

Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2008 and the audited consolidated financial statements of Peyto Energy Trust ("Peyto") for the year ended December 31, 2007. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Trust was created by way of a Plan of Arrangement effective July 1, 2003 which reorganized Peyto Exploration & Development Corp. ("PEDC") from a corporate entity into a trust. Accordingly, the consolidated financial statements were reported on a continuity of interests basis. This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 6, 2008. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com.

On January 1, 2008, Peyto completed an internal reorganization. As a result of this reorganization, all of the oil and gas assets of Peyto are now held in the Peyto Energy Limited Partnership. Peyto Energy Administration Corp. is the administrator of Peyto and Peyto Operating Trust, and PEDC is the general partner of the Partnership. Certain subsidiaries of Peyto were amalgamated pursuant to the internal reorganization.

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

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

Peyto's foreign ownership level currently stands at approximately 39 percent, well below the level that would jeopardize Peyto's status as a mutual fund trust under current or proposed legislation.

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

Alberta Government Crown Royalty Regime Change

On October 25, 2007 the Alberta Government released a new Royalty Framework pertaining to royalties on oil and gas resources including oil sands, conventional oil and gas, and coalbed methane. This new framework was scheduled to take effect on January 1, 2009 and was based on the Alberta government's response to the recommendations put forth by the Alberta Royalty Review Panel. Further clarity by the Alberta government regarding the New Royalty Framework was announced on April 10, 2008, with the incentives for deeper gas

exploration being partially re-established. Previously announced pricing curves were not modified, and therefore much of the recent natural gas price improvement will result in increased royalty rates in January 2009. Those increased royalty rates would lessen the positive impact to funds from operations that would have otherwise been derived from higher gas prices. Peyto's independent engineers have assessed the impact of the new royalty framework on the value to the Trust's reserve assets and determined that the overall impact on net present value is similar to that of funds from operations but less pronounced.

Federal Government's Trust Tax Legislation

On June 12, 2007, Bill C-52 (the "SIFT Rules") enacted the October 31, 2006 proposal to impose a new tax on distributions from flow-through entities, including publicly traded income trusts. Under the SIFT Rules, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. In simplified terms, under the proposed tax plan, income distributions will first be taxed at the trust level at a special rate estimated to be the Federal Corporate rate and applicable provincial corporate rate. Income distributions to individual unitholders will then be treated as dividends from a Canadian corporation and eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (RRSPs, RRIFs and Pension Plans) will continue to pay no tax on distributions. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they can take advantage of the dividend tax credit. However, as a result of the tax at the trust level, distributions to tax-deferred accounts and non-residents will be reduced. On the basis of proposed legislation it is anticipated that the tax will be 26.5%. Peyto is assessing the proposals and the potential implications to the Trust. Structural alternatives will continue to be reviewed to ensure that Peyto's structure is as efficient as possible.

Climate Change Programs

On March 8, 2007, the Alberta government introduced legislation to reduce greenhouse gas emission intensity. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases per year must reduce their emissions intensity by 12 per cent over the average emissions levels of 2003, 2004 and 2005; if they are not able to do so, these facilities will be required to pay \$15 per tonne for every tonne above the 12 per cent target, beginning on July 1, 2007. At this time, the Trust has determined that there is currently no impact of this legislation on Peyto's existing facilities ownership.

In April 2007, the Federal Government announced a new climate change plan that calls for greenhouse gas emissions to be reduced by 20 per cent below current levels by 2020. More recently, the Federal Government began drafting specific regulations to achieve an 18% reduction in emissions-intensity by 2010. Those regulations are due for public comment by the fall of 2008.

United States Proposed Changes to Qualifying Dividends

A bill was introduced into United States Congress on March 23, 2007 that could deny qualified dividend income treatment to the distributions made by the Trust to its U.S. unitholders. The bill is in the first step of the legislative process and it is uncertain whether it will eventually be passed into law in its current form. If the bill is passed in its current form, distributions received by U.S. unitholders would no longer qualify for the 15 per cent qualified dividend tax rate. For additional information, please refer to the February 27, 2008 press release "2007 United States Tax Information".

