Calgary, Alberta  
March 30, 2005