OVERVIEW

Peyto is a Canadian energy trust involved in the development and production of natural gas in Alberta's deep basin. As at December 31, 2007, the total Proved plus Probable reserves were 164.8 million barrels of oil equivalent with a reserve life of 21 years as evaluated by the independent petroleum engineers. Production is weighted approximately 83% natural gas and 17% natural gas liquids and oil.

The Peyto model is designed to deliver growth in its value, assets, production and income, all on a per unit basis. The model is built around three key principles:

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

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

QUARTERLY FINANCIAL INFORMATION

(\$000 except per unit amounts)	2008		2007		2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue (net of royalties)	85,164	82,307	75,589	83,017	92,499	91,425	84,164	88,515
Funds from operations	70,955	68,976	62,938	69,345	78,364	77,360	72,360	77,507
Per unit – basic	0.67	0.65	0.60	0.66	0.74	0.74	0.69	0.74
Per unit – diluted	0.67	0.65	0.60	0.66	0.74	0.74	0.69	0.74
Earnings (loss)	32,440	73,289	39,886	38,825	56,883	47,012	46,155	56,768
Per unit – basic	0.31	0.69	0.37	0.37	0.54	0.44	0.44	0.54
Per unit – diluted	0.31	0.69	0.37	0.37	0.54	0.44	0.44	0.54

RESULTS OF OPERATIONS

Production

	Three Months ended Mar. 31	
	2008	2007
Natural gas (mmcf/d)	101.5	106.2
Oil & natural gas liquids (bbl/d)	3,430	3,607
Barrels of oil equivalent (boe/d)	20,342	21,305

Natural gas production averaged 101.5 mmcf/d in the first quarter of 2008, 4 percent lower than the 106.2 mmcf/d reported for the same period in 2007. Oil and natural gas liquids production averaged 3,430 bbl/d, a decrease of 5 percent from 3,607 bbl/d reported in the prior year. First quarter production decreased 5 percent from 21,305 boe/d to 20,342 boe/d. The production decreases are attributable to Peyto's natural resource declines.

Commodity Prices

	Three Months ended Mar. 31	
	2008	2007
Natural gas (\$/mcf)	7.93	8.17
Hedging – gas (\$/mcf)	0.56	1.60
Natural gas – after hedging (\$/mcf)	8.49	9.77
Oil and natural gas liquids(\$/bbl)	86.29	56.82
Hedging – oil (\$/bbl)	(2.84)	2.97
Oil and natural gas liquids – after hedging (\$/bbl)	83.45	59.79
Total Hedging (\$/boe)	2.32	8.52

Peyto's natural gas price, before hedging gains, averaged \$7.93/mcf during the first quarter of 2008, a decrease of 3 percent from \$8.17/mcf reported for the equivalent period in 2007. Oil and natural gas liquids prices before hedging gains averaged \$86.29/bbl up 52 percent from \$56.82/bbl a year earlier. Hedging activity for the first quarter of 2008 accounted for \$2.32/boe of Peyto's price achieved.

Revenue

(\$000)	Three Months ended Mar. 31	
	2008	2007
Natural gas	73,191	78,034
Oil and natural gas liquids	26,935	18,448
Hedging gain (loss)	4,302	16,343
Total revenue	104,428	112,825

For the three months ended March 31, 2008, gross revenue decreased 7 percent to \$104.4 million from \$112.8 million for the same period in 2007. The decrease in revenue for the period was a result of decreased production volumes and lower natural gas prices as detailed in the following table:

	Three Months ended Mar. 31		
	2008	2007	\$million
Total Revenue, Mar. 31, 2007			112.8
Revenue change due to:			
Natural gas			
Volume (mmcf)	9,233	9,556	(3.15)
Price (\$/mcf)	\$8.49	\$9.77	(11.82)
Oil & NGL			
Volume (mbbl)	312	325	(0.77)
Price (\$/bbl)	\$83.45	\$59.79	7.38
Total Revenue, Mar. 31, 2008			104.4

Royalties

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

(\$000 except per unit amounts)	Three Months ended Mar. 31	
	2008	2007
Royalties	19,264	20,326
% of sales	18.4	18.0
\$/boe	10.40	10.59

For the first quarter of 2008, royalties averaged \$10.40/boe or approximately 18.4 percent of Peyto's total petroleum and natural gas sales. The royalty rate expressed as a percentage of sales, will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices obtained by the Trust and that hedging gains and losses are not subject to royalties. As average per well production rates decline, the associated effective Crown Royalty rate will decrease. In addition, Peyto will receive Deep Gas Royalty Holiday or Marginal Deep Gas Well Program benefits until December 31, 2008, which further decrease our crown royalty rate. In its 9 year history, Peyto has invested over \$1.4 billion in capital projects and has found and developed gas reserves that have paid over \$419 million in royalties.

Operating Costs & Transportation

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

	Three Months ended Mar. 31	
	2008	2007
Operating costs (\$000)		
Field expenses	7,550	7,107
Processing and gathering income	(2,585)	(1,669)
Total operating costs	4,965	5,438
\$/boe	2.68	2.84
Transportation	1,160	1,129
\$/boe	0.63	0.59

Operating costs were \$5.0 million in the first quarter of 2008 compared to \$5.4 million during the same period a year earlier. Processing and gathering income has increased as third party volumes have increased significantly. Transportation expense increased due to an increase in pipeline tariffs effective January 1, 2008. On a unit-of-production basis, operating costs averaged \$2.68/boe in the first quarter of 2008 compared to \$2.84/boe for the first quarter of 2007.

Netbacks

(\$/boe)	Three Months ended Mar. 31	
	2008	2007
Sale Price	56.41	58.84
Less:		

Royalties	10.40	10.59
Operating costs	2.68	2.84
Transportation	0.63	0.59
Field netback	42.70	44.82
General and administrative	1.19	0.98
Interest on long-term debt	3.18	2.96
Cash netback	38.33	40.88

Field netbacks represent the profit margin associated with the production and sale of petroleum and natural gas. The primary factors that produce Peyto's strong netbacks are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.

General and Administrative Expenses

	Three Months ended Mar. 31	
	2008	2007
G&A expenses (\$000)	2,694	2,537
Overhead recoveries	(492)	(653)
Net G&A expenses	2,202	1,884
\$/boe	1.19	0.98

General and administrative expenses before overhead recoveries increased 6% from \$2.5 million in the first quarter of 2007 to \$2.7 million for the same period in 2008. Net of overhead recoveries associated with the capital expenditures program, general and administrative costs increased to \$1.19 per boe in the first quarter of 2008 from \$0.98 per boe in the first quarter of 2007.

Interest Expense

	Three Months ended Mar. 31	
	2008	2007
Interest expense (\$000)	5,882	5,684
\$/boe	3.18	2.96
Average interest rate	5.4%	5.5%

First quarter 2008 interest expense was \$5.9 million or \$3.18/boe compared to \$5.7 million or \$2.96/boe a year earlier. During the first quarter of 2008, average debt levels were \$433.7 million as compared to \$418.3 million in the first quarter of 2007. Interest rates continue to be favorable and are not expected to increase substantially in the short-term.

Depletion, Depreciation and Accretion

The 2008 first quarter provision for depletion, depreciation and accretion totaled \$19.3 million as compared to \$19.8 million in 2007. On a unit-of-production basis, depletion, depreciation and accretion costs averaged \$10.42/boe as compared to \$10.34/boe in 2007.

Income Taxes

The current provision for future income tax was \$15.7 million (2007 - \$1.6 million). Peyto's trust structure is unique and was designed to provide for discretion at the operating trust level to distribute taxable income to the Trust. Resource pools are generated from the capital program, which are available to offset current and future income tax liabilities. Unitholders benefit as the Trust may use these resource pools to increase the tax free return of capital component of the cash distributions. As result of the internal reorganization that took place January 1, 2008, the tax rate applied to differences between the accounting basis and tax basis of the Trust's assets increased by approximately 3% (the difference between future corporate income tax rates and future tax rates applicable to trusts). When changes to the SIFT rules proposed in the most recent Federal Budget are substantively enacted, we anticipate an offsetting future income tax recovery.

Canada Revenue Agency ("CRA") has conducted an audit of restructuring costs claimed as a result of the trust conversion in 2003. In late April, 2008, the Trust received a proposed settlement letter from CRA that would result in the reclassification of \$41.0 million dollars in employment related costs as eligible capital. The Trust is preparing a response to the proposed settlement letter and will provide further information supporting management's view that CRA's position has no merit and intends to object to any notice of assessment that may

be received. The outcome of this audit is uncertain at this time and as such no provisions have been made in these financial statements.

MARKETING

Commodity Price Risk Management

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these forward contracts with well established counter-parties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. During the first quarter of 2008, a hedging gain of \$4.3 million was recorded as compared to \$16.3 million in the first quarter of 2007. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged	Type	Daily Volume	Weighted Average Price (CAD)
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.85/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.60/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.40/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.60/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.80/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.05/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.20/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.10/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.20/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.40/GJ
April 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.05/GJ
April 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$6.82/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.25/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.50/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.60/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.00/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.25/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.40/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.65/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$9.00/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$9.70/GJ
April 1, 2009 to October 1, 2009	Fixed price	5,000 GJ	\$7.85/GJ
April 1, 2009 to October 1, 2009	Fixed price	5,000 GJ	\$8.12/GJ

As at March 31, 2008, the Trust had committed to the future sale of 21,460,000 gigajoules (GJ) of natural gas at an average price of \$7.35 per GJ or \$8.59 per mcf based on the historical heating value of Peyto's natural gas. Had these contracts been closed on March 31, 2008, the Trust would have realized a loss in the amount of \$37.9 million.

Commodity Price Sensitivity

Low operating costs, low distribution ratio and long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

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

Interest Rate Risk Management

The Trust is exposed to interest rate risk in relation to interest expense on its revolving demand facility. Currently the Trust has not entered into any agreements to manage this risk. At March 31, 2008, the increase or decrease in earnings for each 100 bps change in interest rate paid on the outstanding revolving demand loan amounts to approximately \$4.3 million per annum and \$1.1 million in the first quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Funds from Operations

(\$000)	Three Months ended Mar. 31	
	2008	2007
Net earnings	32,440	56,883
Items not requiring cash:		
Non-cash provision for performance based compensation	3,496	6
Future income tax expense	15,733	1,639
Depletion, depreciation & accretion	19,286	19,836
Funds from operations	70,955	78,364

For the first quarter ended March 31, 2008, funds from operations totaled \$70.9 million or \$0.67 per unit, as compared to \$78.4 million, or \$0.74 per unit during the same period in 2007. Peyto's policy is to maintain a sustainable distribution to unitholders, retaining the balance to fund its growth oriented capital expenditures program. Earnings and cash flow are highly sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

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

Bank Debt

The Trust has an extendible revolving term credit facility with a syndicate of financial institutions in the amount of \$525 million including a \$505 million revolving facility and a \$20 million operating facility. Available borrowings are limited by a borrowing base, which is based on the value of petroleum and natural gas assets as determined by the lenders. The loan is reviewed annually and may be extended at the option of the lender for an additional 364 day period. If not extended, the revolving facility will automatically convert to a one year and one day non-revolving term loan. The loan has therefore been classified as long-term on the balance sheet. The average borrowing rate for the first quarter of 2008 was 5.4% (2007 – 5.5%). Subsequent to March 31, 2008, the Trust's banking syndicate has agreed to increase the credit facilities to \$550 million.

At March 31, 2008, \$440 million was drawn under the facility. Working capital liquidity is maintained by drawing from and repaying the unutilized credit facility as needed. At March 31, 2008, the working capital deficit was \$59.8 million (including a non-cash current liability for unrealized mark to market future hedging losses).

Peyto believes funds generated from operations, together with borrowings under the credit facility and proceeds from equity issued will be sufficient to finance current operations and planned capital expenditure program. The total amount of capital invested in 2008 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Trust. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scaleable business model has the flexibility to match planned capital expenditures to actual cash flow.

Capital

On March 17, 2008 the Trust completed a private placement of 207,830 trust units to employees and consultants for net proceeds of \$3,932,143 (\$18.92 per unit). These trust units were issued on March 17, 2008. On March 17, 2008, subsequent to the issuance of these trust units, 105,920,194 trust units were outstanding (December 31, 2007 – 105,712,364).

Authorized: Unlimited number of voting trust units

Issued and Outstanding:

Trust Units (no par value) (\$000)	Number of Shares/Units	Amount \$
Balance, December 31, 2006	105,251,394	398,434
Trust units issued by private placement	460,970	7,867

Balance, December 31, 2007	105,712,364	406,301
Trust units issued by private placement	207,830	3,932
Balance, March 31, 2008	105,920,194	410,233

Performance Based Compensation

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

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity and distributions, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. This methodology can generate interim results which vary significantly from the final compensation paid. A provision for compensation expense of \$1,255,000 was recorded for the first quarter of 2008.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of trust units outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated distributions of a trust unit for that period. For rights vesting in 2008, a tax factor of 1.333 will be applied to determine the amount to be paid. In 2009, no tax factor will be applied to determine the amount paid on the vesting of such rights.

Based on the five day weighted average trading price of the trust units for the period ended March 31, 2008, compensation costs related to 4.3 million non-vested rights (4% of the total number of trust units outstanding), with an average grant price of \$19.31, are \$5.4 million. The Trust records a non-cash provision for future compensation expense over the life of the rights. The cumulative provision totals \$2.5 million of which \$2.2 million was recorded in the first quarter of 2008.

Capital Expenditures

Net capital expenditures for the first quarter of 2008 totaled \$33.1 million. Exploration and development related activity represented \$26.9 million or 81% of the total, while expenditures on facilities, gathering systems and equipment totaled \$5.6 million or 17% of the total. The following table summarizes capital expenditures for the quarter.

(\$000)	Three Months ended Mar. 31	
	2008	2007
Land	-	368
Seismic	522	243
Drilling – Exploratory & Development	26,888	25,140
Production Equipment, Facilities & Pipelines	5,644	4,721
Acquisitions & Dispositions	-	-
Office Equipment	4	6
Total Capital Expenditures	33,058	30,478

Distributions

	Three Months ended Mar. 31	
	2008	2007
Funds from operations (\$000)	70,955	78,364
Total distributions (\$000)	44,798	44,350
Total distributions per unit (\$)	0.42	0.42
Payout ratio (%)	63	57

Peyto's strategy is to maintain a sustainable distribution that is well balanced with its business needs and high quality assets, while offering the prospect of growth into the future. The Board of Directors is prepared to adjust the payout levels to achieve the desired distributions when appropriate. For Canadian income tax purposes distributions made are considered a combination of income and return of capital. The portion that is return of capital reduces the adjusted cost base of the units.

Accumulated Earnings and Distributions

(\$000)	Three Months ended Mar. 31	
	2008	2007
Opening accumulated earnings	740,038	531,154
Net earnings for the period	32,440	56,883
Total accumulated earnings	772,478	588,037
Total accumulated distributions	(667,264)	(489,268)
Accumulated earnings per Balance Sheet	105,214	98,769

Since inception, Peyto has accumulated earnings of \$753 million and distributed \$667 million to unitholders.

Contractual Obligations

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

(\$000)	\$
2008	822
2009	1,097
2010	1,097
2011	1,097
	4,113

RELATED PARTY TRANSACTIONS

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

INCOME TAXES

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

Canadian Taxpayers

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

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

During the first quarter of 2008, the Trust paid distributions to the unitholders in the amount of \$44.8 million (2007 - \$44.4 million) in accordance with the following schedule:

Production Period	Record Date	Distribution Date	Per Unit
Special Distribution	January 1, 2008	January 15, 2008	\$0.0035
January 2008	January 31, 2008	February 15, 2008	\$0.14
February 2008	February 28, 2008	March 15, 2008	\$0.14
March 2008	March 31, 2008	April 13, 2008	\$0.14

US Taxpayers

US unitholders who receive cash distributions are subject to a 15 percent Canadian withholding tax, applied to the taxable portion of the distributions as computed under Canadian tax law. US taxpayers may be eligible for a foreign tax credit with respect to Canadian withholding taxes paid.

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

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

A bill was introduced into United States Congress on March 23, 2007 that could deny qualified dividend income treatment to the distributions made by the Trust to its U.S. unitholders. The bill is in the first step of the legislative process and it is uncertain whether it will eventually be passed into law in its current form. If the bill is passed in its current form, distributions received by U.S. unitholders would no longer qualify for the 15 per cent qualified dividend tax rate.

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

RISK MANAGEMENT

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

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

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

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

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

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

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

royalty rates assessed on the Trust's oil and natural gas production are set by the government of the Province of Alberta. These rates are subject to review and modification from time to time.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Environment risks have been reviewed and to the best of Peyto's knowledge, the Trust is in compliance with environmental legislation. Currently, there is no current material impact on Peyto's operations.

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

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the period covered by this report, Peyto's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of, and with the participation of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Peyto's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers Annual and Interim Filings are effective to ensure that material information relating to Peyto is made known to management on a timely basis and is included in this report.

Internal Controls Update

Peyto is required to comply with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The 2008 certificate requires that the Trust disclose in the interim MD&A any changes in the Trust's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect the Trust's internal control over financial reporting. The Trust confirms that no such changes were made to the internal controls over financial reporting during the first three months of 2008.

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Trust's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to the Trust's reserves will likely vary from estimates, and such variances may be material.

The Trust's estimated quantities of proved and probable reserves at December 31, 2007 were audited by independent petroleum engineers Paddock Lindstrom & Associates Ltd. Paddock has been evaluating reserves in Peyto's areas of operation and for Peyto for 9 consecutive years.

Depletion and Depreciation Estimate

The full cost method of accounting for petroleum and natural gas operations is followed whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land

acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

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

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

Full Cost Accounting Ceiling Test

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

Asset Retirement Obligation

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

Future Market Performance Based Compensation

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

Reserve Value Performance Based Compensation

The reserve value based compensation is calculated using the 2007 year end independent reserves evaluation which was completed in January 2008. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and distributions. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes

The determination of the Trust's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Effect of Change in Accounting Policies

As of January 1, 2008, the Trust adopted two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace current Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements. . Refer to Note 10 to the Consolidated Financial Statements for the additional disclosures under section 3862.

As of January 1, 2008, the Trust adopted CICA handbook Section 1535 "Capital Disclosures", which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements. Refer to Note 11 to the Consolidated Financial Statements.

As of January 1, 2009, the Trust will be required to adopt new CICA Handbook Section 3064 “Goodwill and Intangible Assets” which replaces Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs.” Various changes have been made to other standards to be consistent with the new Section 3064, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards in the previous Section 3062. The Trust is assessing the impact of this new standard on its consolidated financial statements, however, the adoption is not expected to have a material impact on its consolidated financial statements.

ADDITIONAL INFORMATION

Additional information relating to Peyto Energy Trust can be found on SEDAR at www.sedar.com and www.peyto.com.

Quarterly information

	2008	2007			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (mcf/d)	101,468	104,749	97,000	101,812	106,183
Oil & NGLs (bbl/d)	3,430	3,675	3,573	3,540	3,607
Barrels of oil equivalent (boe/d @ 6:1)	20,342	21,134	19,740	20,509	21,305
Average product prices					
Natural gas (\$/mcf)	8.49	7.67	7.61	8.59	9.77
Oil & natural gas liquids (\$/bbl)	83.45	75.23	70.51	65.65	59.79
\$/BOE					
Average sale price (\$/boe)	56.41	51.12	50.15	53.98	58.84
Average royalties paid (\$/boe)	10.40	8.78	8.52	9.50	10.59
Average operating expenses (\$/boe)	2.68	2.25	2.48	2.70	2.84
Average transportation costs (\$/boe)	0.63	0.54	0.58	0.57	0.59
Field netback (\$/boe)	42.70	39.54	38.57	41.21	44.82
General & administrative expense (\$/boe)	1.19	0.87	0.82	1.10	0.98
Interest expense (\$/boe)	3.18	3.19	3.10	2.95	2.96
Cash netback (\$/boe)	38.33	35.49	34.65	37.16	40.88
Financial (\$000 except per unit)					
Revenue	104,428	99,387	91,070	100,750	112,825
Royalties (net of ARTC)	19,264	17,080	15,482	17,734	20,326
Funds from operations	70,955	68,976	62,938	69,345	78,364
Funds from operations per unit	0.67	0.65	0.60	0.66	0.74
Total distributions	44,798	44,399	44,399	44,399	44,350
Total distributions per unit	0.42	0.42	0.42	0.42	0.42
Payout ratio	63%	64%	71%	64%	57%
Earnings	32,440	73,289	39,886	38,825	56,833
Earnings per diluted unit	0.31	0.69	0.37	0.37	0.54
Capital expenditures	33,058	35,546	42,598	12,949	30,478
Weighted average trust units outstanding	105,744,338	105,712,364	105,712,364	105,712,364	105,542,484